**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Northern International Holdings Limited** (the "Company"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



**北方興業控股有限公司***

**NORTHERN INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 736)

# VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

**Financial adviser to Northern International Holdings Limited**

**SOMERLEY LIMITED**

**Independent financial adviser to the independent board committee and the independent shareholders of Northern International Holdings Limited**

東英 ORIENTAL PATRON

**Oriental Patron Asia Limited**

A letter from the board of directors of the Company is set out on pages 4 to 12 of this circular. A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company in connection with the Disposal (as defined herein) is set out on page 13 of this circular. A letter from Oriental Patron Asia Limited, the independent financial adviser to the independent board committee and the independent shareholders of the Company, containing its advice in connection with the Disposal (as defined herein), is set out on pages 14 to 23 of this circular.

A notice convening the SGM to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong, on 26 March 2007 at 9:30 a.m., is set out on pages 152 to 153 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

* *For identification purpose only*

6 March 2007

# CONTENTS

*In this circular, unless the context requires otherwise, the following expressions have the following meanings:*

| | |
|---|---|
| "Asian Field" | Asian Field Holdings Corp. a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the date of the S&P Agreement |
| "Asian Field Group" | Asian Field and its subsidiaries |
| "Board" | the board of Directors |
| "Capitalisation Agreement" | the agreement which may be entered into between the Company and Asian Field, pursuant to which, the Capitalised Share (if any) will be allotted and issued to the Company |
| "Capitalised Share" | the one new share of Asian Field with par value of US$1 each to be allotted and issued to the Company at a consideration equivalent to the value of the consolidated net liabilities (if any) of the Asian Field Group as at 31 January 2007 |
| "Company" | Northern International Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange |
| "Completion" | completion of the S&P Agreement |
| "Consideration" | the aggregate consideration of HK$2, comprising the consideration for the Sale Shares of HK$1 and consideration for the Sale Loan of HK$1, payable by the Purchaser to the Company pursuant to the S&P Agreement |
| "Director(s)" | director(s) of the Company |
| "Disposal" | the disposal by the Company of (i) the Sale Shares; and (ii) the benefit of and the interest in, the Sale Loan pursuant to the S&P Agreement |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | an independent board committee of the Company constituted by the three independent non-executive Directors, comprising Mr. Cheng Kwok Hing, Andy, Mr. Yeung King Wah and Mr. Yeung Yuen Hei |

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|---|---|
| "Independent Shareholders" | Shareholders other than Mr. Chong and his associates |
| "Latest Practicable Date" | 2 March 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Lok Wing" | Lok Wing Group Limited, a company incorporated in Hong Kong on 25 February 2004 and is wholly owned by Luck Grow |
| "Luck Grow" | Luck Grow Group Limited, a company incorporated in the British Virgin Islands on 8 August 2005, whose principal assets are the Shanghai Properties |
| "Luck Grow Group" | Luck Grow and its subsidiaries |
| "PRC" | the People's Republic of China and for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan |
| "Purchaser" or "Mr. Chong" | Mr. Chong Sing Yuen, an executive director of certain subsidiaries of the Company |
| "Remaining Group" | the Group immediately after the Disposal |
| "Oriental Patron" | Oriental Patron Asia Limited, being a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the terms of the Disposal |
| "Sale Loan" | the Shareholder Loan as at the date of Completion (after netting of the amount capitalised (if any) pursuant to the Capitalisation Agreement) |
| "Sale Shares" | (i) one ordinary share of US$1 par value each in the issued share capital of Asian Field as at the date of the S&P Agreement; and (ii) the Capitalised Share (if any) |
| "SFO" | The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM" | the special general meeting of the Company to be convened on 26 March 2007 for, inter alia, approving the S&P Agreement and the Disposal |

| | |
|---|---|
| "Shanghai Properties" | (i) unit Nos, 201 and 202 on Mezzanine Level, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, the PRC; and (ii) whole of basement level one and ground level, Nos. 277 and 289 Lan Xi Road, Putuo District, Shanghai, the PRC |
| "Share(s)" | ordinary share(s) of HK$0.20 each in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Shareholder Loan" | all obligations, liabilities and debts owing and incurring by Asian Field to the Company as at the date of Completion which is expected to be not more than HK$65.70 million. The inter-company balances of approximately HK$65.66 million as at the date of the S&P Agreement is owing from Asian Field to the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "S&P Agreement" | the conditional sale and purchase agreement dated 7 February 2007 entered into between the Company and the Purchaser in relation to the sale and purchase of (i) the Sale Shares; and (ii) the benefit of and the interest in the Sale Loan |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "%" | per cent. |

*For the purpose of illustration in this circular, conversion of HK$ into RMB is based on the exchange rate of HK$1.0 = RMB1.0.*

*The English translation of Chinese names is included in this circular for information purpose only and should not be regarded as their official English translation.*

北方興業控股有限公司*

**NORTHERN INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 736)

**Board of Directors:**
*Executive:*
Zhao Qing Ji
Au Tat On
Lu Xiao Dong
Wong Siu Keung, Joe

*Independent non-executive:*
Cheng Kwok Hing, Andy
Yeung King Wah
Yeung Yuen Hei

**Registered office:**
Clarendon House
Church Street
Hamilton HM 11
Bermuda

**Head office and principal place of business:**
Block A, 2nd Floor
Man Foong Industrial Building
7 Cheung Lee Street
Chaiwan
Hong Kong

6 March 2007

*To the Shareholders*

Dear Sir or Madam,

# VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

## INTRODUCTION

On 12 February 2007, the Board announced that the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase (i) the Sale Shares, being the entire issued share capital of Asian Field; and (ii) the rights of and benefits in, the Sale Loan. The Asian Field Group is principally engaged in the business of manufacturing and sale of snap off blade cutters. Upon Completion, the Remaining Group will cease to engage in the business of manufacturing and sale of snap off blade cutters and will focus on the properties investment business.

The Disposal constitutes a very substantial disposal and a connected transaction on the part of the Company under the Listing Rules. Accordingly, the Disposal is subject to the approval of the Independent Shareholders in a general meeting of the Company.

* *For identification purpose only*

The purpose of this circular is to provide you with, among other things, (i) details of the Disposal; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the advice from Oriental Patron to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group; (v) the pro forma financial information of the Remaining Group; and (vi) the notice of the SGM.

**THE S&P AGREEMENT**

Date: 7 February 2007

Vendor: the Company

Purchaser: Mr. Chong Sing Yuen

Mr. Chong, being the Chairman of the Group since 1998, resigned as an executive Director with effect from 7 January 2007 but remains as the general manager and executive director of certain subsidiaries of the Company. As at the Latest Practicable Date, Mr. Chong and his associates were interested in 1,411,552 Shares, representing about 0.34% of the total issued share capital of the Company.

**Assets to be disposed of:**

(i) the Sale Shares comprising (a) one ordinary share of US$1 each in the share capital of Asian Field, representing the entire issued share capital of Asian Field as at the date of the S&P Agreement; and (b) the Capitalised Share (if any) as detailed in the paragraph headed "Undertakings and adjustment to Consideration" below; and

(ii) the rights of and benefits in, the Sale Loan, being the inter-company balance owing from Asian Field to the Company after deducting the capitalised amount as at the date of Completion as detailed in the paragraph headed "Undertakings and adjustment to Consideration" below.

The Asian Field Group comprises Asian Field as an investment holding company and its subsidiaries which are principally engaged in the business of manufacturing and sale of snap off blade cutters. Since Asian Field is not required to prepare any statutory accounts, no audited financial statements have been prepared. Based on the unaudited consolidated management accounts of the Asian Field Group prepared in accordance with accounting principles generally accepted in Hong Kong, the Asian Field Group recorded a consolidated turnover of approximately HK$70.1 million for the year ended 31 March 2005. The consolidated loss before taxation was approximately HK$12.3 million and consolidated loss after taxation was approximately HK$12.8 million for the year ended 31 March 2005. For the year ended 31 March 2006, the Asian Field Group recorded a consolidated turnover of approximately HK$99.1 million, a consolidated loss before taxation of about HK$23.1 million, and a consolidated loss after taxation of about HK$23.3 million. For the six months ended 30 September 2006, the Asian Field Group recorded a consolidated turnover of approximately HK$29.4 million, a consolidated loss before and after taxation of both about HK$18.4 million. The Asian Field Group did not record any extraordinary gain or loss for both the years ended 31 March 2005 and 2006 and the six months ended 30 September 2006. The unaudited consolidated net asset value (excluding the Shareholder Loan of approximately HK$61.0 million as at 30 September 2006) of the Asian Field Group as at 30 September 2006 was approximately HK$5.8 million. The unaudited consolidated net liability (excluding the Shareholder Loan of approximately HK$65.7 million as at 31 December 2006) of the Asian Field Group as at 31 December 2006 was approximately HK$1.0 million.

**Consideration:**

Subject to the adjustment (if any) as may be made in accordance with the S&P Agreement, the Consideration is HK$2, comprising the consideration for the Sale Shares of HK$1 and the consideration of the Sale Loan of HK$1 and was determined after arm's length negotiations between the Company and the Purchaser. Details of the possible adjustment to Consideration are set out in the paragraph headed "Undertakings and adjustment to Consideration" below. In determining the Consideration, the Directors have made reference to the unaudited consolidated net asset value of the Asian Field Group as at 31 January 2007, the loss-making track record of the Asian Field Group in the past two years, the anticipated loss of the Asian Field Group during the period up to the Completion, prospect of the snap off blade cutters business and the recoverability of the Sale Loan by the Company given the existing financial position of the Asian Field Group. Further information on the Asian Field Group is set out below. Based on the above, the Directors consider the Consideration to be fair and reasonable.

**Conditions:**

Completion is conditional upon fulfilment of the following conditions:

a) the passing of the necessary resolution(s) by the Independent Shareholders at the SGM to approve the Company's entry into of the S&P Agreement and the transactions contemplated thereunder in accordance with the Listing Rules; and

b) the release by the banks of the obligations of the Company as a corporate guarantor under the existing banking facilities available to the Asian Field Group.

If the above conditions are not fulfilled on or before 30 June 2007 (or such later date as may be agreed between the Company and the Purchaser in writing), the S&P Agreement shall terminate and no party shall have any claim against any other for costs, damages, compensation or otherwise (save in respect of any antecedent breach of the S&P Agreement).

**Completion:**

Completion is to take place on the seventh business day after the fulfilment of the above conditions (or such other dates the Company and the Purchaser may agree). Upon Completion, the Company will no longer hold any interests in Asian Field and Asian Field will cease to be a subsidiary of the Company. The Group will cease to engage in the business of manufacturing and sale of snap off blade cutters after the Disposal.

**Undertakings and adjustment to Consideration:**

In the event that the Asian Field Group records net liabilities on its unaudited consolidated management accounts as at 31 January 2007 (the "January Accounts"), the Company has undertaken to enter into, and undertaken to procure Asian Field to enter into the Capitalisation Agreement, pursuant to which an amount of inter-company balance owing from Asian Field to the Company equivalent to the net liabilities recorded on the January Accounts will be capitalised to offset the same amount of the net liabilities recorded on the January Accounts and as a result, one share of Asian Field will be allotted and issued to the Company at a consideration equivalent to the capitalised amount. The Capitalised Share will form part of the Sale Shares and the Sale Loan to be assigned to the Purchaser upon Completion will be reduced accordingly.

In the event that the January Accounts record net liabilities with an amount exceeding the inter-company balance owing from Asian Field to the Company, such inter-company balance will be fully capitalised and no Sale Loan will be assigned to the Purchaser upon Completion and in which case, no adjustment will be made to the consideration for the Sale Shares. Should the January Accounts record net asset value, the consideration for the Sale Shares will be adjusted upwards by the net asset value as shown on the January Accounts on a dollar-for-dollar basis and the Capitalisation Agreement will not be entered into and no Capitalised Share will be issued.

## FINANCIAL EFFECTS OF THE DISPOSAL

Upon completion of the Disposal, the Group will cease to engage in the snap off blade cutters business and Asian Field will no longer be a subsidiary of the Company. For the two years ended 31 March 2005 and 2006, the Group's losses segmental results in the manufacture and sale of snap off blade cutters business, which were losses of approximately HK$3.1 million and HK$4.8 million respectively, were largely contributed by the Asian Field Group. It is expected that following Completion, this segment will no longer contribute to the results of the Remaining Group.

The unaudited pro forma financial information of the Remaining Group illustrating the effect of the Disposal on the earnings, assets and liabilities of the Group is set out on Appendix III to this circular. According to the unaudited pro forma consolidated balance sheet of the Group as contained in Appendix III to this circular, assuming the Disposal had been completed on 31 March 2006, the Group would record a loss of approximately HK$33.9 million. On the other hand, based on the unaudited consolidated management accounts of the Asian Field Group, the Disposal is expected to result in a gain of approximately HK$1.0 million, taking into account the unaudited consolidated net liabilities (including the Shareholder Loan) of the Asian Field Group of approximately HK$66.7 million as at 31 December 2006 and the Shareholder Loan of HK$65.7 million as at the 31 December 2006. However, it should be noted that the amount of gain/loss eventually to be recognised on the consolidated accounts of the Company will depend on the net book value of the Asian Field Group and the Sale Loan as at the date of Completion.

## REASONS FOR THE DISPOSAL

The Group is principally engaged in properties investment, manufacture and sale of snap off blade cutters. Upon Completion, the Group will cease to engage in the snap off blade cutters business and Asian Field will no longer be a subsidiary of the Company.

Adversely affected by the surge in material prices and production costs, the snap off blade cutters business has been loss-making since 2005. As set out in the 2006 annual report of the Company, the snap off blade cutters segment incurred a loss of about HK$3.1 million and about HK$4.8 million to the Group for the year ended 31 March 2005 and 2006 respectively. Besides, as set out in the 2006 interim report of the Company, the snap off blade cutters segment incurred a further loss of about HK$2.7 million for the six months ended 30 September 2006. Having considered the loss making track record for the past two financial years and the poor interim result, the Board considers that it is the suitable time for the Group to cease engaging in the snap off blade cutters business and the Disposal will enable the Group to avoid any further losses that will possibly be incurred by the Asian Field Group. Despite the possible loss to be (or not to be) recognised in respect of the Disposal, in view of the declining results and the uncertain operating environment of the snap off blade cutters business, the Board considers that it is appropriate for the Group to exit the snap off cutter blade business and to focus the resources of the Group in the properties investment business.

Subsequent to Completion, the Group will cease to operate the snap off blade cutter business and concentrate on the properties investment business and will actively explore other investment opportunities. As set out in the announcement of the Company dated 5 September 2006 and the circular of the Company dated 31 October 2006, the Group has acquired the entire issued share capital of Luck Grow Group Limited, whose principal assets are the Shanghai Properties, at a consideration of HK$182.5 million (the "Acquisition"). As stated in the valuation report contained in the circular of the Company dated 31 October 2006, the Company was advised by its PRC legal advisers that 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited), an indirectly wholly-owned subsidiary of Luck Grow Group Limited, is the legal titler of the Shanghai Properties. The completion of the Acquisition took place in November 2006. At present, the Group does not have any capital commitment in relation to the Shanghai Properties. The Shanghai Properties at present were pledged to certain banks by their previous owner to secure banking facilities to the extent of approximately RMB120 million (equivalent to approximately HK$120 million) in favour of two independent borrowers pursuant to three banking facilities agreements, which are expected to expire on 26 July 2007, 13 December 2007 and 12 June 2009 respectively. The Company will only be required to issue the promissory notes in an aggregate amount of HK$157.7 million to satisfy the equivalent amount of consideration for the Acquisition upon the respective expiry of the banking facilities agreements. The Board has been continuously monitoring the status of the respective outstanding amounts payable with the respective banks and borrowers every three months. The mortgage banks will also inform the Company immediately if the outstanding amounts payable are not settled on time. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, the borrowers have been making repayment on schedule. Details of the aforesaid arrangements are set out in the circular of the Company dated 31 October 2006.

Subsequent to Completion, the Group will be principally engaged in the properties investment business whereby the Shanghai Properties will be the principal assets of the Group. The Shanghai Properties are certain commercial properties with aggregate gross floor area of approximately 5,621.69 square meters, respectively located in Xu Hui central business district (徐匯區) and Pu Tuo district (普陀區) in Shanghai which are fast developing area or city centre of Shanghai. They are expected to bring stable rental income and potential capital gain to the Group. According to the valuation report issued by a professional independent valuer, the Shanghai Properties have market value of HK$242.1 million as at 31 August 2006. The Shanghai Properties are currently fully occupied by two independent tenants. Since the completion of the Acquisition in November 2006, the two existing tenancy and advertising agreements of the Shanghai Properties have been contributing monthly rental income and advertising income of RMB414,908 (equivalent to approximately HK$414,908) and RMB458,000 (equivalent to approximately HK$458,000) to the Group respectively, and are subject to further increment in the coming years. It is expected that the Shanghai Properties will contribute to the Group an annual revenue of over RMB10.5 million (equivalent to approximately HK$10.5 million), becoming the major source of revenue of the Remaining Group after the Completion.

In view of the economic development in the PRC, the Board foresees that the demand for real estates, especially commercial properties in major cities of the PRC such as Shanghai, Beijing and Shenzhen, will remain strong. The Group intends to explore further in the properties investment business which would achieve capital appreciation and generate stable revenue to the Group. In light of the above factors, the Directors consider that the terms of the S&P Agreement are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

**MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP**

**Financial and business performance**

Following the Group's discontinuation of the consumer electronics business in June 2006, the acquisition of the entire issued share capital of Luck Grow which was completed in November 2006, and the Disposal, the Remaining Group will be principally engaged in the business of properties investment. According to the existing tenancy and advertising agreements, the Shanghai Properties have been contributing monthly rental income and advertising income. It is expected that the Shanghai Properties will contribute to the Remaining Group an annual revenue of over RMB10.5 million (equivalent to approximately HK$10.5 million). Immediately after Completion, it is expected that the Remaining Group will have a single business segment of properties investment business in the PRC. The financial information of the Luck Grow Group, the principal assets of which are the Shanghai Properties, is set out in Appendix II to this circular, which contains (i) the accountants' report on the Luck Grow Group for period from 25 February 2004 (date of incorporation of Lok Wing) to 31 December 2005 and the four months ended 30 April 2006; and (ii) the management discussion and analysis thereon as extracted from the circular of the Company dated 31 October 2006.

**Liquidity and financial resources**

According to the unaudited pro forma financial information set out in Appendix III to this circular, the Remaining Group's total equity 31 March 2006 had a deficit of approximately HK$18.3 million. Such deficit in equity had not taken into account the aggregate net proceeds of approximately HK$26.3 million raised from the issue of new Shares by way of placing as announced by the Company on 1 December 2006, whereby enhancing the capital base of the Remaining Group.

The Remaining Group did not have any borrowing assuming Completion took place on 31 March 2006 and thus gearing ratio was nil. As set out in the unaudited pro forma financial information contained in Appendix III to this circular, the only borrowing of the Remaining Group would be the promissory notes of approximately HK$157.7 million. However, it should be noted that the promissory notes were not yet issued as at the Latest Practicable Date as they are to be issued for satisfying the equivalent amount of consideration for the acquisition of the Shanghai Properties and are expected to be issued in December 2007 and June 2009 according to the sale and purchase agreement in respect of such acquisition.

Most of the Remaining Group's business transactions, assets and liabilities are denominated either in Hong Kong dollars and Renminbi. The risk of foreign exchange fluctuation was not significant to the Remaining Group.

**Investments**

The Remaining Group acquired the entire issued share capital of Luck Grow in November 2006, whose principal assets are the Shanghai Properties. Details of such acquisition are set out in the circular of the Company dated 31 October 2006. Assuming the Completion took place on 31 March 2006, the Remaining Group did not have any significant investment position in stocks, bonds or other financial derivatives.

**Charges on assets**

As at the Latest Practicable Date, the investment properties of the Remaining Group (being the Shanghai Properties) were pledged to banks to secure credit facilities to the extent of approximately HK$120 million, granted to certain related companies. The Remaining Group had also given guarantee to such credit facilities and had contingent liabilities of approximately HK$120 million. The Directors expect that the guarantees will only be released upon the expiry dates of the relevant facilities.

**Employees and remuneration policies**

As at the Latest Practicable Date, the Remaining Group had 10 and 21 employees in Hong Kong and the PRC respectively. The remuneration was determined with reference to statutory minimum wages, market terms and the performance, qualification and experience of individual employees. The Remaining Group provides contributory provident fund and insurance scheme to the employees. Share option scheme and incentive schemes are adopted to encourage personal commitment of the employees.

## FUTURE PROSPECTS OF THE REMAINING GROUP

Subsequent to the Completion, the Remaining Group will be principally engaged in the business of properties investment whereby the Shanghai Properties will be the principal assets of the Remaining Group. It is expected that the rental income from the Shanghai Properties will contribute a stable income stream to the Remaining Group. Further, the Directors are optimistic about the property market in Shanghai and consider the Group could enjoy gain from possible appreciation of value of the Shanghai Properties riding on the development prospect of Shanghai.

The Remaining Group will actively and carefully look for potential investment opportunity, aiming at diversifying its business and to enhance its value. As at the Latest Practicable Date, the Remaining Group has not yet commenced any discussion or negotiation for any potential investment.

## LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal on the part of the Company under the Listing Rules. By virtue of Mr. Chong's directorship in the Group, the Disposal also constitutes a connected transaction on the part of the Company under the Listing Rules. Accordingly, the Disposal is subject to the approval by the Independent Shareholders at the SGM to be convened by the Company. As at the Latest Practicable Date, Mr. Chong Sing Yuen and his associates were interested in 1,411,552 Shares, representing about 0.34% of the total issued share capital of the Company. At the SGM, votes of the Independent Shareholders will be taken by poll where Mr. Chong and his associates will abstain from voting on the resolution in relation to the Disposal.

## SGM

A notice convening the SGM, at which an ordinary resolution will be proposed to consider and, if thought fit, to approve, among other things, the Disposal is set out on pages 152 to 153 of this circular. At the SGM, the vote will be taken by poll on which Mr. Chong Sing Yuen and his associates will abstain from voting.

A form of proxy for use at the SGM is accompanied with this circular. If you are not able to attend the SGM, you are requested to complete the accompanied form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrars, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

An announcement will be made by the Company following the conclusion of the SGM to inform you of the results thereof.

## PROCEDURES FOR DEMANDING A POLL

According to the Bye-laws of the Company, before or on the declaration of the result of voting on a show of hands on a resolution at the SGM, a poll may be demanded by:

(a) the chairman of such meeting; or

(b) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

## INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Cheng Kowk Hing, Andy, Mr. Yeung King Wah and Mr. Yeung Yuen Hei has been appointed to give recommendation to the Independent Shareholders in respect of the Disposal. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on page 13 of this circular.

## INDEPENDENT FINANCIAL ADVISER

Oriental Patron has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal. Your attention is drawn to its letter to the Independent Board Committee and the Independent Shareholders set out on pages 14 to 23 of this circular.

## RECOMMENDATION

The Directors consider that the Disposal is fair and reasonable to the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the Disposal.

## FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular, including the recommendation of the Independent Board Committee and advice of Oriental Patron regarding the Disposal, the financial information of the Group, the financial information of the Luck Grow Group and the pro forma financial information of the Remaining Group.

Yours faithfully,
For and on behalf of
**Northern International Holdings Limited**
**Zhao Qing Ji**
*Chairman*

北方興業控股有限公司*

**NORTHERN INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 736)

6 March 2007

*To the Independent Shareholders*

Dear Sir or Madam,

## VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 6 March 2007 (the "Circular"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the Disposal, and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Disposal is in the interests of the Company and the Shareholders as a whole.

Oriental Patron has been appointed as the independent financial adviser to advise us and you regarding the terms of the Disposal. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 13 to 23 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having considered the terms of the Disposal together with the independent advice of Oriental Patron, we consider that the terms of the Disposal are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the Disposal is in the interests of the Company and the Shareholders as a whole. On this basis, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal.

Yours faithfully,
Independent Board Committee
**Cheng Kwok Hing, Andy** **Yeung King Wah** **Yeung Yuen Hei**
*Independent non-executive Directors*

* *For identification purpose only*

*The following is the text of the letter of advice from Oriental Patron Asia Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular:*

東英 ORIENTAL PATRON

27th Floor, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

6 March 2007

*To: the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION in relation to the conditional sale of the entire share capital of Asian Field and the rights of and benefits in the Sale Loan pursuant to the S&P Agreement**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal pursuant to the S&P Agreement. Details of the S&P Agreement are contained in the letter from the Board set out on pages 4 to 12 of the circular of the Company dated 6 March 2007 (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Independent Board Committee comprising all independent non-executive Directors, namely Cheng Kwok Hing, Andy, Yeung King Wah and Yeung Yuen Hei, has been established to advise the Independent Shareholders as to whether the terms of the S&P Agreement and the transactions contemplated thereunder are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole.

On 7 February 2007, the Company entered into the S&P Agreement with the Purchaser, pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase, (i) the Sales Shares representing the entire issued share capital of Asian Field; and (ii) the rights of and benefits in the Sale Loan for the aggregate consideration of HK$2, subject to adjustment as stated in the letter from the Board. Subsequent to the Disposal, Asian Field will cease to be a subsidiary of the Company. Pursuant to Rule 14.06 of the Listing Rules, the Disposal constitutes a very substantial disposal for the Company and requires the approval of the Shareholders at the SGM. Mr. Chong, who has been the chairman of the Company since 1998 until his resignation became effective on 7 January 2007 and is currently the executive director of Asian Field and certain subsidiaries of the Group, is the purchaser of the Sale Shares and Sale Loan under the Disposal. As Asian Field is currently a subsidiary of the

Company, by virtue of Mr. Chong's directorship in Asian Field, the Disposal also constitutes a connected transaction for the Company pursuant to Rule 14A.13(1)(a) of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM. Mr. Chong and his associates will abstain from voting at the SGM on the resolution approving the Disposal.

In our capacity as the independent financial adviser, our role is to give an independent opinion as to whether the Disposal are in the interest of the Company and the terms of the S&P are fair and reasonable so far as the Shareholders are concerned. In formulating our opinion and recommendation, we have relied on the statements, information and facts supplied by, the opinions expressed by and the representations of the Directors and management of the Company and its subsidiaries concerning the Disposal, including those facts, opinions and representations set out in the Circular. We have discussed the bases and assumptions made by the Directors and management of the Company and its subsidiaries in relation to the Disposal and we have assumed that all such information and all statements, information, opinions, reports and representations contained or referred to in the Circular were true, complete and accurate in all material respects at the time they were made and given and continue to be so in all material respects as at the date of despatch of the Circular. We have assumed that all statements of beliefs, opinions and intentions made by the Directors and management of the Company in the Circular were reasonably made after due and careful enquiry and were based on honestly held opinions.

