



HKC INTERNATIONAL HOLDINGS LIMITED

香港通訊國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 248

A Total Communication Solution With Unlimited Possibility



ANNUAL REPORT
2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chan Chung Yee, Hubert (*Chairman*)

Chan Chung Yin, Roy

Chan Man Min

Yeh Yui Fong

Tsui Hon Wing

Chan Ming Him, Denny

Wu Kwok Lam *CPA, FCCA*

Chu Chor Lup*

Chiu Ngar Wing *FCCA, ACA, CPA (Practising)**

Leung Tai Wai, David*

* *Independent non-executive director*

COMPANY SECRETARY

Wu Kwok Lam *CPA, FCCA*

QUALIFIED ACCOUNTANT

Wu Kwok Lam *CPA, FCCA*

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

PRINCIPAL OFFICE

25/F., Oxford House, TaiKoo Place,

979 King's Road, Quarry Bay,

Hong Kong

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited

P.O. Box 513 GT

2nd Floor, Strathvale House

North Church Street, George Town

Grand Cayman, Cayman Islands

British West Indies

AUDITORS

Li, Tang, Chen & Co

Certified Public Accountants (Practising)

HONG KONG BRANCH REGISTRAR

Pilare Limited

10th Floor, Sun Hung Kai Centre

30 Harbour Road

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

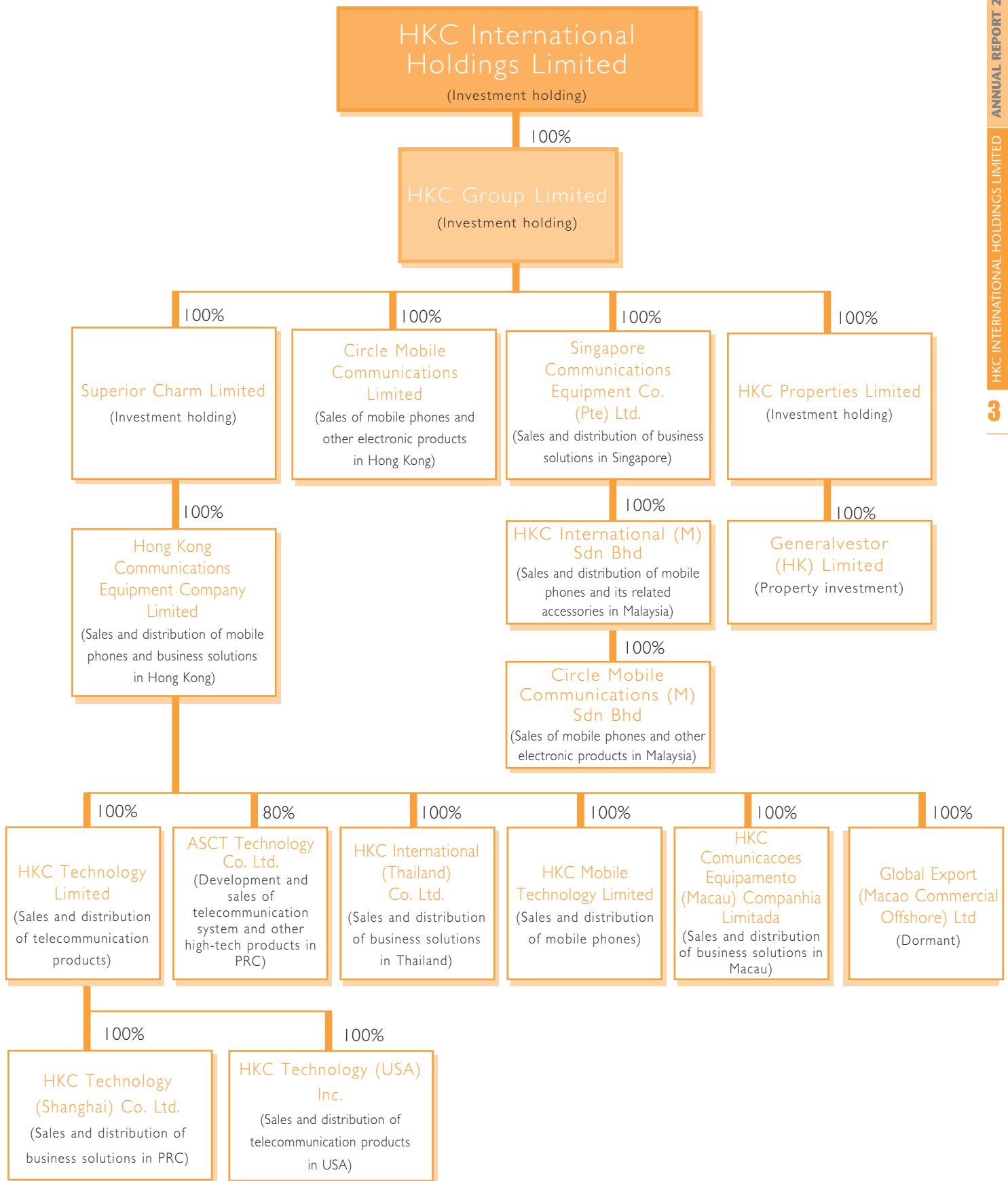
1 Queen's Road Central,
Hong Kong

Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

STOCK CODE

248

GROUP STRUCTURE



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting ("Meeting") of HKC International Holdings Limited (the "Company") will be held at 4:00 p.m. on 7th September, 2007 at 25th Floor, Oxford House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong, to transact the following ordinary businesses:

1. to receive and approve the audited consolidated financial statements and the reports of the directors and auditors of the Company for the year ended 31st March, 2007;
2. to declare a final dividend for the year ended 31st March, 2007 of HK\$0.01 per share (each a "Share") of HK\$0.01 each in the capital of the Company;
3.
 - (a) To re-elect the retiring Director Mr. Chan Chung Yin, Roy as an executive Director of the Company (his brief biographical details are set out in the Appendix to this notice);
 - (b) To re-elect the retiring Director Mr. Chiu Ngar Wing as an independent non-executive Director of the Company (his brief biographical details are set out in the Appendix to this notice);
 - (c) To re-elect the retiring Director Dr. Chu Chor Lup as an independent non-executive Director of the Company (his brief biographical details are set out in the Appendix to this notice); and
 - (d) To authorize the board of Directors to fix the Directors' remuneration.
4. to re-appoint the Li, Tang, Chen & Co. as the Company's auditors and to authorise the board of Directors to fix their remuneration);

and to consider as special business and, if thought fit, pass the following resolutions as ordinary resolutions (with or without modifications):

5. **"THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and all other applicable laws, the exercise by the directors of the Company ("Director") during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue or otherwise deal with the unissued shares of HK\$0.01 each ("Shares") in the share capital of the Company, and to make or grant offers, agreements and options (including warrants, bonds, notes and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, notes and other securities which carry rights to subscribe for or are convertible into Shares) which would or might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

- (c) the aggregate nominal amount of share capital of the Company allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to
- (i) a Rights Issue (as defined in paragraph (d) below);
 - (ii) the exercise of any options granted under the share option scheme or similar arrangement for the time being adopted by the Company; or
 - (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or
 - (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares

shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution; and the said approval shall be limited accordingly.

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held; or

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

“Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to the holders of Shares whose names appear on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares as at that date (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

By order of the board of Directors of
HKC International Holdings Limited
Chan Chung Yee, Hubert
Chairman

Hong Kong, 26th July, 2007

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head office and principal place of business in Hong Kong:

25/F., Oxford House, TaiKoo Place,

979 King’s Road, Quarry Bay,

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- 1 Any shareholder of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a shareholder of the Company.
- 2 A form of proxy for use at the Meeting is being dispatched to the shareholders of the Company together with a copy of this notice. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrars ("**Branch Registrar**"), Pilare Limited at 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong no less than 48 hours before the time for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
- 3 The register of members of the Company will be closed from Wednesday, 5th September, 2007 to Friday, 7th September, 2007 (both days inclusive), for the purpose of, among other things, establishing entitlements to the proposed final dividend, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, the shareholders of the Company must be registered as members of the Company on Friday, 7th September, 2007 and as such, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Pilare Limited, at 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 4th September, 2007.
4. In relation to the proposed resolution numbered 3 above, in accordance with Article 108 of the Company's articles of association, Mr. Chan Chung Yin, Roy, Mr. Chiu Ngar Wing and Dr. Chu Chor Lup will retire as Directors by rotation at the Meeting. Such Directors, being eligible, would offer themselves for re-election as Directors at the Meeting. Personal particulars of each of the retiring Directors are set out in the Appendix to this notice.
5. In relation to the proposed resolutions numbered 5 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The Directors have no immediate plans to issue any new Shares other than Shares which may fall to be issued under the share option scheme of the Company or any script dividend scheme which may be approved by shareholders of the Company.

NOTICE OF ANNUAL GENERAL MEETING



6. Procedures for demanding a poll

Pursuant to Article 72 of the articles of association of the Company, a resolution put to vote of a meeting shall be decided on a show of hands unless a poll is required by Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for poll) a poll is demanded:

- (a) by the Chairman of such meeting;
- (b) by at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at such meeting;
- (c) by any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the rights to vote at the meeting; or
- (d) by any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of the Shares representing five per cent. (5%) or more of the total voting rights at the meeting.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman of the meeting that a resolution has been on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

7. As at the date of this notice, the board of Directors comprises the following members:

Executive Directors:

Mr. Chan Chung Yee, Hubert
Mr. Chan Chung Yin, Roy
Mr. Chan Man Min
Mr. Yeh Yui Fong
Mr. Tsui Hon Wing
Mr. Chan Ming Him, Denny
Mr. Wu Kwok Lam

Independent non-executive Directors:

Dr. Chu Chor Lup
Mr. Chiu Ngar Wing
Mr. Leung Tai Wai, David

Appendix to Notice of Annual General Meeting

The biographical details and other particulars of the Directors proposed to be re-elected at the Annual General Meeting are set out below:

Mr. CHAN Chung Yin, Roy, aged 45, has been an executive director of the Group since he joined in 1989. He graduated from the University of Toronto, Canada with a Bachelor's Degree in Computer Science and has over 16 years of experience in the telecommunications industry.

Mr. Chan is the younger brother of Mr. Chan Chung Yee, Hubert, who is the executive Director of the Company. Save as disclosed herein, Mr. Chan has not held any directorship in other listed companies in Hong Kong in the last three years and does not have any relationship with any other Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Chan has entered into a service agreement with the Company for an initial term of three years commencing from 12th September, 2001 which is automatically renewable for successive term of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other. Under the service contract, Mr. Chan is currently entitled to the following remuneration which is determined by reference to his performance and contribution to the Group:

- (i) a monthly salary of HK\$57,000 subject to such increase as the Board may, subject to compliance with the provisions of the articles of association of the Company, determine from time to time in its absolute discretion on or before the 20th day of April of each year during the term provided that such increase shall not exceed 10% per annum of the amount of salary paid during the previous 12-month period; and
- (ii) a management bonus in respect of each financial year of the Company during the term in an amount to be determined by the board of Directors in its absolute discretion, provided that the total amount of bonuses payable to all the executive Directors for the time being shall not exceed 10% of the combined or, as the case may be, consolidated audited net profit of the Group (after taxation and minority interests and the payment of such bonuses but before extraordinary items) for that financial year.

As at the date of this notice, Mr. Chan was deemed to be interested in 67,417,400 Shares which were held by Star Global International Limited, representing approximately 14.16% of the total issued share capital of the Company, under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). Mr. Chan was also interested in 1,000,000 Shares, representing approximately 0.21% of the total issued share capital of the Company, under Part XV of the SFO by virtue of his direct beneficial interest.

There is no information in relation to Mr. Chan that needs to be disclosed pursuant to any of the requirements of the provisions under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

NOTICE OF ANNUAL GENERAL MEETING

Save as disclosed above, there are no other matters concerning the re-election of Mr. Chan that need to be brought to the attention of the shareholders of the Company ("Shareholders").

Mr. CHIU Ngar Wing, aged 53, is a practising accountant. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants. He is a director of T.C. Ng & Co, CPA Ltd. and has been practicing in the firm for more than 20 years.

Mr. Chiu has not held any directorship in other listed companies in Hong Kong in the last three years and does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders (as defined in the Listing Rules) of the Company.

Mr. Chiu has entered into a letter of appointment with the Company for a term of one year commencing from 1st September, 2001. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three months' notice in writing prior to the expiry of the then current term. Under the letter of appointment, Mr. Chiu is currently entitled to the annual director fee of HK\$ 25,000.

Mr. Chiu is not interested or deemed to be interested in any shares of the Company or its associated corporations within the meaning of Part XV of the SFO.

There is no information in relation to Mr. Chiu that needs to be disclosed pursuant to any of the requirements of the provisions under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Save as disclosed above, there are no other matters concerning the re-election of Mr. Chiu that need to be brought to the attention of the Shareholders.

Dr. CHU Chor Lup, aged 54, is a practising doctor. He is a fellow of Hong Kong College of Physician and Hong Kong Academy of Medicine and Royal College of Physician (Glasgow). He has been a member of the Hospital Governing Committee since 1997.

