

Corporate Information

Board of Directors

Executive directors

Chong Sing Yuen (*Chairman*)

Sun Tak Yan, Desmond

(*Resigned on 25 October 2004*)

Chong Chun Hing

Chong Chun Man

(*Resigned on 25 October 2004*)

Chu Kiu Fat

Wong Siu Keung, Joe

Chong Chun Kwok, Piggy

Non-executive director

Chu Bu Yang, Alexander

(*Resigned on 18 January 2005*)

Independent non-executive directors

Wong, Bingley (*Resigned on 28 September 2004*)

Ma Wah Yan (*Resigned on 28 September 2004*)

Chan Ping Yim (*Appointed on 28 September 2004*)

Chan Shun (*Appointed on 28 September 2004*)

Cheng Kwok Hing, Andy

(*Appointed on 28 September 2004*)

Company Secretary

Cheung Mei Ha, Jennifer

Auditors

CCIF CPA Limited

Principal Bankers

Bank of China (Hong Kong) Limited

Citibank, N.A.

Registered Office

Clarendon House

Church Street

Hamilton HM11

Bermuda

Head Office and Principal Place of Business

Block A, 2nd Floor

Man Foong Industrial Building

7 Cheung Lee Street

Chaiwan

Hong Kong

Share Registrars

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Website

<http://www.northern.com.hk>

Stock Code

736

Chairman's Statement

I hereby present the annual report of Northern International Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2005.

FINANCIAL RESULTS

The Group recorded a turnover of HK\$70.1 million for the year ended 31 March 2005 (2004: HK\$81.0 million), representing a decrease of 13% over the previous year. Gross profit margin fell to 8% (2004: 13%) and the net loss of the Group was HK\$19.6 million (2004: HK\$15.5 million). Loss per share was HK0.41 cents (2004: HK0.34 cents).

REVIEW AND PROSPECTS

The financial year ended 31 March 2005 was another difficult year for the Group. Sustained high raw material prices and shortage of labour and electricity in the Pearl River Delta region of the PRC had direct adverse impact on cost and profit margin of the Group's manufacturing businesses during the year.

There are now convincing signs that the electronics business is poised for a rebound. The cutter business has also successfully developed a number of new products and secured some new clients. While I am cautiously optimistic about the performance of the Group in the coming year, fluctuation in raw material prices will remain a major risk factor to the Group given its concentration in its existing manufacturing business. The Group shall therefore seek to diversify its business when suitable opportunities arise.

GRATITUDE

I would like to take this opportunity to express my gratitude to the shareholders, board members, staff and business partners of the Group for their continuous supports during the year.

CHONG SING YUEN

CHAIRMAN

Hong Kong, 22 July 2005

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

The Group's turnover was HK\$70.1 million (2004: HK\$81.0 million) in the year ended 31 March 2005, representing a decrease of 13% over the previous year. 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 has 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 have been selling well while ODM sales continue to grow. A significant improvement in the electronics business is expected but fluctuation in raw material prices remains 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 previous year.

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

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS (Continued)

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 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. 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.

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

Management Discussion and Analysis

INVESTMENT POSITION AND PLANNING (Continued)

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

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 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.

Management Discussion and Analysis

SHARE CAPITAL AND OPTIONS (Continued)

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 is seeking 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 is 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.

Management Discussion and Analysis

CHARGES 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.

Management Discussion and Analysis

EMPLOYEES

The Group has approximately 1,430 employees. Most of these employees are working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, the PRC. 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.

By Order of the Board

CHONG SING YUEN

CHAIRMAN

Hong Kong, 22 July 2005

Biographical Details of Directors

Executive Directors

Mr. Chong Sing Yuen, aged 58, joined the Group in 1998 and is the Chairman of the Company. He is responsible for the overall management, strategic planning and business development of the Group. Mr. Chong has over 30 years of experience in industrial management and plastic product manufacturing in Hong Kong and the PRC. Mr. Chong is a director of the China Overseas Friendship Association, a member of the Guangdong Committee of the Political Consultative Conference, a general director of the Guangdong Overseas Friendship Association, a vice chairman of the Guangdong Province Public Relations Association, a vice chairman of the Shenzhen Overseas Friendship Association and a honorary chairman of the Jieyang Overseas Friendship Association. He is also a life honorary president of the Hong Kong Industrial Districts Industry And Commerce Association Limited, a honorary chairman of the Chiu Chau Plastic Manufacturing Association and a life honorary president of the Eastern District Industries & Commerce Association. In addition to the above and other public services, Mr. Chong is also a municipal honorable citizen of Guangzhou City.

Mr. Chong Chun Hing, aged 36, is Mr. Chong Sing Yuen's son. He was appointed non-executive director of the Company in 2000 and became an executive director of the Company in 2002. He is responsible for marketing and product development of the Group and has extensive experience in the fields. He is also the marketing manager of Goodfit Products Company Limited, a wholly owned subsidiary of the Company ("Goodfit").

Mr. Chu Kiu Fat, aged 38, was appointed executive director of the Company in 2000. He is responsible for the corporate administration of the Group. Mr. Chu holds a bachelor's degree in accountancy (1st class honours) from the Hong Kong Polytechnic University and has extensive experience in accounting, corporate finance and administration. He is also the assistant general manager (administration) of Goodfit.

Mr. Wong Siu Keung, Joe, aged 40, joined the Group in 2000 and is an executive director of the Company responsible for financial planning and control of the Group. Mr. Wong has extensive experience in taxation, accounting, financing and auditing fields. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and holds a master's degree in international accounting from the City University of Hong Kong. Mr. Wong is also the qualified accountant of the Company and the financial controller of Tung Hing Products Company Limited, a wholly owned subsidiary of the Company ("Tung Hing").

Biographical Details of Directors

Mr. Chong Chun Kwok, Piggy, aged 33, is Mr. Chong Sing Yuen's son. He joined the Group in 2001 and is an executive director of the Company. He is responsible for monitoring and controlling all financial affairs of the Group, as well as exploring new business opportunities for the Group. He holds a master's degree in applied economics from the National University of Singapore and was previously a senior economist in the Monetary Authority of Singapore. Mr. Chong is also the general manager of both Goodfit and Tung Hing.

