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, 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 ACQUISITION OF INTEREST IN THE SHANGHAI PROPERTIES

Financial adviser to the Company

KINGSTON CORPORATE FINANCE LIMITED

A letter from the board of directors of Northern International Holdings Limited is set out on from pages 4 to 17 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 20 November 2006 at 9:30 a.m. is set out on pages 145 to 146 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*

31 October 2006

CONTENTS

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

"Acquisition"	the acquisition by the Company from the Vendor of 100% shareholding interest in Luck Grow pursuant to the Sale and Purchase Agreement and the Sale Loan
"Announcement"	the announcement dated 5 September 2006 made by the Company in relation to, among other things, the Acquisition
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	Northern International Holdings Limited, a company incorporated in Bermuda whose securities are listed on the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreement in accordance with the terms and conditions of the Agreement
"Consideration"	consideration for the Acquisition in the total amount of HK$182,504,072 to be settled (1) as to HK$24,811,764 by way of cash; (2) as to HK$82,692,308 by way of Promissory Note I; and (3) as to HK$75,000,000 by way of Promissory Note II
"Directors"	the directors of the Company
"Enlarged Group"	the Group as enlarged after completion of the Acquisition
"GAAP"	Generally Accepted Accounting Principles
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	27 October 2006, 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 and is beneficially and wholly owned by the Vendor
"Mortgagee Banks"	Agricultural Bank of China and Bank of Shanghai
"Promissory Notes"	collectively, Promissory Note I and Promissory Note II
"Promissory Note I"	promissory note in the principal sum of HK$82,692,308 due to the Vendor as part of the Consideration
"Promissory Note II"	promissory note in the principal sum of HK$75,000,000 due to the Vendor as part of the Consideration
"PRC"	The People's Republic of China
"Properties"	Property A and Property B collectively
"Property A"	unit Nos. 201 and 202 on Mezzanine Level, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, the PRC
"Property B"	whole of basement level one and ground level, Nos. 277 and 289 Lan Xi Road, Putuo District, Shanghai, the PRC
"Sale and Purchase Agreement"	the agreement dated 21 August 2006 entered into between the Company and the Vendor in relation to the Acquisition
"Sale Loan"	all obligations, liabilities and debts owing and incurring by Luck Grow and Shanghai Xiang Chen Hang to the Vendor as at the date of Completion. As at the date of the Sale and Purchase Agreement, Luck Grow owed to the Vendor a loan in a sum of HK$50,000,000 and Shanghai Xiang Chen Hang owed to the Vendor a loan in a sum of RMB 23,404,234.88 (equivalent to approximately HK$22,504,072). To the best knowledge of the Directors, such loans are the monies lent by the Vendor to the respective companies as working capital
"Shanghai Xiang Chen Hang"	Shanghai Xiang Chen Hang Place The Industry Co. Limited (上海祥宸行置業有限公司), a company incorporated in the PRC on 16 June 2004 and is a wholly owned subsidiary of Luck Grow and its principal assets are the Properties
"Share(s)"	ordinary share(s) of HK$0.20 each in the existing share capital of the Company

"Shareholder(s)"	holder(s) of the Shares
"SGM"	the special general meeting of the Company to be convened to approve, amongst other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Luck Grow and its subsidiaries
"Third Party Mortgage I"	the mortgage loan agreement dated 27 July 2005 and entered into between Shanghai Xiang Chen Hang and Agricultural Bank of China
"Third Party Mortgage II"	the mortgage loan agreement dated 14 December 2004 and entered into between Shanghai Xiang Chen Hang and Bank of Shanghai
"Third Party Mortgage III"	the mortgage loan agreement dated 22 June 2006 entered into between Shanghai Xiang Chen Hang and Bank of Shanghai
"Vendor"	Mr. Peter D. Xu (徐東先生)#
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"m^2"	square metre(s)
"%"	percentage

\# *Denotes English translation of a Chinese company or entity or address or name and is provided for identification purposes only.*

In this circular, RMB are converted into HK$ on the basis of RMB1.04 = HK$1 for illustrative purpose.

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:
Chong Sing Yuen
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

31 October 2006

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION OF INTEREST IN THE SHANGHAI PROPERTIES

INTRODUCTION

It was announced on 5 September 2006, the Company and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Company agreed to acquire the entire issued share capital of Luck Grow and the Sale Loan. Upon completion of the Acquisition, the Company will be interested in (i) the entire issued share capital of Luck Grow whose principal assets are the Properties; and (ii) the Sale Loan.

The Acquisition constitutes a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules which requires the approval by the Shareholders at the SGM under Rule 14.49 of the Listing Rules. The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder nor the Directors have a material interest in the Acquisition. No Shareholder is required to abstain from voting to approve the Acquisition at the SGM.

* *For identification purpose only*

The purpose of this circular is to give you, amongst other things, further details of (i) the terms of the Sale and Purchase Agreement; (ii) other disclosures in connection with the Acquisition required pursuant to the Listing Rules in respect of a very substantial acquisition; and (iii) a notice of SGM for the purpose of approving the Acquisition.

SALE AND PURCHASE AGREEMENT

Date: 21 August 2006

Parties:

Purchaser: the Company
Vendor: Mr. Peter D. Xu (徐東先生)[#] is a Chinese merchant, who is independent of and not connected with the Company and its connected person (as defined in the Listing Rules)

Assets to be acquired:

(i) The entire issued share capital of Luck Grow, a company incorporated in the British Virgin Island with limited liability on 8 August 2005, whose principal assets are the Properties, with Property A located at units Nos. 201 and 202 on Mezzanine Level, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, the PRC and Property B located at whole of basement level one and ground level, Nos. 277 and 289 Lan Xi Road, Putuo District, Shanghai, the PRC; and

(ii) the Sale Loan.

Further information on Luck Grow, Lok Wing and Shanghai Xiang Chen Hang, including the Properties, is set out under the sections headed "Information on Luck Grow, Lok Wing and Shanghai Xiang Chen Hang" and "Information on the Properties" in this circular.

Consideration:

The Consideration of up to HK$182,504,072, which is determined after an arm's length negotiation between the Purchaser and the Vendor, shall be satisfied:

(i) as to HK$24,811,764 (the "Cash Payment") by cash to the Vendor within 90 days after the date of Completion;

(ii) as to HK$82,692,308 by the issue of Promissory Note I to the Vendor on the second Business Day upon the following conditions having been fulfilled:

  (a) the expiry of the Third Party Mortgage I;

  (b) Shanghai Xiang Chen Hang is not liable for any debts or liabilities, whether actual or contingent under the Third Party Mortgage I and the Third Party Mortgage I has been cancelled; and

(iii) as to HK$75,000,000 by the issue of Promissory Note II to the Vendor on the second Business Day upon the following conditions having been fulfilled:

(a) the expiry of the Third Party Mortgage II and Third Party Mortgage III, whichever the later; and

(b) Shanghai Xiang Chen Hang is not liable for any debts or liabilities, whether actual or contingent under the Third Party Mortgage II and the Third Party Mortgage III and both the Third Party Mortgage II and Third Party Mortgage III have been cancelled.

The Consideration of up to HK$182,504,072 (subject to adjustment below) was determined with reference to the unaudited net asset value of the Target Group of approximately HK$110,000,000 as at 30 April 2006; plus the value of the Sale Loan. The unaudited net asset value of the Target Group as at 30 April 2006 was reviewed by the Board. The combined audited financial information of the Target Group reviewed by Company's auditors is attached in Appendix II for Shareholders' information. The Company intends to finance the Cash Payment and the Promissory Notes with internal financial resources and/or external bank financing. In the event that the Properties are seized by the Mortgagee Banks under the Third Party Mortgage I, Third Party Mortgage II and Third Party Mortgage III at any time prior to the expiry dates of the Third Party Mortgage I, Third Party Mortgage II and Third Party Mortgage III respectively, the Company has its sole discretion not to issue Promissory Note I and Promissory Note II and to be reimbursed by the Vendor for the Cash Payment.

Principal terms of the Promissory Notes

Principal amount	:	Promissory Note I – HK$82,692,308 Promissory Note II – HK$75,000,000
Maturity date	:	the date falling on the fifth anniversary of the date of issue
Interest	:	5% per annum and payable together with the principal amount upon maturity date
Transferability	:	transferable by the holder(s)
Early repayment	:	the Company may, at its option, repay the Promissory Note I and/or Promissory Note II in whole or in part prior to their maturity dates by giving a prior ten Business Days' written notice to the Vendor

Adjustment to the Consideration

The Vendor undertakes to the Company that the total net assets value of the Target Group as at the date of Completion (the "Actual NAV"), which will be audited by auditors under the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence throughout the period and in accordance with Statements of Auditing Standards issued by the Hong Kong Institutes of Certified Public Accountants, shall not be less than HK$110,000,000 (the "Guaranteed NAV"). According to the Sale and Purchase Agreement, in case the Actual NAV is less than the Guaranteed NAV, which is the difference between the Actual NAV and the Guaranteed NAV (the "Discrepancy"), the Company shall have the right to deduct the Discrepancy on a dollar to dollar basis, from the Cash Payment, Promissory Note I and Promissory Note II on the following basis:

(1) deduct from the amount of Cash Payment, if the Cash Payment has not been paid to the Vendor, or the Vendor shall reimburse the sum equivalent to the Discrepancy from the Cash Payment, if the Cash Payment has been paid to the Vendor;

(2) deduct from the face value of Promissory Note I, if the total sum of the Cash Payment is insufficient to cover the Discrepancy; and

(3) deduct from the face value of the Promissory Note II, if the Cash Payment and the face value of Promissory Note I is insufficient to cover the Discrepancy.

Conditions precedent

Completion of the Sale and Purchase Agreement is conditional upon, inter alia:

(i) the obtaining of all necessary consent and approval by the Vendor in relation to the Acquisition;

(ii) there being no material breach or possible material breach of warranties[*] on the part of the Vendor under the Sale and Purchase Agreement;

(iii) the obtaining of all necessary consent and approval by the Company in relation to the Acquisition, including the passing of relevant resolution(s) at a special general meeting by the Shareholders for approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Promissory Note I and Promissory Note II;

(iv) the issue of a PRC legal opinion by the Company's designated PRC legal advisers in relation to the Sale and Purchase Agreement, in such form and content to the Company's satisfaction;

(v) the issue of a valuation report by the Company's designated independent qualified valuer in relation to the Properties showing an aggregate value of not less than HK$241,000,000[**];

(vi) the Company being satisfied with its due diligence review of the Target Group; and

(vii) the delivery of audited accounts[***] of the Target Group for a period of four months ended 30 April 2006 to the Company.

* *The warranties given include those concerning net asset value of the Target Group, which is HK$110,000,000, corporate power, accounts, taxation, property, litigation of the Target Group and other general business and operation matters.*

** *The valuation basis of the Properties is "Market Value" in accordance with the Valuation Standards published by Hong Kong Institute of Surveyors. The valuation report prepared by Company's valuer is attached in Appendix IV.*

*** *The combined audited financial statements of the Target Group was prepared under the principles of merger accounting in accordance the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence throughout the period and in accordance with Statements of Auditing Standards issued by the Hong Kong Institutes of Certified Public Accountants.*

The Company may at any time waive in writing the whole or part of any or all of the conditions (except conditions (i) and (iii) above). Save for conditions (iv), (v), (vi) and (vii), as at the date of this circular, none of the above conditions has been waived nor have they been fulfilled. In the event that any of the conditions above have not been fulfilled on or before 21 October 2006 or such other later date as may be agreed between the parties to the Sale and Purchase Agreement, the Sale and Purchase Agreement shall forthwith be of no further effect and all the obligations of the parties thereto shall be released and the parties shall have no claims against each other in respect of the Sale and Purchase Agreement. As at the Latest Practicable Date, the Board is not aware of any conditions which may materially affect the Acquisition. On 20 October 2006, the Company and the Vendor entered into a supplementary agreement, pursuant to which, the Company and the Vendor agreed to extend the long stop date of the Sale and Purchase Agreement from 21 October 2006 to 30 November 2006. Please refer to the Company's announcement dated 20 October 2006 for further details.

Completion

Completion shall take place on the fifth Business Day after all the abovementioned conditions have been fulfilled.

INFORMATION ON LUCK GROW, LOK WING AND SHANGHAI XIANG CHEN HANG

Luck Grow, a company incorporated in British Virgin Islands with limited liability on 8 August 2005, is beneficially owned by the Vendor. Luck Grow is an investment holding company. Luck Grow has not, since its incorporation, carried on any business other than acquisition and holding of its equity interests in Lok Wing. Upon completion of the Acquisition, Luck Grow will become a wholly owned subsidiary of the Company. The Directors confirmed that Luck Grow has not been owned by or controlled by the connected person (as defined under the Listing Rues) of the Company since September 2005, the time when the Vendor acquired Luck Grow from secretarial services company.

Lok Wing, a company incorporated in Hong Kong on 25 February 2004 with limited liability, has been wholly owned by Luck Grow since August 2005. Lok Wing invested in 30% of equity interest of Shanghai Xiang Chen Hang in 2004. On 16 March 2005 and 18 August 2005, Lok Wing further acquired 25% and 45% of equity interest of Shanghai Xiang Chen Hang from Shanghai Xiwu Industry Co., Ltd. (上海錫武實業有限公司)# ("Shanghai Xiwu") respectively. Accordingly, as at the Latest Practicable Date, the principal asset of Lok Wing is its 100% interest in Shanghai Xiang Chen Hang. The Directors confirmed that Lok Wing has not been owned by or controlled by the connected person (as defined under the Listing Rues) of the Company since March 2004, the time when the Vendor acquired Lok Wing from secretarial services company.

Shanghai Xiang Chen Hang, a wholly owned foreign enterprise established under the laws of the PRC on 16 June 2004, has been wholly owned by Lok Wing since 30 August 2005. The principal activity of Shanghai Xiang Chen Hang is property investment and its principal assets are the Properties. The

Directors confirmed that Shanghai Xiang Chen Hang has not been owned by or controlled by the connected person (as defined under the Listing Rues) of the Company since August 2005, the time when Shanghai Xiang Chen Hang was acquired by Lok Wing.

The audited financial statements of Target Group and the basis of presentation of the audited financial statements are depicted in Appendix II. Such accountants' report of the Target Group is prepared using accounting policies which is materially consistent with the Group. The audited combined income statements include the results of companies comprising the Target Group as if the current group structure had been in existence throughout the period from 25 February 2004 (ie from the date of incorporation of Lok Wing) to 31 December 2005 and the four months ended 30 April 2006, or since their respective dates of incorporation/establishment or acquisition, where this is a shorter period. The audited combined balance sheets of the Target Group as at 31 December 2004, 2005 and 30 April 2006 have been prepared to present the assets and liabilities of companies now comprising the Target Group as if the current group structure had been in existence on those dates.

INFORMATION ON THE PROPERTIES

Property A

Address	:	unit Nos. 201 and 202 on Mezzanine Level, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, the PRC
Gross floor area	:	1,889.36 m^2
Uses	:	Commercial

Property A consists of unit 201 and unit 202 in a commercial building with a gross area of approximately 1,515.97 m^2 and 373.39 m^2 respectively. To the best of the Directors' knowledge, the property is currently rented to a third party who is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). The principal terms of the tenancy agreement are as follows:

Principal terms of the tenancy agreement

Date	:	22 July 2005
Landlord	:	Shanghai Xiang Chen Hang
Tenant	:	Shanghai Taihe Advertising Co., Ltd (上海泰和廣告有限公司)#
Monthly rent *(Note)*	:	RMB252,908 (equivalent to approximately HK$243,180)
Rental deposit	:	RMB877,670 (equivalent to approximately HK$843,913)
Leasing period	:	22 July 2005 to 31 December 2010

Note: The monthly rent will increase at a rate of 5.5% in every two years starting from the third year of the tenancy period (i.e. 23 July 2007) in a consecutive manner.

In addition to the rental income under the tenancy agreement, Shanghai Xiang Chen Hang is entitled to a monthly advertising income of approximately RMB162,000 (equivalent to approximately HK$155,769) by leasing out the surface of the building to a company which also is independent of and not connected with the Company and its connected person (as defined under the Listing Rules). The principal terms of the advertising agreement are as follows:

Principal terms of the advertising agreement

Date	:	15 November 2005
Landlord	:	Shanghai Xiang Chen Hang
Tenant	:	Shanghai Shiyu Industry Co., Ltd. (上海仕昱實業有限公司)# (formerly known as Shanghai Maihan Trading Co., Ltd. (上海邁漢貿易有限公司)#)
Monthly rent *(Note)*	:	RMB162,000 (equivalent to approximately HK$155,769)
Rental deposit	:	RMB324,000 (equivalent to approximately HK$311,538)
Leasing period	:	20 November 2005 to 19 November 2008

Note: The monthly advertising income will increase by 10% every year.