Dr. Chu has not held any directorship in other listed companies in Hong Kong in the last three years and does not have any relationship with any other Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company.

NOTICE OF ANNUAL GENERAL MEETING

Dr. Chu has entered into a letter of appointment with the Company for a term of one year commencing from 1st September, 2001. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three months' notice in writing prior to the expiry of the then current term. Under the letter of appointment, Dr. Chu is currently entitled to an annual director fee of HK\$ 25,000.

Dr. Chu is not interested or deemed to be interested in any shares of the Company or its associated corporations within the meaning of Part XV of the SFO.

There is no information in relation to Dr. Chu that needs to be disclosed pursuant to any of the requirements of the provisions under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Save as disclosed above, there are no other matters concerning the re-election of Dr. Chu that need to be brought to the attention of the Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31st March, 2007, the Company and its subsidiaries' (collectively, the "Group") turnover decreased by 13% to HK\$869 million (2006: HK\$1,002 million) and net profit was HK\$5 million (2006: HK\$72 million). The drastic drop in profit was due to the disposal of certain properties recording a profit of HK\$69 million in previous year. By excluding this item, the profit increased by 31%.

SALES OF MOBILE PHONES

The sale of mobile phones continued to be the Group's major core business for the year. The turnover decreased to HK\$772 million (2006: HK\$916 million) due to the cessation of mobile phone business of overseas subsidiaries. The profit decreased from HK\$10 million to HK\$8 million when compared with last year.

SALES OF BUSINESS SOLUTIONS

During the year under review, the turnover was HK\$99 million, an improvement of 14% from last year (2006: HK\$86 million). However, the division suffered loss of HK\$6.4 million compared with the loss of HK\$2.6 million last year. The downturn in performance was due to substantial resources being input into the research and development of network telephone system, Radio Frequency Identification ("RFID") project and software development.

PROPERTY INVESTMENT

The loss increased from HK\$0.1 million to HK\$1.3 million when compared with last year. This was mainly caused by the interest on mortgage loan. Due to the sale of relevant properties in April 2007, we expect that the interest will be significantly reduced in the coming year.

PROSPECTS

The sale of mobile phones continues to be the Group's major core business. With the substantial efforts and resources put on product development, RFID projects and software development in the past few years, we are well placed for the bidding of some projects. By possessing cash and bank balances of approximately HK\$91 million, our capital base is strong and we will continue to identify suitable investment opportunities to increase the return.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. As at 31st March, 2007, the Group's bank balances and cash amounted to approximately HK\$91 million (2006: HK\$66 million) while bank borrowing was HK\$26 million (2006: HK\$28 million). The long term bank borrowing was denominated in Hong Kong dollars. The gearing ratio was 10% (2006: 11%) which is expressed as a percentage of total borrowings to shareholders' funds.

As substantial portion of transactions are denominated in Hong Kong Dollar, the Group's exposure to exchange fluctuation is low.

CAPITAL EXPENDITURE

The Group invested HK\$2 million in investment properties, leasehold land and property, plant and equipment during the year. This was financed from internal resources.

EMPLOYEES

As at 31st March, 2007, the total number of employees of the Group was approximately 380 (2006: 380) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$48 million (2006: HK\$49 million). The remuneration and bonus packages of the employees are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. In addition to the share option scheme, the Company had on 8th September, 2006 adopted a share award plan which the directors of the Company may, in their absolute discretion, make awards of share of the Company to any full time employees (including any directors) of the Company, any of its subsidiaries or any entity in which any member of the Group holds an equity interest. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

As at 31st March, 2007, the Group's general banking facilities were secured by (1) first legal charge on certain leasehold land and buildings and investment properties with aggregate net book value of HK\$75,930,000 (2006: HK\$76,760,000), (2) bank deposit of HK\$7,798,000 (2006: HK\$7,798,000) and (3) available-for-sale financial assets of HK\$12,976,000 (2006: HK\$3,417,000).

CONTINGENT LIABILITIES

As at 31st March, 2007, the Company had provided corporate guarantees of HK\$49 million (2006: HK\$74 million) to secure banking facilities granted to the subsidiary companies.

DIVIDEND

The Directors recommend the payment of a final dividend of HK\$0.01 (2006: HK\$0.01) per ordinary share payable to shareholders of the Company whose names appear on the register of members of the Company on Friday, 7th September, 2007. Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company, the dividend will be paid on or before 14th September, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 5th September, 2007 to Friday, 7th September, 2007, both days inclusive, for the purpose of, among other things, establishing entitlements to the proposed final dividend, during which period no transfer of shares will be effected. In order to qualify for the final dividend, the shareholders of the Company must be registered as members of the Company on Friday, 7th September, 2007 and as such all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Share Registrars in Hong Kong, Pilare Limited, at 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 4th September, 2007.

APPRECIATION

The board of directors of the Company (the "Board") would like to extend its sincere gratitude to the Company's shareholders, business counterparts and all management and staff members of the Group for their contribution and continued support during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Company had complied throughout the year ended 31st March, 2007 with the code provisions ("Code Provisions") set out in the Code of Corporate Governance Practices ("Code") contained in Appendix 14 to the Listing Rules, except for Code Provisions A.2.1 which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of Chairman and Chief Executive Officer and Mr. Chan Chung Yee, Hubert currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

The Board is responsible for formulating business strategies, and monitoring the performance of the business of the Group. Other than the daily operational decisions which are delegated to the members of the senior management of the Group, most of the corporate decision of the Company are made by the Board.

The Board comprises seven executive directors namely Mr. Chan Chung Yee, Hubert (Chairman), Mr. Chan Chung Yin, Roy, Mr. Chan Man Min, Mr. Chan Ming Him, Denny, Mr. Tsui Hon Wing, Mr. Wu Kwok Lam and Mr. Yeh Yui Fong, and three independent non-executive directors, namely Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Mr. Leung Tai Wai, David. Mr. Chiu Ngar Wing possesses appropriate professional accounting qualifications and financial management expertise. Mr. Chan Chung Yee, Hubert, the Chairman of the Board, is the elder brother of Mr. Chan Chung Yin, Roy. Mr. Chan Man Min is the father of Mr. Chan Ming Him, Denny. Save as disclosed, there is no relationship among the members of the Board.

The Company has received from each of its independent non-executive directors a written confirmation of his independence and the Company considers each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

The Board held fourteen meetings during the year and the attendance records of individual director are as follows:

	Number of meetings attended
Executive directors:	
Chan Chung Yee, Hubert	14/14
Chan Chung Yin, Roy	13/14
Chan Man Min	0/14
Chan Ming Him, Denny	14/14
Tsui Hon Wing	14/14
Wu Kwok Lam	13/14
Yeh Yui Fong	14/14
Independent non-executive directors:	
Chiu Ngar Wing	0/14
Chu Chor Lup	0/14
Leung Tai Wai, David	0/14

TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors has entered into a letter of appointment with the Company for a term of one year. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three months', notice in writing prior to the expiry of the then current term. All the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

The members of the remuneration committee comprise Dr. Chu Chor Lup, Mr. Chiu Ngar Wing and Mr. Wu Kwok Lam and Mr. Chiu Ngar Wing is the Chairman of the remuneration committee. Dr. Chu Chor Lup and Mr. Chiu Ngar Wing are independent non-executive directors.

The remuneration committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, determining the specific remuneration packages of all executive directors and senior management of the Group and reviewing and approving the compensation payable to executive directors and senior management of the Group in connection with any loss or termination of their office or appointment. One meeting of the remuneration committee had been held during the year to review and approve the remuneration policy of the Company and to determine remuneration of directors of the Company. The individual attendance of members are as follows:

Name of members	Number of meeting attended
Chiu Ngar Wing	1/1
Chu Chor Lup	1/1
Wu Kwok Lam	1/1

AUDIT COMMITTEE

The Company's audit committee comprises three independent non-executive directors namely, Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Mr. Leung Tai Wai, David and Mr. Chiu Ngar Wing is the chairman of the audit committee. During the year, the audit committee reviewed the unaudited interim financial statements for the six months ended 30th September, 2006 and the audited financial statements for the year ended 31st March, 2007 with recommendations to the Board for approval, reviewed reports on internal control system of the Group, and discussed with the management and the external auditors the audit plans, the accounting policies and practices which may affect the Group and financial reporting matters. A total of two meetings were held in the year under review and the individual attendance of members are as follows:

Name of members	Number of meetings attended
Chiu Ngar Wing	2/2
Chu Chor Lup	2/2
Leung Tai Wai, David	1/2

The remuneration paid to the external auditors of the Group in respect of audit services and tax consulting services for the year ended 31st March, 2007 amounted to HK\$430,000 and HK\$26,000 respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company acknowledge their responsibility for preparing all information and representation contained in the consolidated financial statements of the Company for the year under review. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted and the financial statements complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. As at 31st March, 2007, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on page 31 of the annual report of the Company for the year ended 31st March, 2007.

INTERNAL CONTROL

The Board is of the opinion that a sound internal control system will contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations and will assist the Board in the management of any failure to achieve business objective.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the executive directors of the Company. Plans and budgets are reviewed on a monthly basis to measure actual performance against the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Different guidelines and procedures have been established for the approval and control of operating expenditures, capital expenditures and the unbudgeted expenditures and acquisitions.

The executive directors of the Company review monthly management reports on the financial results and key operating statistics of each unit and hold periodical meetings with the senior management of each business unit and the finance team to review these reports, discuss business performance against budgets, forecasts and market conditions, and to address accounting and finance related matters.

The Board is responsible for internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for management use and for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

For the year under review, the Board has designated a risk management team to review the effectiveness of the Group's internal control system. The team performed evaluation of the principles and controls of the Group's control environment, risk assessment, control activities, information and communication and monitoring so as to ensure that key business and operational risks are identified and managed. Significant findings on internal controls will be reported to the audit committee every year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions.

Each of the directors of the Company confirmed, following specific enquiry by the Company, that he complied with the required standard as set in Model Code throughout the year ended 31st March, 2007.

COMMUNICATION WITH SHAREHOLDERS

The Board recognized the importance of good communication with the shareholders of the Company. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of channels, which include publication of interim reports and annual reports, announcements and circulars. The developments of each line of the Group's business are presented under "Management discussion and analysis" section of the interim reports and annual reports to enable the shareholders to have a better understanding of the Group's business activities.

The Company welcomes shareholders to attend the annual general meetings and express their view. The Chairman of the Board as well as other Board members together with the external auditors are available to answer shareholders' questions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. CHAN Chung Yee, Hubert, aged 47, joined the Group in 1984 and is responsible for the formulation of corporate strategies and business development of the Group. He has over 20 years of experience in the trading and distribution of telecommunications equipment. Mr. Chan obtained a Bachelor's Degree in Industrial Engineering from the University of Hong Kong and an Executive Master of Business Administration from the Hong Kong University of Science and Technology. Mr. Chan is also very active in promoting the telecommunications industry in Hong Kong. He is currently the Chairman of the Communications Association of Hong Kong.

Mr. CHAN Chung Yin, Roy, aged 45, the younger brother of Mr. Chan Chung Yee, Hubert, has been an executive director of the Group since he joined in 1989. He graduated from the University of Toronto, Canada with a Bachelor's Degree in Computer Science and has over 16 years of experience in the telecommunications industry.

Mr. WU Kwok Lam, aged 45, joined the Group in 1989 and is currently the General Manager and Chief Financial Officer of the Group. He earned his MBA degree from Murdoch University, Australia and has over 15 years of extensive experience in the accounting and finance field. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wu is also the company secretary and qualified accountant of the Company.

Mr. CHAN Man Min, aged 74, joined the Group in 1971 with over 30 years of extensive experience in the telecommunications industry. He is the father of Mr. Chan Ming Him, Denny.

Mr. CHAN Ming Him, Denny, aged 48, joined the Group in 1999 with over 15 years of experience in the telecommunications industry in China. He graduated from McMaster University, Canada with a Master's Degree in Engineering. He is the son of Mr. Chan Man Min.

Mr. TSUI Hon Wing, aged 60, joined the Group in 1987 and possesses over 30 years of extensive experience in the sales and management of intercom, keyphone and closed-circuit television systems.

Mr. YEH Yui Fong, aged 73, is responsible for overseeing the business planning and operation in the Singapore and Malaysia subsidiaries of the Group. He has been an executive director of the Singapore subsidiary since 1981 and has over 20 years of extensive experience in the telecommunications industry. He has attained an MBA Degree from the Chinese University of Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHIU Ngar Wing, aged 53, is a practising accountant. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants. He is a director of T.C. Ng & Co, CPA Ltd. and has been practising in the firm for more than 20 years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. CHU Chor Lup, aged 54, is a practising doctor. He is a fellow of Hong Kong College of Physician and Hong Kong Academy of Medicine and Royal College of Physician (Glasgow). He has been the member of the Hospital Governing Committee since 1997.

Mr. Leung Tai Wai, David, aged 51, is the president of Zestra Asia Limited. Mr. Leung holds a Degree in Business Administration and a Master's Degree in Marketing.

