DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

(Stock Code : 0567)

ANNUAL REPORT

2006

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Chan Sik Ming, Harry *(Chairman)*
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung

Independent non-executive directors

Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong

QUALIFIED ACCOUNTANT

Au-Yeung Wai Hung

COMPANY SECRETARY

Au-Yeung Wai Hung

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

Ernst & Young

LEGAL ADVISERS IN HONG KONG

Woo, Kwan, Lee and Lo

LEGAL ADVISERS IN BERMUDA

Appleby Spurling Hunter

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units B12-16, 3rd Floor, Block B
Hoplite Industrial Centre
3-5 Wang Tai Road
Kowloon Bay
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudian Road
Pembroke
Bermuda

BRANCH REGISTRAR IN HONG KONG

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Biographical Information of Directors

EXECUTIVE DIRECTORS

Chan Sik Ming, Harry, aged 52, has been an Executive Director of the Company since 1990. He is now the Chairman and the Chief Executive Officer of the Company responsible for the overall strategic planning for the Group. Mr. Chan graduated from the University of Hitotsubashi in Japan with a Bachelor of Arts degree in Commerce in 1978. He has over 25 years of experience in the electronics industry.

Motofumi Tsumura, aged 43, has been an Executive Director of the Company since October 1999. Mr. Tsumura graduated from the University of Seijo in Japan with a Business Management degree in 1985. He has over 21 years of experience in the electronics industry.

Hiroto Sasaki, aged 66, has been an Executive Director of the Company since October 2001. Mr. Sasaki is the President of Daisho Denshi Co., Ltd., a substantial shareholder of the Company. He has over 34 years of experience in the manufacture of printed circuit boards.

Hiroyuki Kikuchi, aged 66, has been an Executive Director of the Company since November 2003. He has over 41 years of experience in the manufacture of printed circuit boards.

Au-Yeung Wai Hung, aged 39, has been an Executive Director of the Company since November 2003. He has been the Company Secretary and the Financial Controller of the Company since July 1996. Mr. Au-Yeung graduated from the Hong Kong Polytechnic in 1988 with a Professional Diploma in Accountancy. He also obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in 1996 and a Master of Business degree in E-Commerce from the Curtin University of Technology in Australia in 2002. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 18 years of experience in areas related to accounting, auditing, taxation, company secretarial, financial management, personnel management and information technology management.

Biographical Information of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Kohu Kashiwagi, aged 66, has been an Independent Non-Executive Director of the Company since 1996. Mr. Kashiwagi has over 36 years of experience in the electronics industry.

Chan Yuk Tong, aged 44, has been an Independent Non-Executive Director of the Company since September 2004. He has over 20 years of experience in auditing, accounting, management consultancy and financial advisory services. He is currently a shareholder and director of a CPA firm and a financial consultancy firm in Hong Kong. He is also an executive director of Vitop Bioenergy Holdings Limited and an independent non-executive director of Anhui Conch Cement Company Limited and Kam Hing International Holdings Limited, all of which are listed companies in Hong Kong. Mr. Chan was also an independent non-executive director of Luks Industrial (Group) Limited, a listed company in Hong Kong, during the period from 30 September 2004 to 1 December 2005. Mr. Chan holds a Bachelor's degree in Commerce from the University of Newcastle in Australia and a Master's degree of Business Administration from the Chinese University of Hong Kong. He is also a practicing fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Li Chi Kwong, aged 53, has been an Independent Non-Executive Director of the Company since December 2005. Dr. Li holds a Doctor of Philosophy degree from the University of Westminster in the United Kingdom and a Master of Science degree in Cybernetics from the London University in the United Kingdom. He also holds numerous professional qualifications in engineering, including Chartered Engineer, Member of the Institute of Mechanical Engineers, Fellow of the Institute of Electrical Engineers, Fellow of the Hong Kong Institute of Engineers, Senior Member of the Institute of Electrical and Electronic Engineers Inc., Fellow of the Hong Kong Association of the Advancement of Science and Technology, and Register Professional Engineer.

Dr. Li is at present an Associate Professor in the Department of Electronic and Information Engineering in the Hong Kong Polytechnic University where he has taught since January 1985. He has over 29 years of experience in the academic field relating to engineering and has published about 150 technical papers in international journals and conferences.

Management Discussion and Analysis

BUSINESS REVIEW

After riding the difficult operating period in last year, the Group experienced a fast-growing stage in current year. Thanks to the huge customers' demand for High Density Inter-connect ("HDI") printed circuit board ("PCB") and the Group's timely investment in a series of sophisticated machines to cope with the foreseeable increase in sales orders for HDI PCB, the Group's revenue, net profit and earnings per share for the current year together with the net assets at current year end were all at record high.

The Group's revenue for the current year exceeded last year by about HK$365 million or 141%. It was a great leap forward resulting mainly from the fact that the Group has become an approved vendor in the provision of HDI PCB to its world-renowned telecommunication products customers from December 2004 onwards after passing through these customers' lengthy and stringent approval process. The sales value of HDI PCB for the current year and the last year were about HK$405 million and HK$96 million respectively, which represented about 65% and 37% respectively on the Group's revenue.

HDI PCB has become the main stream of PCB used for mobile phones nowadays. It normally means those PCB with hole diameter less than 0.15mm, hole circumference less than 0.25mm, connecting density over 130 connecting points per square inch or line density over 117 inches per square inch. Due to the requirement for heavy investment in sophisticated machines and the various technical difficulties confronted during production, there are not many PCB manufacturers who are capable of manufacturing high quality HDI PCB with large volume and short delivery time. Accordingly, the selling price and the profit margin for HDI PCB are generally higher than those for normal multi-layer PCB. The Group has a competitive edge in the manufacturing of HDI PCB partly because it can directly obtain strong technical support from Daisho Denshi Co., Ltd. who is not only one of the Company's substantial shareholders but also one of the top manufacturers of highly delicate PCB in Japan.

The Group's gross profit percentage has improved significantly from about 13% for the last year to about 45% for the current year. The poor profit margin for the last year was primarily attributable to the sharp increase in the purchase prices of certain major raw material items such as copper foil and laminate etc. together with the Group's strategic postponement of selling price increase. On the contrary, the appealing profit margin for the current year was mainly due to more sales of HDI PCB with higher profit margin as mentioned above together with the benefits derived from economy of scale such as volume discount on bulk purchase of raw materials and lower average fixed costs per unit.

Apart from the provision of routine sales support services to the customers, the Group's European sales offices are also responsible for gathering relevant customer and market information regularly together with providing constructive advice to the Board for strategic planning. In fact, the Group's overseas sales offices help generating 82% and 62% of the Group's revenue for the current year and the last year respectively. Although the selling and distribution costs (mainly related to the Group's overseas sales offices) increased substantially from about 9% on the Group's revenue for the last year to about 18% on the Group's revenue for the current year, they were fully justified because the Group's overseas sales offices were indispensable to the record results of the Group for the current year.

FINANCIAL REVIEW

In order to ensure the timely availability of the necessary machines to cope with the huge customers' demand for HDI PCB, the Group ordered the purchase of plant and equipment amounting to about HK$228 million during the current year. Up to the current year end, the amounts of the machines received which were financed out of the Group's internal resources and the external finance lease facilities were about HK$87 million and HK$44 million respectively. Out of about HK$79 million worth of machines which were received after the current year end, the Group had paid deposits of about HK$19 million during the current year. Shortly after the current year end, the Group was granted further external finance lease facilities and bank loan facility amounting to about HK$51 million and HK$30 million respectively, which were used mainly for settling the capital commitments at the current year end on the purchase of plant and equipment.