Independent non-executive Directors

Mr. Chan Ping Yim, aged 58, was appointed independent non-executive director of the Company in September 2004. He is a certified public accountant (practising). He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is a partner of W. Y. Lam, Dominic Chan & Co., Certified Public Accountants. Mr. Chan was an independent non-executive director of Massive Resources International Corporation Limited from September 2004 to January 2005, a company listed on the main board of the Stock Exchange.

Mr. Chan Shun, aged 37, was appointed independent non-executive director of the Company in September 2004. He is a director of a securities trading and investment company. He was an executive director of Starbow Holdings Limited from January 2003 to March 2004, a company listed on the main board of the Stock Exchange.

Mr. Cheng Kwok Hing, Andy, aged 34, was appointed independent non-executive director of the Company in September 2004. He is a director of a company in Hong Kong which is engaged in distribution of Chinese herbal medicine. He has extensive experience in distribution of Chinese herbal medicine.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

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. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 75.

The directors do not recommend the payment of any dividends in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 76. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and fixed assets and investment properties of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2005, the Company had no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Company Act 1981 (as amended). The Company's share premium account, in the amount of HK\$24,062,750, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$11,000 (2004: HK\$148,452).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 34% of the total sales for the year and sales to the largest customer included therein amounted to 18%. Purchases from the Group's five largest suppliers accounted for 37% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

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

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Chong Sing Yuen (*Chairman*)
Sun Tak Yan, Desmond (*Resigned on 25 October 2004*)
Chong Chun Hing
Chong Chun Man (*Resigned on 25 October 2004*)
Chu Kiu Fat
Wong Siu Keung, Joe
Chong Chun Kwok, Piggy

Non-executive director:

Chu Bu Yang, Alexander (*Resigned on 18 January 2005*)

Independent non-executive directors:

Wong, Bingley (*Resigned on 28 September 2004*)
Ma Wah Yan (*Resigned on 28 September 2004*)
Chan Ping Yim (*Appointed on 28 September 2004*)
Chan Shun (*Appointed on 28 September 2004*)
Cheng Kwok Hing, Andy (*Appointed on 28 September 2004*)

Mr. Chu Kiu Fat, the director retiring by rotation in accordance with Bye-law 87 of the Company's Bye-laws, and Messrs. Chan Ping Yim, Cheng Kwok Hing, Andy, the directors appointed by the board on 28 September 2004 pursuant to Bye-law 86(2) of the Company's Bye-laws, being eligible, have offered themselves for re-election at the forthcoming annual general meeting; and Mr. Chan Shun, the director appointed by the board on 28 September 2004 pursuant to Bye-law 86(2) of the Company's Bye-laws, has not offered himself for re-election at the forthcoming annual general meeting. Each of the independent non-executive directors has fixed term of office for three years from the day of appointment and will be subject to the general requirement of retirement by rotation under the Bye-laws of the Company.

Report of the Directors

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 10 and 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Chong Sing Yuen has entered into a service contract with the Company for a term of 5 years from 1 September 1999 which shall continue thereafter unless and until terminated by either party giving not less than three years' written notice.

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

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Chong Sing Yuen, being a beneficial and controlling shareholder of Twin Base Limited ("Twin Base"), 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 31 to the financial statements.

Save as disclosed above, no director had interests in any contract of significance subsisting during or at the financial year ended 31 March 2005 in relation to the business of the Group taken as a whole.

Report of the Directors

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES

At 31 March 2005, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's share capital (Note 1)
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Chong Sing Yuen (Notes 2 & 3)	51,762,094	4,700,000	–	56,462,094	0.58%
Chu Kiu Fat (Note 4)	80,000	–	–	80,000	0.00%
Wong Siu Keung, Joe (Note 5)	16,000,000	–	–	16,000,000	0.16%
	<u>67,842,094</u>	<u>4,700,000</u>	<u>–</u>	<u>72,542,094</u>	<u>0.74%</u>

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Note 1: The number of shares of 9,739,915,410, which represents a 100% increase of 4,869,957,705 issued shares of the Company as at 31 March 2005 expected from the Open Offer, is adopted in calculating the percentage of the Company's share capital since all the above directors had included their respective entitlement to new shares in accordance with the terms stated in the prospectus of the Open Offer dated 23 March 2005 in their notices served under the SFO.

Note 2: The family interest of Mr. Chong Sing Yuen in the shares of the Company is beneficially owned by his spouse, Mrs. Chong Cheng Man Shan.

Report of the Directors

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES (continued)

Note 3: The total number of shares held by the Mr. Chong Sing Yuen represents 25,881,047 issued shares of the Company held by him and 2,350,000 issued shares of the Company held by his spouse, Mrs. Chong Cheng Man Shan and their entitlement to further acquire 28,231,047 new shares in accordance with the terms stated in the prospectus of the Open Offer dated 23 March 2005.

Note 4: The total number of shares held by the Mr. Chu Kiu Fat represents 40,000 issued shares of the Company held by him and his entitlement to further acquire 40,000 new shares in accordance with the terms stated in the prospectus of the Open Offer dated 23 March 2005.