Pursuant to the Third Party Mortgage II, Property A has been pledged to secure banking facilities amounting to RMB50,000,000 (equivalent to approximately HK$48,076,923) at maximum annual interest rate of 6.435%, granted to Shanghai Xiwu, an independent borrower. As at the Latest Practicable Date, the outstanding loan amount is RMB30,000,000 (equivalent to approximately HK$28,846,154). The Third Party Mortgage II will expire on 13 December 2007 and the banking facilities will expire on 16 November 2006. Shanghai Xiwu was one of the shareholders of Shanghai Xiang Chen Hang until 30 August 2005 and is a third party independent of and not connected with the Company, its connected persons (as defined in the Listing Rules) and Shanghai Xiang Chen Hang. Shenzhen Zhongchang Industry and Trading Co., Ltd. (深圳中昌工貿有限公司)#, a state-owned enterprise in the PRC, is the ultimate beneficial owner of Shanghai Xiwu. To the best of the Directors' knowledge, information and belief after having made reasonable inquiries, the borrower, Shanghai Xiwu, is a long-term business partner with high credit to the Vendor and therefore, the Vendor is willing to pledge the Property A to secure the banking facilities granted to Shanghai Xiwu.

In addition, pursuant to the Third Party Mortgage III, Property A has been pledged to secure banking facilities amounting to RMB28,000,000 (equivalent to approximately HK$26,923,077) at a maximum annual interest rate of 6.435%, granted to Shanghai Xiwu. As at the Latest Practicable Date, the outstanding loan amount is RMB10,000,000 (equivalent to approximately HK$9,615,385). The Third

Party Mortgage III will expire on 22 June 2009 and the banking facilities will expire on 22 June 2007. To the best of the Directors' knowledge, no consideration was received by Shanghai Xiang Chen Hang and the Vendor in respect of the Third Party Mortgage II and Third Party Mortgage III.

Property B

Address	:	whole of basement level one and ground level, Nos. 277 and 289 Lan Xi Road, Putuo District, Shanghai, the PRC
Gross floor area	:	3,732.33 m^2
Uses	:	Commercial

Property B consists of ground floor and the basement of a commercial building with a gross area of approximately 2,210.73 m^2 and 1,521.60 m^2 respectively.

To the best of the Directors' knowledge, the property is currently rented to a third party who is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). The principal terms of the tenancy agreement are as follows:

Principal terms of the tenancy agreement

Date	:	25 December 2005
Landlord	:	Shanghai Xiang Chen Hang
Tenant *(Note 1)*	:	Shanghai Difuyuan Entertainment Management Co., Ltd. (上海帝賦苑餐飲娛樂管理有限公司)#
Monthly rent *(Note 2)*	:	RMB270,000 (equivalent to approximately HK$259,615)
Rental deposit	:	RMB1,200,000 (equivalent to approximately HK$1,153,846)
Leasing period	:	29 July 2005 to 31 March 2015

Note:

1. Pursuant to the tenancy agreement, the tenant has leased seven storeys (including Property B) of the building.

2. The amount represents the portion of rental income receivable by Shanghai Xiang Chen Hang. The rental income will increase by approximately RMB110,800 (equivalent to approximately HK$106,538) annually. Pursuant to the supplemental tenancy agreement, the rental income changed from RMB220,000 to RMB270,000 with effect from 1 January 2006.

In addition to the rental income under the tenancy agreement, Shanghai Xiang Chen Hang is entitled to a monthly advertising income of approximately RMB188,000 (equivalent to approximately HK$180,769) by leasing out the surface of the building to a company which is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Principal terms of the advertising agreement

Date	:	12 December 2005
Landlord	:	Shanghai Xiang Chen Hang
Tenant	:	Shanghai Jinqiyuan Trading Co., Ltd. (上海金啟淵貿易有限公司)#
Monthly rent *(Note)*	:	RMB188,000 (equivalent to approximately HK$180,769)
Rental deposit	:	RMB376,000 (equivalent to approximately HK$361,538)
Leasing period	:	15 December 2005 to 14 December 2010

Note: The monthly advertising income will increase by 10% every year.

Pursuant to the Third Party Mortgage I, Property B has been pledged to secure banking facilities amounting to approximately RMB86,000,000 (equivalent to approximately HK$82,692,308) at a maximum annual interest rate of 5.85%, granted to Shanghai Chenxuan Trading Co., Ltd. (上海辰炫貿易有限公司)# ("Shanghai Chenxuan"), an independent borrower. As at the Latest Practicable Date, the outstanding loan amount is RMB80,000,000 (equivalent to approximately HK$76,923,077). The Third Party Mortgage I will expire on 26 July 2007 and the banking facilities will expire on 23 July 2007 and 25 July 2007 respectively. Shanghai Chenxuan is an independent third party of and not connected with the Company and its connected person (as defined under the Listing Rules). Ms. Xu Bei (徐蓓)# is a director of Shanghai Xiang Chen Hang and is also a director of Shanghai Chenxuan. Chengdu Chendian Zhengyuan (Group) Co., Ltd. (成都成電正元(集團)有限公司)# ("Chengdu Chendian"), the ultimate beneficial owner of Shanghai Chenxuan, is a company owned by University of Electronic Technicques (電子科技大學)#, Chengdu Chuangxian Technical Development Co., Ltd. (成都創先科技開發有限公司)#, Chengdu Zhong Ao Information Technicque Co., Ltd. (成都中奧信息技術有限公司)#, Chengdu Hui Jin Technical Development Co., Ltd. (成都滙金科技開發有限公司)#, Chengdu Cheng Tian Ling Xian Software Co., Ltd. (成都成電領先軟件股份有限公司)# and Lei Ming (雷鳴)#, and no individual shareholder holds more than 50% shareholdings of it. Having made all reasonable enquiries to the Vendor by the Directors, other than that Ms. Xu Bei and the Vendor are the directors of Shanghai Xiang Chen Hang, Ms. Xu Bei (徐蓓) is not connected with the Vendor. Neither Chengdu Chendian nor its shareholders are connected with the Company and its connected person (as defined under the Listing Rules). To the best of the Directors' knowledge, information and belief after having made all reasonable inquiries, the borrower, Shanghai Chenxuan, is a long-term business partner with high credit to the Vendor and therefore, the Vendor is willing to pledge the Property B to secure the banking facilities granted to Shanghai Chenxuan. To the best of the Directors' knowledge, no consideration was received by Shanghai Xiang Chen Hang and the Vendor in respect of the Third Party Mortgage I.

The Directors confirmed that the Properties have not been owned by or controlled by the connected person (as defined under the Listing Rules) of the Company. The Company has obtained a legal opinion from PRC legal advisers, which states that, inter alia, (i) Shanghai Xiang Chen Hang, the ultimate beneficial owner of which is the Vendor, has acquired the relevant Shanghai Certificate of Real Estate Ownership (房地產証書) (no. Xu 2004 Di 038951 Hao) and (no. Xu 2004 Di 038949 Hao) for the unit 201 and unit 202 respectively of Property A and (no. Xu 2005 Di 033005 Hao) and (no. Xu 2005 Di 032997 Hao) for the ground floor and basement respectively of Property B; (ii) the Vendor can transfer shares of Luck Grow to the Company without consents from the Mortgagee Banks; and (iii) that no consent and approval is required from the Mortgagee Banks and the borrowers in relation to the Acquisition.

REASONS FOR THE ACQUISITION

The Company is an investment holding company. The principal activities of its subsidiaries comprise properties investment, and manufacture and sale of snap off blade cutters.

In response to the negative result on the consumer electronics business, the Company and its subsidiaries has terminated the consumer electronics business in June 2006 and will continue the snap off blade cutter business.

In view of the economic development in the PRC during the last decade, the demand for real estate, especially the demand for real estate for business use, in major cities in the PRC, such as Shanghai, Beijing and Shenzhen, has significantly increased. For cutting the loss on the negative business and ultimate the efficiency of shareholders' and investors' funds, the Group has been actively seeking potential property investments in the PRC, especially properties in developing cities, such as Shanghai, Beijing and Shenzhen. The Company intends to diversify its business into acquisition of the property assets in the PRC to achieve a long-term capital appropriation. The Company will continue to operate the snap off blade cutter business. Despite that the Group has extensive experience in manufacture and sale of snap off blade cutters, the Group proposes to acquire property assets in the PRC to achieve a long-term capital appreciation, generate stable revenue to the Group and enhance its investment properties business, one of the Group's principal activities.

Property A is located at the Xu Hui central business district (徐匯區)# which is a fast developing district in Shanghai city. Property B is located at Pu Tuo district (普陀區)# which is in the center of Shanghai city. Given the favorable macroeconomic environment and the rapid economic growth in Shanghai, PRC, the Directors are optimistic about the potential for capital appreciation in value of the Properties and expect that the Acquisitions will provide a stable source of rental income to the Group in the future.

Pursuant to the Sale and Purchase Agreement, in the event that the Properties are seized by the Mortgagee Banks under the Third Party Mortgage I, Third Party Mortgage II and Third Party Mortgage III at any time prior to the expiry dates of the Third Party Mortgage I, Third Party Mortgage II and Third Party Mortgage III respectively, the Company has its sole discretion not to issue Promissory Note I and Promissory Note II and to be reimbursed by Vendor for the Cash Payment (the "Arrangement"). The Company will not incur liability as a result of issue of the Promissory Notes until the expiry of the mortgages or Shanghai Xiang Chen Hang is not liable for any debts or liabilities, whether actual or contingent under the respective third party mortgages and all the respective mortgages have been cancelled. In this regard, the Board considers that the arrangement under the Sale and Purchase Agreement will serve the purpose of, to certain extent, protecting the Company from suffering any potential loss in the event that the Properties are seized. The Board is of the view that notwithstanding that the Properties have been pledged to the Mortgagee Banks by the Vendor to secure banking facilities amounting to approximately RMB120,000,000 (equivalent to approximately HK$115,384,615) to the independent borrowers, with the Arrangement in place, the Group will be protected from any potential loss resulting from the seizing of the Properties by the Mortgage Banks, and it is in the interest of the Company to initiate the Acquisition at this stage and to lock in the potential growth in valuation of the Properties in the coming years as the Group can capture a stable stream of rental income generated from the Properties. The Board considers the terms and conditions (including the Arrangement) under the Sale and Purchase Agreement is fair and reasonable to the Company and is in the best interests to the Shareholders as a whole. Upon Completion, Shanghai Xiang Chen Hang will become an indirect wholly-owned subsidiary of the Company and the Board will continue to monitor the status of the respective outstanding mortgages with the Mortgagee Banks/respective borrowers through verbal/written enquiries every three months through Shanghai Xiang Chen Hang. The Company will also request the Mortgage Banks to inform the Company immediately if the outstanding Mortgages are not settled on time. In case that any outstanding mortgage is confirmed by the Mortgage Banks for the defaults, the Company will inform the Vendor and the Arrangement as aforesaid will be implemented. In the event the Properties are seized by the Mortgagee Banks, the Company will not issue Promissory Note I and Promissory Note II and request Cash Payment from the Vendor.

Based on the above, the Directors are of the view that the Acquisition represents (i) an attractive opportunity to the Group as it enables the Group to participate in real estate market in Shanghai, the PRC; (ii) a stable stream of rental income for the Group from the Properties; and (iii) an opportunity for the Group to capture the potential for assured present value of the Properties. The Directors believe that the terms, conditions and the reasons of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUTURE PROSPECTS

In the opinion of the Directors, the working capital available of the Enlarged Group is sufficient as at the Latest Practicable Date. The Cash Payment will be settled by internal resources. In respect of the Promissory Notes, sufficient funds can be obtained partly by internal resources and partly by external bank borrowings as the respective Properties will be released and can be pledged to bank(s) for borrowings at the time Promissory Notes to be settled.

In order to reduce the short term financial burdens of the Group for not early issuance of Promissory Notes and accordingly settlement of them earlier, upon completion, the Directors may not approach the respective borrowers to settle all the respective outstanding mortgages prior to the expiry of Third Party Mortgage I, Third Party Mortgage II and Third Party Mortgage III.

INFORMATION ON THE COMPANY AND THE GROUP

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise the manufacture and sale of snap off blade cutters and electronic consumer products, which include toys and home appliances, and property investment.

On 8 July 2006, the Company had announced that, Northern Industrial (Panyu) Co., Ltd. a wholly-owned subsidiary of the Company, had entered into the letter of agreement with an independent third party, pursuant to which the subsidiary agreed to dispose the property located at Dawn Village, Yuwotou Zhen, Panyu City, Guangdong Province, the PRC at a total consideration of RMB75 million in cash. The ordinary resolution to approve the disposal of such property was duly passed by way of poll at the special general meeting of the Company held on 30 August 2006. The Group currently operates its manufacturing snap off blade cutters business in such property. On 26 October 2006, the approvals from the relevant PRC government authorities have been obtained and therefore the disposal of such property has completed. In connection with the disposal, the Company received the remaining balance of the approximately RMB73.6 million, after deduction of deposit received by the Company and property tax paid to PRC, from purchaser. As disclosed in the Circular, the Group proposed to lease back a block of factory and a three-storey staff dormitory under the disposed property and the Group has obtained written consent in relation to the lease back agreement from the purchaser of the property to be disposed of as at the Latest Practicable Date. Pursuant to the written consent, Tung Hing Plastic (Panyu) Co., Ltd., a wholly owned subsidiary of the Group, can lease back a rent not higher than the market rent of RMB12 per square meters of not less than three years. For details, please refer to the Circular. The principal terms of the lease back agreement is finalising and negotiating between the Group and the purchaser. The principal terms will be in accordance with the terms agreed in written consent letter. In this regard, both the Group and the purchaser have agreed that the lease agreement is intended to be finalised in November 2006. Further announcement will be made regarding the lease back arrangement on such property.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE ENLARGED GROUP

Immediately following Completion, Luck Grow and its subsidiaries will become wholly owned subsidiaries of the Group and the results of the Luck Grow and its subsidiaries will be consolidated into the accounts of the Group.

As set out in the consolidated balance sheet of the Group contained in Appendix I to this circular, the Group had audited total assets attributable to the Shareholders of approximately HK$100.3 million as at 31 March 2006. Based on the total assets of the Group as at 31 March 2006 and assuming completion of the Acquisition including the acquisition of the Properties, the unaudited pro forma total assets attributable to the Shareholders will be approximately HK$292 million as shown in the unaudited pro forma consolidated balance sheet of the Enlarged Group contained in Appendix III to this circular.

Since the Cash Payment is expected to be settled by internal sources of funds and the remaining consideration will be paid after five years upon the issuance of Promissory Notes (except ten business days' written notice if early payment is made). The liabilities of the Enlarged Group would accordingly increase after completion of the Acquisition.

The acquisition of the Properties is expected to enhance the revenue base of the Group. As shown in the unaudited pro forma consolidated profit and loss account of the Enlarged Group contained in Appendix III to this circular, after annualisation of four months rental revenue of approximately HK$3.4 million generated by Luck Grow and its subsidiaries, approximately HK$10 million annual rental income before deducting related PRC business tax and property tax would be recognized in the profit and loss account assuming completion of the acquisition of the Properties. The Promissory Notes bearing interest of 5% per annum will only be incurred upon their issuance.

SGM

The Acquisition constitutes a very substantial acquisition transaction on the part of the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Sale and Purchase Agreement is conditional on approval by the Shareholders at the SGM. The SGM will be held to consider and, if thought fit, pass the necessary resolution to approve the Sale and Purchase Agreement and the transaction contemplate thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholders nor Directors have material interest in the Sale and Purchase Agreement. No Shareholder is required to abstain from voting to approve the Sale and Purchase Agreement and the transaction contemplate thereunder at the SGM.

A notice convening the SGM at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 20 November 2006 at 9:30 a.m. is set out on pages 145 to 146 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.

There was no (i) voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; or (ii) obligation or entitlement whereby any Shareholders had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interest of any Shareholders in the Company as disclosed in this circular and the numbers of Shares in respect of which they will control or will be entitled to exercise control over the voting rights at the SGM.

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) by the Chairman of the 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 10 per cent. 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 10 per cent. of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

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

FURTHER INFORMATION

Your attention is drawn to the appendices to this circular which contain certain additional information in relation to the Company.