We consider that we have been provided with, and have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our recommendation regarding the Disposal. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information and representation provided or opinions expressed in the Circular. In line with normal practice, we have not, however, conducted a verification of the information and representations provided to us by the Directors and/or the management of the Company, nor have we conducted any independent in-depth investigation into the business and affairs and prospects of the Company and its subsidiaries. In addition, we have not made any independent evaluation or appraisal of the business affairs or assets and liabilities of the Group and Asian Field Group. Accordingly, we do not warrant the accuracy or completeness of any such information. The Directors have confirmed that no material facts have been omitted from the information supplied to us.

Our opinion with regard to the Disposal has been made on the assumption that all obligations to be performed by each of the parties to the S&P Agreement will be fully performed in accordance with the terms thereof. Our opinion is necessarily based upon market, economic and other conditions as they existed as at the Latest Practicable Date. We have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date. As a result, circumstances could develop prior to the Completion that, if known at the time we rendered our opinion, would alter our opinion.

This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposal and, except for its inclusion in the Circular and for references thereto in the letter from the Independent Board Committee set out in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Disposal and giving our recommendation in relation thereto, we have considered the following principal factors and reasons:

### I. BACKGROUND INFORMATION ON THE GROUP

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise (i) the manufacture and sale of snap off blade cutters and (ii) property investment. Asian Field is a subsidiary of the Company. The Asian Field Group currently comprises Asian Field as an investment holding company and its subsidiaries which are principally engaged in the manufacturing and sale of snap off blade cutters. Asian Field was also engaged in consumer electronic business which was terminated in June 2006 as a result of significant losses. As at the Latest Practicable Date, the Company held the entire issued share capital of Asian Field. Upon the Completion, the Company will cease to hold any interests in Asian Field and thus Asian Field will no longer be a subsidiary of the Company.

According to the published financial statements of the Group, the audited consolidated net loss of the Group for the two years ended 31 March 2006, amounted to approximately HK$19.6 million and HK$29.8 million respectively, and the losses were attributable to both the snap off blade cutter and consumer electronic businesses. The unaudited consolidated net loss of the Group for the six months ended 30 September 2006 was approximately HK$20.6 million. Segment results of the consumer electronic business and snap off blade cutter business were losses of approximately HK$15.6 million and HK$2.7 million respectively. According to the 2006 annual report, the increase in consolidated net loss was due to the surge in material prices and production costs of both consumer electronic and snap off blade cutter businesses.

As disclosed in the annual report of 2006, the Group discontinued the loss-making consumer electronic business in June 2006 due to continual underperformance. As such, the Group provided for an impairment loss for the property, plant and equipment associated with the consumer electronic business based on the net book value of HK$3,843,766, and disposed of the plant and machinery of net book value of HK$1,369,567. Taking into account the sales proceeds of the disposed plant and machinery of HK$582,524, a loss on disposal of HK$787,043 was recorded during the six months ended 30 September 2006. Following the termination of the consumer electronic business, Asian Field Group has ceased to be engaged in consumer electronic business.

According to the announcement of the Company dated 8 July 2006, on the even date, the Group entered into a letter of agreement with an independent third party to dispose of its entire interests in its investment properties ("Panyu Properties") situated in Northern Industrial Complex, Panyu, Guangdong Province of the PRC at a consideration of RMB75 million (equivalent to approximately HK$75 million). The disposal resulted in a gain on disposal of approximately RMB4 million (equivalent to approximately HK$4 million) attributable to the Group.

In November 2006, the Group completed the acquisition of two investment properties in Shanghai at a consideration of HK$182.5 million. The properties are commercial properties with aggregate gross floor area of approximately 5,621.69 square meters, respectively located in Xu Hui central business district (徐匯區) and Pu Tuo district (普陀區) in Shanghai. Since the completion of the acquisition, the two existing tenancy and advertising agreements contribute a monthly income stream of RMB414,908 (equivalent to approximately HK$414,908) and RMB458,000 (equivalent to approximately HK$458,000) to the Group respectively, representing an annual rental income of approximately RMB10.5 million. According to the appraised value as set out in the circular dated 31 October 2006, the Shanghai Properties have market value of HK$242.1 million as at 31 August 2006. It is expected that the Shanghai Properties will become the major source of revenue of the Group after the Completion.

Since June 2006, the Group has been disposing of the non-profitable businesses and has commenced its properties investment business in the PRC. As a result of the termination of the consumer electronic business, the disposal of investment properties in Panyu, the acquisition of the two properties in Shanghai, following the Completion of the Disposal, the Group's principal activity will be transformed to property investment entirely.

## II. REASONS FOR DISPOSAL

As disclosed in the letter from the Board in the Circular, the Directors are of the view that due to the surge in material prices and production costs, the snap off blade cutter business has been making loss since 2005. The segmental financial information of the snap off blade cutter business as extracted from the published financial statements of the Company is set out as below:

| **Snap off blade cutter business segment** | **12-month period ended 31 March 2006 (audited)** | **12-month period ended 31 March 2005 (audited)** | **12-month period ended 31 March 2004 (audited)** | **6-month period ended 30 September 2006 (unaudited)** | **6-month period ended 30 September 2005 (unaudited)** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue | 44,366 | 43,300 | 48,566 | 25,689 | 21,537 |
| Segment results | (4,755) | (3,129) | 2,888 | (2,671) | 389 |

Having considered the loss-making track record, the Board considers that the Disposal would enable the Group to avoid any further losses that is expected to be incurred by the Asian Field Group.

As discussed with the Directors, several remedial measures have been implemented by the Group to try to improve the performance of the snap off blade cutter business. These measures include enriching its product mix by developing new models as well as expanding its customer base. However, these measures have been proven to be ineffective to turn around the business and consecutive losses were recorded for the year ended 31 March 2006 and the six-month period ended 30 September 2006. In light of the poor prospect of the snap off blade cutter business, the Directors anticipated that a further loss will be incurred by Asian Field Group during the period up to the Completion.

The Directors considered that the Group should focus its resources in its properties investment business and exit the snap off blade cutter business due to its consistent poor performance and uncertain prospect as a result of the unfavorable operating environment. The Disposal would also alleviate the cash outflow of the Group to maintain the operation of the snap off cutter business.

Since October 2004, there have been a number of changes in the directorship of the Company. Six out of the then seven executive Directors have resigned and three new executive Directors have been appointed. After Mr. Chong's resignation as chairman and executive director of the Company in January 2007, the present board does not have sufficient experience in the snap off blade cutter business. Considering the continuous underperformance and lack of sufficient experience in the business for the present board, the Directors decided to dispose of the snap off blade cutter business.

In light of the above reasons and analysis, it is likely that the Disposal will (i) streamline the business scope of the Remaining Group and allow a more effective allocation of management resources to the properties investment business which is expected to be more promising; (ii) enable the Group to carve out its unprofitable snap off blade cutter business and avoid further losses; and (iii) avoid continual injection of working capital to sustain the operation of snap off blade cutters business. As such, we are of the view that it is in the interest of the Company and its Shareholders as a whole for the Group to dispose of Asian Field Group.

## III. BASIS OF THE CONSIDERATION

The Consideration is HK$2 comprising the consideration for the Sale Shares of HK$1 and the consideration for the Sale Loan of HK$1. The Consideration is subject to adjustments (as set out in the letter from the board in the Circular), if necessary, pursuant to the S&P Agreement.

As discussed with the Directors, we understand that the Consideration was arrived at after arm's length negotiations between the Company and the Purchaser having made reference to (i) the loss-making track record of Asian Field Group in the past two years; (ii) the anticipated loss of Asian Field Group during the period up to the Completion; (iii) prospect of the snap off blade cutter business; and (iv) the recoverability of the Sale Loan by the Company given the existing financial position of Asian Field Group.

As at 30 September 2006, Asian Field Group had unaudited net liabilities of approximately HK$55.2 million (including the inter-company balances owing from Asian Field to the Company amounted about HK$61.0 million). The inter-company balances owing from Asian Field to the Company as at the date of S&P Agreement increased to about HK$65.7 million. Given the loss-making track record and the financial position of Asian Field Group, we agree with the Directors' view that chances to recover the Sale Loan by the Company is remote. Assuming that the Shareholder Loan is capitalized entirely, Asian Field Group would have unaudited net assets of approximately HK$5.8 million as at 30 September 2006. However, taking into consideration of the expected loss for the period from 1 October 2006 to 31 January 2007 i.e. the period end of January Accounts, Asian Field would either record a small amount of net asset value or be in a net liabilities position depending on the amount of net loss to be recognized during the period.

According to the S&P Agreement, the Disposal is conditional upon the release by the banks of the obligations of the Company as a corporate guarantor under the existing banking facilities available to Asian Field Group. As such, the Disposal would also reduce the total contingent liability of the Group of approximately HK$26.9 million. Therefore, we are of the view that the Consideration is fair and reasonable and is in the interest of the Company as a whole.

Pursuant to the S&P Agreement, in the event that Asian Field Group records net liabilities on the January Accounts, the Company has undertaken to enter into, and procure Asian Field Group to enter into the Capitalisation Agreement, pursuant to which an amount of inter-company balance owing from Asian Field to the Company equivalent to the net liabilities recorded on the January Accounts will be capitalized to offset the same amount of the net liabilities recorded on the January Accounts and as a result, one share of Asian Field will be allotted and issued to the Company at a consideration equivalent to the capitalized amount. The Capitalised Shares will form part of the Sale Shares and the Sale Loan to be assigned to the Purchaser upon Completion will be reduced accordingly. As discussed with the Directors, the purpose of the adjustment according to the Capitalisation Agreement is merely for ensuring that the Purchaser will not end up having an entity with a negative net asset value. In this case, the undertaking given by the Company and the adjustment as mentioned above would not affect the amount of Consideration.

In the event that the January Accounts recorded net liabilities with an amount exceeding the inter-company balance owing from Asian Field to the Company, such inter-company balance will be fully capitalized and no Sale Loan will be assigned to the Purchaser upon Completion and in which case, no adjustment will be made to the consideration for the Sale Shares. In this case, the undertaking given by the Company and the adjustment as mentioned above would result in the Consideration being reduced from HK$2 to HK$1. We consider that such reduction in Consideration is immaterial.

In the event that the January Accounts recorded net asset value, the consideration for the Sale Shares will be adjusted upwards by the net asset value as shown on the January Accounts on a dollar-for-dollar basis and the Capitalisation Agreement will not be entered into and no Capitalised Share will be issued. In this case, the consideration for the Sale Shares will be approximately equivalent to the net asset value as shown on the January Accounts. Given the fact that as at 30 September 2006, Asian Field Group had unaudited net liabilities of approximately HK$55.2 million (including the inter-company balances owing from Asian Field to the Company amounted about HK$61.0 million) and that the inter-company balances owing from Asian Field to the Company as at the date of the S&P Agreement further increased to approximately HK$65.7 million, in order to enable the January Accounts to record net asset value, Asian Field Group should generate a net profit for the four-month period from 1 October 2006 to 31 January 2007.

In view of the recent loss-making track record, unfavorable operating environment and the persistent loss anticipated by the Directors, it is unlikely that Asian Field Group would be able to attain a profit in the four-month period or even if it could generate profit in such period, the amount would not be material.

Based on the above analysis, we are of the view that the undertakings given by the Company and adjustments to the Consideration as stipulated in the S&P Agreement are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

## IV. LIQUIDATION VERSUS THE DISPOSAL

We have discussed with the Directors on whether or not the Directors have considered liquidation of Asian Field Group instead of Disposal. The Directors considered that the Disposal is the more effective means to divest its unprofitable business. Since the Disposal is conditional on the release by the banks of corporate guarantee given by the Company as a corporate guarantor to two banks under the existing banking facilities available to Asian Field Group, upon Completion, the Group will cease to have any obligations arising from such corporate guarantee. Should the Company choose to liquidate Asian Field Group, the Company will be obliged, as a corporate guarantor, to settle all the outstanding bank borrowings. As at 31 January 2007, Asian Field Group had an aggregate amount of bank borrowings of about HK$9.1 million.

Having considered the above factors, we agree with the Directors' view that Disposal is the more effective way for the Group to dispose of Asian Field Group and the snap off cutter business.

## V. FINANCIAL EFFECT OF THE DISPOSAL

Based on the unaudited pro forma consolidated financial statements of the Group as at 31 March 2006 in the Appendix III to this Circular and the information provided by the management of the Company, the consolidated net asset value, total assets, total liabilities and gearing ratio (being total liabilities divided by total assets) of the Group before Completion and upon Completion are set out below:

| | **As at 31 March 2006 (unaudited pro forma)** | |
|---|---|---|
| | **Before Completion** | **Upon Completion** |
| | *HK$'000* | *HK$'000* |
| Net assets/liabilities | 15,650 | (18,280) |
| Total assets | 292,229 | 218,982 |
| Total liabilities | 276,579 | 237,262 |
| Gearing ratio (times) | 0.95 | 1.08 |

**Net Asset Value**

Before Completion, the pro forma unaudited consolidated net asset value of the Group as at 31 March 2006 (taken into account of the adjustments relating to the disposal of Panyu Properties and the acquisition of Shanghai Properties) was approximately HK$15.7 million. Upon Completion, the Group would record a pro forma consolidated net liability value of approximately HK$18.3 million due to a loss of approximately HK$33.9 million as a result of the Disposal. However, the amount of loss eventually to be recognized on the consolidated accounts of the Company will depend on the net book value of the Asian Field Group and the Sale Loan as at the date of Completion. As at 31 December 2006, the unaudited consolidated net liability value (excluding the inter-company balance owing to the Company by Asian Field of approximately HK$65.7 million) was approximately HK$1.0 million. Accordingly, had the Disposal been completed on 31 December 2006, a gain on the Disposal of approximately HK$1 million would be expected. As the change in net asset value of the Group as a result of the Disposal should be the same amount as the gain or loss to be recognized eventually on the Disposal, taking into account the expected gain on the Disposal and the aggregate net proceeds of approximately HK$26.3 million raised from the issue of new Shares as announced by the Company on 1 December 2006 (which is not taken into account in the unaudited consolidated pro forma balance sheet as at 31 March 2006), a consolidated net asset value is expected for the Remaining Group upon Completion.

**Earnings**

According to the unaudited pro forma financial information as set out in Appendix III to this circular, taking into account the effect of the gain on disposal of the entire share capital of Asian Field of HK$38.7 million and the loss on impairment for the inter-company balance owing for Asian Field to the Company of HK$72.7 million, a loss of approximately HK$33.9 million is expected to arise from the Disposal. The amount of gain or loss eventually to be recognized on the consolidated accounts of the Company will depend on the net book value of the Asian Field Group and the Sale Loan as at the date of Completion. Although the Remaining Group may recognize a loss as a result of the Disposal, the loss is of one-off nature. Moreover, in view of the declining results and the uncertain operating environment of the snap off blade cutters business, the Remaining Group can avoid anticipated future losses by disposing of Asian Field Group.

**Gearing**

Upon Completion, the pro forma gearing ratio of the Group, which is equal to the total liabilities divided by total assets, as at 31 March 2006 would increase slightly from approximately 95% to 108%. The change is considered to be immaterial.

**Cash Flow**

Assuming no adjustment pursuant to the S&P Agreement has to be made to the Consideration, the amount of gross proceeds of the Disposal for the Group is only HK$2. Therefore, the proceeds would not have material effect on the cash flow of the Remaining Group. However, according to the audited financial statements of the Group for the two years ended 31 March 2006, the snap off blade cutter business recorded losses for the two financial years. We are also given to understand by the Directors that further working capital will have to be injected into Asian Field Group to sustain its operation should the Group continue to keep the snap off blade business. As such, the Disposal will allow the Remaining Group to prevent further injection of working capital and focus its financial resources on more profitable properties investment business.

Taking into account the above financial effects, we consider that the Disposal is in the interest of the Company and the Shareholders as a whole and that the terms of the Disposal are fair and reasonable so far as the Shareholders are concerned.

**RECOMMENDATION**

Having considered the principal factors and reasons set out above, in particular, the following:

(i) the loss-making track record of Asian Field Group in the past two years;

(ii) the unpromising prospect, anticipated future losses of Asian Field Group and further working capital requirement under the current unfavorable operating environment;

(iii) the weak financial position of Asian Field Group i.e. net liabilities of about HK$66.7 million (including the inter-company balances owing from Asian Field to the Company) or about HK$1.0 million (excluding the inter-company balances owing from Asian Field to the Company) as at 31 December 2006;

(iv) the low recoverability of the Shareholder Loan;

(v) the release by the banks of obligations of the Company as a corporate guarantor under the existing banking facilities available to Asian Field Group as a condition of the Disposal; and

(vi) the Disposal will allow the Group to focus its financial and management resources on more profitable properties investment business.

We are of the view that the Disposal is in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole, and the terms of the S&P Agreement are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal.

Yours faithfully,
For and on behalf of
**Oriental Patron Asia Limited**

| **Jeffrey Chan** | **Ivan Tong** |
|---|---|
| *Director* | *Associate Director* |

## 1. ACCOUNTANTS' REPORT OF THE GROUP

*Set out below is the text of a report, prepared for the purpose of incorporation in this circular, received from CCIF CPA Limited in connection with the Group:*

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

6 March 2007

The Director
Northern International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Northern International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2006 (the "Relevant Periods") for inclusion in the circular issued by the Company dated 6 March 2007 (the "Circular") in connection with the proposed disposal of entire issued share capital of in Asian Field Holdings Corp. ("Asian Field") and the rights of and benefits in the inter-company balance owing from Asian Field to the Company.

The Company was incorporated in Bermuda on 20 July 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). As at the date of this report, the Company had direct and indirect interests in the subsidiaries and associates as set out in note 19 and 20, respectively, of Section II below. All companies now comprising the Group have adopted 31 March as their financial year end date.

We acted as the auditors of the Company and have audited the consolidated financial statements of the Group for the years ended 31 March 2005 and 2006 and for six months ended 30 September 2006. Ernst & Young have acted as auditors of the Company and have audited the consolidated financial statement of the Group for the year ended 31 March 2004. The consolidated financial statements of the Group for each of the Relevant Periods have been prepared in accordance with accounting principles generally accepted in Hong Kong.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, the unaudited management accounts of the companies comprising the Group for the Relevant Periods, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information for the Relevant Period as set out in this report have been prepared in accordance with the basis and accounting policies as set out in note 3.

The Financial Information is the responsibility of the directors of Group who approve of the issuance of the report. The Directors of the Group are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on such information and to report our opinion to you.

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. The Group’s financial statement have been prepared on a going concern basis, the validity of which is dependent upon the successful outcome of the measures undertaken as described in note 2 to the financial statements to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The financial statements do not include any adjustments that would result from the failure of such measures. We consider that appropriate disclosures have been made in the financial statements and our opinion is not qualified in this respect.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 March 2004, 2005 and 2006 and 30 September 2006, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

## A. FINANCIAL INFORMATION

### Consolidated Income Statement

| | | 31 March | | | Six months ended 30 September | |
|---|---|---|---|---|---|---|
| | | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) | | (Unaudited) | |
| **Continuing operation** | | | | | | |
| Turnover | 8 | 50,771 | 46,443 | 46,588 | 22,866 | 27,034 |
| Cost of sales | | (34,925) | (34,885) | (38,659) | (16,425) | (22,936) |
| **Gross profit** | | 15,846 | 11,558 | 7,929 | 6,441 | 4,098 |
| Other revenue | 8 | 1,974 | 1,317 | 1,662 | 1,163 | 671 |
| Distribution costs | | (4,415) | (3,866) | (3,349) | (1,740) | (2,369) |
| Administrative expenses | | (14,662) | (16,960) | (17,769) | (7,548) | (5,883) |
| Other operating expenses | | (15) | – | – | (2,090) | (5) |
| **Loss from operations** | 9 | (1,272) | (7,951) | (11,527) | (3,774) | (3,488) |
| Finance costs | 10 | (1,204) | (1,006) | (1,033) | (329) | (802) |
| **Loss before taxation** | | (2,476) | (8,957) | (12,560) | (4,103) | (4,290) |
| Income tax | 13 | (91) | (440) | (108) | – | – |
| **Loss for the year/period from continuing operations** | | (2,567) | (9,397) | (12,668) | (4,103) | (4,290) |
| **Discontinued operation** | | | | | | |
| Loss for the year/period from discontinued operation | | (12,958) | (10,240) | (17,135) | (4,358) | (16,320) |
| **Loss for the year/period** | | (15,525) | (19,637) | (29,803) | (8,461) | (20,610) |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Income Statement *(Continued)*

| | | 31 March | | | Six months ended 30 September | |
|---|---|---|---|---|---|---|
| | | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) | | (Unaudited) | |
| **Attributable to:** | | | | | | |
| Equity shareholders of the Company | 14 | (15,525) | (19,637) | (29,803) | (8,461) | (20,610) |
| **LOSS PER SHARE** | 15 | | | | | |
| From continuing and discontinued operations: | | | | | | |
| – Basic | | 0.34 cents | 0.41 cents | 10.8 cents | 3.2 cents | 6.4 cents |
| – Diluted | | N/A | N/A | N/A | N/A | N/A |
| From continuing operations: | | | | | | |
| – Basic | | 0.06 cents | 0.20 cents | 4.6 cents | 1.6 cents | 1.3 cents |
| – Diluted | | N/A | N/A | N/A | N/A | N/A |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Balance Sheet

| | | 31 March | | | 30 September |
|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) | | |
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Property, plant and equipment | 16 | 32,511 | 30,282 | 31,172 | 24,058 |
| – Investment properties | 17 | 47,961 | 40,816 | 41,021 | 43,661 |
| Interests in leasehold land held for own use under operating leases | 18 | 4,636 | 4,523 | 4,352 | 3,322 |
| Interests in associates | 20 | – | – | – | – |
| Deferred tax assets | 31 | 487 | 38 | 6 | 6 |
| | | 85,595 | 75,659 | 76,551 | 71,047 |
| **Current assets** | | | | | |
| Inventories | 21 | 14,907 | 20,470 | 12,074 | 5,480 |
| Trade and bills receivables | 22 | 7,610 | 10,389 | 8,139 | 8,613 |
| Other receivables, deposits and prepayments | | 3,232 | 4,258 | 2,723 | 3,099 |
| Due from associates | | 3,000 | – | – | – |
| Pledged deposits | 23 | 5,000 | 500 | 500 | 500 |
| Cash and cash equivalents | 23 | 1,691 | 4,200 | 310 | 2,153 |
| | | 35,440 | 39,817 | 23,746 | 19,845 |
| **Current liabilities** | | | | | |
| Trade payables | 24 | 9,764 | 11,083 | 12,622 | 12,331 |
| Other payables and accruals | | 9,536 | 10,476 | 11,696 | 13,693 |
| Due to associates | 25 | – | 1,655 | – | – |
| Due to directors | 26 | 289 | 4,206 | 3,135 | 10,429 |
| Due to a related party | 27 | 1,722 | 14,271 | 13,942 | 18,424 |
| Obligations under finance leases | 28 | 636 | 230 | 743 | 598 |
| Interest-bearing borrowings | 29 | 41,027 | 22,795 | 40,604 | 7,847 |
| Tax payable | 30 | 1,676 | 1,659 | 1,766 | 877 |
| Due to shareholder | | – | – | – | 19,000 |
| | | 64,650 | 66,375 | 84,508 | 83,199 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Balance Sheet

| | | 31 March | | | 30 September |
|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2006 |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) | | |
| **Net current liabilities** | | (29,210) | (26,558) | (60,762) | (63,354) |
| **Total assets less current liabilities** | | 56,385 | 49,101 | 15,789 | 7,693 |
| **Non-current liabilities** | | | | | |
| Interest-bearing borrowings | 29 | 4,745 | 17,441 | 1,271 | 1,153 |
| Obligations under finance leases | 28 | 594 | 9 | 188 | – |
| | | 5,339 | 17,450 | 1,459 | 1,153 |
| **NET ASSETS** | | 51,046 | 31,651 | 14,330 | 6,540 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 32 | 48,038 | 48,700 | 58,300 | 69,900 |
| Reserves | 34 | 3,008 | (17,049) | (43,970) | (63,360) |
| **Total equity attributable to equity shareholders of the Company** | | 51,046 | 31,651 | 14,330 | 6,540 |
| **TOTAL EQUITY** | | 51,046 | 31,651 | 14,330 | 6,540 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Statement of Changes in Equity

| | Share capital | Share premium | Goodwill | Buildings revaluation reserve | Special reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2003, as previously reported | 45,445 | 24,483 | (22,479) | 12,442 | (11,153) | 52 | 23,236 | 72,026 |
| Effect of the changes in accounting policies | – | – | – | (12,442) | – | (164) | 4,558 | (8,048) |
| At 1 April 2003, as restated | 45,445 | 24,483 | (22,479) | – | (11,153) | (112) | 27,794 | 63,978 |
| Exercise of share options | 2,593 | – | – | – | – | – | – | 2,593 |
| Net loss for the year | – | – | – | – | – | – | (15,525) | (15,525) |
| At 31 March 2004, as restated | 48,038 | 24,483 | (22,479) | – | (11,153) | (112) | 12,269 | 51,046 |
| At 1 April 2004, as previously reported | 48,038 | 24,483 | (22,479) | 13,139 | (11,153) | 52 | 7,711 | 59,791 |
| Effect of the changes in accounting policies | – | – | – | (13,139) | – | (164) | 4,558 | (8,745) |
| At 1 April 2004, as restated | 48,038 | 24,483 | (22,479) | – | (11,153) | (112) | 12,269 | 51,046 |
| Exercise of share options | 662 | – | – | – | – | – | – | 662 |
| Expenses incurred in an open offer | – | (420) | – | – | – | – | – | (420) |
| Net loss for the year | – | – | – | – | – | – | (19,637) | (19,637) |
| At 31 March 2005, as restated | 48,700 | 24,063 | (22,479) | – | (11,153) | (112) | (7,368) | 31,651 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Statement of Changes in Equity *(Continued)*

| | Share capital | Share premium | Goodwill | Buildings revaluation reserve | Special reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2005 | 48,700 | 24,063 | (22,479) | – | (11,153) | (112) | (7,368) | 31,651 |
| Effect of the changes in accounting policies | – | – | 22,479 | – | – | – | (22,479) | – |
| At 1 April 2005, as restated | 48,700 | 24,063 | – | – | (11,153) | (112) | (29,847) | 31,651 |
| Issue of new shares | 9,600 | 2,880 | – | – | – | – | – | 12,480 |
| Share issuance expenses | – | (66) | – | – | – | – | – | (66) |
| Share consolidation expenses | – | (133) | – | – | – | – | – | (133) |
| Exchange realignment | – | – | – | – | – | (345) | – | (345) |
| Surplus on revaluation | – | – | – | 578 | – | – | – | 578 |
| Deferred tax credited in the revaluation reserve | – | – | – | (32) | – | – | – | (32) |
| Net loss for the year | – | – | – | – | – | – | (29,803) | (29,803) |
| At 31 March 2006 | 58,300 | 26,744 | – | 546 | (11,153) | (457) | (59,650) | 14,330 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Statement of Changes in Equity *(Continued)*

| | Share capital | Share premium | Goodwill | Buildings revaluation reserve | Special reserve | Exchange fluctuation reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2006 | 58,300 | 26,744 | – | 546 | (11,153) | (457) | (59,650) | 14,330 |
| Issue of new shares | 11,600 | – | – | – | – | – | – | 11,600 |
| Premium on issue of new shares, net of expenses | – | 1,740 | – | – | – | – | – | 1,740 |
| Translation differences | – | – | – | – | – | (520) | – | (520) |
| Loss for the period | – | – | – | – | – | – | (20,610) | (20,610) |
| At 30 September 2006 | 69,900 | 28,484 | – | 546 | (11,153) | (977) | (80,260) | (6,540) |
| Reserves retained by the Company and subsidiaries | | | | | | | | |
| At 30 September 2006 | 69,900 | 28,484 | – | 546 | (11,153) | (977) | (80,260) | (6,540) |
| At 31 March 2006 | 58,300 | 26,744 | – | 546 | (11,153) | (457) | (59,650) | 14,330 |
| At 31 March 2005 | 48,700 | 24,063 | (22,479) | – | (11,153) | (112) | (7,368) | 31,651 |
| At 31 March 2004 | 48,038 | 24,483 | (22,479) | – | (11,153) | (112) | 12,269 | 51,046 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Cash Flow Statement