Note 5: The total number of shares held by the Mr. Wong Siu Keung, Joe represents 8,000,000 issued shares of the Company held by him and his entitlement to further acquire 8,000,000 new shares in accordance with the terms stated in the prospectus of the Open Offer dated 23 March 2005.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares" above, and the share option scheme in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 March 2005, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of interest held	Percentage of the Company's share capital (Note 1)
Win Channel Investments Limited (Note 2)	Directly beneficially owned	2,600,000,000	26.69%
Chim Pui Chung (Note 2)	Through a controlled corporation	2,600,000,000	26.69%
Kingston Securities Limited (Note 3)	Other	3,589,257,705	36.85%
Chu Yuet Wah (Note 3)	Through a controlled corporation	3,589,257,705	36.85%
Ma Siu Fong (Note 3)	Through a controlled corporation	3,589,257,705	36.85%
Tsoi Man Chi	Directly beneficially owned	<u>243,500,000</u>	<u>5.00%</u>

Note 1: The number of shares of 9,739,915,410, which represents a 100% increase of 4,869,957,705 issued shares of the Company as at 31 March 2005 expected from the Open Offer, is adopted in calculating the percentage of the Company's share capital for Win Channel Investments Limited, Mr. Chim Pui Chung, Kingston Securities Limited, Ms. Chu Yuet Wah and Ms. Ma Siu Fong, since all the mentioned substantial shareholders had included their respective undertaking and obligation to acquire new shares in their notices served under the SFO.

The number of shares of 4,869,957,705, which represents the total number of issued shares of the Company as at 31 March 2005, is adopted in calculating the percentage of the Company's share capital for Mr. Tsoi Man Chi since there was no information from his notice served under the SFO showing that he was entitled to acquire new shares in accordance with the terms stated in the prospectus of the Open Offer dated 23 March 2005.

Note 2: The interest was held by Win Channel Investments Limited, a company wholly owned by Mr. Chim Pui Chung, which represented 1,300,000,000 issued shares of the Company held by Win Channel Investments Limited and its undertaking to further acquire 1,300,000,000 new shares under the Open Offer which was provided on 20 January 2005.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES (continued)

Note 3: The interest was held by Kingston Securities Limited (the "Underwriter"), a company controlled by Ms. Chu Yuet Wah and Ms. Ma Siu Fong, which represented a maximum of 3,589,257,705 new shares of the Company underwritten by the Underwriter pursuant to an underwriting agreement entered into between the Company and the Underwriter on 20 January 2005.

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

DISCLOSURE UNDER RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

In relation to the financial assistance granted by the Group to certain affiliated companies, a proforma combined balance sheet of the affiliated companies as at 31 March 2004 (the "Latest Practicable Date"), to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	<i>HK\$</i>
Non-current assets	2,293,074
Current assets	9,045,425
Current liabilities	<u>(41,099,382)</u>
	<u>(29,760,883)</u>
Share capital	2,000,031
Accumulated losses	<u>(31,760,914)</u>
	<u>(29,760,883)</u>

At the Latest Practicable Date, the Group's consolidated attributable interest in these affiliated companies amounted to HK\$19,025,387 and provision for impairment of HK\$16,025,387 had been made.

Report of the Directors

CONNECTED TRANSACTIONS

- (a) During the year, the Group had the following transactions with Twin Base Limited (“Twin Base”), a company in which Mr. Chong Sing Yuen had a beneficial interest:
- (i) During the year, the Group made rental payment of approximately HK\$474,000 (2004: HK\$474,000) to Twin Base for a motor vehicle with cross border license. 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 33(b) to the financial statements.
 - (ii) As at 31 March 2005, Twin Base pledged certain of its property interests to a bank to secure credit facilities to the extent of HK\$12,899,980 (2004: HK\$12,899,980) granted to the Group.
- (b) During the year, Mr. Chong Sing Yuen and Mr. Chong Chun Kwok, Piggy, a son of Mr. Chong Sing Yuen, gave a joint and several guarantee to a financial institution to secure the credit facilities to the extent of HK\$1,500,000 (2004: HK\$1,500,000) granted to the Company. In May 2004, the Company repaid the credit facilities and the guarantees were released.
- (c) During the year, Mrs. Chong Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, granted a credit facility of HK\$8,000,000 and a loan of HK\$5,660,000 to the Group, the details of which are set out in note 23 to the financial statements. In addition, Mrs. Chong advanced HK\$610,547 (2004: HK\$1,471,698) to the Group. The advances were unsecured, interest free and without fixed terms of repayment.
- (d) During the year, Mr. Chong Chun Kwok, Piggy, a director of the Company and a son of Mr. Chong Sing Yuen advanced HK\$3,650,000 (2004: NIL) to the Group. The advances were unsecured, interest free and without fixed terms of repayment.
- (e) During the year ended 31 March 2004, Mr. Chong Chun Chung, a son of Mr. Chong Sing Yuen advanced HK\$250,000 to the Group. The advances were unsecured, interest free and repayable on demand. During the year ended 31 March 2005, the Group repaid HK\$250,000 to Mr. Chong Chun Chung.

Report of the Directors

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the year ended 31 March 2005, in compliance with the Code of Best Practice as previously set out in Appendix 14 to the Listing Rules prior to 1 January 2005, which remain applicable to disclosure in annual reports in respect of accounting periods commencing before 1 January 2005 under the transitional arrangement.

The Company has received from each of its independent non-executive directors his respective annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and therefore considers the independent non-executive directors of the Company to be independent.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors, namely Messrs. Chan Ping Yim, Chan Shun and Cheng Kwok Hing, Andy (the "Audit Committee"). The primary duties of the Audit Committee are to review the accounting principles and practices adopted by the Group, the financial reporting process and the internal control system of the Group. The annual results of the Group for the year ended 31 March 2005 have been reviewed by the Audit Committee.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of directors of the Company, the Company maintained a sufficient public float throughout the year ended 31 March 2005.

Report of the Directors

AUDITORS

The financial statements for the year ended 31 March 2003 and 2004 were audited by Ernst & Young. At the annual general meeting held on 27 August 2004, Ernst & Young retired and CCIF CPA Limited were appointed as auditors of the Company. A resolution for re-appointment of CCIF CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHONG SING YUEN

CHAIRMAN

Hong Kong, 22 July 2005

Report of the Auditors



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong
General: +852 2894 6888
Facsimile: +852 2895 3752
E-mail: info@ccifcpa.com.hk
www.ccifcpa.com.hk

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.