Yours faithfully,
For and on behalf of
Northern International Holdings Limited
Chong Sing Yuen
Chairman

I. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 MARCH 2006

The following is a summary of the consolidated financial information of the Group for the three years ended 31 March 2004, 2005 and 2006, as extracted from the relevant annual reports of the Company which are not subject to any qualified opinion but modified opinion of fundamental uncertainty relating to the going concern basis of the Group.

The Group has adopted the new/revised Hong Kong Financial Reporting Standards ("HKFRS") in its 2006 financial statements with 2005 comparatives restated as required. The financial statements for the year ended 31 March 2004 have not been restated to conform with the new/revised HKFRS.

CONSOLIDATED INCOME STATEMENT

	2006	2005	2004
	HK$	*HK$*	*HK$*
		(restated)	
Turnover	99,122,366	70,084,060	81,001,038
Cost of sales	(103,367,006)	(64,855,361)	(70,651,252)
Gross (loss)/profit	(4,244,640)	5,228,699	10,349,786
Other revenue	3,072,555	2,572,216	2,668,955
Distribution costs	(7,855,894)	(6,181,382)	(7,363,214)
Administrative expenses	(18,273,821)	(17,492,204)	(18,174,067)
Other operating expenses	(6,375)	(1,144,990)	(140,000)
Loss from operations	(27,308,175)	(17,017,661)	(12,658,540)
Finance costs	(2,387,099)	(2,107,764)	(2,133,108)
Loss before taxation	(29,695,274)	(19,125,425)	(14,791,648)
Taxation	(107,748)	(511,344)	(733,283)
Loss for the year	(29,803,022)	(19,636,769)	(15,524,931)
Attributed to:			
Equity shareholders of the Company	(29,803,022)	(19,636,769)	(15,524,931)
Loss for the year	(29,803,022)	(19,636,769)	(15,524,931)
LOSS PER SHARE			
– Basic	HK10.80 cents	HK0.41 cents	HK0.34 cents
– Diluted	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	2006	2005	2004
	HK$	*HK$*	*HK$*
		(restated)	
Non-current assets			
Fixed assets	–	–	99,151,697
Property, plant and equipment	31,172,423	30,281,775	–
Investment properties	41,021,222	40,816,010	–
Interests in leasehold land held for own use under operating leases	4,351,938	4,523,254	–
Interests in associates	–	–	–
Deferred tax assets	5,724	37,924	459,469
	76,551,307	75,658,963	99,611,166
Current assets			
Inventories	12,073,678	20,469,604	14,907,353
Trade and bills receivables	8,139,100	10,389,460	7,609,782
Other receivables, deposits and prepayments	2,722,882	4,258,604	3,232,067
Due from associates	–	–	3,000,000
Pledged deposits	500,000	500,000	5,000,000
Cash and cash equivalents	310,189	4,199,721	1,690,698
	23,745,849	39,817,389	35,439,900
Current liabilities			
Trade payables	12,622,220	11,083,400	9,764,435
Other payables and accruals	11,695,737	10,475,356	7,932,102
Due to associates	–	1,655,405	–
Due to directors	3,135,539	4,206,329	289,167
Due to a related party	13,941,893	14,270,547	1,721,698
Obligations under finance leases	742,961	229,914	636,399
Interest-bearing borrowings	40,603,814	22,794,721	42,527,045
Tax payable	1,766,284	1,659,370	1,676,153
	84,508,448	66,375,042	64,546,999
Net current liabilities	(60,762,599)	(26,557,653)	(29,107,099)
Total assets less current liabilities	15,788,708	49,101,310	70,504,067
Non-current liabilities			
Interest-bearing borrowings	1,270,754	17,441,209	4,745,415
Obligations under finance leases	188,174	9,178	594,442
Deferred tax liabilities	–	–	5,373,249
	1,458,928	17,450,387	10,713,106
NET ASSETS	14,329,780	31,650,923	59,790,961

CONSOLIDATED BALANCE SHEET *(continued)*

	2006	2005	2004
	HK$	*HK$*	*HK$*
		(restated)	
CAPITAL AND RESERVES			
Share capital	58,299,577	48,699,577	48,038,077
Reserves	(43,969,797)	(17,048,654)	11,752,884
Total equity attributable to equity shareholders of the Company	14,329,780	31,650,923	59,790,961
TOTAL EQUITY	14,329,780	31,650,923	59,790,961

II. AUDITED FINANCIAL STATEMENTS OF THE COMPANY FOR THE TWO YEARS ENDED 31 MARCH 2006

Set out below are the modified opinions of fundamental uncertainty relating to the going concern basis for preparing the Group's financial statements for the two years ended 31 March 2006 issued by the Company's auditors as extracted from the Company's annual report 2005 and 2006. Save for the modified opinions referred below, the Company's auditors have not issued any qualified or modified opinion on the Group's financial statements for the two years ended 31 March 2006.

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF NORTHERN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

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. As explained in note 2 to the financial statements, the financial statements of the Group have been prepared on a going concern basis, notwithstanding that the Group sustained a net loss from ordinary activities attributable to shareholders of HK$19,636,769 during the year, reported net current liabilities of HK$26,557,653 as at 31 March 2005, and reported a net cash outflow from operating activities of HK$10,771,124 for the year. Various measures have been initiated by the Group subsequent to the balance sheet date to improve the Group's liquidity position in the immediate foreseeable future.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures currently undertaken by the Group as detailed in note 2 to the financial statements and the attainment of profitable and positive cash flow operations by the Group in the longer term. The financial statements do not include any adjustments that may be necessary should the implementation of such measures and the attainment of profitable and positive cash flow operations be unsuccessful. We consider that appropriate disclosures regarding the above fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 22 July 2005

Chan Wai Dune, Charles
Practising Certificate Number P00712

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF NORTHERN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 31 to 109 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

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 statements 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.

OPINION

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

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 25 July 2006

Chan Wai Dune, Charles
Practising Certificate Number P00712

Set out below are the audited financial statements for the two years ended 31 March 2006 as extracted from the Company's audited report 2006. The Company's auditors have issued modified opinions of fundamental uncertainty relating to the going concern basis for preparing the Group's financial statements for the two years ended 31 March 2006 as referred above.

CONSOLIDATED INCOME STATEMENT

For the Year ended 31 March 2006

	Notes	2006 HK$	2005 HK$ (restated)
Turnover	8	99,122,366	70,084,060
Cost of sales		(103,367,006)	(64,855,361)
Gross (loss)/profit		(4,244,640)	5,228,699
Other revenue	8	3,072,555	2,572,216
Distribution costs		(7,855,894)	(6,181,382)
Administrative expenses		(18,273,821)	(17,492,204)
Other operating expenses		(6,375)	(1,144,990)
Loss from operations	9	(27,308,175)	(17,017,661)
Finance costs	10	(2,387,099)	(2,107,764)
Loss before taxation		(29,695,274)	(19,125,425)
Taxation	13	(107,748)	(511,344)
Loss for the year		(29,803,022)	(19,636,769)
Attributed to:			
Equity shareholders of the Company	14	(29,803,022)	(19,636,769)
Loss for the year		(29,803,022)	(19,636,769)
LOSS PER SHARE	15		
– Basic		HK10.80 cents	HK0.41 cents
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET
31 March 2006

	Notes	2006 HK$	2005 HK$ (restated)
Non-current assets			
Property, plant and equipment	16	31,172,423	30,281,775
Investment properties	17	41,021,222	40,816,010
Interests in leasehold land held for own use under operating leases	18	4,351,938	4,523,254
Interests in associates	20	–	–
Deferred tax assets	31	5,724	37,924
		76,551,307	75,658,963
Current assets			
Inventories	21	12,073,678	20,469,604
Trade and bills receivables	22	8,139,100	10,389,460
Other receivables, deposits and prepayments		2,722,882	4,258,604
Pledged deposits	23	500,000	500,000
Cash and cash equivalents	23	310,189	4,199,721
		23,745,849	39,817,389
Current liabilities			
Trade payables	24	12,622,220	11,083,400
Other payables and accruals		11,695,737	10,475,356
Due to associates	25	–	1,655,405
Due to directors	26	3,135,539	4,206,329
Due to a related party	27	13,941,893	14,270,547
Obligations under finance leases	28	742,961	229,914
Interest-bearing borrowings	29	40,603,814	22,794,721
Tax payable	30	1,766,284	1,659,370
		84,508,448	66,375,042
Net current liabilities		(60,762,599)	(26,557,653)
Total assets less current liabilities		15,788,708	49,101,310

CONSOLIDATED BALANCE SHEET *(Continued)*
31 March 2006

	Notes	**2006** *HK$*	**2005** *HK$* (restated)
Non-current liabilities			
Interest-bearing borrowings	29	1,270,754	17,441,209
Obligations under finance leases	28	188,174	9,178
		1,458,928	17,450,387
NET ASSETS		14,329,780	31,650,923
CAPITAL AND RESERVES			
Share capital	32	58,299,577	48,699,577
Reserves	34	(43,969,797)	(17,048,654)
Total equity attributable to equity shareholders of the Company		14,329,780	31,650,923
TOTAL EQUITY		14,329,780	31,650,923

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2006

	Share capital	Share premium	Goodwill	Buildings revaluation reserve	Special reserve	Exchange fluctuation reserve	Retained profits/ (accumu-lated losses)	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 April 2004, as previously reported	48,038,077	24,482,848	(22,478,515)	13,138,946	(11,152,801)	51,728	7,710,678	59,790,961
Effect of the changes in accounting policies	–	–	–	(13,138,946)	–	(163,837)	4,558,112	(8,744,671)
At 1 April 2004, as restated	48,038,077	24,482,848	(22,478,515)	–	(11,152,801)	(112,109)	12,268,790	51,046,290
Exercise of share options	661,500	–	–	–	–	–	–	661,500
Expenses incurred in an open offer	–	(420,098)	–	–	–	–	–	(420,098)
Net loss for the year	–	–	–	–	–	–	(19,636,769)	(19,636,769)
At 31 March 2005, as restated	48,699,577	24,062,750	(22,478,515)	–	(11,152,801)	(112,109)	(7,367,979)	31,650,923
At 1 April 2005	48,699,577	24,062,750	(22,478,515)	–	(11,152,801)	(112,109)	(7,367,979)	31,650,923
Effect of the changes in accounting policies	–	–	22,478,515	–	–	–	(22,478,515)	–
At 1 April 2005, as restated	48,699,577	24,062,750	–	–	(11,152,801)	(112,109)	(29,846,494)	31,650,923
Issue of new shares	9,600,000	2,880,000	–	–	–	–	–	12,480,000
Share issuance expenses	–	(66,462)	–	–	–	–	–	(66,462)
Share consolidation expenses	–	(132,849)	–	–	–	–	–	(132,849)
Exchange realignment	–	–	–	–	–	(345,206)	–	(345,206)
Surplus on revaluation	–	–	–	578,596	–	–	–	578,596
Deferred tax credited in the revaluation reserve	–	–	–	(32,200)	–	–	–	(32,200)
Net loss for the year	–	–	–	–	–	–	(29,803,022)	(29,803,022)
At 31 March 2006	58,299,577	26,743,439	–	546,396	(11,152,801)	(457,315)	(59,649,516)	14,329,780
Reserves retained by the Company and subsidiaries								
At 31 March 2006	58,299,577	26,743,439	–	546,396	(11,152,801)	(457,315)	(59,649,516)	14,329,780
At 31 March 2005	48,699,577	24,062,750	(22,478,515)	–	(11,152,801)	(112,109)	(7,367,979)	31,650,923

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2006

	2006	2005
	HK$	*HK$* (restated)
Operating activities		
Loss before taxation	(29,695,274)	(19,125,425)
Adjustments for:		
Amortisation of land lease premium	114,359	112,861
Finance costs	2,387,099	2,107,764
Interest income	(16,603)	(24,059)
Depreciation	3,204,900	3,593,246
Gain on disposal of investment property	–	(1,093,960)
(Surplus)/deficit on fair value of investment properties	(205,212)	1,144,990
Surplus on revaluation of buildings	(828,679)	(125,200)
Impairment for bad and doubtful debts	–	340,986
Impairment for slow-moving and obsolete inventories	53,265	1,280,051
Written back of provision for due from associates	(770,825)	–
Foreign exchange loss, net	271,998	28,397
Operating loss before changes in working capital	(25,484,972)	(11,760,349)
Decrease/(increase) in inventories	8,342,661	(6,842,302)
Decrease/(increase) in trade and bills receivables	2,250,360	(3,120,664)
Decrease/(increase) in other receivables, deposits and prepayment	1,535,722	(1,026,537)
Decrease in due from associates	–	3,000,000
Increase in trade payables	1,538,820	1,318,965
Increase in other payables and accruals	1,220,381	2,165,896
(Decrease)/increase in due to associates	(884,580)	1,655,405
(Decrease)/increase in due to directors	(1,070,790)	3,917,162
Cash used in operations	(12,552,398)	(10,692,424)
Tax paid	(21,268)	(78,700)
Net cash used in operating activities	(12,573,666)	(10,771,124)
Investing activities		
Purchase of property, plant and equipment	(3,228,086)	(1,369,438)
Interest received	16,603	24,059
Net proceeds from disposal of investment property	–	7,093,960
Decrease in pledged deposits	–	4,500,000
Net cash (used in)/generated from investing activities	(3,211,483)	10,248,581

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
Year ended 31 March 2006

	2006	2005
	HK$	*HK$*
		(restated)
Financing activities		
Proceeds from issue of shares	12,480,000	661,500
Expenses paid for an open offer	–	(420,098)
Net inception/(repayment) of bank loans	1,513,730	(1,782,812)
Net repayment of other loans	–	(1,122,642)
Inception of finance leases	1,615,000	–
Capital element of finance lease rentals paid	(922,957)	(991,749)
Interest element of finance lease rentals paid	(71,231)	(10,326)
Interest paid	(2,315,868)	(2,097,438)
Share issuance expenses	(199,311)	–
Repayment/advance from related parties	(328,654)	12,548,849
Net cash generated from financing activities	11,770,709	6,785,284
Net (decrease)/increase in cash and cash equivalents	(4,014,440)	6,262,741
Cash and cash equivalents, at beginning of year	3,698,445	(2,564,296)
Cash and cash equivalents, at end of year	(315,995)	3,698,445
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents	310,189	4,199,721
Secured bank overdrafts	(626,184)	(501,276)
	(315,995)	3,698,445

BALANCE SHEET
31 March 2006

	Notes	**2006** *HK$*	**2005** *HK$*
Non-current assets			
Plant and equipment	16	6,390	34,382
Interests in subsidiaries	19	62,887,652	54,441,716
		62,894,042	54,476,098
Current assets			
Other receivables, deposits and prepayments		–	336,750
Cash and cash equivalents	23	6,389	255,285
		6,389	592,035
Current liabilities			
Other payables and accruals		1,372,747	1,523,236
Due to an associate	25	–	764,450
Due to directors	26	3,135,539	556,329
Due to a related party	27	13,505,000	5,660,000
		18,013,286	8,504,015
Net current liabilities		(18,006,897)	(7,911,980)
NET ASSETS		44,887,145	46,564,118
CAPITAL AND RESERVES			
Share capital	32	58,299,577	48,699,577
Reserves	34	(13,412,432)	(2,135,459)
TOTAL EQUITY		44,887,145	46,564,118

NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

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 HK$29,803,022 (2005: HK$19,636,769) during the year, reported net current liabilities of HK$60,762,599 (2005: HK$26,557,653) as at 31 March 2006, and reported a net cash outflow from operating activities of HK$12,573,666 (2005: net of HK$10,771,124) for the year.

Notwithstanding concerns on its liquidity concerns as at 31 March 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 below:

a) On 18 May 2006, the Company entered into a conditional agreement with a subscriber 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, before expenses. The subscription is conditional on the granting of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited, details of which are set out in note 39 (a) to the financial statements.

b) Very substantial disposal transaction, details of which are set out in note 39 (b) to the financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 March 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 properties and properties held for own use are stated at their fair value.

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.

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.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(i)), unless the investment is classified as held for sale.

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. 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.

In the company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 3(i)), unless it is classified as held for sale.

e) GOODWILL

Goodwill represents the excess of the cost of a business combination or an investment in an associate 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)).

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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) IMPAIRMENT OF ASSETS *(Continued)*

– 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.

– 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) TAXATION *(Continued)*

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.

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.

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) EMPLOYEE BENEFITS *(Continued)*

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.

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;

– 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.

4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

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)
Buildings 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.

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 and HKAS 38, Intangible 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, HKAS 36 and HKAS 38, 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.

4. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

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 note 4.

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(f).

Measurement of deferred tax on movements in fair value

In prior years the Group was required to apply the tax rate that 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.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

5. FINANCIAL RISK MANAGEMENT *(Continued)*

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 United States Dollars ("USD"), 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 USD 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.

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.

6. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** *(Continued)*

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.

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

a) **Business segments**

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

The Group

	For the year ended 31 March 2006			
	Snap off blade cutters *HK$*	**Electronic customer products** *HK$*	**Corporate and others** *HK$*	**Consolidated** *HK$*
Segment revenue:				
Sales to external customers	43,687,513	52,534,530	2,900,323	99,122,366
Other revenue and gains	678,572	1,603,901	773,479	3,055,952
Total	44,366,085	54,138,431	3,673,802	102,178,318
Segment results	(4,755,984)	(15,782,478)	(6,786,316)	(27,324,778)
Interest income				16,603
Loss from operations				(27,308,175)
Finance costs				(2,387,099)
Loss before taxation				(29,695,274)
Taxation				(107,748)
Net loss from ordinary activities attributable to shareholders				(29,803,022)

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

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

The Group *(Continued)*

	For the year ended 31 March 2005			
	Snap off blade cutters	**Electronic customer products**	**Corporate and others**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*
Segment revenue:				
Sales to external customers	43,117,145	23,640,790	3,326,125	70,084,060
Other revenue and gains	183,075	1,129,375	1,235,707	2,548,157
Total	43,300,220	24,770,165	4,561,832	72,632,217
Segment results	(3,129,999)	(9,067,512)	(4,844,209)	(17,041,720)
Interest income				24,059
Loss from operations				(17,017,661)
Finance costs				(2,107,764)
Loss before taxation				(19,125,425)
Taxation				(511,344)
Net loss from ordinary activities attributable to shareholders				(19,636,769)

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

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

The Group *(Continued)*

	For the year ended 31 March 2006			
	Snap off blade cutters *HK$*	**Electronic customer products** *HK$*	**Corporate and others** *HK$*	**Consolidated** *HK$*
Segment assets	22,114,143	78,165,794	17,219	100,297,156
Unallocated assets				–
Total assets				100,297,156
Segment liabilities	10,298,544	12,639,954	18,018,982	40,957,480
Unallocated liabilities				45,009,896
Total liabilities				85,967,376
Other segment information:				
Depreciation	604,141	2,572,767	27,992	3,204,900
Impairment for bad and doubtful debts	–	–	–	–
Impairment for slow-moving and obsolete inventories	–	53,265	–	53,265
Fair value adjustments of investment properties recognised directly in the profit and loss account	–	205,212	–	205,212
Revaluation surplus of land and buildings recognised directly in the profit and loss account	250,083	–	–	250,083
Revaluation surplus of land and buildings recognised directly in equity	578,596	–	–	578,596
Capital expenditure	291,695	2,936,391	–	3,228,086

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

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

The Group *(Continued)*

	For the year ended 31 March 2005 (restated)			
	Snap off blade cutters *HK$*	**Electronic customer products** *HK$*	**Corporate and others** *HK$*	**Consolidated** *HK$*
Segment assets	26,055,651	88,791,054	629,647	115,476,352
Unallocated assets				–
Total assets				115,476,352
Segment liabilities	8,468,191	11,177,355	7,754,882	27,400,428
Unallocated liabilities				56,425,001
Total liabilities				83,825,429
Other segment information:				
Depreciation	682,542	2,883,408	27,296	3,593,246
Impairment for bad and doubtful debts	340,986	–	–	340,986
Impairment for slow-moving and obsolete inventories	593,072	686,979	–	1,280,051
Fair value adjustments of investment properties recognised directly in the profit and loss account	–	(1,144,990)	–	(1,144,990)
Revaluation surplus of land and buildings recognised directly in the profit and loss account	125,200	–	–	125,200
Revaluation surplus of land and buildings recognised directly in equity	–	–	–	–
Capital expenditure	539,594	825,664	4,180	1,369,438

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

b) **Geographical segments**

The Group

	For the year ended 31 March 2006						
	Hong Kong	**Mainland China**	**Europe**	**North America**	**East Asia**	**Others**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue							
Sales to external customers	55,216,656	7,790,531	16,331,492	7,058,803	10,135,722	2,589,162	99,122,366

	Hong Kong	**Mainland China**	**Consolidated**
	HK$	*HK$*	*HK$*
Other segment information			
Segment assets	18,700,103	81,597,053	100,297,156
Capital expenditure	2,016,748	1,211,338	3,228,086

	For the year ended 31 March 2005						
	Hong Kong	**Mainland China**	**Europe**	**North America**	**East Asia**	**Others**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue							
Sales to external customers	25,312,246	7,821,107	13,593,866	14,357,419	3,606,375	5,393,047	70,084,060

	Hong Kong	**Mainland China**	**Consolidated**
	HK$	*HK$*	*HK$*
Other segment information			
Segment assets	24,099,050	91,377,302	115,476,352
Capital expenditure	173,178	1,196,260	1,369,438

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:

	2006	2005
	HK$	*HK$*
Turnover		
Sales of snap off blade cutters	43,687,513	43,117,145
Sales of electronic consumer products	52,534,530	23,640,790
Gross rental income	2,900,323	3,326,125
	99,122,366	70,084,060
Other revenue		
Gain on disposal on investment property	–	1,093,960
Surplus on revaluation of buildings	250,083	125,200
Fair value adjustments of investment properties	205,212	–
Interest income	16,603	24,059
Rental income	38,106	–
Sundry income	1,791,726	1,328,997
Written back of provision for due from associates	770,825	–
	3,072,555	2,572,216
Total revenue	102,194,921	72,656,276

9. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	2006	2005
	HK$	*HK$*
		(restated)
Auditors' remuneration	317,184	314,018
Cost of inventories#	103,367,006	64,855,361
Staff costs (including directors' remuneration)		
– Wages and salaries	21,330,217	21,285,241
– Pensions scheme contribution	329,865	334,877
	21,660,082	21,620,118
Depreciation		
– Owned assets	3,041,767	3,448,038
– Assets held under finance leases	163,133	145,208
Amortisation of land lease premium	114,359	112,861
Exchange loss, net	259,797	192,170
Minimum lease payments under operating leases for motor vehicles	474,000	474,000
Impairment for bad and doubtful debts	–	340,986
Impairment for slow-moving and obsolete inventories	53,265	1,280,051
Fair value adjustments of investment properties *(note 17)*	–	1,144,990

Cost of inventories includes HK$11,705,630 (2005: HK$12,360,700) relating to staff costs, depreciation and impairment for slow-moving and obsolete inventories, which amount is also included in the respective total disclosed separately above for each of these types of expenses.

10. FINANCE COSTS

	2006 *HK$*	2005 *HK$*
Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years	2,233,782	2,015,696
Interest expenses on bank loans wholly repayable after five years	82,086	81,742
Finance charges on obligations under finance leases	71,231	10,326
	2,387,099	2,107,764

11. DIRECTORS' REMUNERATION

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

	2006				
	Fees *HK$*	Salaries and other benefits *HK$*	Compensation for loss of office *HK$*	Retirement scheme contributions *HK$*	Total *HK$*
Executive directors					
Chong Sing Yuen	–	5,082,948	–	12,000	5,094,948
Chong Chun Hing	–	333,462	–	12,000	345,462
Chu Kiu Fat	–	392,399	–	18,120	410,519
Wong Siu Keung, Joe	–	504,010	–	12,000	516,010
Chong Chun Kwok, Piggy	–	617,301	–	29,310	646,611
	–	6,930,120	–	83,430	7,013,550
Independent non-executive directors					
Chan Ping Yim	60,000	–	–	–	60,000
Chan Shun	11,507	–	–	–	11,507
Cheng Kwok Hing, Andy	30,000	–	–	–	30,000
Yeung Yuen Hei	37,258	–	–	–	37,258
	138,765	–	–	–	138,765
Total	138,765	6,930,120	–	83,430	7,152,315

11. DIRECTORS' REMUNERATION *(Continued)*

	2005				
	Fees	**Salaries and other benefits**	**Compensation for loss of office**	**Retirement scheme contributions**	**Total**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors					
Chong Sing Yuen	–	5,257,350	–	12,000	5,269,350
Sun Tak Yan, Desmond	–	130,484	–	4,424	134,908
Chong Chun Hing	–	334,750	–	12,000	346,750
Chong Chun Man	–	318,779	–	15,994	334,773
Chu Kiu Fat	–	392,600	–	18,120	410,720
Wong Siu Keung, Joe	–	504,010	–	12,000	516,010
Chong Chun Kwok, Piggy	–	621,698	–	29,310	651,008
	–	7,559,671	–	103,848	7,663,519
Non-executive director					
Chu Bu Yang, Alexander	–	–	–	–	–
Independent non-executive directors					
Wong, Bingley	49,589	–	–	–	49,589
Ma Wah Yan	49,589	–	–	–	49,589
Chan Ping Yim	30,410	–	–	–	30,410
Chan Shun	15,205	–	–	–	15,205
Cheng Kwok Hing, Andy	15,205	–	–	–	15,205
	159,998	–	–	–	159,998
Total	159,998	7,559,671	–	103,848	7,823,517

12. INDIVIDUALS WITH HIGHEST PAID

Of the five individuals with the highest paid, two (2005: two) are directors whose remuneration are disclosed in note 11. The aggregate of the remuneration in respect of the other three (2005: three) individuals are as follows:

	2006	**2005**
	HK$	*HK$*
Salaries, allowances and benefits in kind	2,240,142	1,967,161
Retirement scheme contributions	47,880	34,406
	2,288,022	2,001,567

The remuneration of the three (2005: three) individuals with highest paid is within the following bands:

	Number of individuals	
	2006	**2005**
HK$Nil – HK$1,000,000	2	2
HK$1,000,001 – HK$1,500,000	1	1
	3	3

13. TAXATION

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

	The Group	
	2006	**2005**
	HK$	*HK$*
Current tax		
Hong Kong	(12,317)	12,317
Mainland China	120,065	49,600
	107,748	61,917
Deferred tax *(note 31)*	–	449,427
Tax expense	107,748	511,344

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

The Group

	Total	
	2006	**2005**
	HK$	*HK$*
Loss before taxation	(29,695,274)	(19,125,425)
Tax at the applicable tax rate to profits in the countries concerned	(4,939,527)	(3,021,315)
Income not subject to tax	(711,847)	(938,477)
Expenses not deductible for tax purpose	1,013,574	630
Tax losses not recognised as deferred tax assets	4,783,548	4,106,935
Tax loss utilised from previous period	–	(86,808)
Reversal of recognised deferred tax assets	–	446,126
Deferred tax not recognised	(38,000)	4,253
Actual tax expense	107,748	511,344

14. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes loss of approximately HK$13,957,661 (2005: HK$6,704,772) which has been dealt with in the financial statements of the Company.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of HK$29,803,022 (2005: HK$19,636,769) and the weighted average of 275,848,570 (2005: 4,846,403,321) ordinary shares in issue during the year.

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own used carried at revaluation *HK$*	Leasehold improvements *HK$*	Plant and machinery *HK$*	Furniture and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Cost or valuation						
At 1 April 2004						
– As previously reported	43,719,000	8,744,150	31,282,973	10,656,866	1,375,597	95,778,586
– Effect of the changes in accounting policies under HKAS 17	(18,679,990)	–	–	–	–	(18,679,990)
– As restated	25,039,010	8,744,150	31,282,973	10,656,866	1,375,597	77,098,596
Additions	–	–	1,323,769	45,669	–	1,369,438
Deficits on revaluation	(955,010)	–	–	–	–	(955,010)
At 31 March 2005 (as restated)	24,084,000	8,744,150	32,606,742	10,702,535	1,375,597	77,513,024
Analysis of cost or revaluation						
At cost	–	8,744,150	32,606,742	10,702,535	1,375,597	53,429,024
At valuation (as restated)	24,084,000	–	–	–	–	24,084,000
	24,084,000	8,744,150	32,606,742	10,702,535	1,375,597	77,513,024
At 1 April 2005 (as restated)	24,084,000	8,744,150	32,606,742	10,702,535	1,375,597	77,513,024
Additions	–	–	3,141,715	86,371	–	3,228,086
Surplus on revaluation	184,000	–	–	–	–	184,000
Exchange realignment	–	13,742	1,090,638	–	19,299	1,123,679
At 31 March 2006	24,268,000	8,757,892	36,839,095	10,788,906	1,394,896	82,048,789
Analysis of cost or revaluation						
At cost	–	8,757,892	36,839,095	10,788,906	1,394,896	57,780,789
At valuation	24,268,000	–	–	–	–	24,268,000
	24,268,000	8,757,892	36,839,095	10,788,906	1,394,896	82,048,789

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

The Group *(Continued)*

	Buildings held for own used carried at revaluation *HK$*	Leasehold improvements *HK$*	Plant and machinery *HK$*	Furniture and equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Accumulated depreciation						
At 1 April 2004						
– As previously reported	–	4,457,008	28,729,266	10,026,018	1,375,597	44,587,889
– Effect of the changes in accounting policies under HKAS 17	–	–	–	–	–	–
– As restated	–	4,457,008	28,729,266	10,026,018	1,375,597	44,587,889
Charge for the year	949,886	1,182,774	953,395	507,191	–	3,593,246
Written back on revaluation	(949,886)	–	–	–	–	(949,886)
At 31 March 2005 (as restated)	–	5,639,782	29,682,661	10,533,209	1,375,597	47,231,249
At 1 April 2005 (as restated)	–	5,639,782	29,682,661	10,533,209	1,375,597	47,231,249
Charge for the year	644,679	867,090	1,536,107	157,024	–	3,204,900
Written back on revaluation	(644,679)	–	–	–	–	(644,679)
Exchange realignment	–	13,742	1,051,855	–	19,299	1,084,896
At 31 March 2006	–	6,520,614	32,270,623	10,690,233	1,394,896	50,876,366
Net book value						
At 31 March 2006	24,268,000	2,237,278	4,568,472	98,673	–	31,172,423
At 31 March 2005 (as restated)	24,084,000	3,104,368	2,924,081	169,326	–	30,281,775

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

The Group

a) The net book value of plant and machinery held under finance leases of the Group as at 31 March 2006 was HK$1,459,408 (2005: HK$427,466).

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:

		Hong Kong		Mainland China		Total	
		2006	**2005**	**2006**	**2005**	**2006**	**2005**
	Notes	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
			(restated)		(restated)		(restated)
Long leases	(i)	2,668,000	2,584,000	–	–	2,668,000	2,584,000
Medium-term leases	(ii)	–	–	21,600,000	21,500,000	21,600,000	21,500,000
		2,668,000	2,584,000	21,600,000	21,500,000	24,268,000	24,084,000
Representing: Buildings carried at fair value		2,668,000	2,584,000	21,600,000	21,500,000	24,268,000	24,084,000

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 the business in occupation. They have therefore been valued on the basis of their depreciated replacement cost.

At 31 March 2006, certain of the Group's buildings held for own use with a net book value of HK$24,268,000 (2005: HK$24,084,000) were pledged to secure general banking facilities granted to the Group.

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

The Company

	Furniture and fixtures *HK$*
Cost	
At 1 April 2004	135,782
Additions	4,180
At 31 March 2005	139,962
Additions	–
At 31 March 2006	139,962
Accumulated depreciation	
At 1 April 2004	78,284
Charge for the year	27,296
At 31 March 2005	105,580
Charge for the year	27,992
At 31 March 2006	133,572
Net book value	
At 31 March 2006	6,390
At 31 March 2005	34,382

17. **INVESTMENT PROPERTIES**

The Group

	HK$
Valuation:	
At 1 April 2004	47,961,000
Disposals	(6,000,000)
Fair value adjustment *(note 9)*	(1,144,990)
At 31 March 2005	40,816,010
Fair value adjustment *(note 8)*	205,212
At 31 March 2006	41,021,222

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.

At 31 March 2006, the Group's investment properties with a value of HK$41,021,222 (2005: HK$40,816,010) were pledged to secure general banking facilities granted to the Group (note 29).