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2005 | 2006 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (restated) | (restated) | | (Unaudited) | |
| **Operating activities** | | | | | |
| Loss before taxation | | | | | |
| From continuing operations | (2,476) | (8,957) | (12,560) | (4,103) | (4,290) |
| From a discontinued operation | (12,316) | (10,169) | (17,135) | (4,358) | (16,320) |
| | (14,792) | (19,126) | (29,695) | (8,461) | (20,610) |
| Adjustments for: | | | | | |
| Amortisation of land lease premium | 113 | 113 | 114 | – | (152) |
| Finance costs | 2,133 | 2,108 | 2,387 | 1,080 | 1,561 |
| Interest income | (21) | (24) | (17) | (4) | (95) |
| Depreciation | 2,329 | 3,594 | 3,205 | 1,263 | 888 |
| Gain on disposal of investment property | – | (1,094) | – | – | – |
| (Surplus)/deficit on fair value of investment properties | (440) | 1,145 | (205) | – | (410) |
| Deficit/(Surplus) on revaluation of buildings | 670 | (125) | (829) | 423 | – |
| Loss on disposal | – | – | – | – | 787 |
| Impairment for bad and doubtful debts | 140 | 341 | – | – | – |
| Impairment for slow-moving and obsolete inventories | 580 | 1,280 | 53 | – | 5,192 |
| Impairment for property, plant and equipment | – | – | – | – | 3,844 |
| Written back of provision for due from associates | – | – | (771) | – | – |
| Foreign exchange loss, net | – | 28 | 273 | 15 | (520) |
| **Operating loss before changes in working capital** | (9,288) | (11,760) | (25,485) | (5,684) | (9,515) |

## A. FINANCIAL INFORMATION *(Continued)*

**Consolidated Cash Flow Statement** *(Continued)*

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (restated) | (restated) | | (Unaudited) | |
| Decrease/(increase) in inventories | 975 | (6,842) | 8,343 | (3,127) | 1,401 |
| Increase/(decrease) in trade and bills receivables | 573 | (3,121) | 2,250 | (4,558) | (473) |
| Increase/(decrease) in other receivables, deposits and prepayment | (797) | (1,026) | 1,536 | 232 | (376) |
| Decrease/(increase) in due from associates | (3,000) | 3,000 | – | – | – |
| (Decrease)/increase in trade payables | 620 | 1,319 | 1,539 | 10,309 | (291) |
| Increase/(decrease) in other payables and accruals | (917) | 2,166 | 1,220 | 561 | 1,997 |
| Increase in due to shareholder | – | – | – | – | 19,000 |
| (Decrease)/increase in due to associates | – | 1,655 | (885) | (604) | – |
| (Decrease)/increase in due to directors | (85) | 3,917 | (1,071) | – | 7,293 |
| **Cash (used in)/generated from operations** | (11,919) | (10,692) | (12,553) | (2,871) | 19,036 |
| **Tax paid** | – | (79) | (21) | – | (890) |
| **Net cash (used in) /generated from operating activities** | (11,919) | (10,771) | (12,574) | (2,871) | 18,146 |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Cash Flow Statement *(Continued)*

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (restated) | (restated) | | (Unaudited) | |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment | (4,309) | (1,370) | (3,228) | (2,761) | (12) |
| Interest received | 22 | 24 | 17 | 15 | 95 |
| Net proceeds from disposal of property, plant and equipment | – | – | – | – | 583 |
| Net proceeds from disposal of investment property | – | 7,094 | – | – | – |
| Decrease in pledged deposits | (5,000) | 4,500 | – | – | – |
| **Net cash (used in)/generated from investing activities** | (9,287) | 10,248 | (3,211) | (2,746) | 666 |
| **Financing activities** | | | | | |
| Proceeds from issue of shares | 2,593 | 662 | 12,480 | 12,480 | 13,539 |
| Expenses paid for an open offer | – | (420) | – | – | – |
| Net inception/(repayment) of bank loans | 8,824 | (1,783) | 1,514 | (63) | (33,236) |
| Net repayment of other loans | – | (1,123) | – | – | – |
| Repayment of trust receipt loans | (524) | – | – | – | – |
| Inception of finance leases | – | – | 1,615 | – | – |
| Capital element of finance lease rentals paid | (649) | (992) | (923) | – | (333) |
| Interest element of finance lease rentals paid | (83) | (10) | (71) | (30) | (26) |
| Interest paid | (2,050) | (2,098) | (2,316) | (1,050) | (1,535) |
| Share issuance expenses | – | – | (199) | (67) | (199) |
| (Repayment)/advance from related parties | 1,722 | 12,549 | (329) | 1,388 | 4,482 |
| Advance from director | – | – | – | 1,923 | – |
| **Net cash (used in)/generated from financing activities** | 9,833 | 6,785 | 11,771 | 14,581 | (17,308) |

## A. FINANCIAL INFORMATION *(Continued)*

### Consolidated Cash Flow Statement *(Continued)*

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (restated) | (restated) | | (Unaudited) | |
| **Net (decrease)/increase in cash and cash equivalents** | (11,373) | 6,262 | (4,014) | 8,964 | 1,504 |
| **Effect of foreign exchange rate changes** | – | – | – | – | (24) |
| **Cash and cash equivalents, at beginning of year** | 8,809 | (2,564) | 3,698 | 3,698 | (316) |
| **Cash and cash equivalents, at end of year** | (2,564) | 3,698 | (316) | 12,662 | 1,164 |
| **Analysis of the balances of cash and cash equivalents** | | | | | |
| Cash and cash equivalents | 1,691 | 4,199 | 310 | 13,154 | 2,153 |
| Secured bank overdrafts | (4,255) | (501) | (626) | (492) | (989) |

## B. NOTES TO THE FINANCIAL STATEMENT

### 1. CORPORATE INFORMATION

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the financial statements.

### 2. BASIS OF PRESENTATION – FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

The Group sustained a net loss from ordinary activities attributable to shareholders of approximately HK$15,525,000, HK$19,637,000, HK$29,803,000 and HK$20,610,000 as at 31 March 2004, 2005, 2006 and 30 September 2006 and net current liabilities approximately of HK$29,210,000, HK$26,558,000, HK$60,762,000 and HK$63,354,000 as at 31 March 2004, 2005, 2006 and 30 September 2006 respectively.

Notwithstanding concerns on its liquidity concerns as at 30 September 2006, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several arrangements made subsequent to the balance sheet date as further detailed in note 39 to the financial statement.

In the opinion of the directors, in light of the measures and arrangements implemented to date, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements presented on note 4.

#### b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 September 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except investment property and properties held for own use are stated at their fair value.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 6.

The Group ceased to carry on electronic consumer business during the period, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the results derived from the operations of electronic customer business are presented as discontinued operation in current accounting period. The comparative figures for the corresponding year/ period have been reclassified to conform with current period's presentation.

#### c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

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

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

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

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### d) Associates

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets, unless it is classified as held for sale.

The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

#### e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(i)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### f) Property, plant and equipment

Properties held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Other items of plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(i)).

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### f) Property, plant and equipment *(Continued)*

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to income statement.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

| | | |
|---|---|---|
| – | Buildings situated on leasehold land | 2% or over the lease terms, whichever is shorter |
| – | Leasehold improvements | 20% |
| – | Plant and machinery | 20% – 25% |
| – | Furniture and fixtures | 20% |
| – | Motor vehicles | 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(h)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in income statement. Rental income from investment properties is accounted for as described in note 3(q)(iv).

#### h) Leased assets

i) *Classification of assets leased to the group*

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

**h) Leased assets** *(Continued)*

*ii) Assets acquired under finance leases*

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the company or group will obtain ownership of the asset, the life of the asset, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(i). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

*iii) Operating lease charges*

Where the group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

**i) Impairment of assets**

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

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

– Recognition of impairment losses

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### i) Impairment of assets *(Continued)*

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

#### j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

#### l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

#### m) Trade and other payables

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

#### n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### o) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### q) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

i) Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

iii) Management fee income is recognised when the services are provided.

iv) Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term.

#### r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the income statement on disposal.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

#### s) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

#### t) Related parties

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

#### u) Employee benefits

*i) Short term employee benefits and contributions to defined contribution retirement plans.*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

*ii) Employment Ordinance long service payments*

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

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the group.

*iii) Share option scheme*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

**u) Employee benefits** *(Continued)*

*iii) Share option scheme (Continued)*

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

**v) Segment reporting**

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

### 4. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and company after the adoption of these new and revised HKFRSs have been summarised in note 3. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

The adoption of the new and revised HKFRSs has the following impacts on the Group's accounting policies:

– HKAS 1 has affected the presentation and disclosure of the financial statements;

– HKASs 8, 27, 28 and 33 have affected the disclosure of the financial statements;

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

– HKASs 2, 7, 10, 12, 14, 16, 18, 19, 21, 23, 32, 36, 37, 39, HKFRS 3, HKAS-Int 15 and HKAS-Int 21 have no material effect on the Group's accounting policies; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights and leasehold land from property, plant and equipment to operating leases.

**a) Restatement of prior periods and opening balances**

**Consolidated balance sheet for the year ended 31 March 2005**

| | 2005 (as previously reported) *HK$* | Effect of new policy HKAS 17 (decrease in net assets for the year) *HK$* | 2005 (as restated) *HK$* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 48,961,765 | (18,679,990) | 30,281,775 |
| Investment properties | 40,816,010 | – | 40,816,010 |
| Interests in leasehold land held for own use under operating leases | – | 4,523,254 | 4,523,254 |
| Interest in associates | – | – | – |
| Deferred tax assets | – | 37,924 | 37,924 |
| | 89,777,775 | (14,118,812) | 75,658,963 |
| **Current assets** | | | |
| Inventories | 20,469,604 | – | 20,469,604 |
| Trade and bills receivables | 10,389,460 | – | 10,389,460 |
| Other receivables, deposits and prepayments | 4,258,604 | – | 4,258,604 |
| Pledged deposits | 500,000 | – | 500,000 |
| Cash and cash equivalents | 4,199,721 | – | 4,199,721 |
| | 39,817,389 | – | 39,817,389 |
| **Current liabilities** | | | |
| Trade payables | 11,083,400 | – | 11,083,400 |
| Other payables and accruals | 10,475,356 | – | 10,475,356 |
| Due to associates | 1,655,405 | – | 1,655,405 |
| Due to directors | 4,206,329 | – | 4,206,329 |
| Due to related parties | 14,270,547 | – | 14,270,547 |
| Obligations under finance leases | 229,914 | – | 229,914 |
| Interest bearing borrowings | 22,794,721 | – | 22,794,721 |
| Tax payable | 1,659,370 | – | 1,659,370 |
| | 66,375,042 | – | 66,375,042 |
| **Net current liabilities** | (26,557,653) | – | (26,557,653) |
| **Total assets less current liabilities** | 63,220,122 | (14,118,812) | 49,101,310 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**a) Restatement of prior periods and opening balances** *(Continued)*

**Consolidated balance sheet for the year ended 31 March 2005** *(Continued)*

| | 2005 (as previously reported) HK$ | Effect of new policy HKAS 17 (decrease in net assets for the year) HK$ | 2005 (as restated) HK$ |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 17,441,209 | – | 17,441,209 |
| Obligations under finance leases | 9,178 | – | 9,178 |
| Deferred tax liabilities | 5,326,687 | (5,326,687) | – |
| | 22,777,074 | (5,326,687) | 17,450,387 |
| **NET ASSETS** | 40,443,048 | (8,792,125) | 31,650,923 |
| **CAPITAL AND RESERVES** | | | |
| **Attributable to equity shareholders of the company** | | | |
| Share capital | 48,699,577 | – | 48,699,577 |
| Share premium | 24,062,750 | – | 24,062,750 |
| Goodwill | (22,478,515) | – | (22,478,515) |
| Revaluation reserve | 13,186,400 | (13,186,400) | – |
| Special reserve | (11,152,801) | – | (11,152,801) |
| Exchange fluctuation reserve | 51,728 | (163,837) | (112,109) |
| Accumulated losses | (11,926,091) | 4,558,112 | (7,367,979) |
| **TOTAL EQUITY** | 40,443,048 | (8,792,125) | 31,650,923 |

**b) Share option scheme (HKFRS 2, Share-based payment)**

In prior years, no amounts were recognised when option holders were granted share options over shares in the Company. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the options' exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group recognised the fair value of such share options as an expense, or as an asset, if the cost qualifies for recognition of an asset under the Group's accounting policies, with a corresponding increase recognised in a capital reserve within equity.

Where the option holders are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognizes the fair value in the period in which the options are granted.

If an option holder chooses to exercises options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**b) Share option scheme (HKFRS 2, Share-based payment)** *(Continued)*

The Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the new recognition and measurement policies have not been applied to the following options:

– all options granted to option holders on or before 7 November 2002; and

– all options granted to option holders after 7 November 2002 but which had vested before 1 April 2005.

Details of the share option scheme are set out in note 33.

As all the Group's options were granted to option holders before 7 November 2002, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the prior and current years.

**c) Amortisation of goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)**

HKFRS 3 *Business Combinations* is effective for business combinations for which the agreement date is on or after 1 January 2005. The option of limited retrospective application of HKFRS 3 has not been taken up, thus avoiding the need to restate past business combinations.

In previous years, in accordance with the predecessor standard, Statement of Standard Accounting Practice 30 *Business Combinations* (SSAP 30), goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional rules in HKFRS 3. Goodwill previously recognized in reserves of approximately HK$22,478,515 has been transferred to the Group's retained earnings on 1 April 2005. Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods.

With effect from 1 April 2005, in order to comply with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Impairment losses are recognised when the carrying amount of the cash generated unit to which the goodwill had been allocated exceeds its recoverable amount.

In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserve (i.e. goodwill which arose before 1 April 2001) will not be recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances. Hence, there is no effect on the Group's net assets and results for prior and current years.

**d) Leasehold land and buildings held for own use (HKAS 17, Leases)**

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 April 2005, in order to comply with HKAS 17, the group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 3(f) and 3(h). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The accounting policy has been adopted retrospectively. The adjustments for each financial statement line item affected for 31 March 2005 are set out in notes 4.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

**e) Investment property (HKAS 40, Investment property and HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets)**

*Timing of recognition of movements in fair value in the income statement*

In prior years movement in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in fair value were recognised in the income statement.

In addition, in prior years land (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17, Property, plant and equipment, whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from 1 April 2005, the Group has adopted a new policy for investment property. Under this new policy, all changes in the fair value of investment property are recognised directly in the income statement in accordance with the fair value model HKAS 40.

Further details of the new policy for investment property are set out in note 3(g).

*Measurement of deferred tax on movements in fair value*

In prior years the Group was required to apply the tax rate the would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 April 2005, in accordance with HKAS-Int 21, the Group recognises deferred tax on movements in the sale of investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 3(o).

The accounting policy has been adopted retrospectively. There is no material effect on the Group's net assets and results for prior and current years.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 5. FINANCIAL RISK MANAGEMENT

**Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk, credit risk and liquidity risk.

**a) Foreign exchange risk**

The Group mainly operates in the mainland China with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly Euro, are required to settle the Group's sales of snap off blade cutters to overseas customers and the relative expenses. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the mainland China government.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. RMB against United States Dollars was relatively stable during the years and as a result, the Group considers it has no material foreign exchange risk.

**b) Interest rate risk**

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk whilst borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 29 to the financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

**c) Credit risk**

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policy that limit the amount of credit exposure to any financial institutions. The Group has also policies in place to ensure that the sale of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

**d) Liquidity risk**

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

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments are continually evaluated and 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 assets and liabilities within the next financial year are discussed below.

**a) Going concern basis**

As mentioned in note 2 to the financial statements, the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group.

**b) Write-downs of inventories**

Inventories are written down to net realizable value based on an assessment of the realisability of inventories. Written-downs on inventories are recorded where events or changes in circumstances indicate that the balance may not be realized. The identification of written-downs requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

### 7. SEGMENT INFORMATION

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

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

Summary details of the business segments are as follows:

i) the snap off blade cutters segment manufactures and sells snap off blade cutters;

ii) the electronic consumer products segment manufactures and sells electronic consumer products; and

iii) the corporate and other segment comprises corporate and rental income and expense item.

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

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION

#### a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments.

| | Six months ended 30 September 2006 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 25,689 | 1,345 | 27,034 | 2,335 | 29,369 |
| Segment results | (2,671) | (910) | (3,581) | (15,563) | (19,144) |
| Interest income | | | 93 | 2 | 95 |
| Loss from operations | | | (3,488) | (15,561) | (19,049) |
| Finance costs | | | (802) | (759) | (1,561) |
| Loss before taxation | | | (4,290) | (16,320) | (20,610) |
| Income tax | | | – | – | – |
| Net loss from ordinary activities attributable to shareholders | | | (4,290) | (16,320) | (20,610) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 30 September 2005 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | **Snap off blade cutters** | **Corporate and others** | **Total** | **electronic customer products** | **Consolidated** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 21,358 | 1,508 | 22,866 | 37,901 | 60,767 |
| Segment results | 389 | (4,167) | (3,778) | (3,607) | (7,385) |
| Interest income | | | 4 | – | 4 |
| Loss from operations | | | (3,774) | (3,607) | (7,381) |
| Finance costs | | | (329) | (751) | (1,080) |
| Loss before taxation | | | (4,103) | (4,358) | (8,461) |
| Income tax | | | – | – | – |
| Net loss from ordinary activities attributable to shareholders | | | (4,103) | (4,358) | (8,461) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 31 March 2006 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation electronic customer products | Consolidated |
| | Snap off blade cutters | Corporate and others | Total | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 43,688 | 2,900 | 46,588 | 52,534 | 99,122 |
| Segment results | (4,756) | (6,786) | (11,542) | (15,783) | (27,325) |
| Interest income | | | 15 | 2 | 17 |
| Loss from operations | | | (11,527) | (15,781) | (27,308) |
| Finance costs | | | (1,033) | (1,354) | (2,387) |
| Loss before taxation | | | (12,560) | (17,135) | (29,695) |
| Income tax | | | (108) | – | (108) |
| Net loss from ordinary activities attributable to shareholders | | | (12,668) | (17,135) | (29,803) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 31 March 2005 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 43,117 | 3,326 | 46,443 | 23,641 | 70,084 |
| Segment results | (3,130) | (4,844) | (7,974) | (9,068) | (17,042) |
| Interest income | | | 23 | 1 | 24 |
| Loss from operations | | | (7,951) | (9,067) | (17,018) |
| Finance costs | | | (1,006) | (1,102) | (2,108) |
| Loss before taxation | | | (8,957) | (10,169) | (19,126) |
| Income tax | | | (440) | (71) | (511) |
| Net loss from ordinary activities attributable to shareholders | | | (9,397) | (10,240) | (19,637) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 31 March 2004 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 47,642 | 3,129 | 50,771 | 30,230 | 81,001 |
| Segment results | 2,889 | (4,182) | (1,293) | (11,387) | (12,680) |
| Interest income | | | 21 | – | 21 |
| Loss from operations | | | (1,272) | (11,387) | (12,659) |
| Finance costs | | | (1,204) | (929) | (2,133) |
| Loss before taxation | | | (2,476) | (12,316) | (14,792) |
| Income tax | | | (91) | (642) | (733) |
| Net loss from ordinary activities attributable to shareholders | | | (2,567) | (12,958) | (15,525) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 30 September 2006 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 20,432 | 2,329 | 22,761 | 68,131 | 90,892 |
| Unallocated assets | | | | | – |
| Total assets | | | | | 90,892 |
| Segment liabilities | 21,973 | 1,355 | 23,328 | 12,747 | 36,075 |
| Unallocated liabilities | | | | | 48,277 |
| Total liabilities | | | | | 84,352 |
| Other segment information: | | | | | |
| Depreciation | 249 | 4 | 253 | 635 | 888 |
| Impairment for property, plant and equipment | – | – | – | 3,844 | 3,844 |
| Impairment for slow-moving and obsolete inventories | – | – | – | 5,192 | 5,192 |
| Revaluation surplus of land and buildings recognised directly in the profit and loss account | 410 | – | 410 | – | 410 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | Six months ended 30 September 2005 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 34,419 | 150 | 35,569 | 100,073 | 134,642 |
| Unallocated assets | | | | | – |
| Total assets | | | | | 134,642 |
| Segment liabilities | 30,094 | 17,356 | 47,450 | 51,677 | 99,127 |
| Unallocated liabilities | | | | | – |
| Total liabilities | | | | | 99,127 |
| Other segment information: | | | | | |
| Depreciation | 295 | 14 | 309 | 1,419 | 1,728 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | For the year ended 31 March 2006 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | Electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 22,114 | 17 | 22,131 | 78,166 | 100,297 |
| Unallocated assets | | | | | – |
| Total assets | | | | | 100,297 |
| Segment liabilities | 10,298 | 18,019 | 28,317 | 12,640 | 40,957 |
| Unallocated liabilities | | | | | 45,010 |
| Total liabilities | | | | | 85,967 |
| Other segment information: | | | | | |
| Depreciation | 604 | 28 | 632 | 2,573 | 3,205 |
| Impairment for slow-moving and obsolete inventories | – | – | – | 53 | 53 |
| Fair value adjustments of investment properties recognised directly in the profit and loss account | – | – | – | 205 | 205 |
| Revaluation surplus of land and buildings recognised directly in the profit and loss account | 250 | – | 250 | – | 250 |
| Revaluation surplus/(deficit) of land and buildings recognised directly in equity | 579 | – | 579 | – | 579 |
| Capital expenditure | 292 | – | 292 | 2,936 | 3,228 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | For the year ended 31 March 2005 (restated) | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | Electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 26,056 | 629 | 26,685 | 88,791 | 115,476 |
| Unallocated assets | | | | | – |
| Total assets | | | | | 115,476 |
| Segment liabilities | 8,468 | 7,755 | 16,223 | 11,177 | 27,400 |
| Unallocated liabilities | | | | | 56,425 |
| Total liabilities | | | | | 83,825 |
| Other segment information: | | | | | |
| Depreciation | 683 | 27 | 710 | 2,883 | 3,593 |
| Impairment for bad and doubtful debts | 341 | – | 341 | – | 341 |
| Impairment for slow-moving and obsolete inventories | 593 | – | 593 | 687 | 1,280 |
| Fair value adjustments of investment properties recognised directly in the profit and loss account | – | – | – | (1,145) | (1,145) |
| Revaluation surplus of land and buildings recognised directly in the profit and loss account | 125 | – | 125 | – | 125 |
| Capital expenditure | 540 | 4 | 540 | 826 | 1,370 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### a) Business segments *(Continued)*

| | For the year ended 31 March 2004 (restated) | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operation | |
| | Snap off blade cutters | Corporate and others | Total | Electronic customer products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 56,858 | 417 | 57,275 | 63,760 | 121,035 |
| Unallocated assets | | | | | – |
| Total assets | | | | | 121,035 |
| Segment liabilities | 28,742 | 2,675 | 31,417 | 38,572 | 69,989 |
| Unallocated liabilities | | | | | – |
| Total liabilities | | | | | 69,989 |
| Other segment information: | | | | | |
| Depreciation | 555 | 27 | 582 | 1,747 | 2,329 |
| Impairment for bad and doubtful debts | – | – | – | 140 | 140 |
| Impairment for slow-moving and obsolete inventories | – | – | – | 580 | 580 |
| Fair value adjustments of investment properties recognised directly in the profit and loss account | – | – | – | 440 | 440 |
| Revaluation surplus of land and buildings recognised directly in the profit and loss account | – | – | – | 670 | 670 |
| Capital expenditure | 1,091 | 4 | 1,095 | 274 | 1,369 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### b) Geographical segments

| | 30 September 2006 | | |
|---|---|---|---|
| | **Continuing operations** *HK$'000* | **Discontinued operation** *HK$'000* | **Total** *HK$'000* |
| Hong Kong | 2,992 | 2,245 | 5,237 |
| Mainland China | 4,587 | – | 4,587 |
| Europe | 8,565 | 87 | 8,652 |
| North America | 3,809 | – | 3,809 |
| East Asia | 5,806 | 3 | 5,809 |
| Others | 1,275 | – | 1,275 |
| | 27,034 | 2,335 | 29,369 |

| | 30 September 2005 (Unaudited) | | |
|---|---|---|---|
| | **Continuing operations** *HK$'000* | **Discontinued operation** *HK$'000* | **Total** *HK$'000* |
| Hong Kong | 2,839 | 35,947 | 38,786 |
| Mainland China | 3,947 | – | 3,947 |
| Europe | 7,396 | 45 | 7,441 |
| North America | 6,164 | 2 | 6,166 |
| East Asia | 960 | 1,905 | 2,865 |
| Others | 1,560 | 2 | 1,562 |
| | 22,866 | 37,901 | 60,767 |

| | 31 March 2006 | | |
|---|---|---|---|
| | **Continuing operations** *HK$'000* | **Discontinued operation** *HK$'000* | **Total** *HK$'000* |
| Hong Kong | 5,866 | 49,351 | 55,217 |
| Mainland China | 7,790 | – | 7,790 |
| Europe | 15,570 | 761 | 16,331 |
| North America | 6,905 | 154 | 7,059 |
| East Asia | 7,868 | 2,268 | 10,136 |
| Others | 2,589 | – | 2,589 |
| | 46,588 | 52,534 | 99,122 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 7. SEGMENT INFORMATION *(Continued)*

#### b) Geographical segments *(Continued)*

| | 31 March 2005 | | |
|---|---|---|---|
| | **Continuing operations** | **Discontinued operation** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 5,624 | 19,689 | 25,313 |
| Mainland China | 6,960 | 861 | 7,821 |
| Europe | 12,427 | 1,167 | 13,594 |
| North America | 14,194 | 163 | 14,357 |
| East Asia | 1,920 | 1,686 | 3,606 |
| Others | 5,318 | 75 | 5,393 |
| | 46,443 | 23,641 | 70,084 |

| | 31 March 2004 | | |
|---|---|---|---|
| | **Continuing operations** | **Discontinued operation** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 7,115 | 26,858 | 33,973 |
| Mainland China | 1,253 | 470 | 1,723 |
| Europe | 18,704 | 1,128 | 19,832 |
| North America | 10,355 | 106 | 10,461 |
| East Asia | 4,028 | 1,668 | 5,696 |
| Others | 9,316 | – | 9,316 |
| | 50,771 | 30,230 | 81,001 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 8. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of good sold, after allowances for returns and trade discounts after elimination of all significant intra-group transactions and gross rental income.