Report of the Auditors

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

Consolidated Profit and Loss Account

For the year ended 31 March 2005

	Notes	2005 HK\$	2004 HK\$
TURNOVER	5	70,084,060	81,001,038
COST OF SALES		<u>(64,855,361)</u>	<u>(70,651,252)</u>
GROSS PROFIT		5,228,699	10,349,786
OTHER REVENUE	5	2,572,216	2,668,955
DISTRIBUTION AND SELLING EXPENSES		<u>(6,181,382)</u>	<u>(7,363,214)</u>
ADMINISTRATIVE EXPENSES		<u>(17,492,204)</u>	<u>(18,174,067)</u>
OTHER OPERATING EXPENSES		<u>(1,144,990)</u>	<u>(140,000)</u>
		<u>(24,818,576)</u>	<u>(25,677,281)</u>
LOSS FROM OPERATING ACTIVITIES	6	(17,017,661)	(12,658,540)
FINANCE COSTS	7	<u>(2,107,764)</u>	<u>(2,133,108)</u>
LOSS BEFORE TAX		(19,125,425)	(14,791,648)
TAX	8	<u>(511,344)</u>	<u>(733,283)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u><u>(19,636,769)</u></u>	<u><u>(15,524,931)</u></u>
LOSS PER SHARE	12		
– Basic		<u><u>HK0.41 cents</u></u>	<u><u>HK0.34 cents</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

The notes on pages 32 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet

31 March 2005

	Notes	2005 HK\$	2004 HK\$
ASSETS			
Non-current assets			
Fixed assets	13	89,777,775	99,151,697
Interest in associates	15	–	–
Deferred tax assets	26	–	459,469
		89,777,775	99,611,166
Current assets			
Inventories	16	20,469,604	14,907,353
Trade and bills receivables	17	10,389,460	7,609,782
Other receivables, deposits and prepayments		4,258,604	3,232,067
Due from associates	24	–	3,000,000
Pledged time deposits	18	500,000	5,000,000
Cash and bank balances	18	4,199,721	1,690,698
		39,817,389	35,439,900
LIABILITIES			
Current liabilities			
Trade payables	19	11,083,400	9,764,435
Other payables and accruals		10,097,998	7,932,102
Interest-bearing bank and other borrowings	20	23,172,079	42,527,045
Tax payable		1,659,370	1,676,153
Finance lease payables	22	229,914	636,399
Due to related parties	23	14,270,547	1,721,698
Due to associates	24	1,655,405	–
Due to directors	25	4,206,329	289,167
		66,375,042	64,546,999
Net current liabilities		(26,557,653)	(29,107,099)

Consolidated Balance Sheet

31 March 2005

		2005	2004
	<i>Notes</i>	HK\$	<i>HK\$</i>
Total assets less current liabilities		63,220,122	70,504,067
Non-current liabilities			
Interest-bearing long-term bank borrowings	21	17,441,209	4,745,415
Finance lease payables	22	9,178	594,442
Deferred tax liabilities	26	5,326,687	5,373,249
		22,777,074	10,713,106
NET ASSETS		40,443,048	59,790,961
CAPITAL AND RESERVES			
Issued capital	27	48,699,577	48,038,077
Reserves	29	(8,256,529)	11,752,884
		40,443,048	59,790,961

Approved and authorised for issue by the board of directors on 22 July 2005.

On behalf of the board

CHONG CHUN KWOK, PIGGY
Director

WONG SIU KEUNG, JOE
Director

The notes on pages 32 to 75 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 March 2005

	Reserves								Total
	Issued share capital HK\$	Share premium account HK\$	Goodwill HK\$	Land and buildings revaluation reserve HK\$	Special reserve HK\$	Exchange fluctuation reserve HK\$	Retained profits/ losses) accumulated HK\$	Sub-total HK\$	
At 1/4/2003	45,444,577	24,482,848	(22,478,515)	12,442,368	(11,152,801)	51,728	23,235,609	26,581,237	72,025,814
Exercise of share options	2,593,500	-	-	-	-	-	-	-	2,593,500
Surplus on revaluation	-	-	-	696,578	-	-	-	696,578	696,578
Net loss for the year	-	-	-	-	-	-	(15,524,931)	(15,524,931)	(15,524,931)
At 31/3/2004	<u>48,038,077</u>	<u>24,482,848</u>	<u>(22,478,515)</u>	<u>13,138,946</u>	<u>(11,152,801)</u>	<u>51,728</u>	<u>7,710,678</u>	<u>11,752,884</u>	<u>59,790,961</u>
At 1/4/2004	48,038,077	24,482,848	(22,478,515)	13,138,946	(11,152,801)	51,728	7,710,678	11,752,884	59,790,961
Exercise of share options	661,500	-	-	-	-	-	-	-	661,500
Expenses incurred in an open offer	-	(420,098)	-	-	-	-	-	(420,098)	(420,098)
Surplus on revaluation									
- gross	-	-	-	10,934	-	-	-	10,934	10,934
- deferred tax	-	-	-	36,520	-	-	-	36,520	36,520
Net loss for the year	-	-	-	-	-	-	(19,636,769)	(19,636,769)	(19,636,769)
At 31/3/2005	<u>48,699,577</u>	<u>24,062,750</u>	<u>(22,478,515)</u>	<u>13,186,400</u>	<u>(11,152,801)</u>	<u>51,728</u>	<u>(11,926,091)</u>	<u>(8,256,529)</u>	<u>40,443,048</u>
Reserves retained by the Company and subsidiaries									
At 31/3/2005	<u>48,699,577</u>	<u>24,062,750</u>	<u>(22,478,515)</u>	<u>13,186,400</u>	<u>(11,152,801)</u>	<u>51,728</u>	<u>(11,926,091)</u>	<u>(8,256,529)</u>	<u>40,443,048</u>
At 31/3/2004	<u>48,038,077</u>	<u>24,482,848</u>	<u>(22,478,515)</u>	<u>13,138,946</u>	<u>(11,152,801)</u>	<u>51,728</u>	<u>7,710,678</u>	<u>11,752,884</u>	<u>59,790,961</u>