As at 31 March 2006, the Group's interest-bearing bank and other borrowings amounting to HK$66,425,000 (31 March 2005: HK$52,238,000) out of which HK$32,208,000 (31 March 2005: HK$36,604,000) were repayable within the next 12 months. These borrowings were all denominated in either Hong Kong dollars ("HK$") or United States dollars ("US$"), originally repayable monthly over 3 years (except for the bank borrowings totaling HK$4,501,000 (31 March 2005: HK$24,414,000) which were originally repayable within 3 months) and subjected to floating interest rates for about 79% (31 March 2005: 86%) of them. The Group has not adopted any interest rate hedging tool for these borrowings. Certain machinery and equipment of the Group with a net book value at 31 March 2006 of HK$70,089,000 (31 March 2005: HK$28,484,000) were pledged to secure these borrowings.

The Group's gearing ratios (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 31 March 2006 and 31 March 2005 were 0.28 times and 0.42 times respectively while the Group's current ratios at 31 March 2006 and 31 March 2005 were 1.05 times and 1.04 times respectively. Although the Group's PCB operations generated net cash inflow of about HK$177 million during the current year, these financial ratios had not improved substantially mainly because of the payment for the purchase of machines during the current year as mentioned above.

The Group's assets or liabilities were mostly denominated in either HK$, US$ or Renminbi ("RMB"). Because the exchange rate for US$ against HK$ is relatively stable in Hong Kong for the moment, the Group does not expect any significant exchange difference relating to its assets or liabilities denominated in US$. Since the Group's subsidiary in Mainland China has net assets and RMB is likely to appreciate in the future, there is only remote possibility that the Group will suffer exchange loss on translation of these net assets. Hence, the Group's negative exposure to fluctuation in exchange rates for US$ and RMB is insignificant and therefore the Group has not adopted any foreign currency hedging tool.

EMPLOYEE BENEFITS

As at 31 March 2006, the Group had 2,001 (31 March 2005: 1,169) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2006, the Group's total staff costs including directors' remuneration were HK$39,197,000 (2005: HK$24,667,000).

According to the Group's staff remuneration policy, the remuneration of an employee and the Company's director is determined by the Board and the Company's Remuneration Committee respectively from time to time with reference to his performance and duties, the performance and profitability of his employer and the prevailing market conditions.

The Company operates a share option scheme (the "Scheme") for the purpose of encouraging the eligible participants to perform their best in achieving the goals of the Company and at the same time allowing the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the Scheme include (i) any full-time employees of the Company or any of its subsidiaries or associated companies; (ii) any directors (whether executive directors, non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; and (iii) any consultants, technical, financial, legal or other professional advisers engaged by the Company or any of its subsidiaries or associated companies, provided that the Company's board of directors or a duly authorised committee may have absolute discretion to determine whether one falls within the categories. The Scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

OUTLOOK

Dr. Hayao Nakahara (a world-renowned expert in PCB industry) in his article – "Worldwide PCB output for 2005" as published in the July 2006 issue of "Printed Circuit Design & Manufacture" magazine estimated that the global PCB output for 2005 was US$42.5 billion of which more than 80% was manufactured in Asia Pacific countries. In 2005, Japan ranked number 1 with PCB output of US$10.45 billion and Mainland China ranked number 2 with PCB output of US$10.06 billion. He further estimated that the PCB capacity growth rate in Mainland China with about 20% per annum in the next few years would be the highest in the world and Mainland China would become the top PCB output country from 2006 onwards.

Undoubtedly, Mainland China has become a major PCB production base in the world and gradual shifting of PCB orders from other countries to the PCB manufacturers in Mainland China is expected. Besides, Mainland China has also become the top mobile phone users country. It is expected that the third generation ("3G") telecommunication service providers will soon obtain the licence to operate in Mainland China and there will be a huge demand for 3G mobile phones, which in turn will stimulate the demand for HDI PCB.

OUTLOOK *(Continued)*

The Group can definitely benefit when the above expectations come up because the Group enjoys certain competitive advantages at present. Firstly, the Group's PCB factories in Mainland China are equipped with sophisticated machines well suited for the manufacture of HDI PCB. Secondly, the Group has a strong technical support in the production of delicate PCB through the alliance with Daisho Denshi Co., Ltd. who is one of the top manufacturers of highly delicate PCB in Japan. Thirdly, the Group has a strong customer base with many world-renowned customers who are willing to pay a premium for high quality PCB and with whom the Group has long term business relationship.

Although the Group's PCB production capacity fell short of the customers' demand during the first quarter of the financial year ending 31 March 2007, the growth momentum for the Group's revenue persists in the same period with a growth rate of about 30% as compared to the fourth quarter of current year. In light of the huge customers' demand for HDI PCB and other valid reasons, the Board is currently exploring various scenarios in enhancing the Group's PCB production capacity and capability. However attractive a scenario seems, the Board will be extremely cautious not to under-estimate any business risks and financial risks involved.

Although the year ahead looks promising, the Board is wary of the challenging factors that could adversely affect the Group.

First of all, the Group could exert no influence to any mismatch in the worldwide demand and supply of non-ferrous metals used in the manufacture of major raw material items for PCB production. It is noteworthy that the purchase prices of gold and copper etc. have once reached their record high during the year 2005 due to their huge demand in excess of their supply. If there is any such mismatch which will drive up the purchase prices of major raw material items steeply and the Group cannot shift the burden wholly to the customers, the Group will suffer because the cost of raw material is still a significant component of the Group's cost of sales.

Besides, the Group is currently quite heavily relying on its telecommunication products customers from whom about 74% of the Group's revenue for the current year was generated. Although the business of these customers is still quite robust for the moment, there is no guarantee that the same will apply in next year. In light of this, the Board intends to broaden the customer base of the Group gradually so as to alleviate the impact which may result from relying too much on a particular type of customer.

The PCB manufacturing technology is ever changing and the PCB manufacturers must continuously invest in modern machinery and equipment in order to meet the customers' ever changing requirement. The Group ordered for the purchase of plant and equipment amounting to about HK$228 million during the current year. If the machinery and equipment bought by the Group become obsolete due to the customers' new requirements, the Group will be required to dispose of them or write them off.

OUTLOOK *(Continued)*

The petroleum price has remained at a fairly high level during the year 2006. The interest rates for US$ and HK$ are expected to maintain at a high level for the year 2006. The RMB is likely to appreciate in the near future. Although these economic events may not increase the operating costs of the Group to a great extent, they may hinder the growth of the world economy and the business of the Group may be adversely affected accordingly.

In spite of the above concern, the Board is optimistic about the results of the Group in the year ahead barring any unforeseen circumstance.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of investment holding and the manufacture and trading of printed circuit boards. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 25 to 78.

The directors recommend the payment of a final dividend of HK3.0 cents per ordinary share in respect of the year to shareholders on the register of members on 8 September 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, are set out below.