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

The Group

	Hong Kong *HK$*	**Mainland China** *HK$*	**Total** *HK$*
Cost			
At 1 April 2004 and 31 March 2005			
– As previously reported	–	–	–
– Effect of changes in accounting policies under HKAS 17	3,008,554	2,619,290	5,627,844
– As restated	3,008,554	2,619,290	5,627,844
At 1 April 2005 (as restated)	3,008,554	2,619,290	5,627,844
Exchange adjustments	–	(56,957)	(56,957)
At 31 March 2006	3,008,554	2,562,333	5,570,887
Amortisation			
At 1 April 2004			
– As previously reported	–	–	–
– Effect of changes in accounting policies under HKAS 17	379,441	612,288	991,729
– As restated	379,441	612,288	991,729
Charge for the year	61,399	51,462	112,861
At 31 March 2005 (as restated)	440,840	663,750	1,104,590
At 1 April 2005 (as restated)	440,840	663,750	1,104,590
Charge for the year	61,399	52,960	114,359
At 31 March 2006	502,239	716,710	1,218,949
Net book value			
At 31 March 2006	2,506,315	1,845,623	4,351,938
At 31 March 2005 (as restated)	2,567,714	1,955,540	4,523,254

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 31 March 2006, the interests on leasehold land held for own use under operating leases with net book value of HK$4,351,938 (2005: HK$4,523,254) was pledged to a bank to secure a banking facility granted to the Group.

19. INTERESTS IN SUBSIDIARIES

	The Company 2006 HK$	2005 HK$
Unlisted shares, at cost	35,741,016	35,741,016
Due from subsidiaries	64,215,944	67,846,342
Due to subsidiaries	(1,328,292)	(13,388,346)
	98,628,668	90,199,012
Less: Impairment losses	(35,741,016)	(35,757,296)
	62,887,652	54,441,716

The amounts are interest free, unsecured and have no fixed terms of repayment.

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 Direct	Indirect	Principal activities
Goodfit Products Company Limited	Hong Kong	HK$1,000 ordinary shares 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 and sale of electronic consumer products and properties investment
Superior Trump Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Dormant
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.

20. INTERESTS IN ASSOCIATES

	The Group	
	2006	**2005**
	HK$	*HK$*
Share of net assets	–	–
Due from associates	16,025,387	16,025,387
	16,025,387	16,025,387
Less: Impairment losses	(16,025,387)	(16,025,387)
	–	–

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.

21. INVENTORIES

	The Group	
	2006	**2005**
	HK$	*HK$*
Raw materials	7,522,083	12,867,535
Work-in-progress	3,272,799	3,167,594
Finished goods	1,278,796	4,434,475
	12,073,678	20,469,604

The amount of inventories (included above) carried at net realisable value is approximately HK$4,718,038 (2005: HK$8,824,283).

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:

	The Group	
	2006	**2005**
	HK$	*HK$*
Within 60 days	5,363,171	6,783,415
61 to 90 days	1,067,678	727,044
Over 91 days	1,708,251	2,879,001
	8,139,100	10,389,460

23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Total cash and bank balances	810,189	4,699,721	6,389	255,285
Less: Pledged deposits	(500,000)	(500,000)	–	–
	310,189	4,199,721	6,389	255,285

24. TRADE PAYABLES

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

	The Group	
	2006	**2005**
	HK$	*HK$*
Within 60 days	5,759,074	6,530,879
61 to 90 days	1,141,988	1,425,517
Over 91 days	5,721,158	3,127,004
	12,622,220	11,083,400

25. DUE 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

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Ms Cheng Man Shan ("Ms Cheng")	13,941,893	14,270,547	13,505,000	5,660,000

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.

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.

28. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2006, the Group had obligations under finance leases repayable as follows:

	The Group					
	2006			**2005**		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Interest expense relating to future periods**	**Total minimum lease payments**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Within 1 year	742,961	41,983	784,944	229,914	8,646	238,560
After 1 year but within 2 years	188,174	2,532	190,706	8,520	2,400	10,920
After 2 years but within 5 years	–	–	–	658	252	910
	188,174	2,532	190,706	9,178	2,652	11,830
	931,135	44,515	975,650	239,092	11,298	250,390

29. INTEREST-BEARING BORROWINGS

At 31 March 2006, the interest bearing borrowings were repayable as follows:

	The Group	
	2006	**2005**
	HK$	*HK$*
Within 1 year or on demand	40,603,814	22,794,721
After 1 year but within 2 years	234,850	16,244,301
After 2 year but within 5 years	807,296	860,262
After 5 years	228,608	336,646
	1,270,754	17,441,209
Total	41,874,568	40,235,930

At 31 March 2006, the interest bearing borrowings were secured as follows:

	The Group	
	2006	**2005**
	HK$	*HK$*
Secured bank overdrafts	626,184	501,276
Secured bank loans	41,248,384	39,734,654
	41,874,568	40,235,930

The Group's bank loans are secured by:

i) investment properties of HK$41,021,222 (2005: HK$40,816,010);

ii) leasehold land and buildings which had an aggregate net book value at the balance sheet date of HK$26,394,050 (2005: HK$19,272,003 restated);

iii) trade receivables of HK$1,056,820 (2005: HK$941,940);

iv) pledged time deposits amounting to HK$500,000 (2005: HK$500,000); and

v) guarantees provided by directors of the Company.

30. TAXATION IN THE CONSOLIDATED BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

	2006	**2005**
	HK$	*HK$*
Hong Kong profits tax	861,462	873,779
Mainland China enterprise income tax	904,822	785,591
	1,766,284	1,659,370

31. DEFERRED TAX ASSETS

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

Deferred tax arising from:	Accelerated tax depreciation	Fair value adjustments arising from acquisition of subsidiaries	Revaluation of properties	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 April 2004				
– As previously reported	115,059	169,485	(5,198,324)	(4,913,780)
– Effect of changes in accounting policies under HKAS 17	–	–	5,401,131	5,401,131
– As restated	115,059	169,485	202,807	487,351
Deferred tax charged to the income statement *(note 13)*	(162,918)	–	(286,509)	(449,427)
At 31 March 2005 (as restated)	(47,859)	169,485	(83,702)	37,924
At 1 April 2005 (as restated)	(47,859)	169,485	(83,702)	37,924
Deferred tax credited to equity	–	–	(32,200)	(32,200)
Deferred tax charged to the income statement *(note 13)*	–	–	–	–
At 31 March 2006	(47,859)	169,485	(115,902)	5,724

	2006	2005
	HK$	*HK$*
Net deferred tax assets recognised on the balance sheet	5,724	37,924
Net deferred tax liabilities recognised on the balance sheet	–	–
	5,724	37,924

31. DEFERRED TAX ASSETS *(Continued)*

b) Deferred tax assets not recognised

The Group has tax losses arising in Hong Kong of HK$112,728,215 (2005: HK$85,393,656) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2006, there 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

	2006		2005	
	No. of shares	Amount *HK$*	No. of shares	Amount *HK$*
Ordinary shares of HK$0.2 each				
Authorised				
Beginning of year	30,000,000,000	300,000,000	30,000,000,000	300,000,000
Reduced due to share consolidation *(note a)*	(28,500,000,000)	–	–	–
End of year	1,500,000,000	300,000,000	30,000,000,000	300,000,000
Issued and fully paid				
Beginning of year	4,869,957,705	48,699,577	4,803,807,705	48,038,077
Shares issued under share option scheme *(note c)*	–	–	66,150,000	661,500
Reduced due to share consolidation *(note a)*	(4,626,459,820)	–	–	–
Issue of new shares *(note b)*	48,000,000	9,600,000	–	–
End of year	291,497,885	58,299,577	4,869,957,705	48,699,577

Notes:

a) 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.

b) 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.

c) 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.

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.

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	0.022
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 0.01	0.028 0.028
Mr Chu Bu Yang, Alexander	4,500,000	–	(4,500,000)	–	–	–	30-10-2002	30-10-2002 to 29-10-2012		
	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	0.014
Other employees	6,450,000	–	(4,150,000)	–	–	2,300,000	31-10-2002	31-10-2002 to 30-10-2012	0.01	0.024
	7,600,000	–	(5,300,000)	–	–	2,300,000				
Total share options	85,450,000	–	(66,150,000)	–	–	19,300,000				

For the year ended 31 March 2006

Name or category of participant	At 1 April 2005	Share Consolidation	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$
			Number of share options							
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	–
	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	–
	2,300,000	(2,185,000)	–	(22,500)	–	92,500				
Total share options	19,300,000	(18,335,000)	–	(22,500)	–	942,500				

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 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 31 March 2006, the Company had 942,500 (2005: 965,000 restated) share options outstanding under the Scheme which represented approximately 0.3% (2005: 0.4%) 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 (2005: 965,000 restated) additional ordinary shares of the Company and additional share capital of HK$188,500 (2005: HK$965,000 restated).

34. RESERVES

a) Group

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 of the financial statements.

b) Company

	Share premium account	**Accumulated losses**	**Total**
	HK$	*HK$*	*HK$*
At 1 April 2004	24,482,848	(19,493,437)	4,989,411
Expenses incurred in an open offer	(420,098)	–	(420,098)
Net loss for the year	–	(6,704,772)	(6,704,772)
At 31 March 2005	24,062,750	(26,198,209)	(2,135,459)
At 1 April 2005	24,062,750	(26,198,209)	(2,135,459)
Issue of new shares	2,880,000	–	2,880,000
Share issuance expense	(199,312)	–	(199,312)
Net loss for the year	–	(13,957,661)	(13,957,661)
At 31 March 2006	26,743,438	(40,155,870)	(13,412,432)

c) Nature and purposes of the reserves

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

The revaluation reserves have been set up are dealt with in accordance with the accounting policies adopted for buildings in notes 3(f).

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.

34. RESERVES *(Continued)*

c) Nature and purposes of the reserves *(Continued)*

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).

d) Distributability of reserves

At 31 March 2006, the Company did not have any reserve available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda (as amended) (2005: Nil).

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 balance sheet date, the Group had total future minimum lease payments receivable under non-cancellable operating leases with its tenants falling due as follows:

	2006	**2005**
	HK$	*HK$*
Within one year	3,130,610	2,971,753
In the second to fifth years, inclusive	4,184,454	6,931,241
Over five years	2,643,385	2,312,597
	9,958,449	12,215,591

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 balance sheet date, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	The Group and the Company	
	2006	**2005**
	HK$	*HK$*
Within one year	197,500	197,500

36. CONTINGENT LIABILITIES

a) 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$338,000 (2005: HK$275,000) as at 31 March 2006, 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) The Company

At the balance sheet date, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries amounted to HK$57,469,794 (2005: HK$55,201,866).

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 year, the Group made rental payment of approximately HK$474,000 (2005: HK$474,000) 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) As at 31 March 2006, Twin Base pledged certain of its property interests to a bank to secure credit facilities to the extent of HK$12,899,980 (2005: HK$12,899,980) granted to the Group.

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

		The Group	
		2006	2005
	Notes	*HK$*	*HK$*
Purchases of raw materials from an associate	(i)	194,955	673,993
Management fee received from an associate	(ii)	–	144,000

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.

The amounts due to associates as at 31 March 2006 were HK$Nil (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.

During the year ended 31 March 2005, the associates repaid the HK$3,000,000 to the Group.

c) During the year, Ms Cheng, the spouse of Mr Chong Sing Yuen, granted a credit facility of HK$13,660,000 (2005: HK$8,000,000) and a loan of HK$ Nil (2005: HK$5,660,000) to the Group, the details of which are set out in note 27 to the financial statements. In addition, Ms. Cheng advanced HK$436,893 (2005: HK$610,547) to the Group. The advances were unsecured, interest-free and with fixed terms of repayment.

d) During the year ended 31 May 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.

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

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. 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. Details of the subscription have been disclosed in the Company's announcement dated 19 May 2006.

b) Very substantial disposal transaction. Details of the transaction have been disclosed in the Company's announcement dated 17 July 2006.

c) In June 2006, the Group decided to terminate the consumer electronic business due to the continuously underperformance and is in the progress to assess its financial impact.

d) Debt reassignment. Details of the transaction were disclosed in note 27.

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

As further explained in note 3 to the financial statements, due to adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 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]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK (IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK (IFRIC) – INT 8	Scope of HKFRS 2[5]
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business review for the year ended 31 March 2004

For the year ended 31 March 2004, the Group's turnover was HK$81 million (2003: HK$107 million), representing a decrease of 24% over the year 2003. Gross profit margin deteriorated to 13% (2003: 30%) partly due to large fixed factory overheads and depreciation of fixed assets. Net loss of the Group was HK$15.5 million (2003: HK$2.7 million restated profit) and loss per share was HK0.34 cents (2003: HK0.06 cents restated earnings per share).

Consumer electronics business

The performance of the electronics business of the Group was adversely affected by the impact of SARS and the turnover for the year fell 49% to HK$30.2 million from HK$59.5 million in the year 2003. The outbreak of SARS in year 2003 brought almost all OEM product development to a standstill when some capital investments were already committed for the electronics business to take off. The satisfactory growth in ODM sales during the year cushioned the fall in OEM sales but was far from being able to offset the impact since the electronics business was still very dependent on OEM. The result of the electronics business turned into a negative contribution of HK$11.4 million from a positive contribution of HK$6.8 million in the year 2003.

Due to the long product development lag of OEM, the unfavorable impact of SARS receded only in June 2004. Judging from the orders in book, the electronics business was expected to regain its momentum in July to September 2004. At least six OEM items and two ODM items was under development now and all these were expected to be launched by March 2005. Productions of three OEM products were scheduled to kick-start in July 2004. Expansion of production capacity had already been planned to accommodate increasing orders.

Snap off blade cutter business

The cutter business was relatively stable during the year 2004. As expected, the annual turnover increased moderately by 7% to HK$47.6 million (2003: HK$44.5 million) as a result of the major price adjustment in the year 2003. Adversely affected by the unexpected sharp increase in prices of raw materials during the year, the contribution of the cutter business to the Group reduced to HK$2.9 million (2003: HK$5.9 million).

The cutter business was expected to remain steady in the near future. At least five new models would be launched by March 2005 and they were expected to contribute significantly to turnover and profit of the cutter business. The marketing team was focus more on the premium market rather than the heavy tool market to seek higher profit margin. It was therefore expected that the turnover remained about the same in the coming year with an increase in sales volume.

Geographical segment analysis

The Group's client base was quite well diversified in terms of geographical locations. Since sales were classified according to the location of immediate clients, there was a higher concentration in the Hong Kong market in the year ended 31 March 2004. Most of the goods sold to our clients in Hong Kong were in fact re-exported to other countries.

Liquidity and financial resources

As at 31 March 2004, the current and non-current liabilities of the Group amounted to HK$64.5 million (2003: HK$43.9 million restated) and HK$10.7 million (2003: HK$17.4 million restated) respectively. The amount of net current liabilities widened to HK$29.1 million (2003: HK$7.2 million) mainly because of the shift of about HK$6 million long-term bank loans to current liabilities as they approached maturity and the new short-term bank loan raised to finance operating and investing activities. The Group's operating cash flow changed from an inflow of HK$10.8 million to an outflow of HK$11.6 million. The gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rose from 50% (restated) to 81%.

The deterioration of the liquidity position was mainly attributable to the net outflow from operating activities. The cash flow from operating activities is expected to improve in the coming year. The Group has also reached preliminary agreement with a bank to restructure approximately HK$13.1 million of short-term loans to long-term loans, which will help improve the liquidity position.

Among the HK$43.2 million interest-bearing borrowings repayable within a year, HK$17.5 million has been fully repaid and HK$2.8 million has been rolled over. The management has already had a plan to repay the balance of the short-term loans and the HK$4.7 million long-term bank borrowings in order.

Investment position and planning

The Group's investment properties are situated in Northern Industrial Complex, Panyu, Guangdong Province, PRC and Fo Tan Industrial Centre, Fo Tan, Hong Kong. The properties were rented out for manufacturing, storage and office purposes. Since these industrial properties were held as long-term investments, more focus was put on the management of the leases to ensure that these investments would continue to provide a stable stream of income for the Group. The management was optimistic about the prospects of these investments over long term given the rapid industrialization of the Pearl River Delta and the development of CEPA between the Central Government and the Hong Kong SAR Government.

Aware of the liquidity position, the Group did not have any plan to spend on fixed asset investment in the near future but special budget may be approved if new production equipment was required for efficient completion of new OEM orders. The Group might consider disposal of some investment properties when circumstances required.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates was very limited because most of its assets, liabilities and transaction were denominated in Hong Kong Dollar, or in other currencies such as US dollar and Renminbi, which exchange rates against the Hong Kong Dollar are relatively stable.

Share capital

During the year ended 31 March 2004, the Company had issued 259,350,000 ordinary shares pursuant to the exercise of share options by certain directors of the Company and employees of the Group. At 31 March 2004, the share capital of the Company comprised only 4,803,807,705 ordinary shares of HK$0.01 each.