Consolidated Cash Flow Statement

Year ended 31 March 2005

	2005 HK\$	2004 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(19,125,425)	(14,791,648)
Finance costs	2,107,764	2,133,108
Interest income	(24,059)	(21,524)
Depreciation	3,734,504	3,446,202
Gain on disposal of investment property	(1,093,960)	–
Revaluation deficit/(surplus) of investment properties	1,144,990	(440,000)
Revaluation surplus of land and buildings	(125,200)	(6,400)
Provision for bad and doubtful debts	340,986	140,000
Provision for slow-moving and obsolete inventories	1,280,051	580,000
OPERATING LOSS BEFORE WORKING CAPITAL CHANGES		
CAPITAL CHANGES	(11,760,349)	(8,960,262)
(Increase)/decrease in inventories	(6,842,302)	974,697
Decrease/(increase) in amounts due from associates	3,000,000	(3,000,000)
Increase in other receivables, deposits and prepayment	(1,026,537)	(797,540)
(Increase)/decrease in trade and bills receivables	(3,120,664)	573,453
Increase in trade payables	1,318,965	620,099
Increase/(decrease) in other payables and accruals	2,165,896	(916,705)
Increase in amounts due to associates	1,655,405	–
Increase/(decrease) in amounts due to directors	3,917,162	(85,000)
CASH USED IN OPERATIONS	(10,692,424)	(11,591,258)
Hong Kong profits tax refunded	137,300	–
Mainland China income tax paid	(216,000)	–
NET CASH USED IN OPERATING ACTIVITIES	(10,771,124)	(11,591,258)
INVESTING ACTIVITIES		
Purchase of fixed assets	(1,369,438)	(4,636,645)
Interest received	24,059	21,524
Net proceeds from disposal of investment property	7,093,960	–
Decrease/(increase) in pledged time deposits	4,500,000	(5,000,000)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	10,248,581	(9,615,121)

Consolidated Cash Flow Statement

Year ended 31 March 2005

	2005 HK\$	2004 HK\$
FINANCING ACTIVITIES		
Proceeds from issue of share capital	661,500	2,593,500
Expenses paid for an open offer	(420,098)	–
New bank loans	–	26,321,302
Repayment of bank loans	(1,782,812)	(17,497,286)
Net repayment of other loans	(1,122,642)	–
Capital element of finance lease rental payments	(991,749)	(648,709)
Interest element of finance lease rental payments	(10,326)	(83,201)
Interest paid	(2,097,438)	(2,049,907)
Advance from related parties	12,548,849	1,721,698
Net addition/(repayment) of trust receipt loans	–	(524,249)
	<hr/>	<hr/>
NET CASH GENERATED FROM FINANCING ACTIVITIES	6,785,284	9,833,148
	<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,262,741	(11,373,231)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(2,564,296)	8,808,935
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,698,445	(2,564,296)
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,199,721	1,690,698
Bank overdrafts	(501,276)	(4,254,994)
	<hr/>	<hr/>
	3,698,445	(2,564,296)
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 32 to 75 form an integral part of these financial statements.

Balance Sheet

31 March 2005

	Notes	2005 HK\$	2004 HK\$
ASSETS			
Non-current assets			
Fixed assets	13	34,382	57,498
Interest in subsidiaries	14	54,441,716	53,785,689
		54,476,098	53,843,187
Current assets			
Other receivables		336,750	336,750
Due from an associate		–	1,500,000
Cash and bank balances	18	255,285	22,831
		592,035	1,859,581
LIABILITIES			
Current liabilities			
Other payables and accruals		1,523,236	921,113
Interest-bearing other borrowings	20	–	1,500,000
Due to a related party	23	5,660,000	–
Due to an associate	24	764,450	–
Due to directors	25	556,329	254,167
		(8,504,015)	(2,675,280)
Net current liabilities		(7,911,980)	(815,699)
NET ASSETS		46,564,118	53,027,488
CAPITAL AND RESERVES			
Issued capital	27	48,699,577	48,038,077
Reserves	29	(2,135,459)	4,989,411
		46,564,118	53,027,488

Approved and authorised for issue by the board of directors on 22 July 2005.

On behalf of the board

CHONG CHUN KOWK, PIGGY
Director

WONG SIU KEUNG, JOE
Director

The notes on pages 32 to 75 form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2005

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business in Hong Kong is Block A, 2nd floor, Man Foong Industrial Building, 7 Cheung Lee Street, Chaiwan, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 14 to the financial statements.

2. BASIS OF PREPARATION

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$19,636,769 (2004: HK\$15,524,931) during the year, reported net current liabilities of HK\$26,557,653 (2004: HK\$29,107,099) as at 31 March 2005, and reported a net cash outflow from operating activities of HK\$10,771,124 (2004: HK\$11,591,258) for the year.

Notwithstanding concerns on its liquidity concerns as at 31 March 2005, 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) In July 2005, the Company entered into new facility agreements with Mrs. Chong Cheng Man Shan ("Mrs. Chong"), the spouse of Mr. Chong Sing Yuen, to extend the repayment of credit facility of HK\$8,000,000 from 31 July 2005 to 31 July 2006 and converted the loan of HK\$5,660,000 into a one-year standby facility to 20 July 2006; and
- b) On 14 July 2005, the Company entered into a conditional agreement with a subscriber for the subscription of 48,000,000 new shares of HK\$0.20 each at a price of HK\$0.26 per share for a total of HK\$12,480,000, 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 35 (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.

Notes to the Financial Statements

31 March 2005

2. BASIS OF PREPARATION (continued)

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. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and land and buildings. A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2005. The subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital or has power to govern the financial and operating policies.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

a) Basis of consolidation (continued)

The results of subsidiaries as acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

b) Subsidiaries

A subsidiary is a company in which the Group directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board.