SENIOR MANAGEMENT

Mr. KWONG Chiu Fan, Kevin, aged 42, joined the Group in 2001 and has over 15 years of experience in technical projects, product development and management. He is also currently the director of HKC Technology Limited, one of the subsidiaries of the Group. Prior to joining the Group, he held various positions in leading technology companies including Telecommunications Technology Centre, Zi Corporation, IBM Global Services Australia and Hong Kong Productivity Council. Mr. Kwong holds a Master of Science Degree from Imperial College of the University of London and a Bachelor's Degree in Engineering from the Hong Kong Polytechnic University. He is also a Chartered Engineer and a member of the Hong Kong Computer Society, the Hong Kong Institution of Engineering and the Institution of Engineering and Technology.

Mr. CHOI Chun Yik, aged 46, joined the Group in 1990 with over 15 years of experience in the telecommunications industry. He is responsible for overseeing the operations of sales, customer services and technical services departments in the business solutions division. He has attained an MBA Degree from Murdoch University, Australia.

Mr. LAU Chuen Kee, aged 45, is the general manager of Shanghai's subsidiary of the Company. Mr. Lau joined the Group in 1998 and is responsible for exploring business opportunities in China. He has over 15 years' experience in the telecommunications industry of China.

Mr. HUI Koon Wai, Bernard, aged 41, joined the group in 1998, and is responsible for overseeing the group's distribution and operation of sales in the mobile division. Prior to joining the Group, Mr. Hui has extensive sales experience through working for Gilman & Company Limited and Hutchison Telecommunications (Hong Kong) Limited (now known as HTIL). He also has over 12 years of experience in mobile phone business.

Mr. LAM Kwok Hung, Charles, aged 40, is the general manager of the computer division. Mr. Lam joined the group in 2005 and has over 15 years of experience in the information technology industry mainly responsible for the infrastructure of computer networking system and applications development. He also has experience to develop the business as Internet Service Provider and is one of the pioneers in the e-Commerce market at the new generation. Mr. Lam holds an MBA Degree from Columbia Southern University.

Mr. NG Chi Hoi, Samuel, aged 49, is the general manager of Singapore Communications Equipment Co., (Pte) Limited. Mr. Ng joined the Group in 1993 and has over 25 years of experience in the telecommunications industry. He holds a Bachelor's Degree in Computing and Information Systems from University of London.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the group and the company for the year ended 31st March, 2007.

PRINCIPAL ACTIVITIES

The company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 45 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the group for the year ended 31st March, 2007 are set out in the consolidated income statement on page 33.

The directors recommend the payment of a final dividend of HK\$0.01 per ordinary share to the shareholders of the company whose names appear on the register of members on 7th September, 2007.

PROPERTY, PLANT AND EQUIPMENT

During the year, the group spent HK\$1,920,000 on property, plant and equipment. The group also disposed of certain of its property, plant and equipment with aggregate carrying amount of HK\$96,000.

Details of these and other movements in property, plant and equipment of the group during the year are set out in note 17 to the financial statements.

Particulars of the leasehold land and buildings of the group as at 31st March, 2007 are set out on page 100.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the group during the year are set out in note 18 to the financial statements.

Particulars of the investment properties of the group as at 31st March, 2007 are set out on page 99.

BORROWINGS

Details of the borrowings of the group at the balance sheet date are set out in note 33 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the company during the year are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's articles of association or the laws of the Cayman Islands.

DONATIONS

Donations made by the group during the year amounted to HK\$246,000.

DIRECTORS AND SERVICE CONTRACTS

The directors of the company during the year and up to the date of this report were:

Executive directors:

Chan Chung Yee, Hubert – *Chairman*

Chan Chung Yin, Roy

Chan Man Min

Chan Ming Him, Denny

Tsui Hon Wing

Wu Kwok Lam

Yeh Yui Fong

Independent non-executive directors:

Chiu Ngar Wing

Chu Chor Lup

Leung Tai Wai, David

In accordance with article 108 of the company's articles of association, Messrs. Chan Chung Yin, Roy, Chiu Ngar Wing and Chu Chor Lup will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the company for an initial term of three years commencing from 12th September, 2001, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

Each of the independent non-executive directors has entered into a letter of appointment with the company for an initial term of one year. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three months' notice in writing prior to the expiry of the then current term. All the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the company in accordance with the articles of association of the company.

None of the directors of the company has entered into a service contract with the company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

Other than the interests disclosed under the section headed "Connected transactions" below and in note 43 to the financial statements, no other contracts of significance to which the company or any of its subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The company has received from each of its current independent non-executive directors an annual confirmation of his independence and the company considers each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st March, 2007, the interests and short positions of the directors and chief executive of the company in shares, underlying shares or debentures of the company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or was deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the company referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the company and the Stock Exchange were as follows:

Name of director	The company/ associated corporation	Capacity/nature of interest	Number and class of securities	Percentage of interests in the issued share capital at 31st March, 2007
Chan Chung Yee, Hubert	The company	Founder of a trust	234,100,575 ordinary shares (each a "Share") of HK\$0.01 each (L) (Note 1 and 2)	50.66%
	The company	Beneficial owner	8,600,000 Shares (L) (Note 3)	1.86%
	Matrix World Group Limited	Founder of trust	1 share of US\$1.00 each (L)	100%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Name of director	The Company/ associated corporation	Capacity/nature of interest	Number and class of securities	Percentage of interests in the issued share capital at 31st March, 2007
Chan Chung Yin, Roy	The company	Interest of controlled corporation	68,417,400 Shares (L) (Note 4)	14.81%
	The company	Beneficial owner	2,000,000 Shares (L) (Note 5)	0.43%
	Star Global International Limited	Beneficial owner	1 share of US\$1.00 each (L)	100%
Chan Man Min	The company	Interest of controlled corporation	24,709,650 Shares (L) (Note 6)	5.35%
	The company	Beneficial owner	2,000,000 Shares (L) (Note 7)	0.43%
Yeh Yui Fong	The company	Interest of controlled corporation	2,681,550 Shares (L) (Note 8)	0.58%
	The company	Beneficial owner	2,000,000 Shares (L) (Note 9)	0.43%
Tsui Hon Wing	The company	Beneficial owner	3,939,200 Shares (L) (Note 10)	0.85%
Chan Ming Him, Denny	The company	Beneficial owner	2,000,000 Shares (L) (Note 11)	0.43%
Wu Kwok Lam	The company	Beneficial owner	1,000,000 Shares (L) (Note 12)	0.22%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Notes:

1. The Letter "L" represents the director's or the chief executive's long position in the shares or underlying shares of the Company or its associated corporations.
2. Among these Shares, 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 225,615,727 Shares were held by Matrix World Group Limited, a company wholly owned by Trustcorp Limited as the trustee of a discretionary trust of which Mr. Chan Chung Yee, Hubert is the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Matrix World Group Limited is deemed to be interested in the Shares held by Light Emotion Limited and Mr. Chan Chung Yee, Hubert is deemed to be interested in the Shares in which Matrix World Group Limited is interested.
3. Interests in these Shares comprise 4,300,000 Shares registered in the name of Mr. Chan Chung Yee, Hubert and 4,300,000 Shares to be allocated and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
4. These Shares were held by Star Global International Limited, a company wholly owned by Mr. Chan Chung Yin, Roy. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Chung Yin, Roy is deemed to be interested in the Shares held by Star Global International Limited.
5. These represent the interests of Mr. Chan Chung Yin, Roy in 2,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
6. These Shares were held by Ocean Hope Group Limited, a company wholly owned by Mr. Chan Man Min. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Man Min is deemed to be interested in the Shares held by Ocean Hope Group Limited.
7. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Chan Man Min and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
8. These Shares were held by CIT Company Limited, a company wholly owned by Mr. Yeh Yui Fong and his wife in equal share. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Yeh Yui Fong is deemed to be interested in the Shares held by CIT Company Limited.
9. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Yeh Yui Fong and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
10. Interests in these Shares comprise 2,939,200 Shares registered in the name of Mr. Tsui Hon Wing and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Notes: — continued

11. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Chan Ming Him, Denny and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
12. These Shares represent the interests of Mr. Wu Kwok Lam in 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.

Save as disclosed above, as at 31st March, 2007, none of the directors and chief executive of the company had any interest and short position in shares, underlying shares and debentures of the company or its associated corporations (within the meaning of the SFO) which were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or was deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the company referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed under the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the company and its associated corporations" above and under the section headed "Share option scheme and share award plan" below, at no time during the year under review or up to the date of this report was the company or any of its subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of acquisition of share in, or debenture of the company or any other body corporate.

SHARE OPTION SCHEME AND SHARE AWARD PLAN**SHARE OPTION SCHEME**

Particulars of the company's share option scheme are set out in note 36 to the financial statements.

As at 31st March, 2007, the number of shares in respect of which options had been granted and yet to be exercised under the company's share option scheme was 18,200,000, representing approximately 4% of the shares capital of the company in issue as at that date. The company had not granted any option during the year then ended 31st March, 2007.

DIRECTORS' REPORT

SHARE OPTION SCHEME AND SHARE AWARD PLAN — continued

SHARE OPTION SCHEME — continued

The following table discloses movements in the company's share options during the year:

	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2006	Lapsed during the year	Cancelled during the year	Outstanding at 31st March, 2007
Directors							
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	4,300,000	–	–	4,300,000
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	2,000,000	–	–	2,000,000
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000
				<u>11,300,000</u>	<u>–</u>	<u>–</u>	<u>11,300,000</u>
				-----	-----	-----	-----
Employees							
	4.5.2004	4.11.2004 – 3.5.2006	0.196	2,564,000	(2,564,000)	–	–
	17.6.2005	17.12.2005 – 16.6.2007	0.284	9,000,000	–	(2,100,000)	6,900,000
				<u>11,564,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>6,900,000</u>
				-----	-----	-----	-----
				<u>22,864,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>18,200,000</u>
				=====	=====	=====	=====

SHARE AWARD PLAN

On 8th September, 2006, the share award plan (the "Share Award Plan") was adopted by the company in which full time selected employees (including any directors) of the company, any of its subsidiaries or any entity in which any member of the group holds an equity interest will be entitled to participate. The Share Award Plan enables the company to reward and provide incentives to, and strengthen the group's business relationship with, the prescribed classes of participants who contributed and/or may contribute to the growth and development of the group. Unless early terminated by the Board, the Share Award Plan will remain in force for a period of 10 years commencing from the date of its adoption. In any given financial year of the company, the maximum number of shares of the company which may be subscribed for and/or purchased by the trustee of the Share Award Plan is limited to not more than 8 per cent of the total number of shares of the company in issue as at the beginning of that financial year. The amount of funds which may be allocated by the company to the trustee of the Share Award Plan in any given financial year of the company for the purpose of subscribing for and/or purchasing any awarded shares of the company is limited to not more than 10 per cent of the consolidated profit before tax of the company as shown in its audited financial statements of the immediate preceding year. The allocation of funds in respect of any award to a connected person (as defined in the Listing Rules) of the company is subject to the applicable requirements of Chapter 14A of the Listing Rules.

SHARE OPTION SCHEME AND SHARE AWARD PLAN — continued

SHARE AWARD PLAN — continued

The relevant awarded shares of the company acquired by the trustee of the Share Award Plan (together with any dividends and other distribution in respect of these awarded shares of the company) will be held by the trustee in trust for those selected employees until they are vested in them in accordance with the terms and conditions of the awards made.

During the year under review, no award of shares of the company was made to any selected employees under the Share Award Plan.

CONNECTED TRANSACTIONS

During the year, the group had certain transactions with related parties, details of which are set out in note 43 to the financial statements.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2007, the aggregate turnover attributable to the group's five largest customers accounted for approximately 57% by value of the group's total turnover and the sales attributable to the group's largest customer was approximately 20% of the total sales. The aggregate purchases attributable to the group's five largest suppliers accounted for approximately 95% by value of the group's total purchases and the purchases attributable to the group's largest supplier was approximately 91% by value of the total purchases.