RESULTS	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**623,238**	258,237	241,666	237,840	181,511
PROFIT/(LOSS) BEFORE TAX	**130,175**	(14,265)	(5,452)	3,315	(25,505)
Tax	**(21,121)**	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR	**109,054**	(14,265)	(5,452)	3,315	(25,505)
Attributable to:					
Equity holders of the Company	**109,054**	(14,265)	(5,452)	3,315	(25,505)

SUMMARY FINANCIAL INFORMATION *(Continued)*

ASSETS AND LIABILITIES	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**502,942**	247,119	227,668	262,896	262,174
TOTAL LIABILITIES	**(265,601)**	(122,569)	(89,027)	(118,664)	(120,755)
	237,341	124,550	138,641	144,232	141,419

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 24 and 25 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for cash distribution and distribution in specie were HK$99,343,000 (2005: HK$13,317,000). In addition, the Company's share premium account, in the amount of HK$90,613,000 (2005: HK$90,038,000), may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

a.	Percentage of purchases attributable to the:	
	– Largest supplier	25%
	– Five largest suppliers	54%
b.	Percentage of sales attributable to the:	
	– Largest customer	26%
	– Five largest customers	74%

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

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Chan Sik Ming, Harry
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung
Lo Sun Wah (resigned on 19 August 2005)

Independent non-executive directors:

Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong (appointed on 22 December 2005)
Taro Akashi (deceased on 28 September 2005)

In accordance with bye-law 99(A) of the Company's bye-laws, Hiroyuki Kikuchi and Kohu Kashiwagi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 102 of the Company's bye-laws, Li Chi Kwong will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong and considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 3 to 4 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Directors' remuneration are determined by the Company's Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	**Directly beneficially owned**	**Beneficiary of a trust**	**Total number of shares held**	**Percentage of the Company's issued share capital**
Chan Sik Ming, Harry	39,080,000	88,271,417 *(Note)*	127,351,417	26.99
Hiroto Sasaki	950,000	–	950,000	0.20

Note: Chan Sik Ming, Harry, and his family are the objects of a discretionary trust which has appointed Earnwell Limited as its trustee. At the balance sheet date, Earnwell Limited held 88,271,417 shares representing approximately 18.71% of the issued share capital of the Company.

The interests of the directors in the share options of the Company are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 March 2006, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Earnwell Limited	Trustee	88,271,417	18.71
Lau Wing Hung	Directly beneficially owned	68,078,000	14.43
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.60
Easy Gain Limited	Trustee	47,984,416	10.17

Save as disclosed above, as at 31 March 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Connected transaction

During the year, the Group paid technical support fees of HK$682,000 (2005: HK$742,000) to Daisho Denshi Co., Ltd., which is a substantial shareholder of the Company, for the provision of technological advice on the manufacture of printed circuit boards.

Continuing connected transactions

During the year, the Group had continuing connected transactions with Daisho Denshi (H.K.) Limited, a subsidiary of Daisho Denshi Co., Ltd. for the sale of printed circuit boards amounting to approximately HK$38 million (2005: approximately HK$29 million) conducted in the ordinary and usual course of the Group's business.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transactions (Continued)

Pursuant to the Company's special general meeting on 31 March 2004, an ordinary resolution was passed to approve the sales transactions with Daisho Denshi Co., Ltd. and its subsidiary (the "Daisho Denshi Group") and the maximum aggregate annual value for these sales transactions was set at HK$132 million for each of the three financial years ending 31 March 2007.

The independent non-executive directors of the Company have reviewed the continuing connected transactions with the Daisho Denshi Group as set out above and have confirmed that these sales transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms;

(iii) in accordance with the terms of the relevant agreements governing these sales transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) with an aggregate annual value of these sales transactions not exceeding HK$132 million for the year ended 31 March 2006.

In the opinion of the directors of the Company, the continuing connected transactions during the year ended 31 March 2006 have been entered into in the manner stated above.

The auditors of the Company have reviewed, on a sample test basis, and confirmed that the continuing connected transactions with the Daisho Denshi Group during the year:

(i) have been approved by the board of directors of the Company;

(ii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iii) have not exceeded the annual cap of HK$132 million for the year ended 31 March 2006.

In addition to the above, on 1 December 2003, the Group entered into an agreement with a connected person for the provision of consultancy services to the Group in relation to the marketing and sale of printed circuit boards. During the year, consultancy fees of HK$960,000 (2005: HK$960,000) were paid to the connected person, who is a corporate entity in which a director and shareholder is a substantial shareholder and former director of the Company. Such consultancy fees were determined by mutual agreement.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established in December 2005 to formulate and implement the remuneration policy relating to directors and employees of the Group.

The Remuneration Committee comprises two executive directors and three independent non-executive directors of the Company, namely, Mr. Chan Sik Ming, Harry, Mr. Au-Yeung Wai Hung, Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Hiroto Sasaki is also a director of Daisho Denshi Co., Ltd., which is also involved in the manufacture and trading of printed circuit boards.

As the board of directors of the Company is independent from the board of directors of Daisho Denshi Co., Ltd. and the above director does not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of Daisho Denshi Co., Ltd.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Sik Ming, Harry
Chairman

Hong Kong
18 July 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company recognises that good corporate governance is vital to the success and the sustained development of the Group. The Company aims at complying with, where appropriate, all code provisions of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the CG Code of the Listing Rules. The Company has applied and complied with most of the applicable Code Provisions throughout the year ended 31 March 2006 and up to the date of publication of the annual report, except for certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.1 and B.1.1, details of which are explained below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has not adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") in Appendix 10 of the Listing Rules. In other words, the Company has adopted the required standard set out in the Model Code. The Company, having made specific enquiry, confirms that all directors of the Company have complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

BOARD OF DIRECTORS

Composition and role

As at the date of this annual report, the Board of the Company comprises five executive directors and three independent non-executive directors, which includes:

Executive Directors:

Chan Sik Ming, Harry *(Chairman & Chief Executive Officer)*
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung

Independent Non-Executive Directors:

Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong

BOARD OF DIRECTORS *(Continued)*

The Biographical details of the Board members are set out on pages 3 and 4 of this annual report.

The Board is responsible for the strategic planning for the Group and the monitoring of the Group's operating performance while day-to-day management of the Group is delegated to the management team. Generally speaking, the Board is responsible for:

- Formulating the Group's long term strategy and monitoring the implementation thereof
- Reviewing and approving the interim and annual reports
- Recommending of interim and final dividend
- Ensuring good corporate governance and compliance
- Monitoring the performance of the management
- Reviewing and approving any material acquisition and disposal of assets

Owing to from the death of Mr. Taro Akashi, an independent non-executive director of the Company, on 28 September 2005, the Company was left with only two independent non-executive directors. According to the requirement under Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. Hence, the Company was not in compliance with Rule 3.10(1) of the Listing Rules from 28 September 2005. Until 22 December 2005, when the Company appointed Dr. Li Chi Kwong as an independent non-executive director to fill the casual vacancy. The Company has complied with Rule 3.10(1) of the Listing Rules since 22 December 2005.

Save as disclosed above, the Company complies with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. Moreover, each independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Board meetings

According to the Code Provision A.1.1, regular board meetings should be held at least four times a year.

There were only two regular board meetings held during the year ended 31 March 2006 because some executive directors who were also top management of the Group were busy at planning the purchase of sophisticated machines for the Group during the current year in order to cope with the foreseeable increase in sales orders for High Density Inter – connect printed circuit boards. The Board will arrange at least four regular board meetings during the year ending 31 March 2007.