During the year, the Group had revenue and gains arising from the following activities:

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (Restated) | (Restated) | | (Unaudited) | |
| Turnover | | | | | |
| Sales of snap off blade cutters | 47,642 | 43,117 | 43,688 | 21,358 | 25,689 |
| Sale of electronic consumer products | 30,230 | 23,641 | 52,534 | 37,901 | 2,335 |
| Gross rental income | 3,129 | 3,326 | 2,900 | 1,508 | 1,345 |
| | 81,001 | 70,084 | 99,122 | 60,767 | 29,369 |
| Attributable to continuing operations | 50,771 | 46,443 | 46,588 | 22,866 | 27,034 |
| Attributable to discontinued operation | 30,230 | 23,641 | 52,534 | 37,901 | 2,335 |
| | 81,001 | 70,084 | 99,122 | 60,767 | 29,369 |
| Other revenue | | | | | |
| Gain on disposal on investment property | – | 1,094 | – | – | – |
| Surplus on revaluation of buildings | 6 | 125 | 250 | – | 410 |
| Fair value adjustments of investment properties | 440 | – | 205 | – | – |
| Interest income | 22 | 24 | 17 | 5 | 95 |
| Rental income | – | – | 38 | 18 | 73 |
| Sundry income | 2,201 | 1,329 | 1,792 | 1,626 | 715 |
| Written back of provision for due from associates | – | – | 771 | – | – |
| | 2,669 | 2,572 | 3,073 | 1,649 | 1,293 |
| Attributable to continuing operations | 1,974 | 1,317 | 1,662 | 1,163 | 671 |
| Attributable to discontinued operation | 695 | 1,255 | 1,411 | 486 | 622 |
| | 2,669 | 2,572 | 3,073 | 1,649 | 1,293 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 9. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging/(crediting):

| **Attributable to continuing operations reported in the consolidated income statement:** | **31 March** | | | **30 September** | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Auditors' remuneration | 480 | 314 | 317 | 240 | 240 |
| Cost of inventories | 34,925 | 34,885 | 38,659 | 16,425 | 22,936 |
| Staff costs (including directors' remuneration) | | | | | |
| – Wages and salaries | 13,262 | 13,328 | 11,653 | 6,867 | 4,362 |
| – Pensions scheme contribution | 467 | 164 | 162 | 78 | 407 |
| Depreciation | | | | | |
| – Owned assets | 580 | 904 | 555 | 424 | 635 |
| – Assets held under finance leases | 2 | – | – | – | – |
| Minimum lease payments under operating leases for motor vehicles | 474 | 474 | 474 | 237 | 197 |
| Impairment for bad and doubtful debts | – | 341 | – | – | – |
| Impairment for property, plant and equipment | – | – | – | – | – |
| Impairment for slow-moving and obsolete inventories | – | – | 53 | – | – |
| Fair value adjustments of investment properties *(note 17)* | 440 | (1,145) | 205 | – | 618 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 9. LOSS FROM OPERATIONS *(Continued)*

| Attributable to discontinuing operation: | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2005 | 2006 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Auditors' remuneration | – | – | – | – | – |
| Cost of inventories | 35,726 | 29,970 | 64,708 | 40,215 | 7,288 |
| Staff costs (including directors' remuneration) | | | | | |
| – Wages and salaries | 9,572 | 7,957 | 9,677 | 4,838 | 801 |
| – Pensions scheme contribution | 193 | 171 | 168 | 84 | 51 |
| Depreciation | | | | | |
| – Owned assets | 2,464 | 2,544 | 2,487 | 1,223 | 253 |
| – Assets held under finance leases | 400 | 145 | 163 | 81 | – |
| Minimum lease payments under operating leases for motor vehicles | – | – | – | – | – |
| Impairment for bad and doubtful debts | 140 | 341 | – | – | – |
| Impairment for property, plant and equipment | – | – | – | – | 3,844 |
| Impairment for slow-moving and obsolete inventories | 580 | 1,280 | 53 | – | 5,192 |
| Fair value adjustments of investment properties *(note 17)* | – | – | – | – | – |

### 10. FINANCE COSTS

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2005 | 2006 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years | 1,789 | 2,016 | 2,234 | 1,013 | 1,487 |
| Interest expenses on bank loans wholly repayable after five years | 261 | 82 | 82 | 36 | 48 |
| Finance charges on obligations under finance leases | 83 | 10 | 71 | 31 | 26 |
| | 2,133 | 2,108 | 2,387 | 1,080 | 1,561 |
| Attributable to continuing operations | 1,204 | 1,006 | 1,033 | 329 | 802 |
| Attributable to discontinued operation | 929 | 1,102 | 1,354 | 751 | 759 |
| | 2,133 | 2,108 | 2,387 | 1,080 | 1,561 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 11. DIRECTORS' REMUNERATION

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | 30 September 2006 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Compensation for loss of office | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Chong Sing Yuen | – | 2,314 | – | 6 | 2,320 |
| Chong Chun Hing | – | 77 | 52 | 3 | 132 |
| Chu Kiu Fat | – | 57 | – | 2 | 59 |
| Wong Siu Keung, Joe | – | 233 | – | 6 | 239 |
| Chong Chun Kwok, Piggy | – | 67 | – | 5 | 72 |
| Lu Xian Dong | – | 51 | – | 3 | 54 |
| Au Tat On | – | 51 | – | 3 | 54 |
| | – | 2,850 | 52 | 28 | 2,930 |
| **Independent non-executive directors** | | | | | |
| Chan Ping Yim | 12 | – | – | – | 12 |
| Chan Shun | – | – | – | – | – |
| Cheng Kwok Hing, Andy | 15 | – | – | – | 15 |
| Yeung Yuen Hei | 30 | – | – | – | 30 |
| Yeung King Wah | 42 | – | – | – | 42 |
| | 99 | – | – | – | 99 |
| Total | 99 | 2,850 | 52 | 28 | 3,029 |

| | 30 September 2005 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Compensation for loss of office | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Chong Sing Yuen | – | 2,348 | – | 6 | 2,354 |
| Chong Chun Hing | – | 155 | – | 6 | 161 |
| Chu Kiu Fat | – | 181 | – | 9 | 190 |
| Wong Siu Keung, Joe | – | 233 | – | 6 | 239 |
| Chong Chun Kwok, Piggy | – | 292 | – | 15 | 307 |
| | – | 3,209 | – | 42 | 3,251 |
| **Independent non-executive directors** | | | | | |
| Chan Ping Yim | 30 | – | – | – | 30 |
| Chan Shun | 12 | – | – | – | 12 |
| Cheng Kwok Hing, Andy | 15 | – | – | – | 15 |
| Yeung Yuen Hei | 7 | – | – | – | 7 |
| | 64 | – | – | – | 64 |
| Total | 64 | 3,209 | – | 42 | 3,315 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 11. DIRECTORS' REMUNERATION *(Continued)*

| | 31 March 2006 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Compensation for loss of office | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Chong Sing Yuen | – | 5,083 | – | 12 | 5,095 |
| Chong Chun Hing | – | 334 | – | 12 | 346 |
| Chu Kiu Fat | – | 392 | – | 18 | 410 |
| Wong Siu Keung, Joe | – | 504 | – | 12 | 516 |
| Chong Chun Kwok, Piggy | – | 617 | – | 29 | 646 |
| | – | 6,930 | – | 83 | 7,013 |
| **Independent non-executive directors** | | | | | |
| Chan Ping Yim | 60 | – | – | – | 60 |
| Chan Shun | 12 | – | – | – | 12 |
| Cheng Kwok Hing, Andy | 30 | – | – | – | 30 |
| Yeung Yuen Hei | 37 | – | – | – | 37 |
| | 139 | – | – | – | 139 |
| Total | 139 | 6,930 | – | 83 | 7,152 |

| | 31 March 2005 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Compensation for loss of office | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Chong Sing Yuen | – | 5,257 | – | 12 | 5,269 |
| Sun Tak Yan, Desmond | – | 130 | – | 5 | 135 |
| Chong Chun Hing | – | 335 | – | 12 | 347 |
| Chong Chun Man | – | 319 | – | 16 | 335 |
| Chu Kiu Fat | – | 393 | – | 18 | 411 |
| Wong Siu Keung, Joe | – | 504 | – | 12 | 516 |
| Chong Chun Kwok, Piggy | – | 622 | – | 29 | 651 |
| | – | 7,560 | – | 104 | 7,664 |
| **Non-executive director** | | | | | |
| Chu Bu Yang, Alexander | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Wong, Bingley | 50 | – | – | – | 50 |
| Ma Wah Yan | 50 | – | – | – | 50 |
| Chan Ping Yim | 30 | – | – | – | 30 |
| Chan Shun | 15 | – | – | – | 15 |
| Cheng Kwok Hing, Andy | 15 | – | – | – | 15 |
| | 160 | – | – | – | 160 |
| Total | 160 | 7,560 | – | 104 | 7,824 |

## B. NOTES TO THE FINANCIAL STATEMENT *(CONTINUED)*

### 11. DIRECTORS' REMUNERATION *(Continued)*

| | 31 March 2004 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries and other benefits | Compensation for loss of office | Retirement scheme contributions | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Chong Sing Yuen | – | 5,347 | – | 12 | 5,359 |
| Sun Tak Yan, Desmond | – | 156 | – | 8 | 164 |
| Chong Chun Hing | – | 335 | – | 12 | 347 |
| Chong Chun Man | – | 611 | – | 28 | 639 |
| Chu Kiu Fat | – | 392 | – | 18 | 410 |
| Wong Siu Keung, Joe | – | 504 | – | 12 | 516 |
| Chong Chun Kwok, Piggy | – | 620 | – | 30 | 650 |
| | – | 7,965 | – | 120 | 8,085 |
| **Non-executive director** | | | | | |
| Chu Bu Yang, Alexander | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Wong, Bingley | 100 | – | – | – | 100 |
| Ma Wah Yan | 100 | – | – | – | 100 |
| Chan Ping Yim | – | – | – | – | – |
| | 200 | – | – | – | 200 |
| Total | 200 | 7,965 | – | 120 | 8,285 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 12. INDIVIDUALS WITH HIGHEST PAID

Of the five individuals with the highest paid, three, two, two, two and two for the year ended 31 March 2004, 2005, 2006 and for the period ended 30 September 2005, and 2006 respectively are directors whose remuneration are disclosed in note 11. The aggregate of the remuneration in respect of the other two, three, three, three, and three individuals are as follows:

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Salaries, allowances and benefits in kind | 1,723 | 1,967 | 2,240 | 3,674 | 3,504 |
| Retirement scheme contributions | 24 | 34 | 48 | 45 | 30 |
| | 1,747 | 2,001 | 2,288 | 3,719 | 3,534 |

The remuneration of the two, three, three, three, and three individuals for the year ended 31 March 2004, 2005, 2006 and for the period ended 30 September 2005, and 2006 respectively with highest paid is within the following bands:

| | Number of individuals | | | | |
|---|---|---|---|---|---|
| | 31 March | | | 30 September | |
| | **2004** | **2005** | **2006** | **2005** (Unaudited) | **2006** |
| HK$Nil – HK$1,000,000 | 1 | 2 | 2 | 3 | 3 |
| HK$1,000,001 – HK$1,500,000 | 1 | 1 | 1 | – | – |
| | 2 | 3 | 3 | 3 | 3 |

### 13. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits during the Relevant Periods. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Current tax | | | | | |
| Hong Kong | 251 | 12 | (12) | – | – |
| Mainland China | 91 | 50 | 120 | – | – |
| | 342 | 62 | 108 | – | – |
| Deferred tax *(note 31)* | 391 | 449 | – | – | – |
| Tax expense | 733 | 511 | 108 | – | – |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 13. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

Reconciliation between tax expense and accounting loss at applicable tax rate:

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| Loss before taxation (including loss from a discontinued operation) | (17,792) | (19,125) | (29,939) | (8,461) | (20,610) |
| Notional tax on loss before tax, calculated at the rates applicable to the countries concerned | (2,543) | (3,021) | (4,940) | (1,353) | (6,133) |
| Income not subject to tax | (510) | (938) | (712) | – | – |
| Expenses not deductible for tax purpose | 759 | 1 | 1,014 | – | – |
| Tax losses not recognised as deferred tax assets | 3,027 | 4,107 | 4,784 | 1,353 | 6,201 |
| Tax loss utilised from previous period | – | (87) | – | – | – |
| Reversal of recognised deferred tax assets | – | 446 | – | – | – |
| Deferred tax not recognised | – | 4 | (38) | – | (68) |
| Actual tax expense/(refund) | 733 | 512 | 108 | – | – |

### 14. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company for the year ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2005 and 2006 dealt with in the financial statements of the Company were loss of HK$15,525000, HK$19,637,000, HK$29,803,000, HK$8,461,000 (unaudited), and HK$20,610,000 respectively.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 15. LOSS PER SHARE

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

| | 31 March | | | 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (Unaudited) | |
| Loss attributable to equity holders of the Company for the purpose of basic loss per share | | | | | |
| From continuing operations | 2,567 | 9,397 | 12,668 | 4,103 | 4,290 |
| From a discontinued operations | 12,958 | 10,240 | 17,135 | 4,358 | 16,320 |
| | 15,525 | 19,637 | 29,803 | 8,461 | 20,610 |
| Number of shares | | | | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 4,548,528,197 | 4,846,403,321 | 275,848,570 | 260,547,066 | 324,142,694 |

Diluted loss per share for the years ended 31 March 2004, 2005, 2006 and the period ended 30 September 2005 and 2006 have not been disclosed as the impact of the potential ordinary shares was anti-dilutive.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings held for own used carried at revaluation *HK$'000* | Leasehold improvements *HK$'000* | Plant and machinery *HK$'000* | Furniture and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 April 2003 | | | | | | |
| – As previously reported | 44,389 | 5,370 | 30,049 | 10,277 | 1,376 | 91,461 |
| – Effect of the changes in accounting policies under HKAS 17 | (18,680) | – | – | – | – | (18,680) |
| – As restated | 25,709 | 5,370 | 30,049 | 10,277 | 1,376 | 72,781 |
| Additions | – | 3,374 | 1,893 | 380 | – | 5,647 |
| Disposal | – | – | (659) | – | – | (659) |
| Surplus on revaluation | (670) | – | – | – | – | (670) |
| At 31 March 2004 (as restated) | 25,039 | 8,744 | 31,283 | 10,657 | 1,376 | 77,099 |
| Analysis of cost or revaluation | | | | | | |
| At cost | – | 8,744 | 31,283 | 10,657 | 1,376 | 52,060 |
| At valuation (as restated) | 25,039 | – | – | – | – | 25,039 |
| | 25,039 | 8,744 | 31,283 | 10,657 | 1,376 | 77,099 |
| At 1 April 2004 | | | | | | |
| – As previously reported | 43,719 | 8,744 | 31,283 | 10,657 | 1,376 | 95,779 |
| – Effect of the changes in accounting policies under HKAS 17 | (18,680) | – | – | – | – | (18,680) |
| – As restated | 25,039 | 8,744 | 31,283 | 10,657 | 1,376 | 77,099 |
| Additions | – | – | 1,324 | 46 | – | 1,370 |
| Deficits on revaluation | (955) | – | – | – | – | (955) |
| At 31 March 2005 (as restated) | 24,084 | 8,744 | 32,607 | 10,703 | 1,376 | 77,514 |
| Analysis of cost or revaluation | | | | | | |
| At cost | – | 8,744 | 32,607 | 10,703 | 1,376 | 53,430 |
| At valuation (as restated) | 24,084 | – | – | – | – | 24,084 |
| | 24,084 | 8,744 | 32,607 | 10,703 | 1,376 | 77,514 |
| At 1 April 2005 (as restated) | 24,084 | 8,744 | 32,607 | 10,703 | 1,376 | 77,514 |
| Additions | – | – | 3,142 | 86 | – | 3,228 |
| Surplus on revaluation | 184 | – | – | – | – | 184 |
| Exchange realignment | – | 14 | 1,090 | – | 19 | 1,123 |
| At 31 March 2006 | 24,268 | 8,758 | 36,839 | 10,789 | 1,395 | 82,049 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

| | Buildings held for own used carried at revaluation *HK$'000* | Leasehold improvements *HK$'000* | Plant and machinery *HK$'000* | Furniture and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **Cost or valuation** *(Continued)* | | | | | | |
| Analysis of cost or revaluation | | | | | | |
| At cost | – | 8,758 | 36,839 | 10,789 | 1,395 | 57,781 |
| At valuation (as restated) | 24,268 | – | – | – | – | 24,268 |
| | 24,268 | 8,758 | 36,839 | 10,789 | 1,395 | 82,049 |
| At 1 April 2006 | 24,268 | 8,758 | 36,839 | 10,789 | 1,395 | 82,049 |
| Additions | – | – | 10 | 2 | – | 12 |
| Transfer | (1,048) | – | – | – | – | (1,048) |
| Disposal | – | – | (1,604) | – | – | (1,604) |
| Impairment | – | (8,272) | (23,649) | (10,034) | (1,336) | (43,291) |
| Exchange realignment | – | 9 | 768 | – | (5) | 772 |
| At 30 September 2006 | 23,220 | 495 | 12,364 | 757 | 54 | 36,890 |
| Analysis of cost or revaluation | | | | | | |
| At cost | – | 495 | 12,364 | 757 | 54 | 13,670 |
| At valuation | 23,220 | – | – | – | – | 23,220 |
| | 23,220 | 495 | 12,364 | 757 | 54 | 36,890 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2003 | | | | | | |
| – As previously reported | – | 3,359 | 28,680 | 9,503 | 1,376 | 42,918 |
| – Effect of the changes in accounting policies under HKAS 17 | – | – | – | – | – | – |
| – As restated | – | 3,359 | 28,680 | 9,503 | 1,376 | 42,918 |
| Charge for the year | – | 1,098 | 708 | 523 | – | 2,329 |
| Disposal | – | – | (659) | – | – | (659) |
| Written back on revaluation | – | – | – | – | – | – |
| At 31 March 2004(as restated) | – | 4,457 | 28,729 | 10,026 | 1,376 | 44,588 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

| | Buildings held for own used carried at revaluation *HK$'000* | Leasehold improvements *HK$'000* | Plant and machinery *HK$'000* | Furniture and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| **Accumulated depreciation** *(Continued)* | | | | | | |
| At 1 April 2004 | | | | | | |
| – As previously reported | – | 4,457 | 28,729 | 10,026 | 1,376 | 44,588 |
| – Effect of the changes in accounting policies under HKAS 17 | – | – | – | – | – | – |
| – As restated | – | 4,457 | 28,729 | 10,026 | 1,376 | 44,588 |
| Charge for the year | 950 | 1,183 | 954 | 507 | – | 3,594 |
| Written back on revaluation | (950) | – | – | – | – | (950) |
| At 31 March 2005 (as restated) | – | 5,640 | 29,683 | 10,533 | 1,376 | 47,232 |
| At 1 April 2005 (as restated) | – | 5,640 | 29,683 | 10,533 | 1,376 | 47,232 |
| Charge for the year | 645 | 867 | 1,536 | 157 | – | 3,205 |
| Written back on revaluation | (645) | – | – | – | – | (645) |
| Exchange realignment | – | 14 | 1,052 | – | 19 | 1,085 |
| At 31 March 2006 | – | 6,521 | 32,271 | 10,690 | 1,395 | 50,877 |
| At 1 April 2006 | – | 6,521 | 32,271 | 10,690 | 1,395 | 50,877 |
| Charge for the period | – | 211 | 607 | 70 | – | 888 |
| Disposal | – | – | (234) | – | – | (234) |
| Impairment | – | (6,246) | (21,789) | (10,077) | (1,336) | (39,448) |
| Exchange realignment | – | 9 | 745 | – | (5) | 749 |
| At 30 September 2006 | – | 495 | 11,600 | 683 | 54 | 12,832 |
| **Net book value** | | | | | | |
| At 30 September 2006 | 23,220 | – | 764 | 74 | – | 24,058 |
| At 31 March 2006 | 24,268 | 2,237 | 4,568 | 99 | – | 31,172 |
| At 31 March 2005 (as restated) | 24,084 | 3,104 | 2,924 | 170 | – | 30,282 |
| At 31 March 2004 (as restated) | 25,039 | 4,287 | 2,554 | 631 | – | 32,511 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

a) The net book value of plant and machinery held under finance leases of the Group as at 31 March 2004, 2005, 2006 and 30 September 2006 were HK$1,705,274, HK$427,466, HK$1,459,408, and HK$294,245 respectively.

b) The Group's buildings held for own use as at 31 March 2006 were revalued by Castores Magi (Hong Kong) Limited, an independent professionally qualified valuers, at an aggregate open market value of HK$2,668,000 based on their existing use for properties in Hong Kong, and at HK$21,600,000 using the depreciated replacement cost method for properties in mainland china, as appropriate.

c) The analysis of net book value of Group's properties is as follows:

For the period ended 30 September 2006

| | *Notes* | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Long leases | (i) | 1,620 | – | 1,620 |
| Medium-term leases | (ii) | – | 21,600 | 21,600 |
| | | 1,620 | 21,600 | 23,220 |
| Representing: | | | | |
| Buildings carried at fair value | | 1,620 | 21,600 | 23,220 |

For the year ended 31 March 2006

| | *Notes* | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Long leases | (i) | 2,668 | – | 2,668 |
| Medium-term leases | (ii) | – | 21,600 | 21,600 |
| | | 2,668 | 21,600 | 24,268 |
| Representing: | | | | |
| Buildings carried at fair value | | 2,668 | 21,600 | 24,268 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

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

c) *(Continued)*:

For the year ended 31 March 2005

| | *Notes* | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Long leases | (i) | 2,584 | – | 2,584 |
| Medium-term leases | (ii) | – | 21,500 | 21,500 |
| | | 2,584 | 21,500 | 24,084 |
| Representing: | | | | |
| Buildings carried at fair value | | 2,584 | 21,500 | 24,084 |

For the year ended 31 March 2004

| | *Notes* | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Long leases | (i) | 2,536 | – | 2,536 |
| Medium-term leases | (ii) | – | 22,503 | 22,503 |
| | | 2,536 | 22,503 | 25,039 |
| Representing: | | | | |
| Buildings carried at fair value | | 2,536 | 22,503 | 25,039 |

*Notes:*

i) These buildings held for own use were valued at open market value, based on their existing use.

ii) These buildings held for own use were specially designed properties which, due to their specialised nature, have an utility restricted to particular uses or users, and are rarely, if ever, sold on the open market, except as part of a sale of a sale of the business in occupation. They have therefore been valued on the basis of their depreciated replacement cost.

Certain of the Group's buildings held for own use with a net book value approximately of HK$25,039,000, HK$24,084,000, HK$24,268,000 and HK$23,220,000 for the year ended 31 March 2004, 2005, 2006 and the period ended 30 September 2006 respectively were pledged to secure general banking facilities granted to the Group.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 17. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| **Valuation:** | |
| At 1 April 2004 | 47,521 |
| Fair value adjustment | 440 |
| At 31 March 2004 | 47,961 |
| Disposals | (6,000) |
| Fair value adjustment *(note 9)* | (1,145) |
| At 31 March 2005 | 40,816 |
| Fair value adjustment *(note 8)* | 205 |
| At 31 March 2006 | 41,021 |
| Transfer from property | 2,022 |
| Fair value adjustments | 618 |
| At 30 September 2006 | 43,661 |

The Group's investment properties are held in mainland China under medium-term leases.

The Group's investment properties were revalued on 31 March 2006 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

The Group's investment properties with a value of HK$47,961,000, HK$40,816,010, HK$41,021,222 for the year ended 31 March 2004, 2005, 2006 were pledged to secure general banking facilities granted to the Group (note 29). As at 30 September 2006, no investment properties were pledged to secure general banking facilities granted to the Group.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 18. INTERESTS ON LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

| | Hong Kong<br>*HK$'000* | Mainland China<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Cost** | | | |
| At 31 March 2004 and 31 March 2005 | | | |
| – As previously reported | – | – | – |
| – Effect of changes in accounting policies under HKAS 17 | 3,009 | 2,619 | 5,628 |
| At 1 April 2005 (as restated) | 3,009 | 2,619 | 5,628 |
| Exchange adjustments | – | (57) | (57) |
| At 31 March 2006 | 3,009 | 2,562 | 5,571 |
| At 1 April 2006 | 3,009 | 2,562 | 5,571 |
| Transfer | (975) | – | (975) |
| At 30 September 2006 | 2,034 | 2,562 | 4,596 |
| **Amortisation** | | | |
| At 1 April 2003 | | | |
| – As previously reported | – | – | – |
| – Effect of changes in accounting policies under HKAS 17 | 319 | 560 | 879 |
| – As restated | 319 | 560 | 879 |
| Charge for the year | 61 | 52 | 113 |
| At 31 March 2004 (as restated) | 380 | 612 | 992 |
| At 1 April 2004 | 380 | 612 | 992 |
| Charge for the year | 61 | 52 | 113 |
| At 31 March 2005 (as restated) | 441 | 664 | 1,105 |
| At 1 April 2005 (as restated) | 441 | 664 | 1,105 |
| Charge for the year | 61 | 53 | 114 |
| At 31 March 2006 | 502 | 717 | 1,219 |
| At 1 April 2006 | 502 | 717 | 1,219 |
| Charge for the period | 29 | 26 | 55 |
| At 30 September 2006 | 531 | 743 | 1,274 |
| **Net book value** | | | |
| At 30 September 2006 | 1,503 | 1,819 | 3,322 |
| At 31 March 2006 | 2,507 | 1,845 | 4,352 |
| At 31 March 2005 (as restated) | 2,568 | 1,955 | 4,523 |
| At 31 March 2004 (as restated) | 2,629 | 2,007 | 4,636 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 18. INTERESTS ON LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES *(Continued)*

The interests in leasehold land for own use under operating leases in Hong Kong and mainland China and were amortized over the lease term period of 50 years on a straight-line basis.