None of the directors of the company, any of their associates or any shareholders (which to the best knowledge of the directors owns more than 5% of the company's share capital) has any beneficial interest in any of the group's five largest customers or five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the company's listed shares by the company or any of its subsidiaries during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

So far as the Directors are aware, as at 31st March, 2007, the following persons, other than a director or chief executive of the company, had an interest or a short position in the shares and underlying shares in the company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of ordinary shares (each a "Share") of HK\$0.01 each	Capacity/nature of interest	Percentage of interests in the issued share capital as at 31st March, 2007
Matrix World Group Limited (Note 2)	225,615,727 (L) (Note 1)	Beneficial owner	48.82%
	8,484,848 (L)	Interest of controlled corporation	1.84%
Star Global International Limited (Note 3)	68,417,400 (L)	Beneficial owner	14.81%
Trustcrop Limited (Note 2)	234,100,575 (L)	Trustee	50.66%
Newcorp Ltd. (Note 4)	234,100,575 (L)	Interest of controlled corporation	50.66%
Newcorp Holdings Limited (Note 4)	234,100,575 (L)	Interest of controlled corporation	50.66%
David Henry Christopher Hill (Note 5)	234,100,575 (L)	Interest of controlled corporation	50.66%
David William Roberts (Note 5)	234,100,575 (L)	Interest of controlled corporation	50.66%
Rebecca Ann Hill (Note 6)	234,100,575 (L)	Interest of spouse	50.66%
Ocean Hope Group Limited (Note 7)	24,709,650 (L)	Beneficial owner	5.35%
Chan Low Wai Han, Edwina (Note 8)	70,417,400 (L)	Interest of spouse	15.24%
Josephine Liu (Note 9)	242,700,575 (L)	Interest of spouse	52.52%

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO — continued

Notes:

1. The letter "L" represents the person's interests in Shares.
2. Among these Shares, 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 225,615,727 Shares were held by Matrix World Group Limited, a company wholly owned by Trustcorp Limited as the trustee of a discretionary trust of which Mr. Chan Chung Yee, Hubert is the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Matrix World Group Limited is deemed to be interested in the Shares held by Light Emotion Limited and Trustcorp Limited is deemed to be interested in all the Shares in which Matrix World Group Limited is interested.
3. Star Global International Limited is a company wholly owned by Mr. Chan Chung Yin, Roy.
4. Trustcorp Limited is a company wholly-owned by Newcorp Ltd., which is in turn wholly owned by Newcorp Holdings Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Newcorp Ltd. and Newcorp Holdings Limited are deemed to be interested in all the Shares in which Trustcorp Limited is interested.
5. Newcorp Holdings Limited is owned as to 35% by Mr. David Henry Christopher Hill, 35% by Mr. David William Roberts and 30% by Mr. Michael J. Jenney-Herbert. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, each of Mr. David Henry Christopher Hill and Mr. David William Roberts is deemed to be interested in all the Shares in which Newcorp Holdings Limited is interested.
6. Mrs. Rebecca Ann Hill is wife of Mr. David Henry Christopher Hill. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Mrs. Rebecca Ann Hill is deemed to be interested in all the Shares in which Mr. David Henry Christopher Hill is interested.
7. Ocean Hope Group Limited is a company wholly owned by Mr. Chan Man Min.
8. Mrs. Chan Low Wai Han, Edwina is wife of Mr. Chan Chung Yin, Roy. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Mrs. Chan Low Wai Han, Edwina is deemed to be interested in all the Shares in which Mr. Chan Chung Yin, Roy is interested.
9. Ms. Josephine Liu is the wife of Mr. Chan Chung Yee, Hubert. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Ms. Josephine Liu is deemed to be interested in all the Shares in which Mr. Chan Chung Yee, Hubert is interested.

Save as disclosed above, as at 31st March, 2007, no person, other than a director or chief executive of the company as disclosed in the section headed "Directors' and chief executive's interests and short position in shares, underlying shares and debenture of the company and its associated corporations" above, had any interest or a short position in the shares and underlying shares in the company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the company is set out in the "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the company and within the knowledge of the directors as at the date of this annual report, the company has maintained the prescribed public float as prescribed under the Listing Rules.

AUDITORS

Li, Tang, Chen & Co. will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Li, Tang, Chen & Co. as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

Chan Chung Yee, Hubert

Chairman

Hong Kong, 16th July, 2007



李湯陳會計師事務所
LI, TANG, CHEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

TO THE SHAREHOLDERS OF HKC INTERNATIONAL HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of HKC International Holdings Limited (the “company”) and its subsidiaries (together, the “group”) set out on pages 33 to 97, which comprise the consolidated and company balance sheets as at 31st March, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion, on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

INDEPENDENT AUDITOR'S REPORT

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

OPINION

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

Li, Tang, Chen & Co.

Certified Public Accountants (Practising)

10/F Sun Hung Kai Centre,

30 Harbour Road

Wanchai, Hong Kong

16th July, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
TURNOVER	7	869,232	1,002,490
Cost of sales		(770,368)	(888,526)
GROSS PROFIT		98,864	113,964
Other income and gains	8	10,214	6,768
Gain on disposal of leasehold land and buildings and investment properties		–	68,843
Loss on disposal of other property, plant and equipment		(12)	(63)
Other losses	8	(570)	(1,244)
Selling and distribution expenses		(14,775)	(14,635)
Administrative and other operating expenses		(85,336)	(90,909)
Impairment losses recognised in respect of goodwill		–	(3,601)
Finance costs	9	(1,525)	(1,048)
PROFIT BEFORE TAXATION	10	6,860	78,075
TAX EXPENSE	13	(2,322)	(5,775)
PROFIT FOR THE YEAR		4,538	72,300
Attributable to			
Equity holders of the company		5,071	72,174
Minority interests		(533)	126
		4,538	72,300
DIVIDEND	15	4,621	23,098
EARNINGS PER SHARE – (HK CENTS)			
– basic	16	1.1 cents	15.6 cents
– diluted	16	1.1 cents	15.6 cents

BALANCE SHEETS

As at 31st March, 2007

	Notes	The group		The company	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	17	10,921	13,300	–	–
Investment properties	18	15,485	15,911	–	–
Leasehold land	19	63,877	64,460	–	–
Interests in subsidiaries	20	–	–	204,853	202,207
Interest in associate	21	349	–	–	–
Available-for-sale financial assets	22	20,793	13,619	–	3,878
Financial assets at fair value through profit or loss	23	4,146	–	–	–
Long-term bank deposits	24	15,596	7,798	–	–
Deferred tax assets	34	36	41	–	–
		131,203	115,129	204,853	206,085
CURRENT ASSETS					
Inventories	25	54,850	58,415	–	–
Debtors, deposits and prepayments	26	58,100	56,663	–	–
Available-for-sale financial assets	22	9,101	–	–	–
Financial assets at fair value through profit or loss	23	4,551	27,669	–	–
Amounts due from related companies	27	1,516	1,516	–	–
Derivative financial instruments	28	–	194	–	–
Tax recoverable		890	846	–	–
Cash and bank balances	29	91,469	66,432	690	729
		220,477	211,735	690	729
CURRENT LIABILITIES					
Creditors and accrued charges	30	49,233	34,336	–	8
Derivative financial instruments	28	–	992	–	–
Deposit received	31	6,850	–	–	–
Tax payable		68	1,253	–	–
Obligations under finance leases	32	31	29	–	–
Bank borrowings	33	2,430	2,495	–	–
		58,612	39,105	–	8
NET CURRENT ASSETS					
		161,865	172,630	690	721
TOTAL ASSETS LESS CURRENT LIABILITIES					
		293,068	287,759	205,543	206,806
NON-CURRENT LIABILITIES					
Obligations under finance leases	32	59	84	–	–
Bank borrowings	33	23,498	25,984	–	–
Deferred tax liabilities	34	363	728	–	–
		23,920	26,796	–	–
		269,148	260,963	205,543	206,806

BALANCE SHEETS

As at 31st March, 2007

	Notes	The group		The company	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES					
Share capital	35	4,621	4,621	4,621	4,621
Reserves	37	264,527	255,809	200,922	202,185
Equity attributable to equity holders of the company		269,148	260,430	205,543	206,806
Minority interests		-	533	-	-
Total equity		269,148	260,963	205,543	206,806

The financial statements on pages 33 to 97 were approved and authorised for issue by the board of directors on 16th July, 2007 and are signed on its behalf by:

Chan Chung Yee, Hubert
Director

Chan Chung Yin, Roy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2007

	Attributable to equity holders of the company										
	Share capital	Share premium	Share option reserve	Capital reserve	Leasehold land and buildings revaluation reserve	Investment revaluation reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005	4,608	31,339	–	28,325	44,935	1,471	343	98,616	209,637	407	210,044
Exchange differences on translation of overseas operations	–	–	–	–	–	–	105	–	105	–	105
Equity-settled share-based transactions	–	–	1,047	–	–	–	–	–	1,047	–	1,047
Release to retained profits upon disposal of leasehold land and buildings	–	–	–	–	(44,935)	–	–	44,935	–	–	–
Increase in fair value of available-for-sale financial assets	–	–	–	–	–	311	–	–	311	–	311
Exercise of share options	13	241	–	–	–	–	–	–	254	–	254
Net profit for the year	–	–	–	–	–	–	–	72,174	72,174	126	72,300
Dividend paid	–	–	–	–	–	–	–	(23,098)	(23,098)	–	(23,098)
At 31st March, 2006	4,621	31,580	1,047	28,325	–	1,782	448	192,627	260,430	533	260,963
Exchange differences on translation of overseas operations	–	–	–	–	–	–	272	–	272	–	272
Increase in fair value of available-for-sale financial assets	–	–	–	–	–	7,996	–	–	7,996	–	7,996
Transfer upon cancellation of share options	–	–	(108)	–	–	–	–	108	–	–	–
Net profit/(loss) for the year	–	–	–	–	–	–	–	5,071	5,071	(533)	4,538
Dividend paid	–	–	–	–	–	–	–	(4,621)	(4,621)	–	(4,621)
At 31st March, 2007	4,621	31,580	939	28,325	–	9,778	720	193,185	269,148	–	269,148

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2007

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	6,860	78,075
Adjustments for:		
Depreciation	4,905	4,121
Amortisation of prepaid operating lease payments	610	609
Loss on disposal of other property, plant and equipment	12	63
Gain on disposal of leasehold land and buildings and investment properties	-	(68,843)
Impairment losses recognised in respect of goodwill	-	3,601
Dividend income from listed investments	(99)	(162)
Allowances for inventories	2,360	4,829
Deposits paid written off	-	3,725
Provision for impairment of trade debtors	354	9,025
Bad debts written off	16	424
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss	(2,147)	(3,095)
(Gain)/losses from dealing in foreign currency contracts, options and other derivative financial instruments	(716)	1,244
Interest income	(3,150)	(1,240)
Finance costs	1,525	1,048
Equity-settled share-based payment expenses	-	1,047
Operating cash inflows before movements in working capital	10,530	34,471
Decrease/(increase) in inventories	1,205	(10,431)
Increase in debtors, deposits and prepayments	(1,807)	(22,039)
Increase in amount due from related companies	-	(500)
Increase/(decrease) in creditors and accrued charges	14,897	(3,016)
Exchange adjustments	(303)	39
Net cash from/(used in) operations	24,522	(1,476)
Interest received	3,150	1,240
Interest paid	(1,520)	(1,043)
Interest on obligations under finance leases	(5)	(5)
Tax paid:		
Hong Kong	(3,911)	(9,085)
Overseas	-	(275)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	22,236	(10,644)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
INVESTING ACTIVITIES			
Purchase of leasehold land and buildings and investment properties		-	(61,708)
Purchase of other property, plant and equipment		(1,920)	(8,563)
Purchase of available-for-sale financial assets		(8,279)	-
Purchase of financial assets at fair value through profit or loss		(73,592)	(26,870)
Deposit received for disposal of investment properties		6,850	-
Net proceeds from disposal of leasehold land and buildings and investment properties		-	160,700
Proceeds from disposal of other property, plant and equipment		84	190
Dividend income from listed investments		99	162
Proceeds from disposal of financial assets at fair value through profit or loss		94,711	3,095
Payments to settle foreign currency contracts, options and other derivative financial instruments		(82)	(1,244)
Increase in long-term bank deposits		(7,798)	(7,798)
Acquisition of a subsidiary	39	-	(5,045)
Advances to an associate		(349)	-
NET CASH FROM INVESTING ACTIVITIES		9,724	52,919
FINANCING ACTIVITIES			
New bank loan obtained		-	30,000
Proceeds from issue of shares on exercise of share options		-	254
Dividend paid		(4,621)	(23,098)
Repayment of bank loans		(2,483)	(23,746)
Repayment of obligations under finance leases		(23)	(33)
NET CASH USED IN FINANCING ACTIVITIES		(7,127)	(16,623)
NET INCREASE IN CASH AND CASH EQUIVALENTS		24,833	25,652
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		66,364	40,651
Effect of foreign exchange rates changes		272	61
CASH AND CASH EQUIVALENTS AT END OF YEAR		91,469	66,364
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	91,469	66,432
Bank overdrafts		-	(68)
		91,469	66,364

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

1. GENERAL

The company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the company are disclosed in the section headed "corporate information" to this annual report.

The principal activity of the company is that of investment holding. The principal activities of the subsidiaries are set out in note 45.

2. 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 ("HK-Int")), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 certain financial instruments, which have been measured at fair values. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except where otherwise indicated.

3.1 IMPACT ON NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements and applicable to its operations:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS29 Financial Reporting in Hyperinflationary Economies

The adoption of the above new and revised HKFRSs have had no material impact on the accounting policies of the group and the company and the methods of computation in the group's and company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

3.2 APPLICATION OF NEW AND REVISED HKFRS

The group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the accounting period ended 31st March, 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

¹ Effective for accounting periods beginning on or after 1st January, 2007.

² Effective for accounting periods beginning on or after 1st January, 2009.

³ Effective for accounting periods beginning on or after 1st May, 2006.

⁴ Effective for accounting periods beginning on or after 1st June, 2006.

⁵ Effective for accounting periods beginning on or after 1st November, 2006.

⁶ Effective for accounting periods beginning on or after 1st March, 2007.

⁷ Effective for accounting periods beginning on or after 1st January, 2008.