BOARD OF DIRECTORS *(Continued)*

The names and individual attendance of each director at each board meeting are set out below:

	Attendance/ No. of board meetings
Executive directors:	
Chan Sik Ming, Harry *(Chairman & CEO)*	2/2
Motofumi Tsumura	0/2
Hiroto Sasaki	0/2
Hiroyuki Kikuchi	0/2
Au-Yeung Wai Hung	2/2
Independent non-executive directors:	
Kohu Kashiwagi	0/2
Chan Yuk Tong	2/2
Li Chi Kwong (*)	1/1

(*) Dr. Li Chi Kwong was appointed as an independent non-executive director on 22 December 2005 and there was only one board meeting held between the date of his appointment and 31 March 2006.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual.

The Company does not have a separate Chairman and CEO, and Mr. Chan Sik Ming, Harry currently holds both positions. The Board believes that vesting the roles of both Chairman and CEO in the same person ensures consistent leadership within the Group and enables more effective and efficient planning of long-term strategies and implementation of business plans. The Board believes that the balance of power and authority will not be impaired and is adequately ensured by an effective Board which comprises experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

NON-EXECUTIVE DIRECTORS

According to the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive directors of the Company do not have a specific term of appointment, but are subject to retirement by rotation and re-election in accordance with the relevant provisions of the Company's bye-laws.

REMUNERATION COMMITTEE

According to the Code Provision B.1.1, the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Remuneration Committee of the Company was established on 22 December 2005 with specific written terms of reference which deal clearly with its authority and duties. The Remuneration Committee comprises the three independent non-executive directors and two executive directors.

The Remuneration Committee is responsible for formulating formal and transparent remuneration policies, and for approving the remuneration packages of directors and senior management. In determining the emolument payable to directors, it takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the justification of performance-based remuneration.

There was only one Remuneration Committee meeting held between the date of the establishment of the Remuneration Committee on 22 December 2005 and 31 March 2006. The names and individual attendance of each member at the Remuneration Committee meeting are set out below:

	Attendance/ No. of Remuneration Committee meeting
Independent non-executive directors:	
Chan Yuk Tong *(Chairman of Remuneration Committee)*	1/1
Kohu Kashiwagi	0/1
Li Chi Kwong	1/1
Executive directors:	
Chan Sik Ming, Harry	1/1
Au-Yeung Wai Hung	1/1

AUDIT COMMITTEE

The Audit Committee of the Company was established in 1999 and comprises the three independent non-executive directors of the Company at present. The Board considers that each Audit Committee member has broad commercial experience and technical knowledge and there is a suitable mix of expertise in business, accounting and financial management within the Audit Committee. The composition of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee's primary responsibility includes reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee also acts as a communication channel between the Company's external auditors and management for all essential issues identified during the course of the audit.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2006.

There was only one Audit Committee meeting held during the current year ended 31 March 2006. The names and individual attendance of each member at the Audit Committee meeting are set out below:

	Attendance/ No. of Audit Committee meeting
Independent non-executive directors:	
Chan Yuk Tong *(Chairman of Audit Committee)*	1/1
Kohu Kashiwagi	0/1
Li Chi Kwong	1/1

NOMINATION OF DIRECTORS

Currently, the Company does not have a Nomination Committee. The Board identifies individuals who are suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account such attributes as working experience, professional qualification and other relevant factors including the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rules 3.13 of the Listing Rules.

AUDITORS' REMUNERATION

Ernst & Young is the Company's external auditors. The Audit Committee is responsible for considering the appointment, remuneration and terms of engagement of the external auditors.

During the year ended 31 March 2006, the services and associated remuneration provided by Ernst & Young to the Group were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Audit services	**585**	540
Other services	**55**	49

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

A statement by the auditors about their reporting responsibilities is set out on page 24 of this annual report.

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Daisho Microline Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

Hong Kong
18 July 2006

Consolidated Income Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	4	**623,238**	258,237
Cost of sales		**(345,028)**	(224,813)
Gross profit		**278,210**	33,424
Other income and gains	4	**4,406**	1,577
Selling and distribution costs		**(113,968)**	(24,323)
Administrative expenses		**(33,066)**	(22,671)
Other expenses		**(2,847)**	(800)
Finance costs	8	**(2,560)**	(1,472)
PROFIT/(LOSS) BEFORE TAX	6	**130,175**	(14,265)
Tax	9	**(21,121)**	–
PROFIT/(LOSS) FOR THE YEAR		**109,054**	(14,265)
Attributable to equity holders of the Company	10	**109,054**	(14,265)
DIVIDEND			
Proposed final	11	**14,252**	–
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK 23.27 cents**	(HK 3.06 cents)
Diluted		**HK 22.98 cents**	(HK 3.06 cents)

Consolidated Balance Sheet

31 March 2006

	Notes	2006 **HK$'000**	2005 *HK$'000* (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**242,873**	131,509
Prepaid land lease payments	*14*	**4,069**	4,121
Deposits paid for acquisition of items of property, plant and equipment		**19,270**	–
Total non-current assets		**266,212**	135,630
CURRENT ASSETS			
Inventories	*16*	**38,762**	38,564
Trade debtors	*17*	**135,751**	62,996
Sundry debtors, prepayments and deposits		**8,862**	2,760
Cash and bank balances	*18*	**53,355**	7,169
Total current assets		**236,730**	111,489
CURRENT LIABILITIES			
Trade creditors	*19*	**89,427**	51,685
Other creditors and accruals	*20*	**94,062**	18,646
Interest-bearing bank and other borrowings	*21*	**32,208**	36,604
Tax payable		**9,187**	–
Total current liabilities		**224,884**	106,935
NET CURRENT ASSETS		**11,846**	4,554
TOTAL ASSETS LESS CURRENT LIABILITIES		**278,058**	140,184
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*21*	**34,217**	15,634
Deferred tax liabilities	*23*	**6,500**	–
Total non-current liabilities		**40,717**	15,634
Net assets		**237,341**	124,550

Consolidated Balance Sheet *(Continued)*

31 March 2006

	Notes	**2006** **HK$'000**	2005 *HK$'000*
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	*24*	**47,176**	46,601
Reserves	*26(a)*	**175,913**	77,949
Proposed final dividend	*11*	**14,252**	–
Total equity		**237,341**	124,550

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2006

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange equalisation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
At 1 April 2004		46,601	90,038	9,379	(17,916)	10,539	–	138,641
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	174	–	–	174
Loss for the year		–	–	–	–	(14,265)	–	(14,265)
Total income and expense for the year		–	–	–	174	(14,265)	–	(14,091)
At 31 March 2005 and 1 April 2005		46,601	90,038*	9,379*	(17,742)*	(3,726)*	–	124,550
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	2,587	–	–	2,587
Profit for the year		–	–	–	–	109,054	–	109,054
Total income and expense for the year		–	–	–	2,587	109,054	–	111,641
Issue of ordinary shares	*24*	575	575	–	–	–	–	1,150
Proposed final 2006 dividend	*11*	–	–	–	–	(14,252)	14,252	–
At 31 March 2006		47,176	90,613*	9,379*	(15,155)*	91,076*	14,252	237,341