Investments in subsidiaries in the balance sheet are stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise. The results of subsidiaries are accounted for to the extent of dividends received and receivable.

c) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

d) Revenue recognition

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

- (i) from sale of goods when the significant risks and rewards of ownership have been transferred to the buyer, which generally coincides with the time when the goods are delivered to customers and title has been passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (ii) interest income, on a time proportion basis taking into account the principal amounts outstanding and the interest rates applicable.
- (iii) management fee, when the services are provided.
- (iv) rental income, on a time proportion basis over the lease terms.

e) Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life, but not exceeding twenty years. In the case of the associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

e) Goodwill (continued)

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

f) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land and buildings revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

f) Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful lives. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% or over the lease terms, whichever is shorter
Leasehold improvements	20%
Plant and machinery	20% to 25%
Furniture and fixtures	20%
Motor vehicles	25%

The gain or loss on disposal or retirement of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

h) Leased assets

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

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

i) Trade receivable

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

j) Inventories

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

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

k) Cash equivalents

Cash and cash equivalents comprise cash and bank balances, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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.

l) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

m) Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

m) Income tax (continued)

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

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

n) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial year of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

o) Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

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.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

o) Employee benefits (continued)

Employment Ordinance long service payments (continued)

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.

Retirement benefit scheme and other retirement benefits

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

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. The prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. The prior scheme was still operating at the balance sheet date.

The employees of the Group's subsidiaries which operate in mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

o) Employee benefits (continued)

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

p) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Notes to the Financial Statements

31 March 2005

3. PRINCIPAL ACCOUNTING POLICIES (continued)

q) Related parties

Parties are considered to be related to the Company if the Company 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 or other entities.

r) Provisions and contingent liabilities

A provision is recognised when there is present obligation, legal or constructive, as a result of past events and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

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

Notes to the Financial Statements

31 March 2005

4. SEGMENT INFORMATION

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

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

- a) the snap off blade cutters segment manufactures and sells snap off blade cutters;
- b) the electronic consumer products segment manufactures and sells electronic consumer products; and
- c) 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.

Notes to the Financial Statements

31 March 2005

4. SEGMENT INFORMATION (continued)

a) Business segments

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

The Group

	Snap off		Electronic		Corporate		Consolidated	
	blade cutters		customer products		and others			
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:								
Sales to external customers	43,117,145	47,642,313	23,640,790	30,229,484	3,326,125	3,129,241	70,084,060	81,001,038
Other revenue	183,075	923,774	1,129,375	673,657	1,235,707	1,050,000	2,548,157	2,647,431
Total	<u>43,300,220</u>	<u>48,566,087</u>	<u>24,770,165</u>	<u>30,903,141</u>	<u>4,561,832</u>	<u>4,179,241</u>	<u>72,632,217</u>	<u>83,648,469</u>
Segment results	<u>(3,129,999)</u>	<u>2,888,822</u>	<u>(9,067,512)</u>	<u>(11,386,540)</u>	<u>(4,844,209)</u>	<u>(4,182,346)</u>	<u>(17,041,720)</u>	<u>(12,680,064)</u>
Interest income							24,059	21,524
Loss from operating activities							(17,017,661)	(12,658,540)
Finance costs							(2,107,764)	(2,133,108)
Loss before tax							(19,125,425)	(14,791,648)
Tax							(511,344)	(733,283)
Net loss from ordinary activities attributable to shareholders							<u>(19,636,769)</u>	<u>(15,524,931)</u>

Notes to the Financial Statements

31 March 2005

4. SEGMENT INFORMATION (continued)

a) Business segments (continued)

The Group (continued)

	Snap off blade cutters		Electronic customer products		Corporate and others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	26,055,651	26,523,484	102,909,866	100,972,022	629,647	7,096,091	129,595,164	134,591,597
Unallocated assets							-	459,469
Total assets							<u>129,595,164</u>	<u>135,051,066</u>
Segment liabilities	8,468,191	9,768,390	11,177,355	8,489,229	7,754,882	1,449,783	27,400,428	19,707,402
Unallocated liabilities							<u>61,751,688</u>	<u>55,552,703</u>
Total liabilities							<u>89,152,116</u>	<u>75,260,105</u>
Other segment information:								
Depreciation	682,542	554,766	3,024,666	2,864,280	27,296	27,156	3,734,504	3,446,202
Provision for bad and doubtful debts	340,986	-	-	140,000	-	-	340,986	140,000
Provision for slow-moving and obsolete inventories	593,072	-	686,979	580,000	-	-	1,280,051	580,000
Revaluation surplus/(deficit) of investment properties recognised directly in the profit and loss account	-	-	(1,144,990)	(610,000)	-	1,050,000	(1,144,990)	440,000
Revaluation surplus of land and buildings recognised directly in the profit and loss account	125,200	6,400	-	-	-	-	125,200	6,400
Revaluation surplus/(deficit) of land and buildings recognised directly in equity	121,600	(4,399)	(110,666)	700,977	-	-	10,934	696,578
Capital expenditure	<u>539,594</u>	<u>1,031,778</u>	<u>825,664</u>	<u>4,614,867</u>	<u>4,180</u>	<u>-</u>	<u>1,369,438</u>	<u>5,646,645</u>

Notes to the Financial Statements

31 March 2005

4. SEGMENT INFORMATION (continued)

b) Geographical segments

The Group

	Hong Kong		Mainland China		Europe		North America		East Asia		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue														
Sales to external customers	25,312,246	33,972,767	7,821,107	1,723,538	13,593,866	19,831,606	14,357,419	10,461,465	3,606,375	5,694,548	5,393,047	9,317,114	70,084,060	81,001,038

	Hong Kong		Mainland China		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Other segment information						
Segment assets	24,099,050	30,392,210	105,496,114	104,199,387	129,595,164	134,591,597
Capital expenditure	173,178	1,010,939	1,196,260	4,635,706	1,369,438	5,646,645

5. TURNOVER AND OTHER REVENUE

	2005 HK\$	2004 HK\$
Turnover		
Sale of snap off blade cutters*	43,117,145	47,642,313
Sale of electronic consumer products*	23,640,790	30,229,484
Gross rental income	3,326,125	3,129,241
	70,084,060	81,001,038
Other revenue		
Gain on disposal of investment property	1,093,960	—
Revaluation surplus of investment properties	—	440,000
Revaluation surplus of land and buildings	125,200	6,400
Interest income	24,059	21,524
Sundry income	1,328,997	2,201,031
	2,572,216	2,668,955
Total revenue	72,656,276	83,669,993

* The amounts were net of trade returns and discounts.