At the Relevant Periods, the interests on leasehold land held for own use under operating leases with net book value approximately of HK$4,636,000, HK$4,523,000, HK$4,352,000 and HK$3,322,000 was pledged to a bank to secure a banking facility granted to the Group.

### 19. INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held are ordinary unless otherwise stated.

All of those are controlled subsidiaries as defined under note 3(c) and have been consolidated into the group financial statements.

| Name | Place of incorporation/ registered and operations | Nominal value of issued ordinary registered share capital | Percentage of equity attributable to the company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Goodfit Products Company Limited | Hong Kong | HK$1,000 ordinary HK$1,000,000 Non-voting Deferred shares* | – | 100 | Sale of electronic consumer products |
| Northern Industrial (Panyu) Co., Ltd.# | mainland China | HK$95,000,000 registered capital | – | 100 | Manufacture of electronic consumer products and investment properties holding |
| Superior Trump Limited | Hong Kong | HK$10,000 ordinary shares | – | 100 | Property investment |
| Tung Hing Plastic (Panyu) Co., Ltd.# | mainland China | US$1,800,000 registered capital | – | 100 | Manufacture and sale of snap off blade cutters |
| Tung Hing Products Company Limited | Hong Kong | HK$100 ordinary shares | – | 100 | Sale of snap off blade cutters |

* The non-voting deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up. The Group has been granted an option by the holders of the deferred shares to acquire these shares at a nominal amount.

# Registered under the laws of the mainland China as a wholly foreign-owned enterprise.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 20. INTERESTS IN ASSOCIATES

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Share of net assets | – | – | – | – |
| Due from associates | 16,025 | 16,025 | 16,025 | 16,025 |
| | 16,025 | 16,025 | 16,025 | 16,025 |
| Less: Impairment losses | (16,025) | (16,025) | (16,025) | (16,025) |
| | – | – | – | – |

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

The following list contains only the particulars of associates, all of which are unlisted corporate entities and indirectly held by the Company, which principally affected the results or assets of the Group.

| Name | Business structure | Place of incorporation and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Levington Associates Limited* | Corporate | British Virgin Islands | 50 | Investment holding |
| Northern Newland Engineering Limited* | Corporate | Hong Kong | 40 | Provision of engineering services |
| Genfield Enterprises Limited** | Corporate | Hong Kong | – | Investment holding and sale of printed circuit boards |
| Genfield PCB (Panyu) Company Limited** | Corporate | Mainland China | – | Manufacture of printed circuit boards |

* Not audited by CCIF CPA Limited

** The associates were disposed to independent third party during this year. The disposal does not have material financial effect to the Group.

All the above investments in associates are indirectly held by the Group. As financial results of the associates are immaterial to the Group, accordingly, no disclosure is considered necessary.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 21. INVENTORIES

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Raw materials | 10,679 | 12,868 | 7,522 | 2,912 |
| Work-in-progress | 2,425 | 3,168 | 3,273 | 1,641 |
| Finished goods | 1,803 | 4,434 | 1,279 | 927 |
| | 14,907 | 20,470 | 12,074 | 5,480 |

### 22. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period of 60 days to its trade customers. A longer credit period may be granted to trade customers with a long business relationship to the Group. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, and net of impairment losses for bad and doubtful debts, is as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 60 days | 6,659 | 6,784 | 5,363 | 5,712 |
| 61 to 90 days | 58 | 727 | 1,068 | 539 |
| Over 91 days | 893 | 2,878 | 1,708 | 2,362 |
| | 7,610 | 10,389 | 8,139 | 8,613 |

### 23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total cash and bank balances | 6,691 | 4,700 | 810 | 2,653 |
| Less: Pledged deposits | (5,000) | (500) | (500) | (500) |
| | 1,691 | 4,200 | 310 | 2,153 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date is as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 60 days | 6,033 | 6,531 | 5,759 | 5,729 |
| 61 to 90 days | 293 | 1,425 | 1,142 | 758 |
| Over 91 days | 3,438 | 3,127 | 5,721 | 5,844 |
| | 9,764 | 11,083 | 12,622 | 12,331 |

### 25. DUE FROM/TO ASSOCIATES

The amounts were unsecured, interest free and without fixed terms of repayment.

### 26. DUE TO DIRECTORS

The amounts are unsecured, interest free and repayable on demand.

### 27. DUE TO A RELATED PARTY

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **The Group** | | | | |
| Ms Cheng Man Shan ("Ms Cheng") | 1,472 | 14,271 | 13,942 | 14,362 |
| Mr. Chong Chun Chung | 250 | – | – | – |
| Twin Base Limited | – | – | – | 4,062 |
| | 1,722 | 14,271 | 13,942 | 18,424 |

Ms Cheng is Mr. Chong Sing Yuen's wife.

On 1 April 2004, Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group, entered into a facility agreement with Ms Cheng pursuant to which Ms Cheng agreed to grant to the Group a standby facility (the "Facility") of HK$8,000,000 from 1 April 2004 to 31 July 2005. The purpose of the Facility was to enable the Group to have sufficient funds for its operations. The Facility was unsecured and interest-free. On 21 July 2005, the Company signed a new facility agreement with Ms Cheng to extend the Facility to 31 July 2006.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 27. DUE TO RELATED PARTY *(Continued)*

On 23 July 2004, the Company entered into a loan agreement with Ms Cheng pursuant to which Ms Cheng agreed to grant to the company a loan of HK$5,660,000 for repayment of a short term bank loan of the Group matured in August 2004. The loan is unsecured, interest-free and repayable at the earlier of 23 August 2005 or the date on which the Group is able to obtain a new one-year or longer term loan facility to repay the aforesaid mentioned short term bank loan. On 21 July 2005, the Company entered into a facility agreement with Ms Cheng pursuant to which the loan of HK$5,660,000 was renewed to a one-year standby facility to 20 July 2006.

In addition, Ms Cheng also made advance of HK$436,893 (2005: HK$610,547) to the Group as at 31 March 2006. The advance was unsecured, interest free and without fixed terms of repayment.

According to the debts assignment dated 2 June 2006, all the debt due to Ms Cheng was reassigned to Tung Hing Products Company Limited at consideration equal to the amount of debt.

Twin Base Limited, a company in which Ms Cheng has a beneficial interest of the company.

### 28. OBLIGATIONS UNDER FINANCE LEASES

At the Relevant Periods, the Group had obligations under finance leases repayable as follows:

| | 30 September 2006 | | |
|---|---|---|---|
| | **Present value of the minimum lease payments** | **Interest expense relating to future periods** | **Total minimum lease payments** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year | 598 | 18 | 616 |
| After 1 year but within 2 years | – | – | – |
| After 2 years but within 5 years | – | – | – |
| | 598 | 18 | 616 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 28. OBLIGATIONS UNDER FINANCE LEASES

| | 31 March 2006 | | |
|---|---|---|---|
| | **Present value of the minimum lease payments** | **Interest expense relating to future periods** | **Total minimum lease payments** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year | 743 | 42 | 785 |
| After 1 year but within 2 years | 188 | 3 | 191 |
| After 2 years but within 5 years | – | – | – |
| | 188 | 3 | 191 |
| | 931 | 45 | 976 |
| | **31 March 2005** | | |
| | **Interest Present value of the minimum lease payments** | **expense relating to future periods** | **Total minimum lease payments** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year | 230 | 9 | 239 |
| After 1 year but within 2 years | 8 | 2 | 10 |
| After 2 years but within 5 years | 1 | – | 1 |
| | 9 | 2 | 11 |
| | 239 | 11 | 250 |
| | **31 March 2004** | | |
| | **Present value of the minimum lease payments** | **Interest expense relating to future periods** | **Total minimum lease payments** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year | 636 | 51 | 687 |
| After 1 year but within 2 years | 450 | 12 | 462 |
| After 2 years but within 5 years | 144 | 16 | 160 |
| | 594 | 28 | 622 |
| | 1,230 | 79 | 1,309 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 29. INTEREST-BEARING BORROWINGS

At the Relevant Periods, the interest bearing borrowings were repayable as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 1 year or on demand | 41,027 | 22,795 | 40,604 | 7,847 |
| After 1 year but within 2 years | 954 | 16,244 | 235 | 1,153 |
| After 2 year but within 5 years | 1,974 | 860 | 807 | – |
| After 5 years | 1,817 | 337 | 229 | – |
| | 4,745 | 17,441 | 1,271 | 1,153 |
| Total | 45,772 | 40,236 | 41,875 | 9,000 |

At the Relevant Periods, the interest bearing borrowings were secured as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Secured bank overdrafts | 4,255 | 501 | 626 | 989 |
| Secured bank loans | 41,517 | 39,735 | 41,248 | 8,011 |
| | 45,772 | 40,236 | 41,874 | 9,000 |

*Notes:*

a) The Group's bank loans are secured by:

i) investment properties approximately of HK$47,961,000, HK$40,816,000, and HK$41,021,222 as at 31 March 2004, 2005, 2006 respectively;

ii) leasehold land and buildings which had an aggregate net book value approximately of HK$41,021,222, HK$19,272,000, HK$26,394,000 and HK$40,816,100 as at 31 March 2004, 2005, 2006 and the period ended 30 September 2006 respectively;

iii) trade receivables approximately of Nil, HK$941,940, HK$1,056,820, and HK$40,816,100 as at 31 March 2004, 2005, 2006 and the period ended 30 September 2006 respectively;

iv) pledged time deposits amounting to HK$5,000,000, HK$500,000, HK$500,000, and HK$500,000 as at 31 March 2004, 2005, 2006 and the period ended 30 September 2006 respectively; and

v) guarantees provided by directors of the Company.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 30. TAXATION IN THE CONSOLIDATED BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong profits tax | 696 | 874 | 861 | 264 |
| Mainland China enterprise income tax | 980 | 785 | 905 | 613 |
| | 1,676 | 1,659 | 1,766 | 877 |

### 31. DEFERRED TAX ASSETS

a) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the Relevant Periods are as follows:

| **Deferred tax arising from:** | **Accelerated tax depreciation** | **Fair value adjustments arising from acquisition of subsidiaries** | **Revaluation of properties** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2003 | | | | |
| – As previously reported | 501 | 169 | (5,449) | (4,779) |
| – Effect of changes in accounting policies under HKAS 17 | – | – | 5,657 | 5,657 |
| – As restated | 501 | 169 | 208 | 878 |
| Deferred tax charge to the income statement *(note 13)* | (386) | – | (5) | (391) |
| At 31 March 2004 | 115 | 169 | 203 | 487 |
| At 1 April 2004 (Restated) | 115 | 169 | 203 | 487 |
| Deferred tax charged to the income statement *(note 13)* | (163) | – | (286) | (449) |
| At 31 March 2005 (as restated) | (48) | 169 | (83) | 38 |
| At 1 April 2005 (as restated) | (48) | 169 | (83) | 38 |
| Deferred tax credited to equity | – | – | (32) | (32) |
| Deferred tax charged to the income statement *(note 13)* | – | – | – | – |
| At 31 March 2006 | (48) | 169 | (115) | 6 |
| At 1 April 2006 | (48) | 169 | (115) | 6 |
| Deferred tax charge to the income statement *(note 13)* | – | – | – | – |
| At 30 September 2006 | (48) | 169 | (115) | 6 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 31. DEFERRED TAX ASSETS *(Continued)*

**a)** The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the Relevant Periods are as follows: *(Continued)*

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Net deferred tax assets recognised on the balance sheet | 487 | 38 | 6 | 6 |
| Net deferred tax liabilities recognised on the balance sheet | – | – | – | – |
| | 487 | 38 | 6 | 6 |

**b) Deferred tax assets not recognised**

The Group has tax losses arising in Hong Kong of HK$65,251,262, HK$85,393,656 and HK$112,728,215 for the year ended 31 March 2004, 2005 and 2006 respectively 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.

During the Relevant Periods, there is 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 or associates 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.

### 32. SHARE CAPITAL

| | 30 September 2006 | |
|---|---|---|
| | **No. of shares** | **Amount** |
| | | *HK$'000* |
| Ordinary shares of HK$0.2 each | | |
| **Authorised** | | |
| Balance at beginning and end of the period | 1,500,000,000 | 300,000 |
| **Issued and fully paid** | | |
| Beginning of year | 291,497,885 | 58,300 |
| Issue of new shares *(note a)* | 58,000,000 | 11,600 |
| End of year | 349,497,885 | 69,900 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 32. SHARE CAPITAL *(Continued)*

| | 31 March 2006 No. of shares | 31 March 2006 Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.2 each | | |
| **Authorised** | | |
| Beginning of year | 30,000,000,000 | 300,000 |
| Reduced due to share consolidation *(note b)* | (28,500,000,000) | – |
| End of year | 1,500,000,0000 | 300,000 |
| **Issued and fully paid** | | |
| Beginning of year | 4,869,957,705 | 48,700 |
| Reduced due to share consolidation *(note b)* | (4,626,459,820) | – |
| Issue of new shares *(note c)* | 48,000,000 | 9,600 |
| End of year | 291,497,885 | 58,300 |

| | 31 March 2005 No. of shares | 31 March 2005 Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.2 each | | |
| **Authorised** | | |
| Balance at beginning and end of the year | 30,000,000,000 | 300,000 |
| **Issued and fully paid** | | |
| Beginning of year | 4,803,807,705 | 48,038 |
| Shares issued under share option scheme *(note d)* | 66,150,000 | 662 |
| End of year | 4,869,957,705 | 48,700 |

| | 31 March 2004 No. of shares | 31 March 2004 Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.2 each | | |
| **Authorised** | | |
| Balance at beginning and end of the year | 30,000,000,000 | 300,000 |
| **Issued and fully paid** | | |
| Beginning of year | 4,544,457,705 | 45,445 |
| Shares issued under share option scheme *(note e)* | 259,350,000 | 2,593 |
| End of year | 4,803,807,705 | 48,038 |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 32. SHARE CAPITAL *(Continued)*

*Notes:*

a) On 18 May 2006, the Company and an independent subscriber entered into a conditional agreement for the subscription of 58,000,000 new shares of HK$0.2 each at a price of HK$0.23 per share for a total of HK$13,340,000. The net proceeds from the subscription of approximately HK$13.24 million will be used as general working capital.

b) Pursuant to an ordinary resolution passed at the special general meeting on 4 May 2005, every twenty ordinary shares of HK$0.01 each in the issued and unissued share capital were consolidated into one ordinary share of HK$0.20 each.

In addition, the number of shares issuable under each outstanding options granted under the Company's share option scheme was reduced by 95% and the exercise price of HK$0.01 per share under the share option scheme was increased to HK$0.20 per share. (note 33)

Share consolidation took effect on 5 May 2005.

c) On 14 July 2005, the Company and an independent subscriber entered into a conditional agreement dated 14 July 2005 for the subscription of 48,000,000 new shares of HK$0.2 each at a price of HK$0.26 per share for a total of HK$12,480,000.

d) For the year ended 31 March 2005, the subscription rights attaching to 66,150,000 share options were exercised at the subscription price of HK$0.01 per share (note 33), resulting in the issue of 66,150,000 shares of HK$0.01 each for a total cash consideration before expenses of HK$661,500.

e) For the year ended 31 March 2004, the subscription rights attaching to 259,350,000 share options were exercised at the subscription price of HK$0.01 per share (note 33), resulting in the issue of 259,350,000 shares of HK$0.01 each for a total cash consideration before expenses of HK$2,593,500.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors (including independent non-executive directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities that provided research, development or other technological support to the Group and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 4 October 2002 and, unless otherwise cancelled or amended, will remain enforce for 10 years from that date.

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

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

The offer of a grant of share options may be accepted prior to the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of the share options is determinable by the directors, but may not be less than the higher 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 the 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.

A proposal to consolidate 20 issued and un-issued shares of HK$0.01 each into 1 share of HK$0.20 each (the "New Shares(s)") was approved by the shareholders of the Company on 4 May 2005. Before the Consolidation, the Company had outstanding options granted under the share option scheme of the Company to subscribe for a total of 19,300,000 shares at the price of HK$0.01 per share. Immediately after the Consolidation, the number of shares issuable under each outstanding option granted was reduced by 95%, the exercise price per share was increased from HK$0.01 to HK$0.20. Accordingly, after the Consolidation became effective, the Company had outstanding options to subscribe for a total of 965,000 New Shares at the exercise price of HK$0.20 per New Share.

The following tables disclose details of the Scheme and the movements during the Relevant Period.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME *(Continued)*

*For the period ended 30 September 2006*

| Name or category of participant | At 1 April 2006 | Share Consolidation | Number of share options Exercise during the year | Lapsed during the year | Cancelled during the year | At 30 September 2006 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** | Price of Company's shares at exercise date of options **** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | *HK$* | *HK$* |
| **Directors** | | | | | | | | | | |
| Mr. Wong Siu Keung, Joe | 850,000 | – | – | – | – | 850,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.2 | 0.028 |
| | 850,000 | – | – | – | – | 850,000 | | | | |
| **Employees** | | | | | | | | | | |
| Other employees | 92,500 | – | – | – | – | 92,500 | 31-10-2002 | 31-10-2002 to 30-10-2012 | 0.2 | 0.026 |
| | 92,500 | – | – | – | – | 92,500 | | | | |
| Total share options | 942,500 | – | – | – | – | 942,500 | | | | |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME *(Continued)*

*For the year ended 31 March 2006*

| Name or category of participant | At 1 April 2005 | Share Consolidation | Number of share options Exercise during the year | Lapsed during the year | Cancelled during the year | At 31 March 2006 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** HK$ | Price of Company's shares at exercise date of options**** HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Mr. Wong Siu Keung, Joe | 17,000,000 | (16,150,000) | – | – | – | 850,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.2 | 0.028 |
| | 17,000,000 | (16,150,000) | – | – | – | 850,000 | | | | |
| **Employees** | | | | | | | | | | |
| Other employees | 2,300,000 | (2,185,000) | – | (22,500) | – | 92,500 | 31-10-2002 | 31-10-2002 to 30-10-2012 | 0.2 | 0.026 |
| | 2,300,000 | (2,185,000) | – | (22,500) | – | 92,500 | | | | |
| Total share options | 19,300,000 | (18,335,000) | – | (22,500) | – | 942,500 | | | | |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME *(Continued)*

*For the year ended 31 March 2005*

| Name or category of participant | At 1 April 2004 | Granted during the year | Exercise during the year | Lapsed during the year | Cancelled during the year | At 31 March 2005 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** HK$ | Price of Company's shares at exercise date of options **** HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Number of share options | | | | | | | |
| **Directors** | | | | | | | | | | |
| Mr. Chong Sing Yuen | 3,350,000 | – | (3,350,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.025 |
| Mr. Sun Tak Yan, Desmond | 35,000,000 | – | (35,000,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.015 |
| Mr. Wong Siu Keung, Joe | 35,000,000 | – | (18,000,000) | – | – | 17,000,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.028 |
| Mr. Chu Bu Yang, Alexander | 4,500,000 | – | (4,500,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.028 |
| | 77,850,000 | – | (60,850,000) | – | – | 17,000,000 | | | | |
| Employees | | | | | | | | | | |
| Ms Cheng Man Shan* | 1,150,000 | – | (1,150,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.015 |
| Other employees | 6,450,000 | – | (4,150,000) | – | – | 2,300,000 | 31-10-2002 | 31-10-2002 to 30-10-2012 | 0.01 | 0.026 |
| | 7,600,000 | – | (5,300,000) | – | – | 2,300,000 | | | | |
| Total share options | 85,450,000 | – | (66,150,000) | – | – | 19,300,000 | | | | |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME *(Continued)*

*For the year ended 31 March 2004*

| Name or category of participant | At 1 April 2003 | Number of share options: Granted during the year | Exercise during the year | Lapsed during the year | Cancelled during the year | At 31 March 2004 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** | Price of Company's shares at exercise date of options**** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | *HK$* | *HK$* |
| **Directors** | | | | | | | | | | |
| Mr. Chong Sing Yuen | 3,350,000 | – | – | – | – | 3,350,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | N/A |
| Mr. Sun Tak Yan, Desmond | 45,000,000 | – | (10,000,000) | – | – | 35,000,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.026 |
| Mr. Chong Chun Kwok, Piggy | 45,000,000 | – | (45,000,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.026 |
| Mr. Chong Chun Man | 45,000,000 | – | (45,000,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.025 |
| Mr. Chu Kiu Fat | 45,000,000 | – | (45,000,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.028 |
| Mr. Wong Siu Keung, Joe | 45,000,000 | – | (10,000,000) | – | – | 35,000,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.028 |
| Mr. Chu Bu Yang, Alexander | 4,500,000 | – | – | – | – | 4,500,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | N/A |
| Mr. Chong Chun Hing | 4,500,000 | – | (4,500,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.024 |
| Mr. Wong, Bingley | 4,500,000 | – | (4,500,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.027 |
| | 241,850,000 | – | (164,000,000) | – | – | 77,850,000 | | | | |
| **Employees** | | | | | | | | | | |
| Ms Cheng Man Shan* | 1,150,000 | – | – | – | – | 1,150,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.015 |
| Other employees | 102,350,000 | – | (95,350,000) | – | (550,000) | 6,450,000 | 31-10-2002 | 31-10-2002 to 30-10-2012 | 0.01 | 0.026 |
| | 103,500,000 | – | (95,350,000) | – | (550,000) | 7,600,000 | | | | |
| Total share options | 345,350,000 | – | (259,350,000) | – | (550,000) | 85,450,000 | | | | |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 33. SHARE OPTION SCHEME *(Continued)*

* Spouse of Mr. Chong Sing Yuen

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

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

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

For the year ended 31 March 2004, 259,350,000 share options were exercised and resulted in the issue of 259,350,000 ordinary shares of the Company and new share capital of HK$2,593,500, as detailed in note 32 to the financial statements.

For the year ended 31 March 2005, 66,150,000 share options were exercised and resulted in the issue of 66,150,000 ordinary shares of the Company and new share capital of HK$661,500, as detailed in note 32 to the financial statements.

At 30 September 2006, the Company had 942,500 (31 March 2006: 942,500) share options outstanding under the Scheme which represented approximately 0.3% (31 March 2006: 0.3%) 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 942,500 (31 March 2006: 942,500) additional ordinary shares of the Company and additional share capital of HK$188,500 (31 March 2006: HK$188,500).

### 34. RESERVES

The amount of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 30 to 32 of the financial statements.

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

The land and buildings revaluation reserve included a revaluation surplus of HK$5,024,251 attributable to the properties which were reclassified from land and buildings to investment properties in the prior year. This portion of revaluation reserve is not available to offset against deficit arising from the revaluation of investment properties subsequent to their reclassification, and can only be transferred to retained profits as a movement in reserves upon the disposal of the relevant investment properties.

The Group's special reserve represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(r).

During the Relevant Periods, the Company did not have any reserve available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 35. OPERATING LEASE COMMITMENTS

**a) The Group as lessor:**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits. At the Relevant Periods, the Group had total future minimum lease payments receivable under non-cancellable operating leases with its tenants falling due as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 3,405 | 2,972 | 3,131 | 2,769 |
| In the second to fifth years, inclusive | 9,285 | 6,931 | 4,184 | 5,130 |
| Over five years | 3,018 | 2,313 | 2,313 | 985 |
| | 15,708 | 12,216 | 9,628 | 8,884 |

**b) The Group as lessee:**

The Company leases a motor vehicle under an operating lease arrangement. The lease for the motor vehicle was negotiated for a term of one year. At the Relevant Periods, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within one year | 197 | 197 | 197 | – |

### 36. CONTINGENT LIABILITIES

**The Group**

The Group had a contingent liability in respect of possible future long service payments to employee under the Hong Kong Employment Ordinance with a maximum possible amount of approximately HK$279,000, HK$275,000, HK$338,000 and HK$Nil as at 31 March 2004, 2005, 2006 and 30 September 2006 respectively, as further explained under the heading "Employee benefits" in note 3(u) to the financial statements. At the balance sheet date, a number of current employees achieved the required number of years of service in the Group to be eligible for long service payments under the Employment Ordinance should their employment be terminated under certain circumstances. A provision has not been recognized in respect of such possible payments as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 37. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following related party transactions.

a) During the year, the Group had the following transactions with Twin Base Limited ("Twin Base"), a company in which Ms Cheng Man Shan, the spouse of Mr. Chong Sing Yuen has a beneficial interest:

i) During the Relevant Periods, the Group made rental payment of approximately HK$474,000, HK$474,000, HK$474,000 and HK$197,500 for the year ended 31 March 2004, 2005, 2006 and 30 September 2006 respectively to Twin Base for a motor vehicle. The rentals were charged in accordance with a motor vehicle rental agreement. Details of the operating lease commitments at the balance sheet date are set out in note 35(b) to the financial statements.

ii) During the Relevant Periods, Twin Base pledged certain of its property interests to a bank to secure credit facilities to the extent of HK$12,899,980, HK$12,899,980, HK$12,899,980 and HK$7,234,000 for the year ended 31 March 2004, 2005, 2006 and 30 September 2006 respectively granted to the Group.

iii) During the period of 30 September 2006, Twin Base advanced HK$4,061,859 to the Group. The advances are unsecured, interest-free and are repayable on demand.

b) During the year, the Group had the following material transactions with its associates:

| | | 31 March | | | 30 September |
|---|---|---|---|---|---|
| | | **2004** | **2005** | **2006** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Purchases of raw materials from an associate | (i) | 485 | 674 | 195 | – |
| Management fee received from an associate | (ii) | 144 | 144 | – | – |

i) The purchases from an associate were made according to the prices mutually agreed between the associate and the Group.

ii) The management fee was charged based on mutually agreed terms between the associate and the Group.

During the year ended 31 March 2004, the Group advance HK$3,000,000 to its associates. These advances were unsecured, interest free and repayable on demand. During the year ended 31 March 2005, the associates repaid the HK$3,000,000 to the Group. The amounts due to associates as at 31 March 2005 HK$1,655,405 which comprises trade payables and current account balances. The balances were unsecured, interest free and without fixed terms of repayment.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 37. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

c) During the Relevant Periods, Ms Cheng, the spouse of Mr. Chong Sing Yuen, granted a credit facility of HK$8,000,000 and HK$13,660,000 for the year ended 31 March 2005 and 2006 respectively and a loan of HK$5,660,000 and HK$ Nil to the Group respectively, the details of which are set out in note 27 to the financial statements. In addition, Ms. Cheng advanced HK$1,471,698, HK$610,547, HK$436,893 and HK$857,094 for the year ended 31 March 2004, 2005, 2006 and for the period ended 30 September 2006 respectively. The advances were unsecured, interest-free and with fixed terms of repayment.

d) During the year ended 31 March 2005, Mr Chong Chun Kwok, Piggy, a director of the Company and a son of Mr Chong Sing Yuen advanced HK$3,650,000 to the Group. The advances were unsecured, interest free and without fixed terms of repayment on demand. During the year ended 31 March 2006, the Group repaid HK$3,650,000 to Mr Chong Chun Kwok, Piggy.

e) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11.

f) During the period of 30 September 2006, Mr. Chim Pui Chung, a shareholder of the Company, advanced HK$19,000,000 to the Group.