Charges on Group's Assets

The Group's properties are all situated in Hong Kong and Mainland China. At 31 March 2004, all the Group's properties in Hong Kong (2003: 100%) and approximately 88% (2003: 72%) of the Group's properties in Mainland China were pledged to banks to secure credit facilities for the Group.

Contingent liabilities

The Group's contingent liabilities as at 31 March 2004 were Nil (2003: HK$2.2 million) in relation to export bills discounted with recourse.

As at 31 March 2004, the Company had provided corporate guarantee to the extent of HK$88.1 million (2003: HK$60.3 million) to certain banks in respect of credit facilities granted to its subsidiaries.

Acquisition and disposal of subsidiaries and associate companies

There were no acquisition and disposal of subsidiaries and associated companies during the year.

Legal proceedings against ASG Capital Limited and ASG Brokerage Limited ("ASG")

On 9 December 1997, the Company entered into placing and underwriting agreements with ASG (the "Agreements") which agreed to place and underwrite an aggregate of 100 million new shares in the Company to independent investors at a placing price of HK$0.40 per share. However, ASG failed to fulfill its placing and underwriting obligations in accordance with the terms of the Agreements. The Company has instituted legal proceedings against ASG and the proceedings are being continued.

Employees

The Group had approximately 780 employees. Most of these employees were working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province. Employees were remunerated on a performance basis with reference to market practices. Share option scheme was adopted to encourage personal commitment of employees to achieve the Group's business goals.

B. Business Review for the year ended 31 March 2005

For the year ended 31 March 2005, the Group's turnover was HK$70.1 million (2004: HK$81.0 million), representing a decrease of 13% over the year 2004. Gross profit margin deteriorated to 8% (2004: 13%) partly due to sharp increase in prices of raw materials. Net loss of the Group was HK$19.6 million (2004: HK$15.5 million) and loss per share was HK0.41 cents (2004: HK0.34 cents).

Consumer electronics business

The performance of the electronics business of the Group was adversely affected by sudden increase in oil and metal prices during the year ended 31 March 2005. The strong growth in ODM sales during the year cushioned the fall in OEM sales but was far from being able to offset the impact since the electronics business was still very dependent on OEM. The result of the electronics business was a negative contribution of HK$9.1 million (2004: HK$11.4 million).

A rebound in the electronics business had been observed. The turnover of the electronics business increased almost 300% year-on-year in the three months ended 30 June 2005, and is likely to record very high growth in the following three months judging from the orders in book. Newly developed OEM products had been selling well while ODM sales continue to grow. A significant improvement in the electronics business was expected but fluctuation in raw material prices remained a major risk factor.

Snap off blade cutter business

Similar to the electronics business, the cutter business was also adversely affected by sudden increase in raw material prices during the year ended 31 March 2005. The annual turnover fell 9% to HK$43.1 million (2004: HK$47.6 million) mainly due to decrease in sales volume as a result of necessary upward price adjustment reflecting the increase in material and manufacturing cost. The result of the cutter business turned to a negative contribution of HK$3.1 million from a positive contribution of HK$2.9 million in the year 2004.

In order to improve the performance of the cutter business, the business segment had planned to boost turnover and improve profit margin by adding new models to the existing product mix. A number of new clients, which were major distributors of tools and stationary, had been secured. A moderate growth in turnover and significant improvement in the result of the cutter business were expected in the coming year.

Geographical segment analysis

The Group's client base was quite well diversified in terms of geographical locations. There was a high concentration in the Hong Kong market since sales were classified according to the location of direct clients. Most of the goods sold to our clients in Hong Kong were in fact exported to other countries.

Liquidity and financial resources

As at 31 March 2005, the current and non-current liabilities of the Group amounted to HK$66.4 million (2004: HK$64.5 million) and HK$22.8 million (2004: HK$10.7 million) respectively. The amount of net current liabilities narrowed to HK$26.6 million (2004: HK$29.1 million) mainly due to rescheduling of about HK$16.0 million of short-term bank borrowings to long-term bank borrowings during the year 2005. The Group recorded an operating cash outflow of HK$10.8 million (2004: HK$11.6 million) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rose to 101% (2004: 81%) during the year 2005.

From the management's point of view, the amount of financial resources available to the Group was adequate. The Group considered disposing of its assets if additional financial resources were required for operation.

Investment position and planning

Superior Trump Limited, a wholly owned subsidiary of the Company, entered into a formal agreement with a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules) on 26 October 2004 to dispose of all the Group's investment properties situated in Fo Tan Industrial Centre, Shatin, Hong Kong at the consideration of HK$7,150,000 (the "Disposal") and the transaction was duly completed on 15 December 2004. The Disposal contributed approximately HK$1.0 million net earnings to the Group in the year ended 31 March 2005.

All of the Group's investment properties were situated in Northern Industrial Complex, Panyu, Guangdong Province, the PRC after the Disposal. These investment properties have been rented out for manufacturing, storage and office purposes and have continued to generate a stable stream of income for the Group.

The Group has planned to spend about HK$2.0 million in upgrading plant and machinery to cope with increasing orders in the year 2006. Special budget might be approved if new production equipment was required for efficient completion of new OEM orders or when suitable investment opportunities arise. The Group considered disposing of some investment properties when circumstances required.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates was very limited because its assets and liabilities had been well matched in terms of denominations.

Share capital and options

During the year ended 31 March 2005, the Company issued 66,150,000 ordinary shares pursuant to the exercise of share options by certain directors of the Company and employees of the Group. At 31 March 2005, the share capital of the Company comprised only 4,869,957,705 ordinary shares of HK$0.01 each (the "Share(s)").

Consolidation of shares and adjustment to options

On 23 March 2005, the Company announced 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 Share(s)") (the "Consolidation") and to change board lot size for trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 Shares to 5,000 New Shares upon the implementation of the Consolidation.

The Consolidation was approved by the shareholders of the Company and became effective on 5 May 2005 (the "Effective Date"). Accordingly, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares immediately after the Consolidation.

As at the Effective Date, the Company had outstanding options granted under its share option scheme 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 under the Company's share option scheme was reduced by 95% and 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.

Termination of an open offer

The Company announced on 28 January 2005 a proposal to raise fund of not less than HK$94 million through an open offer (the "Open Offer") and the Company intended to use such proceeds for possible investment. As stated in the Company's announcement dated 18 April 2005, the underwriter of the Open Offer purported to terminate the relevant underwriting agreement and failed to take up the underwritten shares, the Open Offer was therefore terminated. The Company sought legal advice on the necessary actions to be taken against the relevant underwriter.

Subscription of new shares

The Company entered into a conditional subscription agreement with a subscriber, a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), on 14 July 2005 for the subscription of 48 million New Shares (representing 19.71% of the Company's issued share capital as at 14 July 2005 and about 16.47% of its share capital as enlarged by the subscription) at a price of HK$0.26 per New Share under the general mandate granted to the directors of the Company pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 27 August 2004 (the "Subscription").

The Subscription was conditional on the granting of a listing of and permission to deal in the 48 million New Shares by the Listing Committee of the Stock Exchange. An application was made by the Company to the Stock Exchange on 19 July 2005 for the listing of and permission to deal in the 48 million New Shares.

Changes on the Group's assets

The Group's properties are situated in Hong Kong and the PRC. At 31 March 2005, all of the Group's properties in Hong Kong (2004: 100%) and approximately 61% (2004: 88%) of the Group's properties in the PRC were pledged to banks to secure credit facilities for the Group.

Contingent liabilities

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$275,000 (2004: HK$279,000) as at 31 March 2005, as further explained under the heading "Employee benefits" in note 3(o) to the financial statements.

As at 31 March 2005, the Company had provided corporate guarantees to the extent of HK$55.2 million (2004: HK$88.1 million) to certain banks in respect of credit facilities granted to its wholly owned subsidiaries.

Acquisition and disposal of subsidiaries and associated companies

There were no acquisition and disposal of subsidiaries and associated companies during the year.

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 costs. 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.

Employees

The Group has approximately 1,430 employees. Most of these employees was working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, the PRC. Employees were remunerated on a performance basis with reference to market practices. Share option scheme and incentive schemes were adopted to encourage personal commitment of employees to achieve the Group's business goals.

C. Business review for the year ended 31 March 2006

Consumer electronics business

The turnover of the Group's electronics business was HK$52.5 million (2005: HK$23.6 million), a 122% increase over last year. Adversely affected by an overall increase in material prices and production costs, the electronics business enhances its negative contribution to HK$15.8 million (2005: HK$9.1 million).

Subsequent to the balance sheet date, considering continuously underperformance of consumer electronic business, the Group decided to terminate it. The consumer electronic business was terminated in June 2006. Cessation of the Group's electronic business would lower the turnover of the Group (the turnover of such discontinued operations amounted to approximately HK$52.5 million for the year ended 31 March 2006) but minimise the loss of the Group (The operating loss attributable to such discontinued operations amounted to approximately HK$15.8 million for the year ended 31 March 2006). Approximately 300 employees were dismissed with compensation duly paid as a result of the termination.

Snap off blade cutter business

The turnover of the Group's cutter business was HK$43.7 million (2005: HK$43.1 million), a 1.4% increase over last year. Adversely affected by an overall increase in material prices and production costs, the results of this business segment have a negative contribution of HK$4.8 million (2005: HK$3.1 million).

The Group will continue to develop new models and add into the existing product mix in order to improve the result of the business segment.

Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. There was a high concentration in the Hong Kong market since sales were classified according to the location of direct clients. Most of the goods sold to our clients in Hong Kong were in fact exported to other countries.

Liquidity and financial resources

As at 31 March 2006, the current and non-current liabilities of the Group amounted to HK$84.5 million (2005: HK$66.4 million as restated) and HK$1.5 million (2005: HK$17.5 million as restated), respectively. The amount of net current liabilities enhances further to HK$60.8 million (2005: HK$26.6 million as restated) mainly due to the increase in the loss incurred during the year and interest-bearing borrowings within one year.

During the year, the Group recorded an operating cash outflow of HK$12.6 million (2005: HK$10.8 million outflow) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, increase to 299% (2005: 127% as restated).

The Group's financial position will be enhanced after (i) the Group entered into placement agreement with independent third party, which will raise net proceeds of HK$13.24 million subsequent to the balance sheet date; and (ii) subject to the shareholders' approval, the Group proposed to dispose the investment properties and certain land and buildings in Panyu at consideration of RMB75 million, as stated in the announcement dated 17 July 2006.

From the management's point of view, the amount of financial resources available to the Group is adequate. The Group may consider further disposing of its assets if additional financial resources are required for operation.

Investment position and planning

All of the Group's investment properties are situated in Northern Industrial Complex, Panyu, Guangdong Province of Mainland China. These investment properties have been rented out for manufacturing, storage and office purposes and have continued to generate a stable stream of income for the Group.

On 8 July 2006, the Group entered into a letter of agreement with an independent third party to dispose of all of its interest in the properties in Panyu in Mainland China, at a consideration of RMB75 million, resulting a gain of approximately RMB4 million attributable to the Group. The proposed disposal is subject to the approval by shareholders at the special general meeting.

The Group does not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates is very limited because its assets and liabilities have been well matched in terms of denominations.

Share capital and options

During the year, the share capital and the option of the Company have the following changes:

Consolidation of shares and adjustment to options

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 Share(s)") (the "Consolidation") was approved by the shareholders of the Company on 4 May 2005. The Consolidation and change in board lot size for trading in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 shares to 5,000 New Shares became effective on 5 May 2005. Immediately after the Consolidation, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares.

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%, and 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.

Subscription of new shares

On 14 July 2005, the Company entered into a conditional subscription agreement with a subscriber, a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), for the subscription of 48 million New Shares at a price of HK$0.26 per New Share under the general mandate granted to the directors of the Company pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 27 August 2004.

All conditions of the subscription agreement were fulfilled and the 48 million New Shares were issued on 29 July 2005.

Post balance sheet events

Subscription of new shares

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. 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. Details of the subscription have been disclosed in the Company's announcement dated 19 May 2006.

All conditions of the subscription agreement were fulfilled and the 58 million New Shares were issued on 20 June 2006.

Disposal of the property

On 8 July 2006, the Group entered into a letter of agreement with an independent third party to dispose of all of its interest in the property in Panyu in Mainland China, at a consideration of RMB75 million, resulting a gain of approximately RMB4 million attributable to the Group. The proposed disposal is subject to the approval by shareholders at the special general meeting. Details of the transaction have been disclosed in the Company's announcement dated 17 July 2006.

Termination of consumer electronics business

In June 2006, the Group decided to terminate the consumer electronic business due to the continuously underperformance and is in the progress to assess its financial impact.

Changes on the Group's assets

The Group's investment properties situated in Panyu, Mainland China are all rented out. As at 31 March 2006, all (2005: 100%) of the Group's investment properties were pledged to banks to secure credit facilities granted to the Group.

As at 31 March 2006, approximately 94% (2005: 58% as restated) of the Group's land and buildings were pledged to banks to secure credit facilities granted to the Group.

Contingent liabilities

The Group

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$338,000 (2005: HK$275,000) as at 31 March 2006.

The Company

As at 31 March 2006, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries amounting to HK$57,469,794 (2005: HK$55,201,866).

Employees

At 31 March 2006, the Group had approximately 650 employees. Most of the employees were working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, Mainland China. Employees are remunerated on a performance basis with reference to market practices.

Share option scheme and incentive schemes are adopted to encourage personal commitment of employees to achieve the Group's business goals.

III. INDEBTEDNESS

As at the close of business on 31 August 2006, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$51.2 million, comprising secured bank overdrafts of approximately HK$0.5 million; secured bank loans of approximately HK$36.51 million; unsecured other loans of approximately HK$13.51 million; and finance lease payables of approximately HK$0.68 million. The secured bank loans are guaranteed by the Company and/or its subsidiary. Certain of the borrowing were secured by certain of the Enlarged Group's leasehold land and buildings and investment properties.

At the close of business on 31 August 2006, the Enlarged Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK$160,000; and the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries amounting to HK$57.5 million.

Save as aforesaid and apart from intra-group liabilities, the Enlarged 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 August 2006.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing as at 31 August 2006.

The directors are not aware of any material adverse changes in the Enlarged Group's indebtedness position and contingent liabilities since 31 August 2006.

IV. WORKING CAPITAL

The Directors are of the opinion that, with completion of the disposal of the property of the Company located at Pauyu City and taking into account the present available banking facilities, internal resources of the Enlarged Group, the Enlarged 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.

V. MATERIAL ADVERSE CHANGE

The Directors are not aware, as at the Latest Practicable Date, of any material adverse change in financial or trading position of the Group since 31 March 2006, the date to which to latest published audited accounts of the Company have been made up.

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 Direct	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 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	At 30 April 2006
	Notes	*HK$'000*	*HK$'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	Four months ended 30 April 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	Year ended 31 December 2005	Four months ended 30 April 2005	Four months ended 30 April 2006
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'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	Year ended 31 December 2005	Four months ended 30 April 2005	Four months ended 30 April 2006
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Current tax	–	–	–	245
Deferred tax	–	–	–	3,537
	–	–	–	3,782

(b) Reconciliation between tax expense and accounting profit:

	Period ended 31 December 2004	Year ended 31 December 2005	Four months ended 30 April 2005	Four months ended 30 April 2006
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'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$'000*	*HK$'000*
			(unaudited)	
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$'000*	*HK$'000*
			(unaudited)	
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$'000*	*HK$'000*
			(unaudited)	
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

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET 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

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

31 October 2006

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 118 to 125 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "unaudited pro forma financial information') in Appendix III of the Company's circular (the "Circular") dated 31 October 2006 in connection with the acquisition of Luck Grow Group Limited ("Luck Grow") and its subsidiaries (hereinafter collectively referred to as the "Luck Grow Group") by the Company. 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 acquisitions of Luck Grow Group might have affected the relevant financial information of the Group. The basis of preparation of the unaudited pro forma financial information is set out on pages 118 to 125 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 Enlarged Group as at 31 March 2006 or any future date: and

– the results and cash flows of the Enlarged 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 Enlarged Group have been prepared to illustrate the effect of the sale of property (the "Disposal") as set out in the circular of the Group dated 14 August 2006 and the conditional acquisition of the entire issued share capital of Luck Grow Group (the "Acquisition") for a consideration of HK$182,504,072. The consideration will be settled by:

(i) cash of HK$24,811,764; and

(ii) Two 5-year promissory notes of amount HK$82,692,308 and HK$75,000,000 respectively with interest rate at 5% per annum and payable together with the principal amount upon maturity date.

A. Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group assuming that the Disposal and the Acquisition had been completed of as at 31 March 2006. The unaudited pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the Group as at 31 March 2006 with adjustments to reflect of the Disposal and the Acquisition.

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 Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Disposal and the Acquisition have been completed on 31 March 2006. The unaudited pro forma consolidated balance sheet of the Enlarged Group does not purport to predict the future position of the Enlarged 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 Enlarged Group at any given date.

A. Unaudited pro forma consolidated balance sheet (Continued)

	The Group as at 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group as at 30 April 2006	Pro forma adjustments relating to the Acquisition		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F	G = C+D+E+F
		(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	
Non-current assets							
Investment in a subsidiary	–	–	–	–	110,000	(110,000)	–
Property, plant and equipment	31,172	(21,720)	9,452	578	–	–	10,030
Investment property	41,021	(41,021)	–	241,399	–	–	241,399
Interests in leasehold land held for own use under operating leases	4,352	(1,846)	2,506	–	–	–	2,506
Interests in associates	–	–	–	–	–	–	–
Deferred tax assets	6	–	6	–	–	–	6
	76,551	(64,587)	11,964	241,977	110,000	(110,000)	253,941
Current assets							
Inventories	12,073	–	12,073	–	–	–	12,073
Trade and bills receivables	8,139	–	8,139	–	–	–	8,139
Other receivables, deposit and prepayments	2,723	(1,776)	947	808	–	–	1,755
Pledged deposits	500	–	500	–	–	–	500
Cash and bank equivalents	310	39,330	39,640	993	(24,812)	–	15,821
	23,745	37,554	61,299	1,801	(24,812)	–	38,288
Current liabilities							
Trade payables	12,622	–	12,622	–	–	–	12,622
Other payables and accruals	11,696	(558)	11,138	5,129	–	601	16,868
Due to a director	3,136	–	3,136	73,105	(72,504)	(601)	3,136
Due to related parties	13,942	–	13,942	315	–	–	14,257
Obligations under finance leases	743	–	743	–	–	–	743
Interest-bearing borrowings	40,603	(28,073)	12,530	–	–	–	12,530
Promissory notes	–	–	–	–	157,692	–	157,692
Tax payable	1,766	–	1,766	245	–	–	2,011
	84,508	(28,631)	55,877	78,794	85,188	–	219,859

A. Unaudited pro forma consolidated balance sheet (Continued)

	The Group as at 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group as at 30 April 2006	Pro forma adjustments relating to the Acquisition		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F	G = C+D+E+F
		(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	
Net current (liabilities)/assets	(60,763)	66,185	5,422	(76,993)	(110,000)	–	(181,571)
Total assets less current liabilities	15,788	1,598	17,386	164,984	–	(110,000)	72,370
Non-current liabilities							
Deferred tax liabilities	–	–	–	55,261	–	–	55,261
Obligations under finance leases	188	–	188	–	–	–	188
Interest-bearing borrowings	1,271	–	1,271	–	–	–	1,271
	1,459	–	1,459	55,261	–	–	56,720
NET ASSETS	14,329	1,598	15,927	109,723	–	(110,000)	15,650
CAPITAL AND RESERVES							
Share capital	58,299	–	58,299	–	–	–	58,299
Reserves	(43,970)	1,598	(42,372)	109,723	–	(110,000)	(42,649)
Total equity attributable to equity shareholders of the company	14,329	1,598	15,927	109,723	–	(110,000)	15,650
TOTAL EQUITY	14,329	1,598	15,927	109,723	–	(110,000)	15,650

A. Unaudited pro forma consolidated balance sheet (Continued)

Notes:

1. The adjustments for the Disposal were outlined in the circular dated 14 August 2006.

2. Column C represented the unadjusted information derived from previously published pro forma financial information reported on in accordance with Rule 4.29(7) under Rule 4.29(5)(c) of the Listing Rules.

3. The adjustments represent the consideration payable to the Vendor for the acquisition of the entire issued share capital in Luck Grow and the Sale Loan with details set out below:

	HK$'000
Consideration payable	
– Cash payment in December 2006	24,812
– Promissory note payable issued in July 2007	82,692
– Promissory note payable issued in June 2009	75,000
	182,504
Sale Loan	(72,504)
Consideration for the entire issued share capital	110,000

The sale loan is the sum of the director's loan due by Luck Grow of HK$50,000,000 and Shanghai Xiang Chen Hang of approximately HK$22,504,000.

4. The adjustments represent the elimination of the investment in a subsidiary with the capital and reserves of Luck Grow and the Sale Loan. Impairment of goodwill of approximately HK$277,000 was recognized in the income statement. As Mr. Xu is not the director of the Group, HK$601,000 has been reallocated to other payables and accruals accordingly.

B. Unaudited pro forma consolidated income statement and cash flow statement

The following is unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group assuming that the Disposal and the Acquisition had been completed as of 1 April 2005. The unaudited pro forma consolidated income statement and cash flow statement were prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2006 with adjustments to reflect the effect of the Disposal and the Acquisition.

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 Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Disposal and the Acquisition been completed as of 1 April 2005. The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group does not purport to predict the future position of the Enlarged 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 Enlarged Group for any financial period.

B. Unaudited pro forma consolidated income statement and cash flow statement (Continued)

Unaudited pro forma consolidated income statement

	The Group year ended 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group period ended 30 April 2006	Pro forma adjustments relating to the Acquisition	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F = C+D+E
		(Note 1)	*(Note 2)*		*(Note 3)*	
TURNOVER	99,122	(2,900)	96,222	3,420	–	99,642
Cost of sales	(103,367)	646	(102,721)	–	–	(102,721)
Gross (loss)/profit	(4,245)	(2,254)	(6,499)	3,420	–	(3,079)
Other revenue	3,072	3,265	6,337	10,726	–	17,063
Distribution costs	(7,855)	–	(7,855)	–	–	(7,855)
Administrative expenses	(18,274)	(3,450)	(21,724)	(3,246)	(277)	(25,247)
Other operating expenses	(6)	–	(6)	–	–	(6)
(Loss)/profit from operations	(27,308)	(2,439)	(29,747)	10,900	(277)	(19,124)
Finance costs	(2,387)	1,684	(703)	(109)	(7,884)	(8,696)
(Loss)/profit before taxation	(29,695)	(755)	(30,450)	10,791	(8,161)	(27,820)
Taxation	(108)	–	(108)	(3,782)	–	(3,890)
(Loss)/profit for the year	(29,803)	(755)	(30,558)	7,009	(8,161)	(31,710)
Attributed to:						
Equity shareholders of the Company	(29,803)	(755)	(30,558)	7,009	(8,161)	(31,710)
	(29,803)	(755)	(30,558)	7,009	(8,161)	(31,710)

Notes:

1. The adjustments for the Disposal were outlined in the circular dated 14 August 2006.

2. Column C represented the unadjusted information derived from previously published pro forma financial information reported on in accordance with Rule 4.29(7) under Rule 4.29(5)(c) of the Listing Rules.

3. The adjustment represents impairment of goodwill of approximately HK$277,000 and the interest of approximately HK$7,884,600 on promissory notes for a combined principal of HK$157,692,308 at 5% per annum 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

	The Group year ended 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group period ended 30 April 2006	Pro forma adjustments relating to the Acquisition	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F = C+D+E
		(Note 1)			*(Note 2)*	
Operating activities						
Loss before taxation	(29,695)	(755)	(30,450)	10,791	(8,161)	(27,820)
Adjustment for:						
Amortisation of land lease premium	114	–	114	–	–	114
Finance costs	2,387	(1,684)	703	–	–	703
Interest income	(16)	–	(16)	(2)	–	(18)
Interest expenses	–	–	–	109	7,884	7,993
Depreciation	3,205	(646)	2,559	25	–	2,584
Goodwill	–	–	–	–	277	277
Gain on disposal of investment property	–	(3,470)	(3,470)	–	–	(3,470)
Surplus on fair value of investment properties	(205)	205	–	(10,724)	–	(10,724)
Surplus on revaluation of buildings	(829)	–	(829)	–	–	(829)
Impairment for slow-moving and obsolete inventories	53	–	53	–	–	53
Written back of provision for due from associates	(771)	–	(771)	–	–	(771)
Foreign exchange loss/(gain) net	272	–	272	(513)	–	(241)
Operating loss before changes in working capital	(25,485)	(6,350)	(31,835)	(314)	–	(32,149)
Decrease in inventories	8,343	–	8,343	–	–	8,343
Decrease in trade and bills receivables	2,250	–	2,250	–	–	2,250
Decrease in other receivables, deposits and prepayment	1,536	1,177	2,713	2,630	–	5,343
Decrease in due from director	–	–	–	193	–	193
Increase in trade payables	1,539	–	1,539	–	–	1,539
Increase/(decrease) in other payables accruals and related parties	1,220	(558)	662	(24,430)	–	(23,768)
Decrease in due to associates	(884)	–	(884)	–	–	(884)
Decrease in due to former shareholder	–	–	–	(1,185)	–	(1,185)
(Decrease)/increase in due to directors	(1,071)	–	(1,071)	23,105	–	22,034

B. Unaudited pro forma consolidated income statement and cash flow statement (Continued)

Unaudited pro forma consolidated cash flow statement (Continued)

	The Group year ended 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group period ended 30 April 2006	Pro forma adjustments relating to the Acquisition	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F = C+D+E
		(Note 1)			*(Note 2)*	
Cash used in operations	(12,552)	(5,731)	(18,283)	(1)	–	(18,284)
Tax paid	(21)	–	(21)	–	–	(21)
Net cash used in operating activities	(12,573)	(5,731)	(18,304)	(1)	–	(18,305)
Investing activities						
Acquisition of subsidiaries	–	–	–	–	(24,812)	(24,812)
Purchases of property, plant and equipment	(3,228)	–	(3,228)	(22)	–	(3,250)
Interest received	16	–	16	2	–	18
Net proceeds from disposals of investment property	–	67,961	67,961	–	–	67,961
Net cash (used in)/generated from investing activities	(3,212)	67,961	64,749	(20)	(24,812)	39,917
Financing activities						
Proceeds from issue of shares	12,480	–	12,480	–	–	12,480
New inception/ (repayment) of bank loans	1,514	(28,073)	(26,559)	–	–	(26,559)
Inception of finance leases	1,615	–	1,615	–	–	1,615
Capital element of finance lease rentals paid	(923)	–	(923)	–	–	(923)
Interest element of finance lease rentals paid	(71)	–	(71)	–	–	(71)
Interest paid	(2,316)	1,684	(632)	(109)	–	(741)
Share insurance expenses	(199)	–	(199)	–	–	(199)
Advance from related parties	(329)	–	(329)	–	–	(329)

B. Unaudited pro forma consolidated income statement and cash flow statement (Continued)

Unaudited pro forma consolidated cash flow statement (Continued)

	The Group year ended 31 March 2006	Pro forma adjustments relating to the Disposal	Pro forma Group after the Disposal	Luck Grow Group period ended 30 April 2006	Pro forma adjustments relating to the Acquisition	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	A	B	C = A + B	D	E	F = C+D+E
		(Note 1)			*(Note 2)*	
Net cash generated from financing activities	11,771	(26,389)	(14,618)	(109)	–	(14,727)
Net (decrease)/increase in cash and cash equivalents	(4,014)	35,841	31,827	(130)	(24,812)	6,885
Cash and cash equivalents at 1 April 2005	3,698	–	3,698	1,123	–	4,821
Cash and cash equivalent at 31 March 2006	(316)	35,841	35,525	993	(24,812)	11,706

Notes:

1. The adjustments for the Disposal were outlined in the circular dated 14 August 2006.

2. The adjustment represents profit and loss effect of the acquisition and cash of amount approximately HK$24,812,000 paid as a part of the consideration for the Acquisition.

Set out below are the text of letter, summary of values and valuation certificate received by the Company from Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, prepared for the purposes of incorporation into this circular, of their valuation of the properties as at 31st August, 2006.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES
MAGI

Suites 402-3
Unicorn Trade Centre
131 Des Voeux Road Central
Hong Kong

31st October, 2006

The Directors
Northern International Holdings Limited
2nd Floor, Block A
Man Foong Industrial Building
7 Cheung Lee Street
Chai Wan
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties comprising those: i. owned and ii. to be acquired by Northern International Holdings Limited (the "Company") and its subsidiaries (together the "Group"), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant properties of the enlarged group as at 31st August, 2006 (the "date of valuation").

Our valuations of the property interest are our opinion of the Market Value which we would define as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset estimate without regard to costs of sale or purchase and without offset for any associated taxes.

Our valuations of the property interests in Group I, Group II and Group III have been made on the assumption that the owner sells the properties on the market in their existing state without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties.

The property interests have been valued on a market value basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the properties of the enlarged group, we have complied with all the requirements contained in Chapter 5 and the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition) published by the Hong Kong Institute of Surveyors.

The current status of the property interests in Group III regarding major approvals, consents or licences required in the PRC is set out as follows:

Document/Approval	**Property 1**	**Property 2**
Certificate of Real Estate Ownership	Yes	Yes
Certificate of Registration of Real Estate of Shanghai Municipality	Yes	Yes

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, licences, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the area in respect of the properties but have assumed that the site area shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the properties included in the attached valuation certificate, in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no site surveys, investigations or examinations have been made, but in the course of our inspections we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, such as mortgage and debenture charge, restrictions and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties and have caused searches to be made at the Land Registry regarding the properties in Hong Kong. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the People's Republic of China (the "PRC"), we are unable to search the original documents to verify the existing title of the properties in the PRC or any material encumbrances that might be attached to the properties.

The scope of valuations has been determined with reference to the property list provided by the Company. The properties on the list have been included in this valuation certificate.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this valuation certificate are in Hong Kong Dollars. The exchange rate adopted in our valuations of the property interests is the exchange rate prevailing as at the date of valuation being HK$1=RMB1.03 and there has been no significant fluctuation in the exchange rate between the date of valuation and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
CASTORES MAGI (HONG KONG) LIMITED
Deret Au Chi Chung
Member of China Institute of Real Estate Appraisers
China Registered Real Estate Appraiser
Registered Business Valuer of Hong Kong Business Valuation Forum
B.Sc., MRICS, MHKIS, RPS, MCIArb, AHKIArb
Director

Note: Deret Au Chi Chung is a Registered Professional Surveyor and has over 14 years of experience in valuing properties in Hong Kong and the properties of private and state-owned enterprises in over 100 towns and cities in the PRC. He also possesses over 9 years of experience in valuing properties in the Asia-pacific region. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Properties owned and occupied by the Group in Hong Kong

	Property	Capital value in existing state as at 31st August, 2006 *(HK$)*
1.	Unit A on 2nd Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong.	2,700,000
2.	Car Parking Space Nos. 9 and 15 on Ground Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong.	600,000
3.	Car Parking Space Nos. 10 and 11 on Ground Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong.	800,000
	Sub-Total:	**4,100,000**

Group II – Property held by the Group for investment in Hong Kong

1.	Unit C on 2nd Floor including the Flat Roof Thereof, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong.	2,640,000
	Sub-Total:	**2,640,000**

Group III – Property interests to be acquired by the Group in the PRC

	Property	Capital value in existing state as at 31st August, 2006 *(HK$)*
1	Unit Nos. 201 and 202 on Mezzanine Level and Advertising Space, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, The PRC.	107,314,000
2	Whole of Basement Level One and Ground Level and Advertising Space, Nos. 277 and 289 Lan Xi Road Putuo District, Shanghai, The PRC.	134,773,000
	Sub-Total:	**242,087,000**
	Grand Total:	**248,827,000**

VALUATION CERTIFICATE

Group I – Properties owned and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
1.	Flat A on 2nd Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong. 20/1,000th shares of and in Chai Wan Inland Lot Nos. 69 and 70 (the "Lots")	The property comprises a factory unit on 2nd Floor of a 24-storey industrial building which was completed in about 1977. The property has a gross floor area of approximately 5,290 sq. ft. (491.5 sq. m.). The property is subject to two Government Leases both for a term of 75 years renewable for 75 years commenced from 22nd February, 1974 and 8th March, 1974, respectively. The total Government Rent payable for the Lots is HK$2,000 per annum.	The property is currently occupied by the Group for workshop and office purposes.	2,700,000

Notes:

1. The current registered owner of the property is Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group.

2. The property is subject to a mortgage vide memorial no. UB9455751 dated 22nd December, 2004 in favour of Bank of China (Hong Kong) Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
2.	Car Parking Space Nos. 9 and 15 on Ground Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong. 2/1,000th shares of and in Chai Wan Inland Lot Nos. 69 and 70 (the "Lots")	The property comprises 2 car parking spaces on the Ground Floor of a 24-storey industrial building which was completed in about 1977. The property is subject to two Government Leases both for a term of 75 years renewable for 75 years commenced from 22nd February, 1974 and 8th March, 1974, respectively. The total Government Rent payable for the Lots is HK$2,000 per annum.	The property is currently occupied by the Group for car parking purpose.	600,000

Notes:

1. The current registered owner of the property is Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group.

2. The property is subject to a mortgage vide memorial no. UB9455751 dated 22nd December, 2004 in favour of Bank of China (Hong Kong) Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
3.	Car Parking Space Nos. 10 and 11 on Ground Floor, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong. 2/1,000th shares of and in Chai Wan Inland Lot Nos. 69 and 70 (the "Lots")	The property comprises 2 lorry parking spaces on the Ground Floor of a 24-storey industrial building which was completed in about 1977. The property is subject to two Government Leases both for a term of 75 years renewable for 75 years commenced from 22nd February, 1974 and 8th March, 1974, respectively. The total Government Rent payable for the Lots is HK$2,000 per annum.	The property is currently occupied by the Group for car parking purpose.	800,000

Notes:

1. The current registered owner of the property is Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group.

2. The property is subject to a mortgage vide memorial no. UB9455751 dated 22nd December, 2004 in favour of Bank of China (Hong Kong) Limited.