Notes to the Financial Statements

31 March 2005

6. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is stated after charging the following:

	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
Auditors' remuneration	314,018	480,000
Cost of inventories sold	64,855,361	70,651,252
Staff costs (including directors' remuneration)		
– Wages and salaries	21,285,241	22,834,033
– Pensions scheme contribution	334,877	660,126
	21,620,118	23,494,159
Depreciation		
– Owned assets	3,589,296	3,045,984
– Assets held under finance leases	145,208	400,218
Exchange loss, net	192,170	523,587
Minimum lease payments under operating leases for motor vehicles	474,000	474,000
Provision for bad and doubtful debts	340,986	140,000
Provision for slow-moving and obsolete inventories	1,280,051	580,000
Deficit on revaluation of investment properties	1,144,990	–

7. FINANCE COSTS

	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
Interest expenses on bank loans, overdrafts and other loans wholly repayable within 5 years	2,015,696	1,788,733
Interest expenses on bank loans wholly repayable after 5 years	81,742	261,174
Interest on finance leases	10,326	83,201
	2,107,764	2,133,108

Notes to the Financial Statements

31 March 2005

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	The Group	
	2005	2004
	HK\$	HK\$
Current – Hong Kong		
Charge for the year	12,317	251,000
Current – Mainland China		
Charge for the year	49,600	91,426
	61,917	342,426
Deferred tax (<i>note 26</i>)	449,427	390,857
	511,344	733,283

Notes to the Financial Statements

31 March 2005

8. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory tax rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense is as follows:

The Group

	Hong Kong		Mainland China		Total	
	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Profit/(loss) before tax	<u>(21,943,276)</u>	<u>(13,780,210)</u>	<u>2,817,851</u>	<u>(1,011,438)</u>	<u>(19,125,425)</u>	<u>(14,791,648)</u>
Tax at the statutory tax rates	(3,840,074)	(2,411,536)	929,890	(333,775)	(2,910,184)	(2,745,311)
Lower tax rates for specific provinces or local authority	–	–	(111,131)	201,918	(111,131)	201,918
Income not subject to tax	(239,956)	(510,142)	(698,521)	–	(938,477)	(510,142)
Expenses not deductible for tax purpose	630	180,188	–	578,779	630	758,967
Tax losses not recognised as deferred tax assets	4,106,935	3,027,851	–	–	4,106,935	3,027,851
Utilisation of previously unrecognised tax losses	(86,808)	–	–	–	(86,808)	–
Reversal of recognised deferred tax assets	446,126	–	–	–	446,126	–
Unrecognised temporary difference	4,253	–	–	–	4,253	–
Tax charge	<u>391,106</u>	<u>286,361</u>	<u>120,238</u>	<u>446,922</u>	<u>511,344</u>	<u>733,283</u>

Notes to the Financial Statements

31 March 2005

9. DIRECTORS' REMUNERATION

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

	The Group	
	2005	2004
	HK\$	HK\$
Fees		
Independent non-executive directors	<u>159,998</u>	<u>200,000</u>
Other emoluments		
Executive directors		
– Salaries, allowances and benefits in kind	7,559,671	7,965,398
– Provident fund contribution	<u>103,848</u>	<u>119,430</u>
	<u>7,663,519</u>	<u>8,084,828</u>
	<u><u>7,823,517</u></u>	<u><u>8,284,828</u></u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	12	9
HK\$5,000,001 to HK\$5,500,000	<u>1</u>	<u>1</u>
	<u><u>13</u></u>	<u><u>10</u></u>

Notes to the Financial Statements

31 March 2005

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2004: two) non-director, highest paid employees are as follows:

	The Group	
	2005	2004
	HK\$	HK\$
Salaries, allowances and benefits in kind	1,967,161	1,723,007
Pension scheme contributions	34,406	24,000
	<u>2,001,567</u>	<u>1,747,007</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>3</u>	<u>2</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$6,704,772 (2004: HK\$6,561,571).

Notes to the Financial Statements

31 March 2005

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$19,636,769 (2004: HK\$15,524,931) and the weighted average of 4,846,403,321 (2004: 4,548,528,197) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 March 2005 and 2004 has not been disclosed as the impact of the potential ordinary shares was anti-dilutive.

13. FIXED ASSETS

The Group

	Investment properties HK\$	Land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation							
At 1/4/2004	47,961,000	43,719,000	8,744,150	31,282,973	10,656,866	1,375,597	143,739,586
Additions	–	–	–	1,323,769	45,669	–	1,369,438
Disposal	(6,000,000)	–	–	–	–	–	(6,000,000)
Deficit on revaluation	(1,144,990)	(955,010)	–	–	–	–	(2,100,000)
At 31/3/2005	40,816,010	42,763,990	8,744,150	32,606,742	10,702,535	1,375,597	137,009,024
At cost	–	–	8,744,150	32,606,742	10,702,535	1,375,597	53,429,024
At valuation	40,816,010	42,763,990	–	–	–	–	83,580,000
At 31/3/2005	40,816,010	42,763,990	8,744,150	32,606,742	10,702,535	1,375,597	137,009,024
Accumulated depreciation							
At 1/4/2004	–	–	4,457,008	28,729,266	10,026,018	1,375,597	44,587,889
Charge for the year	–	1,091,144	1,182,774	953,395	507,191	–	3,734,504
Eliminated on revaluation	–	(1,091,144)	–	–	–	–	(1,091,144)
At 31/3/2005	–	–	5,639,782	29,682,661	10,533,209	1,375,597	47,231,249
Net book value							
At 31/3/2005	40,816,010	42,763,990	3,104,368	2,924,081	169,326	–	89,777,775
At 31/3/2004	47,961,000	43,719,000	4,287,142	2,553,707	630,848	–	99,151,697