* These reserve accounts comprise the consolidated reserves of HK$175,913,000 (2005: HK$77,949,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**130,175**	(14,265)
Adjustments for:			
Bank interest income	4	**(220)**	(25)
Loss/(gain) on disposal of items of property, plant and equipment	6	**(2,771)**	19
Depreciation	6	**38,305**	33,256
Recognition of prepaid land lease payments	14	**116**	115
Finance costs	8	**2,560**	1,472
Operating profit before working capital changes		**168,165**	20,572
Decrease in inventories		**773**	2,049
Increase in trade debtors		**(72,002)**	(28,367)
Decrease/(increase) in sundry debtors, prepayments and deposits		**(6,037)**	3,392
Increase in trade creditors		**37,208**	8,141
Increase in other creditors and accruals		**56,902**	8,657
Cash generated from operations		**185,009**	14,444
Interest received		**220**	25
Interest paid		**(1,228)**	(1,351)
Interest element on finance lease and hire purchase rental payments		**(1,329)**	(125)
Overseas profits tax paid		**(5,434)**	–
Net cash inflow from operating activities		**177,238**	12,993
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of items of property, plant and equipment		**(86,649)**	(10,227)
Deposits paid for acquisition of items of property, plant and equipment		**(19,270)**	–
Proceeds from disposal of items of property, plant and equipment		**2,773**	83
Net cash outflow from investing activities		**(103,146)**	(10,144)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of ordinary shares	24	**1,150**	–
Increase/(decrease) in trust receipt loans		**(11,793)**	92
Capital element of finance lease and hire purchase rental payments		**(12,055)**	(5,955)
New bank loans		**10,000**	28,401
Repayment of bank loans		**(15,516)**	(25,634)
Net cash outflow from financing activities		**(28,214)**	(3,096)

Consolidated Cash Flow Statement *(Continued)*

Year ended 31 March 2006

	2006	2005
	HK$'000	*HK$'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**45,878**	(247)
Cash and cash equivalents at beginning of year	**7,169**	7,376
Effect of foreign exchange rate changes, net	**308**	40
CASH AND CASH EQUIVALENTS AT END OF YEAR	**53,355**	7,169
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**53,355**	7,169

Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**70,916**	149,923
CURRENT ASSETS			
Due from a subsidiary	*15*	**166,140**	–
Sundry debtors, prepayments and deposits		**167**	163
Cash and bank balances	*18*	**58**	19
Total current assets		**166,365**	182
CURRENT LIABILITIES			
Other creditors and accruals	*20*	**149**	149
NET CURRENT ASSETS		**166,216**	33
Net assets		**237,132**	149,956
EQUITY			
Issued share capital	*24*	**47,176**	46,601
Reserves	*26(b)*	**175,704**	103,355
Proposed final dividend	*11*	**14,252**	–
Total equity		**237,132**	149,956

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

1. CORPORATE INFORMATION

Daisho Microline Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of investment holding and the manufacture and trading of printed circuit boards.

2.1 BASIS OF PREPARATION

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

Change in segment identification

During the year, the Group changed its identification of reportable geographical segment revenue. The Group reclassified its previous five geographical segments, namely "Finland", "Hong Kong", "Japan", "Mainland China" and "Others" into the current six geographical segments, namely "Mainland China", "Hungary", "Estonia", "Hong Kong", "Japan", and "Others". Further information of the current geographical segments is detailed in note 5 below. In the opinion of the directors, the revised basis of segment identification provides a more appropriate presentation of the segment revenue information. Prior year segment revenue information has been restated for comparative purpose.

Basis of consolidation

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 32, 33, 36, 37, 39 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

(a) HKAS 17 – Leases

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

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

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts as at 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKFRS 2 – Share-based Payment

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HKFRS 2 – Share-based Payment (Continued)

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 but had not been vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2004 and at 31 March 2005. The Group has not recognised in the current year's income statement the cost of 150,000 share options granted by the Company during the year since in the opinion of the directors, the values of such share options did not have a significant impact on the Group's results for the year.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

The HKAS 19 Amendment, HKAS 21 Amendment, HKAS 39 Amendments, HKFRSs 1, 4 & 6 Amendments, HKFRS 6, HK(IFRIC)-Int 4, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 do not apply to the activities of the Group. HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 December 2005, 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Effect on the consolidated balance sheet

At 1 April 2005 **Effect of new policy** **(Increase/(decrease))**	**Effect of adopting** **HKAS 17 #** **Prepaid land** **lease payments** *HK$'000*
Assets	
Property, plant and equipment	(4,236)
Prepaid land lease payments	4,121
Sundry debtors, prepayments and deposits	115
	–

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

Effect on the consolidated balance sheet (Continued)

At 31 March 2006 **Effect of new policy** **(Increase/(decrease))**	**Effect of adopting** **HKAS 17** **Prepaid land** **lease payments** *HK$'000*
Assets	
Property, plant and equipment	(4,186)
Prepaid land lease payments	4,069
Sundry debtors, prepayments and deposits	117
	–

The changes in accounting policies had no impact on the balances of equity as at 1 April 2004, 1 April 2005 and 31 March 2006 and the consolidated income statement for the two years ended 31 March 2005 and 2006.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets (Continued)

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings held under medium term leases	Over the lease terms
Leasehold improvements	Over the lease terms
Machinery and equipment	10 – 20%
Furniture and fixtures	20%
Motor vehicles	20%
Computers and software	20%

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. 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 lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets (applicable to the year ended 31 March 2006)

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

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

Loans and receivables

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques including using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flows analysis.

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

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

Assets carried at amortised cost

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

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

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

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

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

- the rights to receive cash flows from the asset have expired;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Interest-bearing loans and borrowings

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

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

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

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

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

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

Inventories

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax (Continued)

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

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

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

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

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

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

Revenue recognition

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (Continued)

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value using an option pricing model at the date at which they are granted, unless the directors consider such cost of equity-settled transactions to be insignificant to the results of the Group. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits (Continued)

Share-based payment transactions (Continued)

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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

Pension schemes and other retirement benefits

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

The Group also operates another defined contribution retirement benefits scheme (the "ORSO Scheme") for those employees who are eligible to participate in this scheme. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group's employer contributions vests fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of the employees' salaries to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Dividends

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

Foreign currencies

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

The functional currency of an overseas subsidiary is a currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of this entity are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, its income statement is translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity (the exchange equalisation reserve). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements and estimates are continually evaluated by the Group's management and such evaluations are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Depreciation

The net book value of the Group's property, plant and equipment as at 31 March 2006 was HK$242,873,000 (2005: HK$131,509,000). The Group depreciates the property, plant and equipment on the straight line basis over the respective estimated useful lives as set out in note 13 to the financial statements, with the depreciation charge commencing from the date an item of the property, plant and equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Allowances for inventories

The Group's management reviews the inventory ageing analysis periodically, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production on an annual basis. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items through management's estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest invoice prices and current market conditions.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Revenue:		
Sale of printed circuit boards	**623,238**	258,237
Other income and gains:		
Bank interest income	**220**	25
Gain on disposal of items of property, plant and equipment	**2,771**	–
Gain on disposal of scrap materials	**955**	1,044
Others	**460**	508
	4,406	1,577

5. SEGMENT INFORMATION

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

(a) Business segment

The Group has only one business segment, which is the manufacture and trading of printed circuit boards. Therefore, no business segment analysis is presented.

(b) Geographical segments

In presenting information by geographical segment, segment revenue is based on the location of the customers, and segment assets and capital expenditure are based on the location of the assets.

As detailed in note 2.1 to the financial statements, from 1 April 2005, the Group has changed its identification of reporting geographical segments and the prior year's segment revenue information has been restated.