Group II – Property held by the Group for investment in Hong Kong

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
1.	Flat C on 2nd Floor including the Flat Roof Thereof, Man Foong Industrial Building, No. 7 Cheung Lee Street, Chai Wan, Hong Kong. 20/1,000th shares of and in Chai Wan Inland Lot Nos. 69 and 70 (the "Lots")	The property comprises a factory unit (including a flat roof) on 2nd Floor of a 24-storey industrial building which was completed in about 1977. The property has a gross floor area of approximately 5,120 sq. ft. (475.7 sq. m.) and a flat roof area of about 375 sq. ft. (34.8 sq. m.). The property is subject to two Government Leases both for a term of 75 years renewable for 75 years commenced from 22nd February, 1974 and 8th March, 1974, respectively. The total Government Rent payable for the Lots is HK$2,000 per annum.	The property is currently leased to a third party for a term of 2 years commencing from 1st June, 2006 to 31st May, 2008 at a monthly rent of HK$15,000 inclusive of rates and management fees.	2,640,000

Notes:

1. The current registered owner of the property is Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group.

2. The property is subject to a mortgage vide memorial no. UB9455751 dated 22nd December, 2004 in favour of Bank of China (Hong Kong) Limited.

Group III – Property interests to be acquired by the Group in the PRC

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
1.	Unit Nos. 201 and 202 on Mezzanine Level and Advertising Space, Yun Hai Building, Nos. 1329 and 1331 Huai Hai Zhong Road, Xuhui District, Shanghai, The PRC.	The property comprises two commercial units on Mezzanine Level and advertising space of a 25-storey commercial building, which was completed in 1999. The property has a total gross floor area of 1,889.36 sq.m. and its breakdown is set out as follows: **Unit** / **Gross Floor Area** 201 / 1,515.97 sq.m. 202 / 373.39 sq.m. The property is held under the land use rights for a term commencing from 5th November, 2004 to 21st October, 2044.	The property is currently rented to two third parties. *(see Notes 3 and 4 for details)*.	107,314,000

Notes:

1. Unit 201 of the property is subject to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Xu Zi (2004) No.038951 (上海市房地產權証－滬房地徐字(2004)第038951號) dated 5th November, 2004 issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局) granted to 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited).

2. Unit 202 of the property is subject to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Xu Zi (2004) No.038949 (上海市房地產權証－滬房地徐字(2004)第038949號) dated 8th November, 2004 issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局) granted to 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited).

3. Pursuant to a Leasing Contract and a Supplementary Agreement dated 22nd July, 2005 made between 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) and 上海泰和廣告有限公司 (Shanghai Taihe Advertising Co., Ltd.) and a letter dated August, 2006 issued by 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited), the former party agreed leasing Unit Nos. 201 and 202 on Mezzanine Level and portion of Level 1of Yun Hai Building to the latter party for a term commencing from 22nd July, 2005 to 31st December, 2010. The rental income attributable to 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) for the first 24 months is RMB252,907.55. Commencing from the end of the first 24 months, the property is subject to a rental upwards adjustment of 5.5% in every two years.

   The rental income allocation ratio between the property and portion of Level 1 of Yun Hai Building is 65% and 35%, respectively.

4. Pursuant to a Leasing Contract for Building's Advertising Space (樓體廣告位租賃合同) dated 15th November, 2005 and a Supplementary Agreement dated 25th January, 2006 both made between 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) and 上海仕昱實業有限公司 (formerly known as "上海邁漢貿易有限公司"), the former party agreed leasing a part of the advertising space of the property to the latter party for a term of 3 years commencing from 20th November, 2005 to 19th November, 2008 at a monthly rental of RMB162,000 for the first year commencing from 20th November, 2005 to 19th November, 2006, RMB178,200 for the second year commencing from 20th November, 2006 to 19th November, 2007 and RMB196,020 for the third year commencing from 20th November, 2007 to 19th November, 2008. The advertising space is located at portion of the external walls of the property.

5. Unit Nos. 201 and 202 of the property are subject to a Certificate of Registration of Real Estate of Shanghai Municipality (上海市房地產登記証明) pertaining to the Miscellaneous Rights (Mortgage) – Xu 200604010699 (他項權利(抵押)－徐 200604010699) registered on 23rd June, 2006.

6. It is stated in the legal opinion given by the Company's PRC legal advisers, inter alia that:

(a) 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) lawfully possesses, occupies and uses the property and has completed the registration and filing procedures with government consent and approval;

(b) 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) is the legal titler of the property and has fully settled the acquisition payment. The property could be freely transferred, let and mortgaged to a third party without the consent, approval and permit from the government.

(c) The major shareholder of 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) could convey its shares without the consent of mortgagees and lenders; and

(d) The property is subject to the following Real Estate Maximum Amount Mortgage Contracts (房地產最高額抵押合同):

(i) Pursuant to a Real Estate Maximum Amount Mortgage Contract - 1619040219 (房地產最高額抵押合同– 1619040219) dated 14th December, 2004 made between Shanghai Bank, Pudong Branch (上海銀行浦東分行) and上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited), the property was mortgaged to the former party as loan security for 上海錫武實業有限公司 for a term of 3 years commencing from 14th December, 2004 to 13th December, 2007 at a maximum outstanding credit amount of RMB50,000,000;

(ii) Pursuant to a Real Estate Maximum Amount Mortgage Contract - 1619060091 (房地產最高額抵押合同 – 1619060091) dated 22nd June, 2006 made between Shanghai Bank, Pudong Branch (上海銀行浦東分行) and 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited), the property was mortgaged to the former party as loan security for 上海錫武實業有限公司 for a term of 3 years commencing from 23rd June, 2006 to 22nd June, 2009 at a maximum outstanding credit amount of RMB28,000,000; and

(iii) Pursuant to a Real Estate Maximum Amount Mortgage Contract – (Hu Zha Bei) Nong Yin Gao Di Zi (2005) No.0026) (房地產最高額抵押合同 – (滬閘北) 農銀高抵字(2005)第0026號) dated 27th July, 2005 made between Agricultural Bank of China, Shanghai Zhabei Sub-Branch (中國農業銀行上海閘北支行) and 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited), the property was mortgaged to the former party as loan security for 上海辰炫貿易有限公司 (Formerly known as "上海寶翰司鋼材有限公司") for a term of 2 years commencing from 27th July, 2005 to 26th July, 2007 at a maximum outstanding credit amount of RMB86,000,000.

The aforesaid three Real Estate Maximum Amount Mortgage Contracts (房地產最高額抵押合同) are lawful and valid from legal point of view.

(e) The aforesaid tenancy agreements are valid from legal point of view.

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 31st August, 2006 *(HK$)*
2.	Whole of Basement Level One and Ground Level and Advertising Space Nos. 277 and 289 Lan Xi Road, Putuo District, Shanghai, The PRC.	The property comprises whole of Basement Level and Ground Level of a 5-storey (plus one basement level) commercial building, which was completed in 1997. The property has a total gross floor area of 3,732.33 sq.m. The property is held under the land use rights for a term commencing from 30th June, 2005 to 29th June, 2045.	The property is currently rented to two third parties. *(see Notes 3 and 6 for details)*.	134,773,000

Notes:

1. Basement Level One of the property is subject to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Pu Zi (2005) No.032997(上海市房地產權証－滬房地普字(2005)第032997號) dated 8th July, 2005 issued by Shanghai Housing and Land Resources Administration Bureau(上海市房屋土地資源管理局) granted to 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited).

2. Ground Level of the property is subject to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Pu Zi (2005) No.033005(上海市房地產權証－滬房地普字(2005)第033005號) dated 8th July, 2005 issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局) granted to 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited).

3. Pursuant to a Leasing Contract dated 19th August, 2005 made between 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) ("Party A")、上海悅軒企業發展有限公司 ("Party B") and 上海茂宸實業有限公司 ("Party C") and 上海帝賦苑餐飲娛樂管理有限公司 ("Party D"), the former three parties agreed leasing the whole 6 levels of building (including the Basement Level) located at Nos. 277 and 289, Lan Xi Road, Putuo District, Shanghai to the latter party for a term commencing from 29th July, 2005 to 31st March, 2015 at a monthly rental of RMB541,667 for the period commencing from 29th July, 2005 to 31st March, 2006, an annual rental of RMB6,500,000 for the second year commencing from 1st April, 2006 to 31st March, 2007 and subsequent annual rental increment of RMB200,000 thereafter until the lease expiration date.

4. Pursuant to a Rent Agreement (租金協議) dated 25th December, 2005 made among Party A, Party B and Party C, Parties A, B and C are attributable to the monthly rental income of RMB270,000, RMB150,000 and RMB121,667, respectively, commencing from January, 2006.

5. Pursuant to a Rent Agreement (租金協議) dated 17th August, 2006 made among Party A, Party B and Party C, Parties A, B and C are attributable to the monthly rental income at the percentages of 55.4%, 27.7% and 16.9%, respectively, commencing from 1st January, 2007 to 31st March, 2015.

6. Pursuant to a Leasing Contract for Building's Advertising Space (樓體廣告位租賃合同) dated 12th December, 2005 and a Supplementary Agreement dated 20th January, 2006 made between 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) and 上海金啟淵貿易有限公司, the former party agreed leasing a part of the roof of the property and a part of the Advertising space to the latter party for a term of 5 years commencing from 15th December, 2005 to 14th December, 2010 at a monthly rental of RMB188,000 for the first year commencing from 15th December, 2005 to 14th December, 2006, RMB206,800 for the second year commencing from 15th December, 2006 to 14th December, 2007, RMB227,480 for the third year commencing from 20th November, 2007 to 19th November, 2008, RMB250,228 for the fourth year commencing from 15th December, 2008 to 14th December, 2009 and RMB275,250.8 for the fifth year commencing from 15th December, 2009 to 14th December, 2010. The Advertising space is located at portion of the external walls of Basement Level One, Ground Floor and the legally authorized portions of external walls of Levels 1, 2, 3, 4 and 5 plus their extension.

7. The property is subject to a Certificate of Registration of Real Estate of Shanghai Municipality (上海市房地產登記証明) pertaining to the Miscellaneous Rights (Mortgage) – Xu 200507031948 (他項權利(抵押)－徐 200507031948) registered on 27th July, 2005.

8. It is stated in the legal opinion given by the Company's PRC legal advisers, inter alia that:

   (a) 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) lawfully possesses, occupies and uses the property;

   (b) 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) is the legal titler of the property and fully settled the acquisition payment. The property could be freely transferred, let and mortgaged to a third party without the consent, approval and permit from the government;

   (c) The major shareholder of 上海祥宸行置業有限公司 (Shanghai Xiang Chen Hang Place The Industry Co. Limited) has completed the registration and filing procedures with government consent and approval; and

   (d) The foresaid tenancy agreements are valid from legal point of view.

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, the interests and short positions of the Directors in the Shares, underlying Shares and debentures of the Company or 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 as recorded in the register maintained by the Company 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 were as follows:

Long position in the Shares

	Number of Shares held, capacity and nature of interest				Approximate percentage of the Company's issued share capital
Name of Director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	
Chong Sing Yuen *(Note)*	1,294,052	117,500	–	1,411,552	0.48%

Note: The family interest of Mr Chong Sing Yuen in the Shares was beneficially owned by his spouse, Ms Chong Cheng Man Shan.

The interests of the Directors in the share options of the Company are separately disclosed in note 33 to the financial statements.

Save as disclosed herein, 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	18.60%
Chim Pui Chung *(Note 1)*	Through a controlled corporation	65,000,000	18.60%
Pan Chien Pu	Directly beneficially owned	58,000,000	16.60%
Easy Huge Holdings Limited *(Note 2)*	Directly beneficially owned	48,000,000	13.73%
Ng Kin Wah *(Note 2)*	Through a controlled corporation	48,000,000	13.73%

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			
Employees				
Other employees	92,500	31-10-2002	31-10-2002 to 30-10-2012	0.2
	92,500			
Total	942,500			

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) a provisional agreement dated 13 October 2004 between Superior Trump Limited, a wholly owned subsidiary of the Company, as vendor (the "Vendor") and Mr. To Sai Tak and Ms. Cheung Yeuk Kam as purchasers (the "Purchasers") in respect of the sale of Units 9, 10, 11, 12 & 14 on 11/F, and the private car parks P34 & P35 on 2nd Floor, Fo Tan Industrial Centre, Nos. 26-28 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong (the "Property") by the Vendor to the Purchasers at the consideration of HK$7,150,000;

(2) a formal sale and purchase agreement dated 26 October 2004 between the Vendor and Merit Hill International Investment Limited ("Merit Hill"), a nominee of the Purchasers, in respect of the sale and purchase of the Property at the consideration of HK$7,150,000;

(3) an assignment dated 15 December 2004 between the Vendor and Merit Hill in respect of the assignment of the interest in the Property by the Vendor to Merit Hill at the consideration of HK$7,150,000;

(4) 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;

(5) an agreement dated 8 July 2006 between the Northern Industrial (Panyu) 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 the Property at the consideration of RMB75,000,000; and

(6) the Sale and Purchase 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

Ms. Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, being a beneficial and controlling shareholder of Twin Base Limited, was interested in a contract for the lease of a motor vehicle to the Group during the year. Further details of the transaction undertaken in connection therewith are included in note 37 to the financial statements as set out in Appendix I to this circular.

Save for disclosed above, as at the Latest Practicable Date, 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), 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; and 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
Castores Magi (Hong Kong) Limited ("CM")	Registered Professional Surveyors

(b) Neither CCIF nor CM 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 CM 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 CM 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; and

(c) This circular and the accompanying form of proxy has been prepared in both English and Chinese. In the case of any discrepancy, the English text 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 Hong Kong principal office of the Company 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 Monday, 20 November 2006:

(a) the memorandum of association and the bye-laws of the Company;

(b) the audited consolidated financial statements of the Company and its subsidiaries for the two years ended 31 March 2006;

(c) the circular dated 14 August 2006 in relation to the very substantial disposal of a property;

(d) the letter, valuation certificate and valuation report prepared by Castores Magi (Hong Kong) Limited;

(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; and

(g) the report from CCIF CPA Limited on the pro forma financial information on the Target Group as set out in Appendix III to 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 20 November 2006 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 (the "**Sale and Purchase Agreement**") dated 21 August 2006 and entered into between the Company as purchaser and Mr. Peter D. Xu (the "**Vendor**") as vendor in relation to the sale and purchase of 1 share of US$1.00 in the share capital of Luck Grow Group Limited ("**Luck Grow**"), representing the entire issued share capital of Luck Grow, and all obligations, liabilities and debts owing and incurring by Luck Grow and Shanghai Xiang Chen Hang Place The Industry Co. Limited (上海祥宸行置業有限公司) to the Vendor as at the date of completion of the Sale and Purchase Agreement at a total consideration of HK$182,504,072 (subject to adjustment), a copy of which 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 thereunder, be and are hereby approved, confirmed and ratified; and

(b) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which they consider necessary or expedient for the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder."

On behalf of the board of Directors
Northern International Holdings Limited
Chong Sing Yuen
Chairman

Hong Kong, 31 October 2006

* *For identification purpose only*

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.