The group has begun to consider the potential impact of the above standards and amendments, but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and amendments may result in changes in the future as to how the results and financial position are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Subsidiaries:

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

a) Subsidiaries: — continued

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends declared or approved during the company's financial year.

b) Associates:

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The group's interest in associate is accounted for using the equity method of accounting and is initially recognised at cost. The group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associate's post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of loss in an associate equals or exceeds its investment in the associate, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

c) Goodwill:

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

c) Goodwill: — continued

Goodwill on acquisition for which the agreement date is on or after 1st January, 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment test, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated.

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit, or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

c) Goodwill: — continued

Excess over the cost of business combinations

Any excess of the group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for the associate is included in the group's share of the associate's profit or loss in the period in which the investment is required.

d) Property, plant and equipment:

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 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 the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Buildings	Over the shorter of the term of the lease or 40 years
Motor vehicles	20% p.a.
Computer equipment	33 $\frac{1}{3}$ % p.a.
Office equipment	10% – 20% p.a.
Leasehold improvements	20% p.a.
Furniture and fixtures	10% – 20% p.a.
Moulds	20% p.a.
Plant and machinery	20% p.a.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

e) Investment properties:

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and any impairment loss. Depreciation is calculated to write-off the cost of investment properties, less their residue values, if any, using the straight-line method over the shorter of the term of the lease or 40 years.

f) Financial instruments:

i) *Classification*

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term. Bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host deposits are designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market, and with no intention of trading the receivables. Bank deposits are treated as loans and receivables and are disclosed as cash and bank balances.

ii) *Recognition and initial measurement*

Purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the assets. Investments at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the income statement. Investments not designated as fair value through profit or loss are initially recognised at fair value plus transaction costs.

iii) *Derecognition*

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially the risk and rewards of ownership.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

f) Financial instruments: — continued

iv) *Gains or losses on subsequent measurement and interest income*

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise. Upon disposal, the difference between the sale proceeds and the carrying value is included in the income statement.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains and losses and interest income from these investments.

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in investment revaluation reserve, except for monetary securities whose exchange differences resulting from changes in amortised costs are recognised in the income statement. When the securities are sold, the difference between the sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.
- Interest income recognised using the effective interest method and disclosed as interest income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any impairment losses.
- Interest income is recognised using the effective interest method and disclosed as interest income.

v) *Fair value measurement principles*

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

f) Financial instruments: — continued

vi) *Impairment*

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. If any such evidence exists for the available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the profits or loss – is removed from investment revaluation reserve and recognised in the income statement.

In case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

A provision of impairment for loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement.

g) Derivative financial instruments:

The group invests in certain derivative financial instruments, such as forward currency contracts and currency options, for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

h) Inventories:

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value. Costs comprise direct materials and the related purchase costs. In the case of finished goods and work in progress, costs also include direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less all costs to be incurred to completion and disposal.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

i) 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 term 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 term. Where the group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the relevant lease terms.

Prepaid operating lease payments 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 properties as a finance lease.

j) 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.

k) Payables:

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

l) Revenue recognition:

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

Service fee income, arising from repairs installation, maintenance and connection services, are recognised when the relevant services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

l) Revenue recognition: — continued

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

m) Employee benefits:

Share-based payment

The fair value of share options granted to employees is recognised as employee costs with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options are granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period taking into account the probability that the options will vest. Otherwise, the fair value of options is recognised in the period in which the options are granted.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustments to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to share capital and share premium account) or the option expires (when it is released directly to retained profits).

Share-based payment transactions in which the company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the company's balance sheet which is eliminated on consolidation.

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 and the relevant labour laws of the respective countries in which the overseas subsidiaries operate 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 Hong Kong Employment Ordinance and the relevant labour laws.

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 the commencement of their services to the group to the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

m) Employee benefits: — continued

Pension schemes and other retirement benefits

The group joins defined contribution retirement benefits schemes in Hong Kong and overseas for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the group in independently administered funds. In respect of the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the group's employer contributions vest fully with the employees when contributed into 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 specific amount for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

n) Borrowing costs:

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

o) Income tax expense:

Income tax expense 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.

Deferred tax is provided, using the balance sheet 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.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liabilities arise from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

o) Income tax expense: — continued

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 future taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

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

p) Impairment:

i) *Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

p) Impairment: — continued

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment; and
- Other tangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is credited to the income statement in the year in which the reversal is recognised.

q) Foreign currency transaction:

i) Functional and presentation currency

Items included in the financial statements of the group and the company are measured using the currency of the primary economic environment in which the group and the company operate ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the group's and the company's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

4. SIGNIFICANT ACCOUNTING POLICIES — continued

q) Foreign currency transaction: — continued

ii) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the year-end exchange rates. All exchange differences are recognised in the income statement.

iii) Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

r) Related parties:

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the parties or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of the group or of any entity that is a related party of the group.

s) Contingent liabilities:

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the note to the financial statements. When a change in the probability of an outflow occurs so that outflow is possible, they will then be recognised as a provision.

t) Segment reporting:

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

In accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

4. SIGNIFICANT ACCOUNTING POLICIES — continued

t) Segment reporting: — continued

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, available-for-sale financial assets, financial assets at fair value through profit or loss, receivables and operating cash excluding taxation. Segment liabilities comprise operating liabilities excluding taxation. Capital expenditure comprises additions to property, plant and equipment, leasehold land and investment properties.

In respect of geographical segment reporting, turnover, operating results, total assets and capital expenditure are based on the country in which the relevant assets are located.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit, liquidity, interest rate, foreign currency and price risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

a) Credit risk

The group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimize the credit risk, the group has been monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity level to ensure that it maintains sufficient reserves of cash and bank balances and readily realisable marketable securities for its daily operation and investment purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — continued

c) Interest rate risk

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	2007				2006			
	Effective interest rate %	One year or less HK\$'000	2-5years HK\$'000	More than 5 years HK\$'000	Effective interest rate %	One year or less HK\$'000	2-5years HK\$'000	More than 5 years HK\$'000
Repricing dates for assets/ (liabilities) which reprice before maturity								
Cash at bank	0.5% – 2.6%	16,731	-	-	0.5% – 2.42%	5,998	-	-
Deposits with banks	6.5%	-	7,798	-	-	-	-	-
Bank loans	5.4% – 5.75%	(25,928)	-	-	5.4% – 5.75%	(28,411)	-	-
Bank overdrafts	-	-	-	-	8%	(68)	-	-
		<u>74,738</u>	<u>-</u>	<u>7,798</u>		<u>38,695</u>	<u>-</u>	<u>7,798</u>
Maturity dates for assets which do not reprice before maturity								
Deposits with banks	2.5% – 6.125%	<u>74,738</u>	<u>-</u>	<u>7,798</u>	6% – 6.5%	<u>38,695</u>	<u>-</u>	<u>7,798</u>

d) Foreign currency risk

The group's significant activities have been operated locally and are exposed to limited foreign exchange risks as most debtors and creditors are denominated in Hong Kong Dollars and United States Dollars.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — continued

e) Price risk

The group is exposed to equity securities price risk because investments held by the group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The group is not exposed to commodity price risk.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the group's accounting policies which are described in note 4, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation and judgements 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 also discussed below.

Useful lives of property, plant and equipment

The group's management determines the estimate useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previous estimation, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Allowances for inventories

The management of the group makes allowance for obsolete and slow-moving inventories that are identified as no longer salable. The management estimates the net realisable value of its inventories based primarily on the latest invoice prices and current market conditions. The group carries out review of inventories on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Provision for impairment of debtors

The policy for impairment of debtors of the group is based on the evaluation of collectibility and aging analysis of debtors and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors including the current creditworthiness and the past collection history of each customer, if the financial conditions of customers of the group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

Provision for long service payments

The group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from the commencement of their services to the group to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

7. TURNOVER/SEGMENTAL INFORMATION

Turnover represents sales of mobile phone, business solutions and gross rental income.

For management purposes, the group is currently organised into three operations divisions – sales of mobile phone, sales of business solutions and property investment, segment information about the group's business is presented below:

i) Primary reporting format – business segments:

For the year ended 31st March, 2007:

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	770,143	98,615	474	–	869,232
Inter-segment sales	1,834	–	–	(1,834)	–
Total turnover	<u>771,977</u>	<u>98,615</u>	<u>474</u>	<u>(1,834)</u>	<u>869,232</u>

Inter-segment sales were charged at prevailing market prices.

RESULTS

Segment results	<u>7,586</u>	<u>(6,448)</u>	<u>(1,332)</u>	<u>–</u>	(194)
Interest income from bank deposits					2,992
Unallocated other income and gains					5,587
Finance costs					<u>(1,525)</u>
Profit before taxation					6,860
Tax expense					<u>(2,322)</u>
Profit for the year					<u>4,538</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments: — continued

For the year ended 31st March, 2007:

Balance sheet

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	158,543	60,899	78,050	297,492
Unallocated corporate assets				54,188
				<u>351,680</u>
Consolidated total assets				<u><u>351,680</u></u>
LIABILITIES				
Segment liabilities	38,922	10,810	6,995	56,727
Unallocated corporate liabilities				25,805
				<u>82,532</u>
Consolidated total liabilities				<u><u>82,532</u></u>
OTHER INFORMATION				
Capital expenditures	1,480	440	–	1,920
Depreciation and amortisation	2,339	2,254	922	5,515
				<u><u>5,515</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments: — continued

Segment information about the group's business is presented below:

For the year ended 31st March, 2006:

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	914,889	86,347	1,254	–	1,002,490
Inter-segment sales	1,278	–	–	(1,278)	–
Total turnover	<u>916,167</u>	<u>86,347</u>	<u>1,254</u>	<u>(1,278)</u>	<u>1,002,490</u>

Inter-segment sales were charged at prevailing market prices.

RESULTS

Segment results	<u>9,831</u>	<u>(2,616)</u>	<u>(102)</u>	<u>–</u>	7,113
Interest income from bank deposits					1,170
Unallocated other income and gains					5,598
Gain on disposal of leasehold land and buildings and investment properties	–	–	68,843	–	68,843
Impairment losses recognised in respect of goodwill	(3,601)	–	–	–	(3,601)
Finance costs					<u>(1,048)</u>
Profit before taxation					78,075
Tax expense					<u>(5,775)</u>
Profit for the year					<u>72,300</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments: — continued

At 31st March, 2006:

Balance sheet

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	132,608	63,475	81,500	277,583
Unallocated corporate assets				49,281
Consolidated total assets				<u>326,864</u>
LIABILITIES				
Segment liabilities	26,818	10,081	3,117	40,016
Unallocated corporate liabilities				25,885
Consolidated total liabilities				<u>65,901</u>
OTHER INFORMATION				
Capital expenditures	4,340	3,963	73,366	81,669
Depreciation and amortisation	2,197	1,588	945	4,730
Impairment loss recognised in respect of goodwill	3,601	–	–	<u>3,601</u>

ii) Secondary reporting format – geographical segments

During the years ended 31st March, 2007 and 2006, more than 90% of the group's turnover, profit from operations, assets and liabilities were derived from and located in Hong Kong and, therefore, no geographical segments for the relevant years are presented in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

8. OTHER INCOME AND GAINS

	2007 HK\$'000	2006 HK\$'000
Dividend income		
– listed available-for-sale financial assets	–	80
– listed financial assets at fair value through profit or loss	99	82
Interest income		
– bank deposits	2,992	1,170
– others	158	70
Computer service fee income	59	–
Commission income	127	543
Bad debts recovered	765	190
Net gains from forward currency contracts and other derivative financial instruments	716	–
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
– bank deposits with embedded derivatives	140	2,346
– listed securities	2,007	743
– exchange differences	–	6
Management income	–	724
Net exchange gains	1,816	6
Rental income for application software provider	396	–
Others	939	808
	10,214	6,768
OTHER LOSSES		
Net losses from forward currency contracts, options and other derivative financial instruments	–	1,244
Penalty for early termination of bank deposit	570	–
	570	1,244

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

9. FINANCE COSTS

	2007	2006
	HK\$'000	HK\$'000
Interest on:		
– Bank borrowings wholly repayable within five years	9	13
– Bank borrowings with instalments repayable after five years	1,507	1,030
– Interest on obligations under finance leases	5	5
– Others	4	–
	<hr/>	<hr/>
	1,525	1,048
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2007	2006
	HK\$'000	HK\$'000
Auditors' remuneration	430	429
Operating lease rentals in respect of rented premises		
– Minimum lease payment	9,205	7,736
– Contingent rent	1,545	1,624
	10,750	9,360
Depreciation		
– Owned assets	4,872	4,090
– Leased assets	33	31
	4,905	4,121
Amortisation of prepaid operating lease payments	610	609
Employee benefits expenses (including directors' remuneration note (11))		
– Salaries, allowances and benefits in kind	49,534	50,864
– Retirement benefit scheme contributions	2,776	2,573
– Equity-settled share option expenses	–	1,047
Total staff costs	52,310	54,484
Donation	246	495
Deposits paid written off	–	3,725
Provision for impairment of trade debtors	354	9,025
Bad debts written off	16	424
	474	1,426
and after crediting:		
Gross rental income from investment properties under operating leases	474	1,426