5. SEGMENT INFORMATION *(Continued)*

(b) *Geographical segments (Continued)*

The following tables present revenue and certain assets and capital expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

Group

	Mainland China		Hungary		Estonia		Hong Kong		Japan		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (Restated)	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**291,792**	68,880	**106,798**	12,483	**74,033**	76,761	**48,905**	40,087	**38,375**	28,740	**63,335**	31,286	**623,238**	258,237

	Mainland China		Hong Kong		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:						
Segment assets	**343,237**	182,956	**159,705**	64,163	**502,942**	247,119
Capital expenditure	**147,667**	29,955	**950**	103	**148,617**	30,058

6. PROFIT/(LOSS) BEFORE TAX

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

		Group	
	Note	**2006** **HK$'000**	2005 HK$'000 (Restated)
Auditors' remuneration		**585**	540
Cost of inventories sold*		**338,235**	224,995
Provision/(write back of provision) against obsolete inventories*		**6,793**	(182)
Employee benefits expense** (excluding directors' remuneration *(note 7)*):			
Wages, salaries and allowances		**28,990**	21,493
Pension scheme contributions		**251**	287
Less: Forfeited contributions		**(721)**	(10)
Net pension scheme contributions#		**(470)**	277
		28,520	21,770
Write-back of provision for doubtful debts		**–**	(6)
Depreciation**	*13*	**38,305**	33,256
Minimum lease payments under operating leases for land and buildings		**608**	447
Loss/(gain) on disposal of items of property, plant and equipment		**(2,771)**	19
Foreign exchange differences, net		**2,564**	85

\# At 31 March 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

* These items are included in "Cost of sales" on the face of the consolidated income statement.

** "Cost of sales" presented on the face of the consolidated income statement includes direct staff costs of HK$21,033,000 (2005: HK$13,341,000) and the depreciation of items of property, plant and equipment of HK$34,976,000 (2005: HK$30,270,000) attributable to the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

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:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**208**	98
Other emoluments:		
Salaries and allowances	**4,834**	2,693
Discretionary bonuses	**5,432**	–
Pension scheme contributions	**203**	106
	10,469	2,799
	10,677	2,897

(a) *Independent non-executive directors*

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

	2006	2005
	HK$'000	*HK$'000*
Kohu Kashiwagi	**20**	20
Chan Yuk Tong	**100**	58
Li Chi Kwong	**28**	–
Taro Akashi	**–**	20
	148	98

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

7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES *(Continued)*

Directors' remuneration (Continued)

(b) *Executive directors*

	Fees	Salaries and allowances	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Chan Sik Ming, Harry	–	3,190	4,700	149	8,039
Motofumi Tsumura	60	–	–	–	60
Hiroto Sasaki	–	–	600	–	600
Hiroyuki Kikuchi	–	450	132	–	582
Au-Yeung Wai Hung	–	885	–	39	924
Lo Sun Wah	–	309	–	15	324
	60	4,834	5,432	203	10,529
2005					
Chan Sik Ming, Harry	–	650	–	33	683
Motofumi Tsumura	–	60	–	–	60
Hiroto Sasaki	–	–	–	–	–
Hiroyuki Kikuchi	–	397	–	–	397
Au-Yeung Wai Hung	–	767	–	35	802
Lo Sun Wah	–	819	–	38	857
	–	2,693	–	106	2,799

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

7. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES *(Continued)*

Remuneration of the five highest paid employees

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**516**	919
Pension scheme contributions	**23**	42
	539	961

The remuneration of the non-director, highest paid employee fell within the band of Nil to HK$1,000,000. During the year, there was no share option granted to the non-director, highest paid employees.

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	**1,228**	1,313
Finance lease and hire purchase contracts payable	**1,332**	159
	2,560	1,472

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for profits tax had been made for the prior year as the Company and its subsidiaries either had no assessable profits for that year or had utilised tax losses brought forward from prior years to offset the assessable profits arising during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. TAX *(Continued)*

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**4,300**	–
Current – Elsewhere		
Charge for the year	**9,669**	–
Underprovision in prior years	**652**	–
Deferred *(note 23)*	**6,500**	–
Total tax charge for the year	**21,121**	–

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

Group

	2006		2005	
	HK$'000	***%***	*HK$'000*	*%*
Profit/(loss) before tax	**130,175**		(14,265)	
Tax at the statutory tax rate	**22,781**	**17.5**	(2,496)	17.5
Lower/higher tax rates of other countries	**(3,930)**	**(3.0)**	(1,021)	7.2
Income not subject to tax	**(34)**	**–**	(19)	0.1
Expenses not deductible for tax	**3,727**	**2.9**	1,167	(8.2)
Adjustments in respect of current tax of previous periods	**652**	**0.5**	–	–
Tax losses not recognised	**14**	**–**	2,434	(17.1)
Tax losses utilised from previous periods	**(5,484)**	**(4.2)**	(65)	0.5
Temporary differences previously not recognised	**2,691**	**2.0**	–	–
Others	**704**	**0.5**	–	–
Tax charge at the Group's effective rate	**21,121**	**16.2**	–	–

10. PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit from ordinary activities attributable to equity holders of the Company for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$86,026,000 (2005: HK$20,000) (note 26(b)).

11. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK3.0 cents (2005: Nil) per ordinary share	**14,252**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

As the share options outstanding during the year ended 31 March 2005 had an anti-dilutive effect, the diluted loss per share was disclosed the same as the basic loss per share for that year.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

The calculations of basic and diluted earnings/(loss) per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**109,054**	(14,265)

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**468,629,264**	466,013,785
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,869,704**	–
	474,498,968	466,013,785

13. PROPERTY, PLANT AND EQUIPMENT

Group

	1 April 2005	**Exchange realignment**	**Additions**	**Disposals**	**31 March 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2006					
Cost:					
Buildings	40,248	634	–	–	40,882
Leasehold improvements	17,787	278	20	–	18,085
Machinery and equipment	260,685	3,130	146,501	(18,372)	391,944
Furniture and fixtures	5,384	79	1,215	(3)	6,675
Motor vehicles	1,258	9	528	–	1,795
Computers and software	1,667	5	353	–	2,025
	327,029	4,135	148,617	(18,375)	461,406
Accumulated depreciation:					
Buildings	9,392	151	815	–	10,358
Leasehold improvements	7,401	120	1,424	–	8,945
Machinery and equipment	172,131	2,730	35,266	(18,370)	191,757
Furniture and fixtures	4,783	71	378	(3)	5,229
Motor vehicles	541	6	248	–	795
Computers and software	1,272	3	174	–	1,449
	195,520	3,081	38,305	(18,373)	218,533
Net book value	131,509				242,873

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	1 April 2004 HK$'000	Exchange realignment HK$'000	Additions HK$'000	Disposals HK$'000	31 March 2005 HK$'000
31 March 2005					
Cost:					
Buildings	40,215	33	–	–	40,248
Leasehold improvements	17,721	15	51	–	17,787
Machinery and equipment	245,054	182	29,801	(14,352)	260,685
Furniture and fixtures	5,928	5	50	(599)	5,384
Motor vehicles	1,462	1	–	(205)	1,258
Computers and software	1,560	–	156	(49)	1,667
	311,940	236	30,058	(15,205)	327,029
Accumulated depreciation:					
Buildings	8,657	6	729	–	9,392
Leasehold improvements	6,059	6	1,336	–	7,401
Machinery and equipment	155,735	114	30,532	(14,250)	172,131
Furniture and fixtures	5,119	5	258	(599)	4,783
Motor vehicles	545	1	200	(205)	541
Computers and software	1,120	–	201	(49)	1,272
	177,235	132	33,256	(15,103)	195,520
Net book value	134,705				131,509

The buildings of the Group are situated in Mainland China and are held under medium term leases.