### 38. LITIGATION

The Company instituted legal proceedings against ASG Capital Limited and ASG Brokerage Limited (the "Defendants") in 1998 for breach of the placing and underwriting agreement dated 9 December 1997 by failing to fulfill their underwriting obligations thereunder and for the recovery of HK$40 million being economic loss suffered by the Company together with interest and legal cost. The proceedings are now in pre-trial stage of discovery of documents of the parties and the date of trial has not been fixed. The last action of the parties to the proceedings took place in mid-2005 when solicitors acting for the Company in the legal proceedings served a notice to inspect documents to those acting for the Defendants.

### 39. NON-ADJUSTING POST BALANCE SHEET EVENTS

**1) Completion of disposal of properties**

The Company had entered into the disposal of property as at 8 July 2006, and the details of the transaction have been disclosed in the Company's circular dated 14 August 2006. The Company had received RMB1,000,000 on 10 July 2006 as a deposit, and the remaining balance of approximately RMB73,631,000 was received on 26 October 2006. The transaction had been completed on 26 October 2006.

**2) Very substantial acquisition of interest in the Shanghai Properties**

On 21 August 2006, the Company had entered into the Sale and Purchases agreement, pursuant to which the Company agreed to acquire the entire issued share capital of Luck Grow and Sale Loan. The details of transaction have been disclosed in the Company's circular dated 31 October 2006.

**3) Placing**

The Company had on 1 December 2006 entered into a total of ten Subscription Agreements, pursuant to which the Company conditionally agreed to issue an aggregate of 69,895,000 subscription shares at a price of HK$0.38 each. The subscription is being granted of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited. The Company received the total consideration of HK$26,560,100 as at 29 December 2006.

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

**4) Disposal of Snap off blade cutters business**

On 7 February 2007, the Company had entered into the sale and purchases agreement, pursuant to which the Company agreed to dispose of the entire issued share capital of Asian Field, and the right of and benefits in the Sale Loan. The details of transaction have been disclosed in the Company's announcement dated 12 February 2007.

Below are the consolidated profit and loss account, the consolidated balance sheet and the consolidated cash flow statements of the Asian Field Group, which have not include the accounting entries of the disposal of its entire interests in its investment properties (the "Panyu Properties") situated in Northern Industrial Complex, Panyu, Guangdong Province of the PRC, completed in October 2006. Financial information of the Panyu Properties was set out in the circular of the Company dated 14 August 2006.

**(a) Consolidated profit and loss account**

Included in the consolidated profit and loss account of the Group are the results of the Asian Field For the Relevant Periods and six months ended 30 September 2005 as follow:

| | 31 March | | | Six month ended 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| **TURNOVER** | 81,001 | 70,084 | 99,122 | 60,767 | 29,369 |
| Cost of sales | (70,651) | (64,855) | (103,367) | (56,640) | (30,224) |
| Gross profit/(Loss) | 10,350 | 5,229 | (4,245) | 4,127 | (855) |
| Other revenue | 2,669 | 2,561 | 3,070 | 1,646 | 1,210 |
| Distribution costs | (7,363) | – | (7,855) | – | – |
| Administrative expenses | (11,677) | (9,043) | (11,732) | (4,610) | (5,656) |
| Other operating expenses | (140) | (9,001) | (6) | (4,179) | (11,491) |
| **LOSS FROM OPERATING ACTIVITIES** | (6,161) | (10,254) | (20,768) | (3,016) | (16,792) |
| Finance costs | (2,068) | (2,043) | (2,387) | (1,080) | (1,561) |
| **LOSS BEFORE TAXATION** | (8,229) | (12,297) | (23,155) | (4,096) | (18,353) |
| Taxation | (733) | (511) | (108) | – | – |
| **LOSS FOR THE YEAR** | (8,962) | (12,808) | (23,263) | (4,096) | (18,353) |
| Attributable to: | | | | | |
| Equity shareholders of the Company | (8,962) | (12,808) | (23,263) | (4,096) | (18,353) |
| | (8,962) | (12,808) | (23,263) | (4,096) | (18,353) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

#### 4) Disposal of Snap off blade cutters business *(Continued)*

**(b) Consolidated balance sheet**

Included in the consolidated balance sheet of the Group are the assets and liabilities of Asian Field as at 31 March 2004, 2005, 2006 and 30 September 2006 as follows:

| | 31 March | | | 30 September |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **NON-CURRENT ASSETS** | | | | |
| Fixed assets | | | | |
| – Property, plant and equipment | 53,203 | 30,247 | 31,166 | 24,056 |
| – Investment properties | 43,719 | 40,816 | 41,021 | 43,661 |
| – Investment in leasehold land held for own use under operating leases | – | 4,523 | 4,352 | 3,322 |
| Deferred tax assets | 459 | 38 | 6 | 6 |
| | 97,381 | 75,624 | 76,545 | 71,045 |
| **CURRENT ASSETS** | | | | |
| Stocks and work in progress | 14,907 | 20,470 | 12,074 | 5,480 |
| Trade and bills receivables | 7,610 | 10,389 | 8,139 | 2,243 |
| Other receivables, deposit and prepayment | 2,895 | 3,921 | 2,723 | 8,613 |
| Due from associates | 1,500 | – | – | – |
| Pledged deposits | 5,000 | 500 | 500 | 500 |
| Bank balances and cash | 1,668 | 3,943 | 300 | 684 |
| | 33,580 | 39,223 | 23,736 | 17,520 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | 9,764 | 11,083 | 12,622 | 12,331 |
| Other payables and accruals | 7,011 | 8,942 | 10,317 | 12,337 |
| Due to a director | 35 | 3,650 | – | 10,374 |
| Due to related parties | 1,722 | 8,610 | 437 | 37,266 |
| Due to fellow subsidiaries | 67,597 | 53,714 | 68,680 | 61,003 |
| Due to associates | – | – | – | – |
| Obligations under finance leases | – | 230 | 743 | 989 |
| Interest-bearing borrowings | 41,663 | 22,795 | 40,604 | 7,458 |
| Tax payable | 1,676 | 1,659 | 1,766 | 876 |
| | 129,468 | 110,683 | 135,169 | 142,634 |
| **NET CURRENT LIABILITIES** | (95,888) | (71,460) | (111,433) | (125,114) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 1,493 | 4,164 | (34,888) | (54,069) |
| **NON-CURRENT LIABILITIES** | | | | |
| Deferred tax liabilities | – | – | – | – |
| Obligations under finance leases | 594 | 9 | 188 | – |
| Interest-bearing borrowings | 4,745 | 17,441 | 1,271 | 1,153 |
| | 5,339 | 17,450 | 1,459 | 1,153 |
| **NET LIABILITIES** | (3,846) | (13,286) | (36,347) | (55,222) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | – | – | – | – |
| Reserves | (3,846) | (13,286) | (36,347) | (55,222) |
| Total equity attributable to equity shareholders of the company | (3,846) | (13,286) | (36,347) | (55,222) |
| **TOTAL EQUITY** | (3,846) | (13,286) | (36,347) | (55,222) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

#### 4) Disposal of Snap off blade cutters business *(Continued)*

**(c) Consolidated cash flow statements**

Included in the consolidated cash flow statement of the Group are the cash flows of the Asian Field for the Relevant Periods and six months ended 30 September 2005 as follow:

| | 31 March | | | Six months ended 30 September | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Unaudited) | *HK$'000* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| **Loss before taxation** | (8,229) | (12,297) | (23,155) | (4,096) | (18,353) |
| **Adjustments for:** | | | | | |
| Amortisation of land lease premium | 113 | 113 | 114 | – | 152 |
| Finance costs | 2,068 | – | – | 1,080 | 1,561 |
| Interest income | (22) | – | – | (1) | – |
| Interest expenses | – | – | – | – | 514 |
| Depreciation | 3,306 | 2,329 | 3,205 | 1,249 | 888 |
| Goodwill | – | – | – | – | – |
| Gain on disposal of investment property | – | – | (205) | – | (410) |
| Surplus on fiar value of investment property | (440) | 6,749 | – | – | 787 |
| Surplus on revaluation of builidings | (6) | 15,578 | (1,375) | 424 | – |
| Impairment for slow-moving and obsolete inventories | 580 | – | 53 | – | – |
| Impairment for doubtful debt | 140 | – | – | – | – |
| Impairment for property, plant and equipment | – | – | – | – | 3,844 |
| Foreign exchange loss/(gain) net | – | – | 554 | (329) | (827) |
| **Operating (loss)/profit before changes in working capital** | (2,490) | 12,472 | (20,809) | (1,673) | (11,844) |
| Decrease in inventories | 975 | (5,563) | 8,343 | (3,127) | 6,594 |
| Decirease in trade and bills receivables | 573 | (2,779) | 2,250 | (4,558) | 5,896 |
| Decrease in other receivables, deposits and prepayment | (461) | (1,026) | – | 13 | (5,890) |
| Decrease in due from director | – | – | – | – | – |
| Increase in trade payables | 620 | 1,319 | 2,737 | 10,310 | (291) |
| Increase/(decrease) in other payables, accruals and related parties | (642) | 1,931 | 1,375 | 932 | 2,020 |
| Increase in due to associates | – | 1,500 | – | 161 | – |
| Decrease in due to subsidiaries | (1,500) | (13,883) | 14,966 | – | (7,677) |
| Decrease in due to former shareholders | 22 | – | – | – | – |
| (Decrease)/increase in due to directors | 35 | 3,615 | (3,650) | 979 | – |
| Decrease in due to holding company | (1,633) | – | – | 8,987 | – |
| Increase in due to shareholder | – | – | – | – | 10,374 |
| **Net cash (used in)/generated from operations** | (4,501) | (2,414) | 5,212 | 12,024 | (818) |
| Tax paid | – | (107) | 215 | – | (922) |
| **Net cash (used in)/generated from operating activities** | (4,501) | (2,521) | 5,427 | 12,024 | (1,740) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 39. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

#### 4) Disposal of Snap off blade cutters business *(Continued)*

##### (c) Consolidated cash flow statements *(Continued)*

| | 31 March | | | Six months ended 30 September | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2005 | 2006 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (Unaudited) | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchases of property, plant and equipement | (4,637) | (65) | (3,228) | (2,750) | (12) |
| Increase in pledged time deposits | (5,000) | 4,500 | – | – | – |
| Interest received | – | – | – | 1 | – |
| Net proceed from disposals of property, plant and equipment | – | – | – | – | 587 |
| **Net cash (used in)/generated from investing activities** | (9,637) | 4,435 | (3,228) | (2,749) | 575 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| New inception/(repayment) of bank loans | 6,835 | (2,417) | 1,515 | (62) | (33,625) |
| Inception of finance leases rentals paid | – | – | 1,615 | – | 1,615 |
| Capital element of finance lease rental paid | (649) | (272) | (923) | – | (1,531) |
| Interest element of finance lease rental paid | (83) | (83) | – | – | (26) |
| Interest paid | (1,986) | – | – | (1,080) | (2,075) |
| Advance from related parties | 1,722 | 6,888 | (8,173) | 1,386 | 36,829 |
| **Net cash (used in)/generated from financing activities** | 5,839 | 4,116 | (5,966) | 244 | 1,187 |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | (8,299) | 6,030 | (3,767) | 9,519 | 22 |
| Effect of foreign exchange rate change | – | – | – | – | (1) |
| Cash and cash equivalents at beginning of year | 5,712 | (2,587) | 3,442 | 3,143 | (325) |
| Cash and cash equivalents at end of year | (2,587) | 3,443 | (325) | 12,662 | (304) |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | | | |
| Cash and bank balances | (2,587) | 3,443 | (325) | 12,662 | (304) |

## B. NOTES TO THE FINANCIAL STATEMENT *(Continued)*

### 40. RETIREMENT BENEFITS SCHEME

The group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to the consolidated income statement represents contributions payable to the MPF scheme by the group at rates specified in the rules of the MPF scheme.

Employees who are employed in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the group with respect to the pension scheme is to make the required contributions under the scheme.

The amount of unvested benefits utilised by the group to reduce contributions is HK$341,722 during the year. The amount of unvested benefits available for future reduction of employer's contribution as at 31 March 2006 is approximately HK$1,788,431 (2005: HK$1,546,326).

### 41. COMPARATIVE FIGURES

Due to the termination of the consumer electronic business during the period, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", certain comparative figures have been reclassified to conform with current period's presentation.

### 42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED 30 SEPTEMBER 2006

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impacts on the financial statements of the Group.

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

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

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chan Wai Dune, Charles**
Practising Certificate Number P00712

## 2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 January 2007, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$9.05 million, comprising secured bank overdrafts of approximately HK$0.5 million; secured bank loans of approximately HK$8.17 million; and finance lease payables of approximately HK$0.38 million. The secured bank loans are guaranteed by the Company and/or its subsidiary. Certain of the borrowing were secured by certain of the Group's leasehold land and buildings and investment properties.

At the close of business on 31 January 2007, the Group had no contingent liability in respect of possible future long service payment to employees under the Hong Kong Employment Ordinance; and the Company had given guarantees to banks in connection with banking facilities granted to Asian Field Group amounting to HK$26.9 million. The Group had also granted guarantees on banking facilities to related companies and had contingent liabilities of approximately HK$120 million in respect of such facilities. The Directors expect that the guarantees will only be released upon the expiry dates of the relevant facilities.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance creditors, or any guarantees, or other material contingent liabilities outstanding at the close of business on 31 January 2007.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximately rates of exchange prevailing as at 31 January 2007.

The directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 January 2007.

## 3. WORKING CAPITAL

The Directors are of the opinion that, with completion of the disposal of Asian Field and taking into account the present available banking facilities and the internal resources of the Remaining Group, the Remaining Group has sufficient working capital for its present requirements (i.e. for at least the next twelve months from the date of this circular) in the absence of unforeseen circumstances.

## 4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 (the date to which the latest audited financial statements of the Company were made up).

As stated in the announcement of the Company dated 5 September 2006 and the circular of the Company dated 31 October 2006, the Company acquired the entire issued share capital of Luck Grow, the principal assets of which are the Shanghai Properties. Completion of such acquisition took place in November 2006. It is expected that immediately following the completion of the Disposal, the Remaining Group's principal business will be properties investment and the Shanghai Properties will be its principal assets.

Set out in this appendix are the accountants' report on the Luck Grow Group and the management discussion and analysis of the Luck Grow Group as extracted from the circular of the Company dated 31 October 2006. Definitions and references used in this appendix are referring to such circular.

## 1. ACCOUNTANTS' REPORT ON THE LUCK GROW GROUP

"

CCIF

**CCIF CPA LIMITED**

1/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

31 October 2006

The Board of Directors
Northern International Holdings Limited

Dear Sirs,

We set out below our report regarding the financial information (the "Financial Information") of Luck Grow Group Limited ("Luck Grow") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for the period from 25 February 2004 (i.e. from the date of incorporation of Lok Wing Group Limited ("Lok Wing")) to 31 December 2005 and the four months ended 30 April 2006 (the "Relevant Period") for inclusion in the circular dated 31 October 2006 issued by Northern International Holdings Limited (the "Company") in connection with a proposed acquisition of the entire shareholding interests in Luck Grow (the "Circular").

Luck Grow was incorporated in the British Virgin Islands as a private company with limited liability on 8 August 2005. Luck Grow was principally engaged in investment holding during the Relevant Period.

Lok Wing was incorporated in the Hong Kong as a private company. Lok Wing was principally engaged in investment holding during the Relevant Period. As at the date of this report, the particulars of Luck Grow's subsidiaries as at 30 April 2006 are as follows:

| Company | Form of business structure | Date and place of establishment and operation | Issued and fully paid up share capital/ registered capital | Percentage of equity attributable to Luck Grow | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| Lok Wing Group Limited | Wholly owned | 25 February 2004 Hong Kong | Ordinary Shares HK$50,000,000 | 100% | – | Investment holding |
| Shanghai Xiang Chen Hang Place The Industry Co. Limited* ("Shanghai Xiang Chen Hang") 上海祥宸行置業有限公司 | Wholly owned foreign enterprise | 16 June 2004 mainland China | Registered capital US$5,901,540 | – | 100% | Property Investment |

* *For identification purpose only*

The financial year end date of Luck Grow and its subsidiaries is 31 December. No audited financial statements have been prepared for Luck Grow since its respective dates of incorporation as there is no statutory requirement for Luck Grow to prepare audited financial statements.

The statutory financial statements of Luck Grow's subsidiaries established in Hong Kong and mainland China were prepared in accordance with relevant accounting principles and financial regulations generally accepted in their respective places of establishment. The name of the auditors of the audited financial statement of these companies are set out below:

| Company | Accounts for the year ended | Auditors |
|---|---|---|
| Lok Wing | 25 February 2004 (Date of incorporation) to 31 December 2005 | John Wu & Co. |
| Shanghai Xiang Chen Hang | 31 December 2004 | Shanghai XinYu Certified Public Accountants Co., Ltd. (上海信宇會計師事務所有限公司) |
| | 31 December 2005 | Shanghai Hongda XinYu Certified Public Accountants Co., Ltd. (上海宏大信宇會計師事務所有限公司) |

For the purpose of this report, we have undertaken an independent audit of the underlying financial statements of the Target Group for the Relevant Period in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guidelines 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA and, where considered appropriate, made adjustments and/or additional disclosures considered necessary in order for the Financial Information and the notes thereto to conform with the accounting principles generally accepted in Hong Kong.

The Financial Information for the Relevant Period as set out in this report have been prepared in accordance with the basis and accounting policies as set out in note 1 of Section F below.

The Financial Information is the responsibility of the directors of the Target Group who approve of the issuance of the report. The Directors of Luck Grow are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2004 and 2005 and 30 April 2006 of the combined results and cash flows of the Target Group for the Relevant Period.

## A. COMBINED INCOME STATEMENT

The following is a summary of the combined income statement of the Target Group for the Relevant Period, which is presented on the basis set out in note 1 under Section F below:

| | Notes | Period ended 31 December 2004 *HK$'000* | Year ended 31 December 2005 *HK$'000* | Four months ended 30 April 2005 *HK$'000* (unaudited) | Four months ended 30 April 2006 *HK$'000* |
|---|---|---|---|---|---|
| Turnover | 2 | – | 1,986 | – | 3,420 |
| Other revenue | 3 | – | 93,037 | – | 10,726 |
| Administrative expenses | | (298) | (4,738) | (683) | (3,246) |
| Profit/(loss) from operations | | (298) | 90,285 | (683) | 10,900 |
| Share of results of an associate | | 9,757 | – | 71 | – |
| | | 9,459 | 90,285 | (612) | 10,900 |
| Finance costs | | – | – | – | (109) |
| Profit/(loss) before taxation | 4 | 9,459 | 90,285 | (612) | 10,791 |
| Taxation | 7 | – | – | – | (3,782) |
| Profit/(loss) for the period/year | | 9,459 | 90,285 | (612) | 7,009 |
| Attributable to: | | | | | |
| Equity shareholders of the parent | | 9,459 | 90,285 | (612) | 7,009 |

## B. COMBINED BALANCE SHEET

The following is a summary of the combined balance sheet of the Target Group as at 31 December 2004 and 2005 and 30 April 2006, which is presented on the basis set out in note 1 under Section F below:

| | | At 31 December | | At 30 April | |
|---|---|---|---|---|---|
| | | **2004** | **2005** | **2005** | **2006** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | (unaudited) | |
| **Non-current assets** | | | | | |
| Plant and equipment | 8 | 142 | 573 | 142 | 578 |
| Investment properties | 9 | – | 226,179 | – | 241,399 |
| Interest in an associate | 10 | 14,009 | – | 14,080 | – |
| | | 14,151 | 226,752 | 14,222 | 241,977 |
| **Current assets** | | | | | |
| Other receivables and prepayments | | 36 | 793 | 153 | 808 |
| Due from a director | 12 | 45,241 | 193 | 44,421 | – |
| Due from related parties | 13 | – | 2,645 | – | – |
| Bank and cash balances | | 38 | 1,123 | 69 | 993 |
| | | 45,315 | 4,754 | 44,643 | 1,801 |
| **Current liabilities** | | | | | |
| Other payables and accruals | | 7 | 9,122 | 18 | 5,129 |
| Due to a director | 14 | – | – | – | 73,105 |
| Due to related parties | 15 | – | 20,752 | – | 315 |
| Due to a former shareholder | 16 | – | 1,185 | – | – |
| Tax payable | 17 | – | – | – | 245 |
| | | 7 | 31,059 | 18 | 78,794 |
| **Net current assets/(liabilities)** | | 45,308 | (26,305) | 44,625 | (76,993) |
| **Total assets less current liabilities** | | 59,459 | 200,447 | 58,847 | 164,984 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 18 | – | 50,703 | – | 55,261 |
| **NET ASSETS** | | 59,459 | 149,744 | 58,847 | 109,723 |
| **Capital and reserves** | | | | | |
| Share capital | 19 | 50,000 | 50,000 | 50,000 | – |
| Reserves | 20 | 9,459 | 99,744 | 8,847 | 109,723 |
| **TOTAL EQUITY** | | 59,459 | 149,744 | 58,847 | 109,723 |

## C. BALANCE SHEETS

The following is a summary of the balance sheet of Luck Grow as at 31 December 2005 and 30 April 2006, which is presented on the basis set out in note 1 under Section F below:

| | *Notes* | **At 31 December 2005** *HK$'000* | **At 30 April 2006** *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | 11 | – | 50,000 |
| **Current assets** | | | |
| Bank and cash balances | | 3 | 3 |
| **Current liabilities** | | | |
| Due to a director | 14 | 3 | 50,003 |
| **Net current liabilities** | | – | (50,000) |
| **Total assets less current liabilities** | | – | – |
| **NET ASSETS** | | – | – |
| **Capital and reserves** | | | |
| Share capital | 19 | – | – |
| Reserves | 20 | – | – |
| **TOTAL EQUITY** | | – | – |

## D. COMBINED STATEMENT OF CHANGES IN EQUITY

The following is a summary of the combined statement of changes in equity of the Target Group for the Relevant Period, which is presented on the basis set out in note 1 under Section F below:

| | Share capital | Exchange reserve | Retained profits | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 25 February 2004 (date of incorporation) | – | – | – | – |
| Issue of shares | 50,000 | – | – | 50,000 |
| Net profit for the period | – | – | 9,459 | 9,459 |
| Balance at 31 December 2004 | 50,000 | – | 9,459 | 59,459 |
| Balance at 1 January 2005 | 50,000 | – | 9,459 | 59,459 |
| Net profit for the year | – | – | 90,285 | 90,285 |
| Balance at 31 December 2005 | 50,000 | – | 99,744 | 149,744 |
| Balance at 1 January 2006 | 50,000 | – | 99,744 | 149,744 |
| Elimination of share capital arising from acquisition | (50,000) | – | – | (50,000) |
| Net profit for the period | – | – | 7,009 | 7,009 |
| Exchange reserve | – | 2,970 | – | 2,970 |
| Balance at 30 April 2006 | – | 2,970 | 106,753 | 109,723 |
| Balance at 1 January 2005 | 50,000 | – | 9,459 | 59,459 |
| Net loss for the period | – | – | (612) | (612) |
| Balance at 30 April 2005 (unaudited) | 50,000 | – | 8,847 | 58,847 |

## E. COMBINED CASH FLOW STATEMENT

The following is a summary of the combined cash flow statement of the Target Group for the Relevant Period, which is presented on the basis set out in note 1 under Section F below:

| | Period ended 31 December 2004 | Year ended 31 December 2005 | Four months ended 30 April 2005 | 2006 |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| **Operating activities** | | | | |
| Profit/(loss) before taxation | 9,459 | 90,285 | (612) | 10,791 |
| Adjustments for: | | | | |
| Depreciation | – | 58 | – | 25 |
| Negative goodwill | – | (92,944) | – | – |
| Surplus on revaluation | – | – | – | (10,724) |
| Interest income | – | (11) | – | (2) |
| Interest expenses | – | – | – | 109 |
| Share of results of an associate | (9,757) | – | (71) | – |
| Foreign exchange gain, net | – | – | – | (513) |
| **Operating loss before changes in working capital** | (298) | (2,612) | (683) | (314) |
| (Increase)/decrease in other receivables and prepayments | (36) | (1,403) | (117) | 2,630 |
| (Increase)/decrease in due from director | (45,241) | 45,048 | 820 | 193 |
| Increase/(decrease) in other payables, accruals and related parties | 7 | 1,437 | 11 | (24,430) |
| Increase in due to a director | – | – | – | 23,105 |
| Decrease in due to a former shareholder | – | – | – | (1,185) |
| **Cash (used in)/generated from operations** | (45,568) | 42,470 | 31 | (1) |
| Tax paid | – | – | – | – |
| **Net cash (used in)/generated from operating activities** | (45,568) | 42,470 | 31 | (1) |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | (142) | (52) | – | (22) |
| Acquisition of a subsidiary net of cash acquired *(note 21)* | – | (41,344) | – | – |
| Investment in an associates | (4,252) | – | | |
| Interest received | – | 11 | – | 2 |
| **Net cash used in investing activities** | (4,394) | (41,385) | – | (20) |

**E. COMBINED CASH FLOW STATEMENT** *(Continued)*

| | Period ended 31 December 2004 | Year ended 31 December 2005 | Four months ended 30 April 2005 | 2006 |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| **Financing activities** | | | | |
| Proceeds from issue of shares | 50,000 | – | – | – |
| Interest paid | – | – | – | (109) |
| **Net cash generated from financing activities** | 50,000 | – | – | (109) |
| **Net increase/(decrease) in cash and cash equivalents** | 38 | 1,085 | 31 | (130) |
| **Cash and cash equivalents at the beginning of period/ year** | – | 38 | 38 | 1,123 |
| **Cash and cash equivalents at the period/year ended** | 38 | 1,123 | 69 | 993 |

## F. NOTES TO FINANCIAL INFORMATION

### 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The combined income statements and combined cash flow statements include the results and cash flows of the companies comprising the Target Group as if the current group structure had been in existence throughout the Relevant Period, or since their respective dates of incorporation/establishment or acquisition, where this is a shorter period. The combined balance sheets of the Target Group as at 31 December 2004 and 2005 and 30 April 2006 have been prepared to present the assets and liabilities of the companies now comprising the Target Group as if the current group structure had been in existence at those dates.

During the period ended 30 April 2006, Luck Grow acquired Lok Wing, where Mr Xu Dong, Peter ("Mr. Xu") was the controlling shareholder of Luck Grow and Lok Wing, the Target Group has accounted for such business combination involving entities under common control by the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

**(a) Statement of compliance**

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The new and revised HKFRSs have been adopted in presenting the Financial Information.