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

II. DIRECTORS' REMUNERATION

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

	2007					
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Employee share option benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:						
Chan Chung Yee, Hubert	-	533	645	-	7	1,185
Chan Chung Yin, Roy	-	698	-	-	12	710
Chan Man Min	-	36	-	-	-	36
Chan Ming Him, Denny	-	151	-	-	8	159
Tsui Hon Wing	-	643	37	-	24	704
Wu Kwok Lam	-	657	161	-	24	842
Yeh Yui Fong	-	508	-	-	4	512
	<u>-</u>	<u>3,226</u>	<u>843</u>	<u>-</u>	<u>79</u>	<u>4,148</u>
Independent non-executive directors:						
Chiu Ngar Wing	25	-	-	-	-	25
Chu Chor Lup	25	-	-	-	-	25
Leung Tai Wai, David	20	-	-	-	-	20
	<u>70</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

II. DIRECTORS' REMUNERATION — continued

	2006					
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Employee share option benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:						
Chan Chung Yee, Hubert	–	630	1,429	222	10	2,291
Chan Chung Yin, Roy	–	345	–	103	9	457
Chan Man Min	–	36	–	52	–	88
Chan Ming Him, Denny	–	148	–	52	8	208
Tsui Hon Wing	–	648	83	52	24	807
Wu Kwok Lam	–	660	372	52	24	1,108
Yeh Yui Fong	–	487	15	52	4	558
	–	2,954	1,899	585	79	5,517
Independent non-executive directors:						
Chiu Ngar Wing	25	–	–	–	–	25
Chu Chor Lup	25	–	–	–	–	25
Leung Tai Wai, David	20	–	–	–	–	20
	70	–	–	–	–	70

At the balance sheet date, certain directors held share options of the company, the details of which are set out in note 36 to the financial statements. The fair value of the share options granted in prior year, which had been charged to the income statement, was determined as at the date of the grant and was included in the above disclosure of directors' emoluments for the year ended 31st March, 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31st March, 2007 and 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the group include four directors (2006: three directors), details of whose emoluments are included in the amounts disclosed in note 11 above. The emoluments of the remaining highest paid employees, other than directors of the company, are as follows:

	2007	2006
	HK\$'000	HK\$'000
Salaries and allowances	911	1,842
Employee share option benefits	-	52
Retirement benefit schemes contributions	12	36
	923	1,930

Their emoluments were within the following band:

	2007	2006
	Number of employees	Number of employees
Nil to HK\$1,000,000	1	2

13. TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in elsewhere have been calculated at the rates of tax prevailing in those places in which the group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007	2006
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	2,780	5,790
Overprovision in respect of prior years	(26)	(4)
Tax refunded	(162)	-
Current – Elsewhere		
Charge for the year	90	398
Deferred tax (note 34)	(360)	(409)
Tax expense for the year	2,322	5,775

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

13. TAX EXPENSE — continued

The tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007	2006
	HK\$'000	HK\$'000
Profit before taxation	6,860	78,075
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	1,200	13,663
Overprovision of profits tax in respect of prior years	(16)	(4)
Tax effect of income not taxable	(2,264)	(15,760)
Tax effect of expenses that are not deductible in determining taxable income	863	4,728
Tax effect of unrecognised tax losses	2,935	2,832
Tax effect of different tax rate in other jurisdiction	(890)	226
Tax effect of utilisation of tax losses previously unrecognised	(337)	(131)
Others	831	221
Tax expense for the year	2,322	5,775

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the company includes a profit of HK\$3,374,000 (2006: HK\$18,847,000) which has been dealt with in the financial statements of the company.

15. DIVIDEND

	2007	2006
	HK\$'000	HK\$'000
Final dividend for the year 2006 of HK\$0.01 per ordinary share (2006: final dividend for the year 2005 of HK\$0.01 per ordinary share)	4,621	4,621
Special dividend for the year 2007 of HK\$Nil (2006: HK\$0.04) per ordinary share	—	18,477
	4,621	23,098

Final dividend of HK\$0.01 (2006: HK\$0.01) per ordinary share for the year ended 31st March, 2007 has been proposed by the directors and is subject to the approval by the shareholders in general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

16. EARNINGS PER SHARE

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

	The group	
	2007 HK\$'000	2006 HK\$'000
Profit attributable to equity holders of the company	<u>5,071</u>	<u>72,174</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	462,069,603	462,005,624
Effect of dilutive potential ordinary shares:		
Options	<u>—</u>	<u>885,322</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>462,069,603</u>	<u>462,890,946</u>

No diluted earnings per share for the year ended 31st March, 2007 is presented because the exercise price of the company's options was higher than the average market price of the shares for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, leasehold improvements and furniture and fixtures HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
The group							
Net book value at							
1st April, 2005 (note iii)	56,678	683	1,357	2,981	1,662	676	64,037
Currency realignment	(3)	4	3	(1)	–	(1)	2
Transfer	–	–	(151)	151	–	–	–
Acquisition of a subsidiary	–	–	32	84	–	–	116
Additions	–	193	3,649	4,289	–	432	8,563
Disposals	(55,419)	–	(5)	(299)	–	–	(55,723)
Depreciation	(47)	(183)	(1,174)	(1,414)	(477)	(400)	(3,695)
Net book value at 31st March, 2006	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
At 31st March, 2006							
Cost	1,893	1,618	8,180	13,186	2,384	1,510	28,771
Accumulated depreciation	(684)	(921)	(4,469)	(7,395)	(1,199)	(803)	(15,471)
Net book value	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
Net book value at 1st April, 2006	1,209	697	3,711	5,791	1,185	707	13,300
Currency realignment	85	26	5	155	–	5	276
Additions	–	135	524	1,225	–	36	1,920
Disposals	–	–	(74)	(22)	–	–	(96)
Depreciation	(34)	(212)	(1,632)	(1,744)	(477)	(380)	(4,479)
Net book value at 31st March, 2007	<u>1,260</u>	<u>646</u>	<u>2,534</u>	<u>5,405</u>	<u>708</u>	<u>368</u>	<u>10,921</u>
At 31st March, 2007							
Cost	1,979	1,811	8,703	14,727	2,384	1,571	31,175
Accumulated depreciation	(719)	(1,165)	(6,169)	(9,322)	(1,676)	(1,203)	(20,254)
Net book value	<u>1,260</u>	<u>646</u>	<u>2,534</u>	<u>5,405</u>	<u>708</u>	<u>368</u>	<u>10,921</u>
Net book value of property, plant and equipment held under finance leases							
At 31st March, 2007	<u>–</u>	<u>100</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>100</u>
At 31st March, 2006	<u>–</u>	<u>127</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>127</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

17. PROPERTY, PLANT AND EQUIPMENT — continued

Note:

- i) The group's leasehold buildings comprise:

	2007	2006
	HK\$'000	HK\$'000
Properties held under long lease		
– in Hong Kong	523	538
– overseas	737	671
	1,260	1,209

- ii) At 31st March, 2007, the group had pledged its leasehold buildings with aggregate net book value of HK\$1,260,000 (2006: HK\$1,209,000) to secure the group's general banking facilities.
- iii) The analysis of net book value as at 1st April, 2005 was as follows:

	Leasehold buildings	Motor vehicles	Computer equipment	Office equipment, and furniture and leasehold improvements and fixtures	Moulds	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005							
Cost	57,316	1,578	4,801	9,037	2,384	1,078	76,194
Accumulated depreciation	(638)	(895)	(3,444)	(6,056)	(722)	(402)	(12,157)
Net book value	<u>56,678</u>	<u>683</u>	<u>1,357</u>	<u>2,981</u>	<u>1,662</u>	<u>676</u>	<u>64,037</u>

- iv) The total cost of property, plant and equipment disposed of or written off during the year ended 31st March, 2007 was HK\$380,000 (2006: HK\$56,149,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

18. INVESTMENT PROPERTIES

	The group
	HK\$'000
Cost	
At 1st April, 2005	21,588
Additions	10,050
Disposals	<u>(14,603)</u>
At 31st March, 2006	----- 17,035
Accumulated depreciation	
At 1st April, 2005	3,770
Charge for the year	426
Written back on disposal	<u>(3,072)</u>
At 31st March, 2006	----- 1,124
Net book value at 31st March, 2006	<u>15,911</u>
Fair value at 31st March, 2006	<u>15,800</u>
Cost	
At 1st April, 2006 and 31st March, 2007	----- 17,035
Accumulated depreciation	
At 1st April, 2006	1,124
Charge for the year	<u>426</u>
At 31st March, 2007	----- 1,550
Net book value at 31st March, 2007	<u>15,485</u>
Fair value at 31st March, 2007	<u>16,790</u>

The fair value of the group's investment properties at 31st March, 2007 and 2006 has been arrived based on the valuations carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuer. Valuations were made on the basis of investment approach by capitalising the net rental income receivable from the existing tenancies and the reversionary rental income potentials.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

18. INVESTMENT PROPERTIES — continued

The group's investment properties comprise:

	The group	
	2007 HK\$'000	2006 HK\$'000
Properties in Hong Kong		
– Long lease	14,298	14,692
– Medium-term lease	434	446
	14,732	15,138
Property in Mainland China		
– Medium-term lease	753	773
	15,485	15,911

The investment properties of the group are rented out under operating leases.

The group has pledged some of its investment properties with aggregate carrying value of HK\$14,298,000 (2006: HK\$14,692,000) to secure the group's general banking facilities.

19. LEASEHOLD LAND

	The group HK\$'000
At 1st April, 2005	45,480
Currency realignment	(2)
Additions	63,056
Disposals	(42,856)
Amortisation of prepaid operating lease payments	(609)
At 31st March, 2006	<u>65,069</u>
At 1st April, 2006	65,069
Currency realignment	28
Amortisation of prepaid operating lease payments	(610)
At 31st March, 2007	<u>64,487</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

19. LEASEHOLD LAND — continued

	The group	
	2007 HK\$'000	2006 HK\$'000
Leasehold land in Hong Kong		
Long lease	60,034	60,543
Medium-term lease	191	196
Leasehold land in Mainland China		
Medium-term lease	3,924	4,014
Leasehold land in Overseas		
Long lease	338	316
	<u>64,487</u>	<u>65,069</u>

The interests in leasehold land represent prepaid operating lease payments. Leasehold land with aggregate carrying value of HK\$60,372,000 (2006: HK\$60,859,000) are pledged to secure the group's general banking facilities.

	The group	
	2007 HK\$'000	2006 HK\$'000
Analysed for reporting purposes as		
Non-current portion	63,877	64,460
Current portion included in debtors, deposits and prepayments	610	609
	<u>64,487</u>	<u>65,069</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

20. INTERESTS IN SUBSIDIARIES

	The company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	163,654	163,654
Amounts due from subsidiaries	54,000	38,553
	217,654	202,207
Amounts due to subsidiaries	(12,801)	–
	204,853	202,207

The amounts due from/(to) subsidiaries are non-interest bearing, unsecured and have no fixed terms of repayment.

The fair values of amounts due from/(to) subsidiaries have not been determined as the timing of expected cash flows of this balance cannot be reasonably determined because of the relationship.

Particulars of the subsidiaries as at 31st March, 2007 are set out in note 45.

21. INTEREST IN ASSOCIATE

	The group	
	2007 HK\$'000	2006 HK\$'000
Share of net assets	–	–
Amount due from an associate	349	–
	349	–

The amount due from an associate is unsecured, interest-free and have no fixed terms of repayment. The carrying amount of this amount approximates its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

21. INTEREST IN ASSOCIATE — continued

Particulars of the associate which is held indirectly through subsidiary, are as follows:

Name	Place of incorporation and operation	Issued and fully paid ordinary share capital	Percentage of effective interest attributable to the group	Principal activity
Singcomm Technology Pte. Ltd.	Singapore	S\$160,000	50%	Business not yet commenced

The following table sets out the summarised financial information of the group's associate.

	The group	
	2007 HK\$'000	2006 HK\$'000
Assets	11	—
Liabilities	(362)	—
Revenue	—	—
Loss	(351)	—

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The group		The company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Financial assets stated at fair value				
Equity securities listed in				
Hong Kong	13,860	5,989	—	—
Unlisted investment fund	3,598	3,417	—	—
Unlisted debt securities	12,101	3,878	—	3,878
	29,559	13,284	—	3,878
Financial assets stated at cost				
Unlisted debt securities	335	335	—	—
	29,894	13,619	—	3,878

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS — continued

The debt securities have effective interest rates ranging from 3.34% to 11.5% (2006: 3.37%) per annum.

	The group		The company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Equity securities				
Corporate entities	<u>13,860</u>	<u>5,989</u>	<u>-</u>	<u>-</u>
Unlisted investment fund				
Bank	<u>3,598</u>	<u>3,417</u>	<u>-</u>	<u>-</u>
Unlisted debt securities				
Bank	<u>12,101</u>	<u>3,878</u>	<u>-</u>	<u>3,878</u>
Club debenture	<u>335</u>	<u>335</u>	<u>-</u>	<u>-</u>
Analysis for reporting purpose				
Current assets	<u>9,101</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current assets	<u>20,793</u>	<u>13,619</u>	<u>-</u>	<u>3,878</u>

The club debenture is accounted for at cost less accumulated impairment losses as such investment does not have a quoted market price in active markets and the range of reasonable fair value estimated is so significant that the directors are of the opinion that whose fair value cannot be reliably measured.