The aggregate net book value of the Group's property, plant and equipment held under finance lease and hire purchase contracts included in the total amount of machinery and equipment at 31 March 2006, amounted to HK$66,678,000 (2005: HK$23,632,000).

At 31 March 2006, certain of the Group's machinery and equipment with an aggregate net book value as at that date of approximately HK$3,411,000 (2005: HK$4,852,000) were pledged to a bank to secure the facilities granted to the Group (note 21).

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 April:		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**4,236**	4,348
As restated	**4,236**	4,348
Exchange realignment	**66**	3
Recognised during the year	**(116)**	(115)
Carrying amount at 31 March	**4,186**	4,236
Current portion included in sundry debtors, prepayments and deposits	**(117)**	(115)
Non-current portion	**4,069**	4,121

The leasehold land of the Group is held under a medium term lease and is situated in Mainland China.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**70,916**	70,916
Due from a subsidiary	**221,866**	239,380
Due to a subsidiary	**–**	(18,647)
	292,782	291,649
Provision for impairment	**(55,726)**	(141,726)
	237,056	149,923

The balance with a subsidiary included in the Company's current assets of HK$166,140,000 (2005: Nil), net of provision for impairment of HK$55,726,000 is unsecured, interest-free and has no fixed terms of repayment. The prior year's balances with subsidiaries included in the Company's non-current assets were unsecured, interest-free and not repayable within one year. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Class of shares in issue	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Incorporated and operating in Hong Kong					
Daisho Microline Limited	2 shares of HK$1.00 each	Ordinary	–	100%	Trading of printed circuit boards
Incorporated in the British Virgin Islands and operating in Hong Kong					
Frequent Luck Limited	1 share of US$1.00	Ordinary	100%	–	Investment holding
Registered in the People's Republic of China (the "PRC") and operating in Mainland China					
Huafeng Microline (Huizhou) Circuits Limited#	US$40,466,436	*	–	100%	Manufacture of printed circuit boards

* This subsidiary has registered instead of issued share capital. It is registered as a wholly-foreign-owned enterprise under the PRC law.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

16. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**17,207**	22,937
Work in progress	**19,464**	8,452
Finished goods	**2,091**	7,175
	38,762	38,564

17. TRADE DEBTORS

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of two months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade debtors are non-interest-bearing.

An aged analysis of the trade debtors as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 1 month	**133,721**	60,525
1 to 2 months	**1,344**	1,007
2 to 3 months	**46**	225
Over 3 months	**640**	1,239
	135,751	62,996

Included in trade debtors are trade receivables of HK$8,180,000 (2005: HK$4,509,000) due from a related party arising from trading of printed circuit boards, which is repayable in accordance with the credit terms granted to the related party.

18. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$19,851,000 (2005: HK$3,915,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

19. TRADE CREDITORS

An aged analysis of the trade creditors as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 1 month	**74,937**	45,131
1 to 2 months	**12,150**	4,655
2 to 3 months	**1,373**	1,679
Over 3 months	**967**	220
	89,427	51,685

The trade creditors are non-interest-bearing and are normally settled on 90-day terms.

20. OTHER CREDITORS AND ACCRUALS

Other creditors are non-interest-bearing and have an average term of one to three months.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

			Group	
	Effective interest rate *(%)*	**Maturity**	**2006** ***HK$'000***	2005 *HK$'000*
Current				
Finance lease and hire purchase contract payables *(note 22)*	3.64 to 4.54	2007	**7,270**	2,970
Finance lease and hire purchase contract payables *(note 22)*	HIBOR+1.75% to Prime-1.75%	2007	**13,610**	3,769
Trust receipt loans	HIBOR+2%	2006	**4,501**	16,294
Bank loans – unsecured	HIBOR+2.5% to HIBOR+2.85%	2006 – 2007	**5,549**	11,456
Bank loans – secured	HIBOR+3%	2006	**1,278**	2,115
			32,208	36,604
Non-current				
Finance lease and hire purchase contract payables *(note 22)*	3.64 to 4.54	2007 – 2008	**6,578**	4,437
Finance lease and hire purchase contract payables *(note 22)*	HIBOR+1.75% to Prime-1.75%	2007 – 2009	**22,917**	7,703
Bank loans – unsecured	HIBOR+2.5% to HIBOR+2.85%	2008	**4,722**	2,216
Bank loans – secured			**–**	1,278
			34,217	15,634
			66,425	52,238

21. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group	
	2006	2005
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**11,328**	29,865
In the second year	**3,333**	3,494
In the third to fifth years, inclusive	**1,389**	–
	16,050	33,359
Finance lease and hire purchase contract payables repayable:		
Within one year	**20,880**	6,739
In the second year	**19,909**	6,891
In the third to fifth years, inclusive	**9,586**	5,249
	50,375	18,879
Total	**66,425**	52,238

At the balance sheet date, certain of the Group's bank loans totalling HK$1,278,000, which bears interest at HIBOR plus 3% per annum, are secured by certain of the Group's machinery and equipment with an aggregate net book value as at that date of approximately HK$3,411,000 (2005: HK$4,852,000) (note 13) and corporate guarantees given by the Company.

At the balance sheet date, all the bank loans and finance lease and hire purchase contract payables are denominated in Hong Kong dollars.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease and hire purchase contract payables	**13,848**	**36,527**	7,407	11,472
Bank loans – unsecured	**–**	**14,772**	–	29,966
Bank loans – secured	**–**	**1,278**	–	3,393

21. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

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

	Group			
	Carrying amounts		Fair values	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease and hire purchase contract payables	**29,495**	12,140	**29,349**	12,148
Bank loans – unsecured	**4,722**	2,216	**4,722**	2,216
Bank loans – secured	**–**	1,278	**–**	1,278
	34,217	15,634	**34,071**	15,642

The fair values of the non-current borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

22. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its machinery and equipment for its business. These leases are classified as finance lease and hire purchase contracts and have remaining lease terms ranging from two to three years.

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

Group

	Minimum lease payments 2006 *HK$'000*	Minimum lease payments 2005 *HK$'000*	**Present value of minimum lease payments 2006** *HK$'000*	Present value of minimum lease payments 2005 *HK$'000*
Amounts payable:				
Within one year	**23,250**	7,311	**20,880**	6,739
In the second year	**21,338**	7,311	**19,909**	6,891
In the third to fifth years, inclusive	**9,845**	5,415	**9,586**	5,249
Total minimum finance lease payments	**54,433**	20,037	**50,375**	18,879
Future finance charges	**(4,058)**	(1,158)		
Total net finance lease payables	**50,375**	18,879		
Portion classified as current liabilities *(note 21)*	**(20,880)**	(6,739)		
Non-current portion *(note 21)*	**29,495**	12,140		

23. DEFERRED TAX

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

Deferred tax liabilities

Group	Accelerated tax depreciation *HK$'000*
At 1 April 2004, 31 March 2005 and 1 April 2005	–
Deferred tax charged to the income statement during the year *(note 9)*	6,500
At 31 March 2006	6,500

The Group has estimated tax losses arising in Hong Kong of approximately HK$16,850,000 (2005: approximately HK$48,107,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

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

24. SHARE CAPITAL

Shares

	2006 *HK$'000*	2005 *HK$'000*
Authorised:		
600,000,000 shares of HK$0.10 each	60,000	60,000
Issued and fully paid:		
471,763,785 (2005: 466,013,785) ordinary shares of HK$0.10 each	47,176	46,601

24. SHARE CAPITAL *(Continued)*

Shares (Continued)

During the year, the subscription rights attaching to 5,750,000 share options were exercised at the subscription price of HK$0.20 per share (note 25), resulting in the issue of 5,750,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$1,150,000.