However, the Target Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at the date of this report. The sole director anticipates that the application of these standards, amendments and interpretations will have no material impact on the Financial Information of the Target Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures [1] |
| HKFRS 7 | Financial instruments: Disclosures [1] |
| HK(IFRIC)-INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2] |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2 [3] |
| HK(IFRIC)-INT 9 | Reassessment of embedded derivatives [4] |

[1] Effective for annual periods beginning on or after 1 January 1997.
[2] Effective for annual periods beginning on or after 1 March 1996.
[3] Effective for annual periods beginning on or after 1 May 1996.
[4] Effective for annual periods beginning on or after 1 June 1996.

**(b) Basis of preparation of the financial statements**

The presentation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The Financial Information has been prepared on the going concern basis notwithstanding that the Target Group has significant net current liabilities at the balance sheet date, as the director has confirmed its intention of not demanding repayment until the Target Group has the financial and liquidity capacity to proceed with settlement of these indebtedness.

1. **BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(b) Basis of preparation of the financial statements** *(Continued)*

The Financial Information has been prepared under the historical cost basis except that investment properties are stated at their fair value as explained in the accounting policies set out below.

**(c) Subsidiaries**

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Target Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Target Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Target Group, except for those acquisitions which quality as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, an investment in a controlled subsidiary is consolidated from the date that control commences until the date that control ceases.

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

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

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

In Luck Grow's balance sheet, an investment in a subsidiary is stated at cost less impairment losses *(see note 1(j))*.

**(d) Associate**

An associate is an entity in which the Target Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in associate is accounted for in the combined financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets, unless it is classified as held for sale.

The combined income statement includes the Target Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the Target Group's share of losses exceeds its interest in the associate, the Target Group's interest is reduced to nil and recognition of under losses is discontinued except to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Target Group's interest in the associate is the carrying amount of the investment under the equity method together with the Target Group's long-term interests that in substance form part of the Group's net investment in the associate.

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Unrealized losses resulting from transactions between the Target Group and its associates are eliminated to the extent of the Target Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

**(e) Revenue Recognition**

Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

i) Rental income receivable under operating leases is recognised in income statement under equal instalments over the periods covered by the lease term.

ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

**(f) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Target Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Target Group's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

On disposal of a cash generating unit, an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(g) Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of plant and equipment less their estimated residual values, if any, using the straight line method over their following estimated useful lives as follows:

| | |
|---|---|
| Motor vehicles | 9% |
| Furniture and fixtures | 18% |
| Office equipment | 18% |
| Computer equipment | 18% |

Gains or losses arising from the disposal or retirement of an item of plant and equipment are the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

Where parts of an item of plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(h) Investment properties**

Investment properties are land and buildings which are owned to earn rental income and for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in income statement. Rental income from investing properties is accounted for as described in note 1(e)(i).

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(i) Operating lease**

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight line basic over the period of the lease term except where the property is classified as an investment property.

**(j) Impairment of assets**

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

– plant and equipment;
– investments in a subsidiary and an associate; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversal of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

**(k) Taxation**

Taxation represents the sum of the tax currently payable and deferred taxation.

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

1. **BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(k) Taxation** *(Continued)*

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

Deferred income tax is provided in full, using the liability method, at the current tax rate on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reducing to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

**(l) Other receivables**

Other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

**(m) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(n) Other payables**

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

**(o) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group or Luck Grow has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(p) Employee benefits**

Salaries, wages, annual bonuses, paid annual leaves and other employment benefits are accrued for in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(q) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognizied in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

**(r) Related parties**

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

**(s) Segment reporting**

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

No business and geographical segments are presented as all the revenue and assets relate to rental income from investment properties in the PRC for the Relevant Period.

**2. TURNOVER**

Turnover represents the gross rental income from investment properties.

### 3. OTHER REVENUE

The other revenue derived by the Target Group during the Relevant Period are as follows:

| | Period ended 31 December 2004 HK$'000 | Year ended 31 December 2005 HK$'000 | Four months ended 30 April 2005 HK$'000 (unaudited) | Four months ended 30 April 2006 HK$'000 |
|---|---|---|---|---|
| Negative goodwill *(Note 21)* | – | 92,944 | – | – |
| Bank interest income | – | 11 | – | 2 |
| Exchange difference | – | 82 | – | – |
| Revaluation surplus | – | – | – | 10,724 |
| | – | 93,037 | – | 10,726 |

### 4. PROFIT/(LOSS) BEFORE TAXATION

Profit from operations is arrived at after crediting:

| | Period ended 31 December 2004 HK$'000 | Year ended 31 December 2005 HK$'000 | Four months ended 30 April 2005 HK$'000 (unaudited) | Four months ended 30 April 2006 HK$'000 |
|---|---|---|---|---|
| Auditors' remuneration | – | 4 | – | – |
| Depreciation | – | 58 | – | 25 |
| Operating lease rentals | 37 | 1,031 | 119 | 1,664 |
| Staff costs | | | | |
| – wages and salaries | 98 | 1,128 | 290 | 309 |
| – pensions scheme contribution | – | 24 | – | 5 |
| | 98 | 1,152 | 290 | 314 |

### 5. DIRECTORS' EMOLUMENTS

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

| | Period ended 31 December 2004 HK$'000 | Year ended 31 December 2005 HK$'000 | Four months ended 30 April 2005 HK$'000 (unaudited) | Four months ended 30 April 2006 HK$'000 |
|---|---|---|---|---|
| Fees | – | – | – | – |
| Other emoluments | 18 | 216 | 72 | 36 |
| | 18 | 216 | 72 | 36 |

None of the directors has waived any emoluments during the Relevant Period.

### 6. INDIVIDUALS WITH HIGHEST PAID

The five highest paid individuals during the Relevant Period are non-directors. The details of the remuneration of these employees are as follows:

| | Period ended 31 December 2004 *HK$'000* | Year ended 31 December 2005 *HK$'000* | Four months ended 30 April 2005 *HK$'000* (unaudited) | Four months ended 30 April 2006 *HK$'000* |
|---|---|---|---|---|
| Salaries, allowances and benefits in kind | 91 | 744 | 225 | 168 |

The remuneration of the five individuals with highest paid is within the following bands:

| | Number of individuals | | | |
|---|---|---|---|---|
| | Period ended 31 December 2004 | Year ended 31 December 2005 | Four months ended 30 April 2005 (unaudited) | Four months ended 30 April 2006 |
| HK$Nil – HK$1,000,000 | 5 | 5 | 5 | 5 |

### 7. TAXATION

(a) Taxation charge in the income statement represents:

| | Period ended 31 December 2004 *HK$'000* | Year ended 31 December 2005 *HK$'000* | Four months ended 30 April 2005 *HK$'000* (unaudited) | Four months ended 30 April 2006 *HK$'000* |
|---|---|---|---|---|
| Current tax | – | – | – | 245 |
| Deferred tax | – | – | – | 3,537 |
| | – | – | – | 3,782 |

(b) Reconciliation between tax expense and accounting profit:

| | Period ended 31 December 2004 *HK$'000* | Year ended 31 December 2005 *HK$'000* | Four months ended 30 April 2005 *HK$'000* (unaudited) | Four months ended 30 April 2006 *HK$'000* |
|---|---|---|---|---|
| Profit/(loss) before taxation | 9,459 | 90,285 | (612) | 10,791 |
| Taxation at the applicable tax rate to profits in the countries concerned | (52) | 30,184 | (120) | 3,665 |
| Tax losses not recognized as deferred tax assets | 52 | 440 | 120 | 117 |
| Tax effect on unrecognized timing difference | – | (30,624) | – | – |
| Tax expense | – | – | – | 3,782 |

**8. PLANT AND EQUIPMENT**

**The Target Group**

| | **Leasehold improvements** *HK$'000* | **Office equipment** *HK$'000* | **Furniture and fixture** *HK$'000* | **Motor vehicles** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 25 February 2004 | – | – | – | – | – |
| Additions | 37 | 41 | 64 | – | 142 |
| At 31 December 2004 | 37 | 41 | 64 | – | 142 |
| At 1 January 2005 | 37 | 41 | 64 | – | 142 |
| Acquisition of a subsidiary | – | 42 | – | 395 | 437 |
| Additions | – | 52 | – | – | 52 |
| At 31 December 2005 | 37 | 135 | 64 | 395 | 631 |
| At 1 January 2006 | 37 | 135 | 64 | 395 | 631 |
| Additions | – | 21 | 1 | – | 22 |
| Exchange realignment | – | 1 | – | 8 | 9 |
| At 30 April 2006 | 37 | 157 | 65 | 403 | 662 |
| **Accumulated depreciation** | | | | | |
| At 25 February 2004 | – | – | – | – | – |
| Charge for the period | – | – | – | – | – |
| At 31 December 2004 | – | – | – | – | – |
| At 1 January 2005 | – | – | – | – | – |
| Charge for the year | 1 | 23 | 11 | 23 | 58 |
| At 31 December 2005 | 1 | 23 | 11 | 23 | 58 |
| At 1 January 2006 | 1 | 23 | 11 | 23 | 58 |
| Charge for the period | – | 9 | 4 | 12 | 25 |
| Exchange realignment | – | – | – | 1 | 1 |
| At 30 April 2006 | 1 | 32 | 15 | 36 | 84 |
| **Net book value** | | | | | |
| At 30 April 2006 | 36 | 125 | 50 | 367 | 578 |
| At 31 December 2005 | 36 | 112 | 53 | 372 | 573 |
| At 31 December 2004 | 37 | 41 | 64 | – | 142 |

**9. INVESTMENT PROPERTIES**

**The Target Group**

| | *HK$'000* |
|---|---|
| **Valuation:** | |
| Balance at 25 February 2004 (date of incorporation) and 1 January 2005 | – |
| Arising on acquisition of subsidiaries | 226,179 |
| At 31 December 2005 | 226,179 |
| Fair value adjustment | 10,724 |
| Exchange realignment | 4,496 |
| At 30 April 2006 | 241,399 |

The investment properties are held in Mainland China under medium-term leases.

The investment properties were revalued on 31 December 2005 and 30 April 2006 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers on an open market, existing use basis. The investment properties are leased to third parties under operating leases.

At 30 April 2006, the investment properties with a value of approximately HK$241,399,000 (31 December 2005: HK$226,179,000) were pledged to secure general banking facilities granted to related companies.

**10. INTEREST IN AN ASSOCIATE**

**The Target Group**

| | **At 31 December** | | **At 30 April** | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Share of net assets | 14,009 | – | 14,080 | – |

The following list contains only the particulars of an associate, which is an unlisted corporate entity and directly held by Lok Wing, which principally affected the results or assets of the Target Group.

| **Company** | **Form of business structure** | **Date and place of establishment and operation** | **Issued and fully paid up registered capital** | **Percentage of equity attributable to Lok Wing Direct** | **Principal activities** |
|---|---|---|---|---|---|
| Shanghai Xiang Chen Hang | Wholly foreign owned enterprise | 16 June 2004 mainland China | US$5,901,540 | 30% | Property Investment |

*Notes:*

i) On 16 March 2005 and 18 August 2005, Lok Wing acquired 25% and 45% of shares of Shanghai Xiang Chen Hang from Shanghai Xiwu Industry Co., Ltd. (上海錫武實業有限公司) separately. Shanghai Xiang Chen Hang was a wholly owned subsidiary of Lok Wing as defined under note 1(c).

ii) The registered capital of Shanghai Xiang Chen Hang is US$17,000,000 and US$5,901,540 has been paid up. In accordance with the relevant rules and regulation, the remaining unpaid registered capital will be paid up within 30 days from 2 June 2008.

## 11. INTEREST IN SUBSIDIARIES

**Luck Grow**

| | At 31 December | | At 30 April | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Unlisted shares, at cost | – | – | – | 50,000 |

The following list contains only the particulars of a subsidiary which principally affected the results, assets and liabilities of the Target Group. The class of shares held are ordinary unless otherwise stated.

It is controlled subsidiary as defined under note 1(c) and have been consolidated into the Target Group financial statements.

| Company | Form of business structure | Date and place of establishment and operation | Issued and fully paid up share capital/ registered capital | Percentage of equity attributable to Luck Grow Direct | Percentage of equity attributable to Luck Grow Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Lok Wing Group Limited | Wholly owned | 25 February 2004 Hong Kong | Ordinary shares HK$50,000,000 | – | 100% | Investment holding |
| Shanghai Xiang Chen Hang | Wholly owned foreign enterprise | 16 June 2004 mainland China | Registered capital US$5,901,540 | 100% | – | Property Investment |

* The registered capital of Shanghai Xiang Chen Hang is US$17,000,000 and US$5,901,540 has been paid up. In accordance with the relevant rules and regulation, the remaining unpaid registered capital will be paid up within 30 days from 2 June 1998. According to《中華人民共和國外資企業法實施細則》(Rules for the Implementation of the Law of the People's Republic of China on Foreign-funded Enterprises), Lok Wing is required to settle all the outstanding amount (i.e. US$11,098,460) of capital within 30 days from 2 June 2008. Otherwise, the Certificate of Incorporation of Shanghai Xiang Chen Hang will become invalid with immediate effect.

## 12. DUE FROM A DIRECTOR

Mr. Xu

| | At 31 December | | At 30 April | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Balance at beginning of the year/period | – | 45,241 | 45,241 | 193 |
| Balance at end of the year/period | 45,241 | 193 | 44,421 | – |
| Maximum debit balance during the year/period | 50,000 | 45,241 | 45,241 | 193 |

The amount is unsecured, interest free and repayable on demand.

**13. DUE FROM RELATED PARTIES**

| | At 31 December | | At 30 April | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Shanghai Shiyu Industry Co., Ltd. 上海仕昱實業有限公司* | – | 2,264 | – | – |
| Shanghai Fu Yu Hang Development Co., Ltd. 上海复裕行經貿發展有限公司** | – | 381 | – | – |
| | – | 2,645 | – | – |

The above balances are unsecured, interest free and repayable on demand. No provision was made against the balances at 30 April 2006 (30 April 2005, 31 December 2005 and 2004: Nil)

* Mr. Xu was the shareholder and director of Luck Grow and Mr. Xie Hong Miao (解弘淼) was the director of Shanghai Xiang Chen Hang, both were the shareholders of Shanghai Shiyu Industry Co., Ltd.

** Mr. Li Xi (李曦), the director of Shanghai Xiang Chen Hang, was the shareholder of Shanghai Fu Yu Hang Development Co., Ltd.

Maximum amount outstanding during the year:

| | At 31 December | | At 30 April | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Shanghai Shiyu Industry Co., Ltd. | – | 2,264 | – | 2,264 |
| Shanghai Fu Yu Hang Development Co., Ltd. | – | 381 | – | 381 |
| | – | 2,645 | – | 2,645 |

**14. DUE TO A DIRECTOR**

The amount is unsecured, interest free and repayable on demand.

**15. DUE TO RELATED PARTIES**

The amount is unsecured, interest free and repayable on demand.

**16. DUE TO A FORMER SHAREHOLDER**

The amount is unsecured, interest free and repayable on demand.

**17. TAX PAYABLE**

| | At 31 December | | At 30 April | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Income tax | – | – | – | 245 |

**18. DEFERRED TAX LIABILITIES**

The followings are the deferred tax liabilities recognised by the Target Group and the movement thereon during the Relevant Period:

| | **Revaluation of properties** |
|---|---|
| | *HK$'000* |
| At 25 February 2004 (date of incorporation) and 1 January 2005 | – |
| Acquisition of a subsidiary | 50,703 |
| At 31 December 2005 | 50,703 |
| Charge to income for the year | 3,537 |
| Exchange realignment | 1,021 |
| At 30 April 2006 | 55,261 |

Deferred tax assets are recognized for tax losses carry forwards to the extent that the realization of the related benefit through the future taxable profits is probable. The Target Group did not recognize deferred tax assets of HK$52,000, HK$440,000 and HK$120,000 as at 31 December 2004, 2005 and 30 April 2006 in respect of unused tax losses amounting to HK$298,000, HK$2,516,000 and HK$684,000 as at 31 December 2004, 2005 and 30 April 2006 respectively.

**19. SHARE CAPITAL**

**The Target Group**

For the purpose of the preparation of the combined balance sheets, the balances of paid in capital at 31 December 2004 and 2005 and 30 April 2006 respectively represent the aggregate amount of paid-in capital of the following companies:

| | **At 31 December** | | **At 30 April** | |
|---|---|---|---|---|
| **Name of company** | **2004** | **2005** | **2005** | **2006** |
| | *HK$* | *HK$* | *HK$* (unaudited) | *HK$* |
| Luck Grow | – | 8 | – | 8 |
| Lok Wing | 50,000,000 | 50,000,000 | 50,000,000 | – |
| | 50,000,000 | 50,000,008 | 50,000,000 | 8 |

**Luck Grow**

Luck Grow was incorporated in the British Virgin Islands on 8 August 2005 with an authorized share capital of US$50,000 divided into 50,000 shares of US$1 each. As at 31 December 2005 and 30 April 2006, one share of Luck Grow was issued at US$1 each.

## 20. RESERVES

| | Retained profits *HK$'000* | Exchange reserve *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Balance at 25 February 2004 (date of incorporation) | – | – | – |
| Net profit for the period | 9,459 | – | 9,459 |
| Balance at 31 December 2004 | 9,459 | – | 9,459 |
| Balance at 1 January 2005 | 9,459 | – | 9,459 |
| Net profit for the year | 90,285 | – | 90,285 |
| Balance at 31 December 2005 | 99,744 | – | 99,744 |
| Balance at 1 January 2006 | 99,744 | – | 99,744 |
| Net profit for the period | 7,009 | – | 7,009 |
| Exchange differences arising from translation of foreign operations | – | 2,970 | 2,970 |
| Balance at 30 April 2006 | 106,753 | 2,970 | 109,723 |
| Balance at 1 January 2005 | 9,459 | – | 9,459 |
| Net loss for the period | (612) | – | (612) |
| Balance at 30 April 2005 (unaudited) | 8,847 | – | 8,847 |

## 21. ACQUISITION OF A SUBSIDIARY

During 2005, Lok Wing further acquired equity interest in Shanghai Xiang Chen Hang from 30% to 100% for cash consideration of approximately HK$42,297,000. Shanghai Xiang Chen Hang is a company engaged in the business of property investment. The financial effect of the acquisition is analysed as follows:

| | Fair value *HK$'000* |
|---|---|
| Investment properties | 226,179 |
| Property, plant and equipment | 437 |
| Other receivables and prepayments | 1,999 |
| Bank and cash balances | 953 |
| Other payables and accruals | (28,430) |
| Due to former shareholder | (1,185) |
| Deferred tax liabilities | (50,703) |
| Net assets | 149,250 |
| Less: Interest in associate in 2004 | (14,009) |
| Net assets further acquired | 135,241 |
| Represented by: | |
| Purchase consideration paid | 42,297 |
| Excess of fair value of net identifiable assets acquired over cost of acquisition of Shanghai Xiang Chen Hang | 92,944 |
| | 135,241 |

**21. ACQUISITION OF A SUBSIDIARY** *(Continued)*

Analysis of the net outflow of cash and cash equivalent as a result of the acquisition is as follows:

| | At 31 December 2005 |
|---|---|
| | HK$'000 |
| Purchase consideration paid | 42,297 |
| Bank and cash balances | (953) |
| | 41,344 |

**22. RETIREMENT BENEFITS SCHEME**

The group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the Target Group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to the consolidated income statement represents contributions payable to the MPF scheme by the Target Group at rates specified in the rules of the MPF scheme.

Employees who are employed in the mainland China are members of the state-sponsored pension scheme operated by the mainland Chinese government. The group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Target Group with respect to the pension scheme is to make the required contributions under the scheme.

**23. OPERATING LEASE COMMITMENTS**

**(a) The Target Group as lessor:**

The Target Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits. At the balance sheet date, the Target Group had total future minimum lease receivable under non-cancellable operating leases with its tenant as follows:

| | **At 31 December** | | **At 30 April** | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Within one year | – | 11,565 | – | 11,925 |
| In the second to fifth years, inclusive | – | 45,022 | – | 42,890 |
| Over five years | – | 13,114 | – | 12,321 |
| | – | 69,701 | – | 67,136 |

**(b) The Target Group as lessee:**

The Target Group has the following commitments for future lease payments under non-cancellable operating leases which fall due as follows:

| | **At 31 December** | | **At 30 April** | |
|---|---|---|---|---|
| | **2004** | **2005** | **2005** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* (unaudited) | *HK$'000* |
| Within one year | 659 | 5,147 | 659 | 4,014 |
| In the second to fifth years, inclusive | 567 | 5,208 | 348 | 5,031 |
| | 1,226 | 10,355 | 1,007 | 9,045 |

**24. CONTINGENT LIABILITIES**

At 30 April 2006, the Target Group had contingent liabilities in respect of guarantee on banking facilities given by a subsidiary of approximately HK$121,359,000 (2005: HK$111,650,000; 2004: Nil) granted to related companies. (Refer to 25(c) for details)

**25. MATERIAL RELATED PARTY TRANSACTIONS**

Parties are considered to be related if they have the ability, directly and indirectly, to control the parties or exercise significant influence over the Target Group in making financial and operating decisions, or vice versa, or where the Target Group and the parties are subject to common control or common significant influence.

**(a) Name and relationship with related parties**

| **Name** | **Relationship** |
|---|---|
| Shanghai Miao Dong Trading Development Co., Ltd. 上海淼東經貿發展有限公司 | Mr. Xu and Mr. Xie Hong Miao were the shareholders |
| Shanghai Yun Sheng Mao Shi Trading Co., Ltd. 上海運盛茂實經貿有限公司 | Mr. Xu and Mr. Xie Hong Miao were the shareholders |
| Shanghai Xuan Yue Enterprises Development Co., Ltd. 上海悦軒企業發展有限公司 | Mr. Xie Hong Miao was the statutory legal representative |
| Shanghai Shiyu Industry Co., Ltd. 上海仕昱實業有限公司 | Mr. Xu and Mr. Xie Hong Miao were the shareholders |
| Shanghai Fu Yu Hang Development Co., Ltd. 上海复裕行經貿發展有限公司 | Mr. Li Xi was the shareholder |
| Shanghai Xiwu Industry Co., Ltd. 上海錫武實業有限公司 | Shanghai Xiwu Industry Co., Ltd. was the former shareholder of Shanghai Xiang Chen Hang from the date of establishment of Shanghai Xiang Chen Hang to 30 August 2005 |
| Shanghai Xu Hui Co., Ltd. 上海續輝物資有限公司 | Mr. Xu was the shareholder |
| Shanghai Chen Xuan Trading Co., Ltd. 上海辰炫貿易有限公司 | Ms. Xu Bei was the director |
| Shanghai Wenpang Business and Trading Consultancy Co., Ltd. 上海文鵬商貿咨詢有限公司 | Mr. Xu and Mr. Xie Hong Miao were the shareholders |
| Shanghai Jinqiyuan Trading Co., Ltd. 上海金啟淵貿易有限公司 | Mr. Xu and Mr. Xie Hong Miao were the shareholders |

* Mr. Xu was the shareholder and director of Luck Grow and Mr. Xie Hong Miao was the director of Shanghai Xiang Chen Hang, both were the shareholders of Shanghai Miao Dong Trading Development Co., Ltd., Shanghai Yun Sheng Mao Shi Trading Co., Ltd., Shanghai Shiyu Industry Co., Ltd.

** Mr. Li Xi the director of Shanghai Xiang Chen Hang, was the shareholder of Shanghai Fu Yu Hang Development Co., Ltd.

**(b) Transaction with related parties**

During the Relevant Periods, the Target Group had the following significant transactions with related parties.

i) As at 31 December 2005, the Target Group had loan payable of approximately HK$10,048,000 for Shanghai Miao Dong Trading Development Co., Ltd. The amount was unsecured, interest-free and with no fixed terms of repayment. The amounts outstanding were subsequently fully settled in 2006.

ii) As at 31 December 2005, the Target Group had loan payable of approximately HK$543,000 for Shanghai Yun Sheng Mao Shi Trading Co., Ltd. The amount was unsecured, interest-free and with no fixed terms of repayment. The amounts outstanding were subsequently fully settled in 2006.

**25. MATERIAL RELATED PARTY TRANSACTIONS** *(Continued)*

**(b) Transaction with related parties** *(Continued)*

iii) As at 31 December 2005, the Target Group had loan payable of approximately HK$9,829,000 for Shanghai Xuan Yue Enterprises Development Co., Ltd. The amount was unsecured, interest-free and with no fixed terms of repayment. The amount outstanding were subsequently fully settled in 2006.

iv) In 2004, 2005 and 2006, Shanghai Shiyu Industry Co., Ltd. borrowed loans of approximately HK$130,000, HK$2,702,000 and HK$385,000 respectively from the Target Group. The amount was unsecured, interest-free and with no fixed terms of repayment. The amount was settled in March 2006.

v) In 2005, Shanghai Fu Yu Hang Development Co., Ltd. borrowed a loan of approximately HK$381,000 from the Target Group. The amount was unsecured, interest-free and with no fixed terms of repayment. The amount was settled in March 2006.

vi) One of the directors, Mr. Xu at his own free will for zero consideration paid the rent on behalf of one of the subsidiaries amounting to approximately HK$943,000 for the six months ended in 2005.

vii) In 2006, the Target Group received approximately HK$623,000 from Shanghai Shiyu Industry Co., Ltd. as four months rental income.

viii) On 16 December 2005, the Target Group experienced liquidity problem and borrowed a loan as working capital of approximately HK$1,207,355 with interest rate of 5% per annum for the period from January to March 2006 from Shanghai Xiwu Industry Co., Ltd. The loan was repaid before period ended 30 April 2006. On 20 March 2006, the Target Group also borrowed a loan from Shanghai Xiwu Industry Co., Ltd. of approximately HK$10,236,000 with interest rate of 5% per annum for the period from April to December 2006.

ix) On 20 March 2006 and 25 March 2006 respectively, the Target Group entered into two loan agreements with Shanghai Xiwu Industry Co., Ltd. and Shanghai Chen Xuan Trading Co. Ltd., for loans amounting to approximately HK$10,236,000 and HK$12,486,000. Subsequently, the agreements were cancelled and replaced by debt reassignments dated 30 April 2006. All the debts due to Shanghai Xiwu Industry Co., Ltd. and Shanghai Chen Xuan Trading Co., Ltd. were reassigned to Mr. Xu.

x) In 2004, 2005 and 2006, the Target Group experienced liquidity problem and borrowed an interest free loans as working capital of approximately HK$28,846,000, HK$27,479,000 and HK$423,000 respectively from Shanghai Xu Hui Co., Ltd. The loans were fully repaid before period ended 30 April 2006.

xi) In 2006, the Target Group received commission income of approximately HK$257,000 from Shanghai Wenpang Business and Trading Consultancy Co., Ltd.

xii) On 12 December 2005, the Target Group entered into a tenancy agreement with Shanghai Jinqiyuan Trading Co., Ltd. to lease out the surface of a property located at Nos. 277 and 289 Lan Xi Road, Putong District, Shanghai (Property B).