Unlisted investment fund and certain unlisted debt securities with aggregate value of HK\$12,976,000 (2006: HK\$3,417,000) have been pledged to secure the group's general banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The group	
	2007 HK\$'000	2006 HK\$'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
– Equity securities listed in Hong Kong	985	5,239
– Equity securities listed elsewhere	<u>3,566</u>	<u>–</u>
	4,551	5,239
Designated as financial assets at fair value through profit or loss		
– Bank deposits with embedded derivatives	<u>4,146</u>	<u>22,430</u>
	8,697	27,669
Analysis for reporting purpose		
Current assets	<u>4,551</u>	<u>27,669</u>
Non-current assets	<u>4,146</u>	<u>–</u>

24. LONG-TERM BANK DEPOSITS

	The group	
	2007 HK\$'000	2006 HK\$'000
Pledged bank deposit	7,798	7,798
Other bank deposit	<u>7,798</u>	<u>–</u>
	15,596	7,798

The pledged bank deposit is placed for 10 years and earns interest at 6.125% (2006: 6.125%) per annum. The other bank deposit is also placed for 10 years and earns interest at 6.5% (2006: Nil) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

25. INVENTORIES

	The group	
	2007	2006
	HK\$'000	HK\$'000
Office telephone system, mobile phones and other electronic products and accessories	<u>54,850</u>	<u>58,415</u>

The inventories stated at net realisable value amounted to HK\$2,863,000 (2006: HK\$Nil).

The cost of inventories recognised in the consolidated income statement during the year amounted to HK\$768,933,000 (2006: HK\$887,242,000).

The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2007	2006
	HK\$'000	HK\$'000
Carrying amount of inventories sold	<u>766,573</u>	<u>882,413</u>
Write-down of inventories	<u>2,360</u>	<u>4,829</u>
	<u>768,933</u>	<u>887,242</u>

26. DEBTORS, DEPOSITS AND PREPAYMENTS

The group has a policy of allowing average credit period ranging from seven days to one month to its customers. In addition, for certain customers with long-established relationship and have good credit worthiness, a longer credit period may be granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

26. DEBTORS, DEPOSITS AND PREPAYMENTS — continued

The aged analysis of trade debtors of HK\$43,358,000 (2006: HK\$40,509,000) which are included in the group's debtors, deposits and prepayments is as follows:

	The group	
	2007 HK\$'000	2006 HK\$'000
0 – 30 days	28,991	27,173
31 – 60 days	3,169	4,836
61 – 90 days	1,753	2,885
91 – 120 days	737	1,265
Over 120 days	8,708	4,350
	<u>43,358</u>	<u>40,509</u>

The directors consider that the carrying amounts of debtors, deposits and prepayments approximate to their fair values.

27. AMOUNTS DUE FROM RELATED COMPANIES

The group

Particulars of the amount due from related companies are as follows:

Name of related companies	Maximum amount outstanding during the year		
	2007 HK\$'000	2006 HK\$'000	2006 HK\$'000
BIA Technology Limited	500	500	500
Hong Kong Communications Holdings Limited	1,016	1,016	1,016
	<u>1,516</u>	<u>1,516</u>	

The directors' interests in BIA Technology Limited are set out in note 43.

Messrs. Chan Chung Yee, Hubert, Chan Chung Yin, Roy and Chan Man Min have beneficial interests in Hong Kong Communications Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

27. AMOUNTS DUE FROM RELATED COMPANIES — continued

The amounts due from related companies are unsecured, interest free and repayable on demand.

The directors consider that the carrying amounts of the amounts due from related companies approximate to their fair values.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	The group			
	As at 31st March, 2007		As at 31st March, 2006	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Equity contracts	-	-	150	128
Options	-	-	44	321
Forward currency contracts	-	-	-	543
	<u>-</u>	<u>-</u>	<u>194</u>	<u>992</u>

The carrying amounts of equity contracts, options and forward currency contracts as at 31st March, 2006 were the same as their fair values.

Major terms of the derivative financial instruments were as follows:

Equity contracts

As at 31st March, 2006, the group had entered into certain derivative contracts for purchase of various equity with notional amount of HK\$16,696,000 in aggregate. These equity contracts matured from 18th July, 2006 to 22nd March, 2007.

Options

As at 31st March, 2006, the group had written various currency options with notional amount of HK\$19,313,000 in aggregate and the expiry dates of which ranged from 7th April, 2006 to 7th July, 2007.

As at 31st March, 2007, the group did not enter into any equity contracts and currency options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

28. DERIVATIVE FINANCIAL INSTRUMENTS — continued

Forward currency contracts outstanding as at 31st March, 2006 were as follows:

Notional amount	Maturity	Exchange rate
Buy JPY229,200,000	31st May, 2006	USD/JPY 114.60
Buy JPY101,000,000	31st May, 2006	USD/JPY 101.00
Buy EUR500,000	8th August, 2006	EUR/USD 1.2085
Buy EUR1,000,000	8th August, 2006	EUR/USD 1.2085
Buy JPY23,450,000	5th April, 2006	USD/JPY 117.25
Buy JPY23,450,000	5th July, 2006	USD/JPY 117.25

As at 31st March, 2007, the group did not enter into any forward currency contracts.

29. CASH AND BANK BALANCES

	The group		The company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Time deposits with banks	90,334	46,493	—	—
Cash and bank balances	16,731	27,737	690	729
	107,065	74,230	690	729
Less: Long-term bank deposits (see note 24)	15,596	7,798	—	—
	91,469	66,432	690	729

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits earn interest at the respective short-term time deposits rates. The directors consider that the carrying amounts of the time deposits with banks and cash and bank balances approximate to their fair values.

Included in the amounts of HK\$107,065,000 (2006: HK\$74,230,000) are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
United States Dollars	US\$3,664,000	US\$5,805,000
Japanese Yen	JPY 406,000	JPY2,855,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

30. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$39,938,000 (2006: HK\$25,102,000) which are included in the group's creditors and accrued charges is as follows:

	The group	
	2007 HK\$'000	2006 HK\$'000
0 – 30 days	35,476	18,411
31 – 60 days	395	1,751
61 – 90 days	339	480
Over 90 days	3,728	4,460
	<u>39,938</u>	<u>25,102</u>

The directors consider that the carrying amounts of creditors and accrued charges approximate to their fair values.

31. DEPOSIT RECEIVED

On 9th February, 2007, a subsidiary of the company entered into an agreement with a third party for the disposal of one of its investment properties for a cash consideration of HK\$68,500,000. A deposit of HK\$6,850,000 was received by the subsidiary upon signing the agreement. This transaction had been completed and the consideration was fully received on 30th April, 2007.

The directors consider that the carrying amount of deposit received approximates to its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

32. OBLIGATIONS UNDER FINANCE LEASES

	The group			
	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amounts payable under finance leases				
Within one year	36	34	31	29
In the second year	36	34	31	29
In the third to fifth years	32	63	28	55
	<u>104</u>	<u>131</u>	<u>90</u>	<u>113</u>
Less: Future finance charges	<u>(14)</u>	<u>(18)</u>		
Present value of finance leases	<u><u>90</u></u>	<u><u>113</u></u>		
Less: Amount due for settlement within one year shown under current liabilities			<u>(31)</u>	<u>(29)</u>
Amount due for settlement after one year			<u><u>59</u></u>	<u><u>84</u></u>

The directors consider that the carrying amounts of obligations under finance leases approximate to their fair values.

33. BANK BORROWINGS

	The group	
	2007 HK\$'000	2006 HK\$'000
Bank borrowings comprise:		
Bank overdrafts (unsecured)	–	68
Bank loans (secured)	<u>25,928</u>	<u>28,411</u>
	<u><u>25,928</u></u>	<u><u>28,479</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

33. BANK BORROWINGS — continued

The directors consider that the carrying amounts of bank borrowings approximate to their fair values.

The maturity of the bank borrowings is as follows:

	The group	
	2007 HK\$'000	2006 HK\$'000
Due within one year	2,430	2,495
Due more than one year, but not exceeding two years	2,346	2,383
Due more than two years, but not exceeding five years	6,978	7,042
Due more than five years	14,174	16,559
	<u>25,928</u>	<u>28,479</u>
Less: Amount due within one year shown under current liabilities	<u>2,430</u>	<u>2,495</u>
Amount due after one year	<u><u>23,498</u></u>	<u><u>25,984</u></u>

34. DEFERRED TAX

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

Deferred tax liabilities:

	The group		
	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 31st March, 2005	1,706	(563)	1,143
(Credited)/charged to consolidated income statement	<u>(702)</u>	<u>287</u>	<u>(415)</u>
At 31st March, 2006 and 1st April, 2006	1,004	(276)	728
(Credited)/charged to consolidated income statement	<u>(473)</u>	<u>108</u>	<u>(365)</u>
At 31st March, 2007	<u><u>531</u></u>	<u><u>(168)</u></u>	<u><u>363</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

34. DEFERRED TAX — continued

Deferred tax assets:

	The group Deductible temporary differences
	HK\$'000
At 1st April, 2005	47
Charged to consolidated income statement	(6)
At 31st March, 2006 and 1st April, 2006	41
Charged to consolidated income statement	(5)
At 31st March, 2007	<u>36</u>

At the balance sheet date, the group has unused tax losses of HK\$46,078,000 (2006: HK\$34,795,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,569,000 (2006: HK\$1,580,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$44,509,000 (2006: HK\$33,215,000) due to the unpredictability of future profit streams.

At the balance sheet date, the company has unused tax losses of HK\$3,725,000 (2006: HK\$2,927,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The tax losses can be carried forward to offset against the taxable profits of subsequent years. There is no restriction on their expiry except the unused tax losses of PRC subsidiaries can only be carried forward for five years from the year of the incurrence.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

35. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	2007	2006
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year and at end of the year	2,000,000,000	2,000,000,000	20,000	20,000
Issued and fully paid:				
At beginning of the year	462,069,603	460,773,603	4,621	4,608
Exercise of share options	-	1,296,000	-	13
At end of the year	462,069,603	462,069,603	4,621	4,621

Details of the company's share option scheme are set out in note 36 to the financial statements.

36. SHARE OPTION SCHEME

The company's share option scheme (the "Scheme") was adopted by a written resolution passed on 23rd October, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the group. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the company:

- i) any eligible employee of the company, any of its subsidiaries or any entity ("Invested Entity");
- ii) any non-executive director (including independent non-executive directors) of the company, any of its subsidiaries or any Invested Entity;
- iii) any supplier of goods or services to any member of the group or any Invested Entity;
- iv) any customer of the group or any Invested Entity;
- v) any person or entity that provides research, development or other technological support to the group or any Invested Entity;
- vi) any shareholder of any member of the group or any Invested Entity or any holder of any securities issued by any member of the group or any Invested Entity; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

36. SHARE OPTION SCHEME — continued

- vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the group.

and for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the company for the subscription of shares of the company or other securities of the group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The eligibility of any of the above class of participants to the grant of any options shall be determined by the directors from time to time.

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions of early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in daily quotations sheet of the Stock Exchange on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the group must not in aggregate exceed 30% of the relevant class of securities of the company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the group shall not exceed 10% of the shares of the company in issue as at the date of which dealing in the shares of the company on the Stock Exchange, without prior approval from the company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12 month period is not permitted to exceed 1% of the shares of the company in issue at any point in time, without prior approval from the company's shareholders. Options granted to directors, chief executives or substantial shareholders of the company or any of their respective associates (as defined under Listing Rules) must be approved by independent non-executive directors of the company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12 month period up to and including the date of such grant in excess of 0.1% of the shares of the company in issue and with a value in excess of HK\$5 million must be approved in advance by the company's shareholders. As at 31st March, 2007, the total number of shares available for issue under the Scheme was approximately 18,200,000 shares which represented approximately 4% of the total issued share capital of the company as at the date of this annual report.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

36. SHARE OPTION SCHEME — continued

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

The life of the Scheme is 10 years commencing from 23rd October, 2001 and will be end on 22nd October, 2011.