A summary of the transactions during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004 and 1 April 2005	466,013,785	46,601	90,038	136,639
Share options exercised	5,750,000	575	575	1,150
At 31 March 2006	471,763,785	47,176	90,613	137,789

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 25 to the financial statements.

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of encouraging the eligible participants to perform their best in achieving the goals of the Company and at the same time allowing the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the Scheme include (i) any full-time employees of the Company or any of its subsidiaries or associated companies; (ii) any directors (whether executive directors, non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; and (iii) any consultants, technical, financial, legal or other professional advisers engaged by the Company or any of its subsidiaries or associated companies, provided that the Company's board of directors or a duly authorised committee may have absolute discretion to determine if one falls within the categories. The Scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

25. SHARE OPTION SCHEME *(Continued)*

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

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

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

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

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

25. SHARE OPTION SCHEME *(Continued)*

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

	Number of share options								Price of Company's shares**	
Name or category of participant	At 1 April 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$	At grant date of options HK$	At exercise date of options HK$
Directors:										
Chan Sik Ming, Harry	4,600,000	–	(4,600,000)	–	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.245
Lo Sun Wah#	500,000	–	–	(500,000)	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	–
Hiroto Sasaki	4,600,000	–	(950,000)	–	3,650,000	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.260
Au-Yeung Wai Hung	4,600,000	–	–	–	4,600,000	15-6-04	15-6-04 to 14-6-09	0.20	0.192	–
	14,300,000	–	(5,550,000)	(500,000)	8,250,000					
Other employees:										
In aggregate	1,950,000	–	(200,000)	(450,000)	1,300,000	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.670
	–	150,000	–	–	150,000	14-11-05	14-11-05 to 14-6-09	0.31	0.310	–
	1,950,000	150,000	(200,000)	(450,000)	1,450,000					
	16,250,000	150,000	(5,750,000)	(950,000)	9,700,000					

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

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

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date of grant of the options. The price of the Company's shares disclosed at the exercise date of share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

\# Mr. Lo Sun Wah resigned as a director of the Company on 19 August 2005.

25. SHARE OPTION SCHEME *(Continued)*

The 5,750,000 share options exercised during the year resulted in the issue of 5,750,000 ordinary shares of the Company and new issued share capital of HK$575,000 and share premium of HK$575,000 (before issue expenses), as further detailed in note 24 to the financial statements.

At the balance sheet date, the Company had 9,700,000 share options outstanding under the Scheme, which represented approximately 2.1% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 9,700,000 additional ordinary shares of the Company and additional issued share capital of HK$970,000 and share premium of HK$970,000 (before issue expenses).

Subsequent to the balance sheet date and up to the date of approval of these financial statements, a total of 3,300,000 share options were exercised resulted in the issue of 3,300,000 ordinary shares of the Company and new issued share capital of HK$330,000 and share premium of HK$330,000 (before issue expenses).

Subsequent to the balance sheet date and up to the date of approval of these financial statements, a total of 800,000 share options were granted to certain employees in respect of their services to the Group in the forthcoming year. The share options vested at the date of grant and have an exercise price ranging from HK$0.83 to HK$0.85 per share and an exercise period from date of grant to 14 June 2009. The price of the Company's shares at the date of grant ranged from HK$0.82 to HK$0.83 per share.

At the date of approval of these financial statements, the Company had 7,200,000 share options outstanding under the Scheme, which represented approximately 1.5% of the Company's shares in issue as at that date.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the Company's shares issued pursuant to the Group reorganisation in 1989 and the nominal value of the shares and the share premium account of the subsidiaries acquired.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2004		90,038	38,295	(24,998)	–	103,335
Profit for the year		–	–	20	–	20
At 31 March 2005 and at 1 April 2005		90,038	38,295	(24,978)	–	103,355
Profit for the year		–	–	86,026	–	86,026
Issue of shares	24	575	–	–	–	575
Proposed final dividend	11	–	–	(14,252)	14,252	–
At 31 March 2006		90,613	38,295	46,796	14,252	189,956

The Company's contributed surplus is derived from the difference between the combined net assets of the subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the same reorganisation described in note 26(a) above. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances.

27. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of the property, plant and equipment with a total capital value at the inception of the leases of HK$43,551,000 (2005: HK$20,653,000).

28. CONTINGENT LIABILITIES

(i) The Company has provided corporate guarantees of HK$40 million (2005: HK$46 million) to the Group's bankers to secure banking facilities granted to a subsidiary. At 31 March 2006, the facilities were utilised to the extent of HK$14,773,000 (2005: HK$29,966,000).

(ii) The Company has provided corporate guarantees to certain leasing companies to secure the leasing facilities granted to a subsidiary. At 31 March 2006, the total outstanding balance of the finance lease and hire purchase contract payables amounted to HK$50,375,000 (2005: HK$18,879,000) (note 22).

(iii) The Company has provided corporate guarantees to a bank to secure loan facilities granted to a subsidiary. At 31 March 2006, the outstanding loan balance was HK$1,278,000 (2005: HK$3,393,000) (note 21).

The Group had no material contingent liabilities at the balance sheet date.

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for these properties are negotiated for terms of two years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases for land and buildings falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**511**	391	**–**	–
In the second to fifth years, inclusive	**76**	470	**–**	–
	587	861	**–**	–

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital commitments, contracted but not provided for, in respect of acquisition of items of property, plant and equipment	**59,641**	6,064	**–**	–

31. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**2006** **HK$'000**	2005 HK$'000
Sale of printed circuit boards to a related party	*(i)*	**38,329**	28,725
Technical support fees paid to a related party	*(ii)*	**682**	742

Notes:

(i) Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company, and the products sold were unique and tailor-made to the customer's requirements and specifications. The selling prices of the printed circuit boards were determined based on the complexity of the specifications and were agreed between the respective parties.

(ii) Technical support fees were paid to Daisho Denshi Co., Ltd. for the provision of technical support services for the Group's manufacturing of printed circuit boards. The technical support fees were determined on bases agreed between the respective parties.

(b) Compensation of key management personnel of the Group:

	2006 **HK$'000**	2005 HK$'000
Short term employee benefits	**10,474**	2,791
Post-employment benefits	**203**	106
Total compensation paid to key management personnel	**10,677**	2,897

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

The related party transactions in respect of item (a) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance lease and hire purchase contract payables, cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

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

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans, and finance lease and hire purchase contract payables with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Foreign currency risk

The Group mainly operates in Hong Kong and Mainland China with most of the transactions denominated in Hong Kong dollars, United States dollars and Renminbi. Management considers that the Group does not have significant exposures to foreign exchange risk. Nevertheless, the exchange rate of Renminbi to foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure should the need arises.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed financing facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

33. COMPARATIVE AMOUNTS

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 July 2006.