**(c) Guarantees**

As at 30 April 2006, the Target Group pledged certain property interests to the banks to secure credit facilities to the extent of HK$121,359,000 (2005: HK$111,650,000; 2004: Nil) granted to Shanghai Xiwu Industry Co., Ltd, Shanghai Chen Xuan Trading Co. Ltd. and Shanghai Xu Hui Co., Ltd. for working capital funding purpose. The Target Group agreed to provide securities for them as they were related parties.

**(d)** The key management personnel are the directors of the Target Group. The details of the remuneration paid to them are set out in note 5.

**26. POST BALANCE SHEET EVENT**

On 28 July 2006 and 18 August 2006, the Target Group entered into two loan agreements with Agricultural Bank of China for bank loans of approximately HK$38,835,000 and HK$38,835,000 respectively at 5.85% interest rate and repayable before 23 July 2007 and 25 July 2007 respectively. The loans were secured by a property located at Nos. 277 and 289 Lan Xi Road, Putong District, Shanghai (Property B).

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chan Wai Dune, Charles**
Practising Certificate Number P00712 ”

## 2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE LUCK GROW GROUP

"**For the period from 25 February 2004 (date of incorporation of Lok Wing) to 31 December 2004**

*Business, review, results and dividends*

For the period from 25 February 2004 (date of incorporation of Lok Wing) to 31 December 2004, Shanghai Xiang Chen Hang has not yet become a subsidiary of the Target Group and the Target Group had no other business except investment holding of Shanghai Xiang Chen Hang as associate. Accordingly, there was no turnover during the period. The Target Group recorded profit for the period of approximately HK$10 million as the Target Group share of associate profit of approximately HK$10 million during the period, which was mainly due to share of the revaluation surplus generated by Shang Xiang Chen Hang.

*Liquidity and financial resources*

As at 31 December 2004, the Target Group's total assets amounted to approximately HK$59 million which was mainly attributable to interest in an associate of approximately HK$14 million and amount due from a director of approximately HK$45 million. It was in a net current asset of approximately HK$45 million. The Target Group had no bank and other borrowings as at 31 December 2004 and accordingly, the gearing ratio was zero as at 31 December 2004.

*Employee and remuneration policies*

As at 31 December 2004, the Target Group had about 2 employees in the HK and the remuneration was determined by reference to market terms and the performance, qualification and experience of individual employees. The Target Group also provided a contributory provident fund and insurance scheme to its employees.

*Contingent liabilities*

The Target Group had no contingent liabilities as at 31 December 2004.

**For the year ended 31 December 2005**

For the year ended 31 December 2005, the rental income was approximately HK$2 million as Shanghai Xiang Chen Hang commenced the rental business in fourth quarter of 2005. The Target Group recorded profit for the year of approximately HK$90 million as the Target Group recorded a negative goodwill of HK$93 million when it further acquired Shanghai Xiang Chen Hang as subsidiary in 2005.

*Liquidity and financial resources*

As at 31 December 2005, the Target Group's total assets amounted to approximately HK$232 million which was mainly attributable to investment properties of approximately HK$226 million and amount due from related parties of approximately HK$3 million. It had net current liabilities of approximately HK$26 million. The Target Group had no bank and other borrowings as at 31 December 2005 and accordingly, the gearing ratio was zero as at 31 December 2005.

*Employee and remuneration policies*

As at 31 December 2005, the Target Group had about 3 and 18 employees in the HK and the PRC, respectively, the remuneration was determined by reference to statutory minimum wages, market terms and the performance, qualification and experience of individual employees. The Target Group also provided a contributory provident fund and insurance scheme to its employees.

*Contingent liabilities*

As at 31 December 2005, the Target Group had contingent liabilities in respect of guarantee on banking facilities given by a subsidiary of approximately 112 million granted to related companies.

**For the four months ended 30 April 2006**

For the four months ended 30 April 2006, the rental income was approximately HK$3 million. The Group recorded profit for the period of approximately HK$7 million as the Target Group recorded a revaluation surplus of approximately HK$11 million during the period.

*Liquidity and financial resources*

As at 30 April 2006, the Target Group's total assets amounted to approximately HK$244 million which was mainly attributable to investment properties of approximately HK$241 million. It had net current liabilities of approximately HK$77 million. The Target Group had no bank and other borrowings as at 30 April 2006 and accordingly, the gearing ratio was zero as at 30 April 2006.

*Employee and remuneration policies*

As at 30 April 2006, the Target Group had about 2 and 21 employees in the HK and the PRC, respectively, the remuneration was determined by reference to statutory minimum wages, market terms and the performance, qualification and experience of individual employees. The Target Group also provided a contributory provident fund and insurance scheme to its employees.

*Contingent liabilities*

As at 30 April 2006, the Target Group had contingent liabilities in respect of guarantee on banking facilities given by a subsidiary of approximately HK$121 million granted to related companies. The Directors of the Group considers that the guarantees will only be released upon the expiry dates of Third Party Mortgages I, II and III."

CCIF

**CCIF CPA LIMITED**

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

6 March 2007

The Directors
Northern International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Northern International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 139 to 146 under the heading of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "unaudited pro forma financial information') in Appendix III of the Company's circular (the "Circular") dated 6 March 2007 in connection with the proposed disposal of the entire issued share capital of Asian Field Holdings Corp. ("Asian Field") and the rights of and benefits in the inter-company balance owing from Asian Field to the Company (the "Disposal"). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purpose only, to provide information on how the Disposal has affected the relevant financial information of the Group. The basis of preparation of the unaudited pro forma financial information is set out on pages 139 to 146 of the Circular.

**Respective Responsibilities of Directors of the Company and Reporting Accountants**

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom the reports were addressed by us at the dates of the issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Remaining Group as at 31 March 2006 or any future date: and

– the results and cash flows of the Remaining Group for the year ended 31 March 2006 or any future period.

**Opinion**

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong

**Chan Wai Dune, Charles**
Practising Certificate Number P00712

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma financial information of the Remaining Group have been prepared to illustrate the effect of the proposed disposal of the entire issued share capital of Asian Field and the rights and benefits in the inter-company balance owing for Asian Field to the Company (the "Disposal").

The consideration will be settled by:

(i) cash of HK$1 for the entire issued share of Asian Field

(ii) cash of HK$1 for the rights of and benefits in the inter-company balance owing from Asian Field.

### A. Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group assuming that the Disposal had been completed as at 31 March 2006. The unaudited pro forma consolidated balance sheet was prepared based on the unaudited proforma consolidated balance sheet of the Group as at 31 March 2006 which included in circular dated 31 October 2006 (the "VSA Pro forma Enlarged Group") with adjustments to reflect the effect of the Disposal.

The unaudited pro forma consolidated balance sheet is based on a number of assumptions. Accordingly, the accompany unaudited pro forma consolidated balance sheet of the Remaining Group does not purport to describe the actual financial position of the Remaining Group that would have been attained had the Disposal have been completed on 31 March 2006. The unaudited pro forma consolidated balance sheet of the Remaining Group does not purport to predict the future position of the Remaining Group.

This unaudited pro forma consolidated balance sheet was prepared by the directors for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Remaining Group at any given date.

## A. Unaudited pro forma consolidated balance sheet *(Continued)*

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | | Pro forma Remaining Group |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | **A** | **B** | **C** | **D=A+B+C** |
| | *(Note 1)* | *(Note 2)* | *(Note 3)* | |
| **NON-CURRENT ASSETS** | | | | |
| Fixed assets | | | | |
| – Property,plant and equipment | 10,030 | (9,446) | – | 584 |
| – Investment properties | 241,399 | – | – | 241,399 |
| – Investment in leasehold land held for own use under operating leases | 2,506 | (2,506) | – | – |
| Deferred tax assets | 6 | (6) | – | – |
| | 253,941 | (11,958) | – | 241,983 |
| **CURRENT ASSETS** | | | | |
| Stocks and work in progress | 12,073 | (12,073) | – | – |
| Trade and bills receivables | 8,139 | (8,139) | – | – |
| Other receivables, deposit and prepayment | 1,755 | (947) | – | 808 |
| Pledged deposits | 500 | (500) | – | – |
| Bank balances and cash *(Note 4)* | 15,821 | (39,630) | – | (23,809) |
| | 38,288 | (61,289) | – | (23,001) |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | 12,622 | (12,622) | – | – |
| Other payables and accruals | 16,868 | (9,760) | – | 7,108 |
| Due to a director | 3,136 | – | – | 3,136 |
| Due to related parties | 14,257 | (437) | – | 13,820 |
| Due to fellow subsidiaries | – | (72,663) | 72,663 | – |
| Obligations under finance leases | 743 | (743) | – | – |
| Interest-bearing borrowings | 12,530 | (12,530) | – | – |
| Promissory notes | 157,692 | – | – | 157,692 |
| Tax payable | 2,011 | (1,766) | – | 245 |
| | 219,859 | (110,521) | 72,663 | 182,001 |

## A. Unaudited pro forma consolidated balance sheet *(Continued)*

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | | Pro forma Remaining Group |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | **A** | **B** | **C** | **D=A+B+C** |
| | *(Note 1)* | *(Note 2)* | *(Note 3)* | |
| **NET CURRENT ASSETS/ (LIABILITIES)** | (181,571) | 49,232 | (72,663) | (205,002) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 72,370 | 37,274 | (72,663) | 36,981 |
| **NON-CURRENT LIABILITIES** | | | | |
| Deferred tax liabilities | 55,261 | – | – | 55,261 |
| Obligations under finance leases | 188 | (188) | – | – |
| Interest-bearing borrowings | 1,271 | (1,271) | – | – |
| | 56,720 | (1,459) | – | 55,261 |
| **NET ASSETS/(LIABILITIES)** | 15,650 | 38,733 | (72,663) | (18,280) |
| **CAPITAL AND RESERVES** | | | | |
| Share Capital | 58,299 | – | – | 58,299 |
| Reserves | (42,649) | 38,733 | (72,663) | (76,579) |
| Total equity attributable to equity shareholders of the company | 15,650 | 38,733 | (72,663) | (18,280) |
| **TOTAL EQUITY** | 15,650 | 38,733 | (72,663) | (18,280) |

*Notes:*

1. The financial information was derived from the circular of the Company dated 31 October 2006, with the adjustments reflecting the effect of the disposal by the Group of its entire interests in its investment properties (the "Panyu Properties") situated in Northern Industrial Complex, Panyu, Guangdong Province of the PRC, and the acquisition of the Shanghai Properties incorporated.

2. The adjustment represented the exclusion of the assets and liabilities of the Asian Field Group. The difference between such adjustment and the consolidated balance sheet of the Asian Field Group as set out in note 39 of Appendix I to this circular was due to the fact that the assets and liabilities of the Asian Field Group as set out in note 39 of Appendix I to this circular included the assets and liabilities of the Panyu Property, which was disposed in October 2006, while its assets and liabilities have already been excluded in the column VSA Proforma Enlarged Group (Column A). Financial information of the Panyu Properties are set out in the circular of the Company dated 14 August 2006.

3. The adjustment represented the consideration of HK$1 for the sale of the rights of and benefits in the inter–company balance owing from the Asian Field.

4. The negative amount of bank balances and cash had not taken into account the net proceeds of approximately HK$26,560,000 raised from the issue of 69,895,000 new Shares by way of placing at a price of HK$0.38 each, which was received in December 2006.

## B. Unaudited pro forma consolidated income statement and cash flow statement

The following is the unaudited pro forma consolidated income statement and cash flow statement of the Remaining Group assuming that the Disposal had been completed as of 1 April 2005. The unaudited pro forma consolidated income statement and cash flow statement were prepared based on the unaudited pro forma consolidated income statement and cash flow statement of the Group for the year ended 31 March 2006 which included in circular dated 31 October 2006 with adjustments to reflect the effect of the Disposal.

The unaudited pro forma consolidated income statement and cash flow statement is based on a number of assumptions. Accordingly, the accompanying unaudited pro forma consolidated income statement and cash flow statement of the Remaining Group do not purport to describe the actual financial position of the Remaining Group that would have been attained had the Disposal been completed as of 1 April 2005. The unaudited pro forma consolidated income statement and cash flow statement of the Remaining Group do not purport to predict the future position of the Remaining Group.

The unaudited pro forma consolidated income statement and cash flow statement were prepared by the directors for illustrative purposes only and because of its nature, may not give a true picture of the results of the Remaining Group for any financial period.

**B. Unaudited pro forma consolidated income statement and cash flow statement** *(Continued)*

**Unaudited pro forma consolidated income statement**

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | | | Pro forma Remaining Group |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | A | B | C | D | E=A+B+C+D |
| | *(Note 1)* | *(Note 2)* | *(Note 3)* | *(Note 4)* | |
| Turnover | 99,642 | – | – | (96,222) | 3,420 |
| Cost of sales | (102,721) | – | – | 102,721 | – |
| Gross (loss) / profit | (3,079) | – | – | 6,499 | 3,420 |
| Other revenue | 17,063 | – | – | (6,334) | 10,729 |
| Gain on disposal of subsidiary | – | 20,966 | – | – | 20,966 |
| Distribution costs | (7,855) | – | – | 7,855 | – |
| Administrative expenses | (25,247) | – | – | (313) | (25,560) |
| Other operating expenses | (6) | – | – | 6 | – |
| Loss on impairment for current account | – | – | (56,946) | – | (56,946) |
| (Loss)/profit from operations | (19,124) | 20,966 | (56,946) | 7,713 | (47,391) |
| Finance costs | (8,696) | – | – | 703 | (7,993) |
| (Loss)/profit before taxation | (27,820) | 20,966 | (56,946) | 8,416 | (55,384) |
| Income tax | (3,890) | – | – | 108 | (3,782) |
| (Loss)/profit for the period from continuing operations | (31,710) | 20,966 | (56,946) | 8,524 | (59,166) |
| Attributable to : | | | | | |
| Equity shareholders of the Company | (31,710) | 20,966 | (56,946) | 8,524 | (59,166) |
| | (31,710) | 20,966 | (56,946) | 8,524 | (59,166) |

*Notes:*

1. The financial information was derived from the circular of the Company dated 31 October 2006, with the adjustments reflecting the effect of the disposal by the Group of the Panyu Properties and the acquisition of the Shanghai Properties incorporated.

2. The adjustment represented the exclusion of the operating results of the Asian Field Group. The difference between such adjustment and the consolidated income statement of the Asian Field Group as set out in note 39 of Appendix I to this circular was due to the fact that the results of the Asian Field Group as set out in note 39 of Appendix I to this circular has included the results of the Panyu Property, which was disposed in October 2006, while its results have already been excluded in the column VSA Proforma Enlarged Group (Column A). Financial information of the Panyu Properties are set out in the circular of the Company dated 14 August 2006.

3. The adjustment represented the effect of disposal of the right of and benefits in the inter– company balance owing from Asian Field to the Company.

4. The amount represented the revenue and expenses of the disposal group were excluded for the year ended 31 March 2006.

**B. Unaudited pro forma consolidated income statement and cash flow statement** *(Continued)*

**Unaudited pro forma consolidated cash flow statement**

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | Pro forma Remaining Group |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | A | B | C=A+B |
| | *(Note 1)* | *(Note 2)* | |
| **Operating activities** | | | |
| Loss before taxation | (27,820) | (27,564) | (55,384) |
| Adjustment for: | | | |
| Amortisation of land lease premium | 114 | (114) | – |
| Finance costs | 703 | (703) | – |
| Interest income | (18) | 16 | (2) |
| Interest expenses | 7,993 | – | 7,993 |
| Depreciation | 2,584 | (2,531) | 53 |
| Goodwill | 277 | – | 277 |
| Gain on disposal of investment property | (3,470) | 3,470 | – |
| Gain on disposal of subsidiary | – | (20,966) | (20,966) |
| Surplus on fair value of investment property | (10,724) | – | (10,724) |
| Surplus on revaluation of buildings | (829) | 829 | – |
| Impariment for slow– moving and obsolete inventories | 53 | (53) | – |
| Written back of provision for due from assoicates | (771) | 771 | – |
| Loss on impairment for current account | – | 56,946 | 56,946 |
| Foreign exchange gain | (241) | (272) | (513) |
| **Operating loss before changes in working capital** | (32,149) | 9,829 | (22,320) |
| Decrease in inventories | 8,343 | (8,343) | – |
| Decrease in trad and bills receivables | 2,250 | (2,250) | – |
| Decrease in other receivables, deposits and prepayment | 5,343 | (2,713) | 2,630 |
| Decrease in due from director | 193 | – | 193 |
| Increase in trade payables | 1,539 | (1,539) | – |
| Increase/(decrease) in other payables and accruals | (23,768) | 7,029 | (16,739) |
| Decrease in due to associates | (884) | 120 | (764) |
| Decrease in due to former shareholders | (1,185) | – | (1,185) |
| Increase in due to directors | 22,034 | 3,650 | 25,684 |

**B. Unaudited pro forma consolidated income statement and cash flow statement** *(Continued)*

**Unaudited pro forma consolidated cash flow statement** *(Continued)*

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | Pro forma Remaining Group |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | A | B | C=A+B |
| | *(Note 1)* | *(Note 2)* | |
| Cash used in operations | (18,284) | 5,783 | (12,501) |
| Tax paid | (21) | 21 | – |
| Net cash used in operating activities | (18,305) | 5,804 | (12,501) |
| **Investing activities** | | | |
| Acquisition of subsidiaries | (24,812) | – | (24,812) |
| Pruchases of property, plant and equipment | (3,250) | 3,228 | (22) |
| Interest received | 18 | (16) | 2 |
| Net proceeds from disposals of investment property | 67,961 | (67,961) | – |
| Net cash (used in)/generated from investing activities | 39,917 | (64,749) | (24,832) |
| **Financing activities** | | | |
| Proceeds from issue of shares | 12,480 | – | 12,480 |
| Repayment of bank loans | (26,559) | 26,559 | – |
| Inception of finance leases | 1,615 | (1,615) | – |
| Capital element of finance lease rental paid | (923) | 923 | – |
| Interest element of finance lease rental paid | (71) | 71 | – |
| Interest paid | (741) | 632 | (109) |
| Share insurance expenses | (199) | 199 | – |
| Advance from related parties | (329) | 329 | – |

## B. Unaudited pro forma consolidated income statement and cash flow statement *(Continued)*

**Unaudited pro forma consolidated cash flow statement** *(Continued)*

| | As per VSA Pro forma Enlarged Group | Pro forma adjustments relating to the Disposal | Pro forma Remaining Group |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | **A** | **B** | **C=A+B** |
| | *(Note 1)* | *(Note 2)* | |
| Net cash generated from financing activities | (14,727) | 27,098 | 12,371 |
| Net increase/(decrease) in cash and cash equivalents | 6,885 | (31,847) | (24,962) |
| Cash and cash equivanlents at 1 April 2005 | 4,821 | – | 4,821 |
| Cash and cash equivanlents at 31 March 2006 | 11,706 | (31,847) | (20,141) |

*Notes:*

1. The financial information was derived from the circular of the Company dated 31 October 2006, with the adjustments reflecting the effect of the disposal by the Group of the Panyu Properties and the acquisition of the Shanghai Properties incorporated.

2. The adjustment represented the exclusion of the cash flows of the Asian Field Group. The difference between such adjustment and the consolidated cash flow statement of the Asian Field Group as set out in note 39 of Appendix I to this circular was due to the fact that the cash flows of the Asian Field Group as set out in note 39 of Appendix I to this circular has included the cash flows of the Panyu Property, which was disposed in October 2006, while its cash flows have already been excluded in the column VSA Proforma Enlarged Group (Column A). Financial information of the Panyu Properties are set out in the circular of the Company dated 14 August 2006.

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or chief executives and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or 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 Companies.

### (b) Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

| | **Capacity and nature of interest** | **Number of Shares held** | **Approximate percentage of the Company's issued share capital** |
|---|---|---|---|
| Win Channel Investments Limited *(Note 1)* | Directly beneficially owned | 65,000,000 | 15.50% |
| Chim Pui Chung *(Note 1)* | Through a controlled corporation | 65,000,000 | 15.50% |
| Pan Chien Pu | Directly beneficially owned | 58,000,000 | 13.83% |
| Easy Huge Holdings Limited *(Note 2)* | Directly beneficially owned | 48,000,000 | 11.45% |
| Ng Kin Wah *(Note 2)* | Through a controlled corporation | 48,000,000 | 11.45% |

*Note 1:* The interest was held by Win Channel Investments Limited, a company wholly owned by Mr Chim Pui Chung.

*Note 2:* The interest was held by Easy Huge Holdings Limited, a company wholly owned by Mr Ng Kin Wah.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

**(c) Share Options**

Details of the outstanding share options granted under the share option scheme of the Company as at the Latest Practicable Date were as follows:

| Name or category of participant | Number of share options | Date of grant | Exercise period | Exercise Price per Share *HK$* *(Note)* |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr. Wong Siu Keung, Joe | 850,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.2 |
| | 850,000 | | | |

*Note:* 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.

## MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group and are or may be material:

(1) an underwriting agreement dated 20 January 2005 between the Company and Kingston Securities Limited in relation to the issue of new shares of HK$0.01 each of the Company by way of open offer on the basis of one offer share for every share held;

(2) an agreement dated 8 July 2006 between the Northern Industrial (Panyu) Co., Ltd. and the 廣州市海珠區鳳陽街五鳳經濟聯合社 (Wufeng Economic Association, Feng Yang Street, Haizhu District, Guangzhou)#, which and whose ultimate beneficial owners are to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, a third party independent of and not connected with the Company and its connected persons (as defined under the Listing Rules) in relation the sale of 中國廣東省番禺區魚窩頭沙灣大橋南岸東側的北方工業城at the consideration of RMB75,000,000;

(3) a sale and purchase agreement dated 21 August 2006 entered into between the Company and Mr. Xu Dong in relation to the acquisition by the Company for the entire issued share capital of Luck Grow and the liabilities owing and incurring by Luck Grow and Shanghai Xiang Chen Hang Place The Industry Co. Limited to Mr. Xu Dong as at the date of completion of such sale and purchase agreement; and

(4) the S&P Agreement.

**LITIGATION**

The Company instituted legal proceedings against ASG Capital Limited and ASG Brokerage Limited (the "Defendants") in 1998 for breach of the placing and underwriting agreement dated 9 December 1997 by failing to fulfill their underwriting obligations thereunder and for the recovery of HK$40 million being economic loss suffered by the Company together with interest and legal cost. The proceedings are now in pre-trial stage of discovery of documents of the parties and the date of trial has not been fixed. The last action of the parties to the proceedings took place in mid-2005 when solicitors acting for the Company in the legal proceedings served a notice to inspect documents to those acting for the Defendants.

As at the Latest Practicable Date, save as disclosed above and so far as the Director are aware, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was pending or threatened against either the Company or any of its subsidiaries.

**SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service agreement with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**DIRECTORS' INTEREST IN ASSETS, CONTRACT OR ARRANGEMENT**

None of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

**OTHER INTERESTS**

**Directors' interests in competing business**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

**EXPERTS AND CONSENTS**

(a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

| Name | Qualification |
|---|---|
| CCIF CPA Limited ("CCIF") | Certified Public Accountants |
| Oriental Patron | Corporation licensed under the SFO to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |

(b) Neither CCIF nor Oriental Patron has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of CCIF and Oriental Patron has given and have not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or references to its name in the form and context in which they are included.

(d) Neither CCIF nor Oriental Patron has any direct or indirect interest in any assets which have been, since 31 March 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

**MISCELLANEOUS**

(a) The company secretary and qualified accountant of the Company is Wong Siu Keung, Joe who is an associate member of Hong Kong Institute of Certified Public Accountants.

(b) The Company's share registrar is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) This circular and the accompanying form of proxy have been prepared in both English and Chinese. In the case of any discrepancy, the English texts shall prevail over their respective Chinese texts.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office of the Company in Hong Kong at Block A, 2nd Floor, Man Foong Industrial Building, 7 Cheung Lee Street, Chaiwan, Hong Kong, up to and including the date of the SGM, being 26 March 2007:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for each of the financial years ended 31 March 2005 and 2006 respectively;

(c) the accountants' report on the Group, the text of which is set out in Appendix I to this circular;

(d) the accountants' report on the Luck Grow Group, the text of which is set out in Appendix II to this circular,

(e) the letters of consents referred to under the section headed "Experts and consents" in this appendix;

(f) the material contracts referred to in the section headed "Material contracts" in this appendix;

(g) the accountants' report from CCIF CPA Limited on the unaudited pro forma financial information on the Remaining Group, the text of which is set out in Appendix III to this circular;

(h) a copy of each of the circulars issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued by the Company since 31 March 2006;

(i) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 13 in this circular; and

(j) the letter of advice from Oriental Patron to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 23 in this circular.

北方興業控股有限公司*

**NORTHERN INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 736)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the "**Meeting**") of Northern International Holdings Limited (the "**Company**") will be held on 26 March 2007 at 9:30 a.m. at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

"**THAT**

(a) the conditional sale and purchase agreement dated 7 February 2007 (the "**S&P Agreement**") entered into between the Company as vendor and Mr. Chong Sing Yuen ("**Mr. Chong**") as purchaser in relation to the sale and purchase of (i) one ordinary share (the "**Asian Field Share**") of US$1.00 in the issued share capital of Asian Field Holdings Corp. ("**Asian Field**"); (ii) one new Asian Field Share (if any) to be issued and allotted to the Company at a consideration equivalent to the value of the consolidated net liabilities (if any) of Asian Field and its subsidiaries as at 31 January 2007; and (iii) the benefit and interest in all obligations, liabilities and debts owing and incurring by Asian Field to the Company as at the date of completion of the S&P Agreement (after netting off the amount capitalized (if any) pursuant to the capitalization agreement which may be entered into between the Company and Asian Field), a copy of the S&P Agreement has been produced to the Meeting marked "A" and signed by the Chairman of the Meeting for the purpose of identification, and the transactions contemplated by the S&P Agreement be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the S&P Agreement and the transactions contemplated thereunder."

On behalf of the board of Directors
**Northern International Holdings Limited**
**Zhao Qing Ji**
*Chairman*

Hong Kong, 6 March 2007

* *For identification purpose only*

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| *Registered office:* | *Head office and principal place of business in Hong Kong:* |
| Clarendon House | Block A, 2nd Floor |
| Church Street | Man Foong Industrial Building |
| Hamilton HM 11 | 7 Cheung Lee Street |
| Bermuda | Chaiwan |
| | Hong Kong |

*Notes:*

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.

2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy attached to this circular must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the branch share registrar of the Company in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting or at any adjournment thereof should he so wish.

3. Where there are joint holders of any share of the Company, any one of such holders may vote at the Meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the Meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.