Movements in the options to subscribe for shares for the year ended 31st March, 2007 are as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2006	Lapsed during the year	Cancelled during the year	Outstanding at 31st March, 2007	Price of company's shares		
								At date of grant HK\$	Immediate before exercise date HK\$	At date of exercise HK\$
Directors										
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	4,300,000	–	–	4,300,000	0.280	–	–
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	2,000,000	–	–	2,000,000	0.280	–	–
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000	0.280	–	–
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000	0.280	–	–
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000	0.280	–	–
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000	0.280	–	–
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	1,000,000	–	–	1,000,000	0.280	–	–
				<u>11,300,000</u>	<u>–</u>	<u>–</u>	<u>11,300,000</u>			
Employees										
	4.5.2004	4.11.2004 – 3.5.2006	0.196	2,564,000	(2,564,000)	–	–	0.200	–	–
	17.6.2005	17.12.2005 – 16.6.2007	0.284	9,000,000	–	(2,100,000)	6,900,000	0.280	–	–
				<u>11,564,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>6,900,000</u>			
				<u>22,864,000</u>	<u>(2,564,000)</u>	<u>(2,100,000)</u>	<u>18,200,000</u>			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

36. SHARE OPTION SCHEME — continued

Movements in the options to subscribe for shares for the year ended 31st March, 2006 are as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31st March, 2006	Price of company's shares			
									At date of grant HK\$	Immediate before exercise date HK\$	At date of exercise HK\$	
Directors												
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	4,300,000	–	–	4,300,000	0.280	–	–	
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	2,000,000	–	–	2,000,000	0.280	–	–	
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–	
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–	
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–	
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–	
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–	
				–	11,300,000	–	–	11,300,000				
Employees												
	4.5.2004	4.11.2004 – 3.5.2006	0.196	2,564,000	–	–	–	2,564,000	0.200	–	–	
	4.5.2004	4.11.2004 – 3.5.2006	0.196	484,000	–	(484,000)	–	–	0.200	0.320	0.320	
	4.5.2004	4.11.2004 – 3.5.2006	0.196	324,000	–	(324,000)	–	–	0.200	0.310	0.320	
	4.5.2004	4.11.2004 – 3.5.2006	0.196	352,000	–	(352,000)	–	–	0.200	0.300	0.310	
	4.5.2004	4.11.2004 – 3.5.2006	0.196	112,000	–	(112,000)	–	–	0.200	0.270	0.270	
	4.5.2004	4.11.2004 – 3.5.2006	0.196	24,000	–	(24,000)	–	–	0.200	0.270	0.270	
	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	11,100,000	–	(2,100,000)	9,000,000	0.280	–	–	
				3,860,000	11,100,000	(1,296,000)	(2,100,000)	11,564,000				
				3,860,000	22,400,000	(1,296,000)	(2,100,000)	22,864,000				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

37. RESERVES

The group

The amounts of the group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 36.

The company

	Share premium	Special reserve	Share option reserve	Investment revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005	31,339	163,453	–	35	10,340	205,167
Equity-settled share						
– based transactions	–	–	1,047	–	–	1,047
Change in fair values of						
available-for-sale						
financial assets	–	–	–	(19)	–	(19)
Exercise of share options	241	–	–	–	–	241
Net profit for the year	–	–	–	–	18,847	18,847
Dividend paid	–	–	–	–	(23,098)	(23,098)
	<u>31,580</u>	<u>163,453</u>	<u>1,047</u>	<u>16</u>	<u>6,089</u>	<u>202,185</u>
At 31st March, 2006	<u>31,580</u>	<u>163,453</u>	<u>1,047</u>	<u>16</u>	<u>6,089</u>	<u>202,185</u>
At 1st April, 2006	31,580	163,453	1,047	16	6,089	202,185
Transfer upon cancellation						
of share option	–	–	(108)	–	108	–
Release to retained profits						
upon disposal of available-						
for-sale financial assets	–	–	–	(16)	–	(16)
Net profit for the year	–	–	–	–	3,374	3,374
Dividend paid	–	–	–	–	(4,621)	(4,621)
	<u>31,580</u>	<u>163,453</u>	<u>939</u>	<u>–</u>	<u>4,950</u>	<u>200,922</u>
At 31st March, 2007	<u>31,580</u>	<u>163,453</u>	<u>939</u>	<u>–</u>	<u>4,950</u>	<u>200,922</u>

The special reserve of the company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the company's shares issued for the acquisition prior to the listing of the company's shares in 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

37. RESERVES — continued

The company's reserves available for distribution represent the share premium, special reserve, share option reserve and retained profits. Under the Companies Laws of the Cayman Islands, the share premium of the company is available for paying distributions or dividends to shareholders subject to the provisions of memorandum and articles of association and provided that immediately following the distribution or dividend the company is able to pay its debt as they fall due in the ordinary course of business. The company's reserves available for distributions to shareholders as at 31st March, 2007 amounted to HK\$200,922,000 (2006: HK\$202,169,000)

38. OPERATING LEASE ARRANGEMENTS

a) The group as lessee:

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

	The group	
	2007 HK\$'000	2006 HK\$'000
Within one year	2,542	2,828
In the second to fifth years, inclusive	315	2,530
	<u>2,857</u>	<u>5,358</u>

Operating lease payments represent rentals payable by the group for its office premises and shops. Leases are negotiated for terms ranging from two to three years (2006: one to five years). In addition to the minimum rental payments disclosed above, the group has commitments to pay additional rent of a proportion of turnover for certain leased shops if the turnover generated from these leased shops exceeds the predetermined levels. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

38. OPERATING LEASE ARRANGEMENTS — continued

b) The group as lessor:

At the balance sheet date, the group had contracted with tenants for the following minimum lease receivable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The group	
	2007 HK\$'000	2006 HK\$'000
Within one year	819	211
In the second to fifth years, inclusive	504	—
	<u>1,323</u>	<u>211</u>

The properties held have committed tenants in terms of two years (2006: three years).

c) The company had no operating lease commitment as at 31st March, 2007 and 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

39. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary:

	The group	
	2007	2006
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	-	116
Inventories	-	1,320
Debtors, deposits and prepayments	-	381
Bank balances and cash	-	455
Creditors and accrued charges	-	(373)
	<u>-</u>	<u>1,899</u>
Goodwill on acquisition	-	3,601
	<u>-</u>	<u>5,500</u>
Satisfied by:		
Cash consideration	-	5,500
	<u>-</u>	<u>5,500</u>
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
Cash consideration	-	(5,500)
Bank balances and cash acquired	-	455
	<u>-</u>	<u>(5,045)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

40. CONTINGENT LIABILITIES

	The group		The company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Guarantees for general banking facilities granted to subsidiaries	<u>-</u>	<u>-</u>	<u>49,000</u>	<u>74,000</u>

The company has not recognised any deferred income in respect of guarantee as its fair value cannot be reliably measured and its transaction price was HK\$ nil (2006: HK\$ nil).

41. PLEDGE OF ASSETS

As at 31st March, 2007, the group's general banking facilities were secured by (1) first legal charge on certain leasehold land and buildings and investment properties with aggregate net book value of HK\$75,930,000 (2006: HK\$76,760,000), (2) bank deposit of HK\$7,798,000 (2006: HK\$7,798,000) and (3) available-for-sale financial assets of HK\$12,976,000 (2006: HK\$3,417,000).

42. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, a subsidiary had completed the disposal of one of its investment properties with a carrying value of HK\$66,773,000 to an independent third party at a cash consideration of HK\$68,500,000. Profit arising from this disposal is estimated to be HK\$1,400,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

43. RELATED PARTY TRANSACTIONS

- a) During the year, the group had the following transactions, which were conducted in the ordinary course of the group's business, with its related companies:

Name of related company	Notes	Nature of transactions	2007 HK\$'000	2006 HK\$'000
HKC Intown Limited	(i)	Internet access fee paid	152	169
Hong Kong Communications Computer Company Limited	(i)	Computer software maintenance fee and purchase of computer hardware	-	246
	(ii)	Rental income	-	304
BIA Technology Limited	(i)	Purchase of goods from	-	724
	(ii)	Rental income	-	46

Mr. Chan Chung Yin, Roy, director of the company, has beneficial interest in all the above-named companies.

Messrs. Chan Chung Yee, Hubert and Chan Man Min, directors of the company, have beneficial interests in Hong Kong Communications Computer Company Limited and BIA Technology Limited.

Messrs. Tsui Hon Wing and Yeh Yui Fong, directors of the company, have beneficial interests in BIA Technology Limited.

In view of the 45% interest of Mr. Chan Chung Yin, Roy, a director of the company, in HKC Intown Limited, HKC Intown Limited is a connected person (as defined in the Listing Rules) of the company. The transactions entered into with HKC Intown Limited constitute a continuing connected transaction under Chapter 14A of the Listing Rules. As the aggregate amounts involved during the year in respect of this transaction fell below the de-minimis threshold of Chapter 14A of the Listing Rules, this transaction is not subject to reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

Notes:

- (i) These transactions were based on cost plus a percentage of profit mark-up.
- (ii) Rental income was charged based on the area used, which management considered to be an appropriate basis of allocation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

43. RELATED PARTY TRANSACTIONS — continued

b) Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	2007 HK\$'000	2006 HK\$'000
– Salaries and other short-term employee benefits	7,885	8,264
– Post-employment benefits	151	150
– Share-based payment	–	711
	<u>8,036</u>	<u>9,125</u>

(c) Details of the balances with related companies are set out in note 27 to the financial statements.

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated to conform with current year's presentation.

45. SUBSIDIARIES

Particulars of the subsidiaries at 31st March, 2007 are as follows:

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
HKC Group Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$100,000	100%	Investment holding
HKC Properties Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$30	100%	Investment holding
Superior Charm Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$1,200	100%	Investment holding
Hong Kong Communications Equipment Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,560	100%	Sales and distribution of mobile phones and business solutions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

45. SUBSIDIARIES — continued

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
Circle Mobile Communications Limited	Hong Kong	Hong Kong	Ordinary shares HK\$1,000,000	100%	Sales of mobile phones and other electronic products
Generalvestor (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,000,000	100%	Property investment
HKC Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$6,000,100	100%	Sales and distribution of telecommunication products
HKC International (Thailand) Co. Ltd.	Thailand	Thailand	Preference shares THB9,999,990 Ordinary shares THB10,000,010	100%	Sales and distribution of business solutions
Singapore Communications Equipment Co. Pte Ltd.	The Republic of Singapore	Singapore	Ordinary shares S\$160,000	100%	Sales and distribution of business solutions
HKC Technology (USA) Inc.	United States of America	United States of America	Ordinary shares US\$15,000	100%	Sales and distribution of telecommunication products
HKC International (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM250,000	100%	Sales and distribution of mobile phones and its related accessories
Circle Mobile Communications (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM500,000	100%	Sales of mobile phones and other electronic products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2007

45. SUBSIDIARIES — continued

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Percentage of effective interest attributable to the group	Principal activities
上海希華通訊科技 有限公司 (note 1) HKC Technology (Shanghai) Co. Ltd.	PRC	PRC	Registered capital US\$550,000	100%	Sales and distribution of business solutions
亞衛通智能系統 (上海)有限公司 (note 2) (ASCT Technology Co. Ltd.)	PRC	PRC	Registered capital US\$610,000	80%	Development and sales of telecommunication system and other high-tech products
HKC Mobile Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$20,000,000	100%	Sales and distribution of mobile phones
Global Export (Macao Commercial Offshore) Ltd.	Macau	Macau	Contributed capital MOP 100,000	100%	Dormant
HKC Comunicacoes Equipamento (Macau) Companhia Limitada	Macau	Macau	Contributed capital MOP 100,000	100%	Sales and distribution of business solutions

The company directly holds the interest in HKC Group Limited. All other interests shown above are indirectly held by the company.

None of the subsidiaries had any debt securities subsisting at 31st March, 2007 and 2006 or at any time during the year.

Note 1: The subsidiary is a wholly foreign owned enterprise.

Note 2: The subsidiary is a sino-foreign owned enterprise.

FINANCIAL SUMMARY

For the year ended 31st March, 2007

	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
RESULTS					
Turnover	821,405	954,137	974,056	1,002,490	869,232
Profit before taxation	13,482	1,561	18,157	78,075	6,860
Tax expense	(2,708)	(1,340)	(7,003)	(5,775)	(2,322)
Profit for the year	10,774	221	11,154	72,300	4,538
Attributable to:					
Equity holders of the company	10,867	523	11,304	72,174	5,071
Minority interests	(93)	(302)	(150)	126	(533)
	10,774	221	11,154	72,300	4,538
ASSETS/(LIABILITIES) AND MINORITY INTERESTS					
Total assets	276,980	276,492	290,874	326,864	351,680
Total liabilities	(83,628)	(80,994)	(82,301)	(65,901)	(82,532)
Minority interests	(378)	(557)	(407)	(533)	-
	192,974	194,941	208,166	260,430	269,148

PARTICULARS OF INVESTMENT PROPERTIES

Location	Type	Lease term
Block B on 14th Floor Vita Tower No. 29 Wong Chuk Hang Road Wong Chuk Hang Hong Kong	Industrial	Long lease
Workshop 05 on 5th Floor Kwong Sang Hong Centre Nos. 151-153 Hoi Bun Road Kwun Tong Kowloon Hong Kong	Industrial	Medium-term lease
The whole of 11th Floor AXA Center No. 151 Gloucester Road Wanchai Hong Kong	Commercial	Long lease
Flat 19B on Level 19 Sea of Clouds Gardens No. 138 Qing Hai Road Jingan District Shanghai	Residential	Medium-term lease

PARTICULARS OF LEASEHOLD LAND AND BUILDINGS

Location	Type	Lease term
Block A on 14th Floor Vita Tower No. 29 Wong Chuk Hang Road Wong Chuk Hang Hong Kong	Industrial	Long lease
The whole of the strata unit #02-09 Kewalram House No. 8, Jalan Kilang Timor Singapore	Industrial	Long lease