Notes to the Financial Statements

31 March 2005

13. FIXED ASSETS (continued)

The Company

	Furniture and fixtures <i>HK\$</i>
Cost	
At 1/4/2004	135,782
Additions	4,180
	<hr/>
At 31/3/2005	139,962
	<hr/>
Accumulated depreciation	
At 1/4/2004	78,284
Charge for the year	27,296
	<hr/>
At 31/3/2005	105,580
	<hr/>
Net book value	
At 31/3/2005	34,382
	<hr/> <hr/>
At 31/3/2004	57,498
	<hr/> <hr/>

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31 March 2005 was HK\$427,466 (2004: HK\$1,705,274).

The Group's land and buildings were revalued individually on 31 March 2005 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$6,460,000 based on their existing use, and at HK\$36,303,990 using the depreciated replacement cost method, as appropriate. Revaluation surplus of HK\$121,600 (2004: surplus of HK\$696,578) and revaluation surplus of HK\$125,200 (2004: surplus of HK\$6,400), resulting from the above valuations, have been credited to the land and buildings revaluation reserve and the profit and loss account respectively.

Had these land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK\$28,887,455 (2004: HK\$29,797,575).

Notes to the Financial Statements

31 March 2005

13. FIXED ASSETS (continued)

The Group's land and buildings included above are held under the following lease terms:

	Notes	Hong Kong		Mainland China		Total	
		2005	2004	2005	2004	2005	2004
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At valuation:							
Long term leases	(i)	6,460,000	6,340,000	–	–	6,460,000	6,340,000
Medium term leases	(ii)	–	–	36,303,990	37,379,000	36,303,990	37,379,000
		<u>6,460,000</u>	<u>6,340,000</u>	<u>36,303,990</u>	<u>37,379,000</u>	<u>42,763,990</u>	<u>43,719,000</u>

Notes:

- i) These land and buildings were valued at open market value, based on their existing use.
- ii) These land and buildings 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.

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

The Group's investment properties were revalued on 31 March 2005 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, at HK\$40,816,010 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 33(a) to the financial statements.

At 31 March 2005, the Group's investment properties with a value of HK\$40,816,010 (2004: HK\$47,961,000) and the Group's land and buildings with a net book value of HK\$26,105,881 (2004: HK\$34,396,469) were pledged to secure general banking facilities granted to the Group (note 32).

Notes to the Financial Statements

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14. INTEREST IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$	HK\$
Unlisted shares, at cost	35,741,016	35,741,016
Due from subsidiaries	67,846,342	69,320,052
Due to subsidiaries	<u>(13,388,346)</u>	<u>(15,518,083)</u>
	90,199,012	89,542,985
Provision for impairment	<u>(35,757,296)</u>	<u>(35,757,296)</u>
	<u>54,441,716</u>	<u>53,785,689</u>

Notes:

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

Notes to the Financial Statements

31 March 2005

14. INTEREST IN SUBSIDIARIES (continued)

b) Particulars of the principal subsidiaries are as follows:

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

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

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15. INTEREST IN ASSOCIATES

	The Group	
	2005 HK\$	2004 HK\$
Share of net assets	–	–
Due from associates	16,025,387	16,025,387
	16,025,387	16,025,387
Provision for impairment	(16,025,387)	(16,025,387)
	–	–

Notes:

- a) The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.
- b) Particulars of the associates are as follows:

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	50	Investment holding and sale of printed circuit boards
Genfield PCB (Panyu) Company Limited *	Corporate	Mainland China	50	Manufacture of printed circuit boards

* Not audited by CCIF CPA Limited

All of the above investments in associates are indirectly held by the Company.

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16. INVENTORIES

	The Group	
	2005	2004
	HK\$	HK\$
Raw materials	12,867,535	10,679,308
Work-in-progress	3,167,594	2,425,270
Finished goods	4,434,475	1,802,775
	<u>20,469,604</u>	<u>14,907,353</u>

The carrying amount of inventories (included above) that stated at net realisable value is approximately HK\$8,824,283 (2004: HK\$Nil).

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17. TRADE AND BILLS RECEIVABLES

The Group generally allows an average credit period of 60 days to its customers.

A longer credit period may be granted to customers with a long business relationship to the Group. An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, and net of provisions, is as follows:

	The Group	
	2005 HK\$	2004 HK\$
Within 60 days	6,783,415	6,659,435
61 to 90 days	727,044	57,701
Over 91 days	2,879,001	892,646
	<u>10,389,460</u>	<u>7,609,782</u>

18. CASH AND BANK BALANCES

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Cash and bank balances	4,199,721	1,690,698	255,285	22,831
Pledged time deposits	500,000	5,000,000	—	—
	<u>4,699,721</u>	<u>6,690,698</u>	<u>255,285</u>	<u>22,831</u>
Less: Pledged time deposits	(500,000)	(5,000,000)	—	—
	<u>4,199,721</u>	<u>1,690,698</u>	<u>255,285</u>	<u>22,831</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$795,257 (2004: HK\$1,130,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Purchase of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to the Financial Statements

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19. TRADE PAYABLES

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

	The Group	
	2005 HK\$	2004 HK\$
Within 60 days	6,530,879	6,033,316
61 to 90 days	1,425,517	292,778
Over 91 days	3,127,004	3,438,341
	<u>11,083,400</u>	<u>9,764,435</u>

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Bank overdrafts				
– secured	501,276	4,214,102	–	–
– unsecured	–	40,892	–	–
	<u>501,276</u>	<u>4,254,994</u>	<u>–</u>	<u>–</u>
Short-term bank loans, secured	22,069,406	30,216,330	–	–
Current portion of long-term bank loans (Note 21)	224,039	6,555,721	–	–
Other short-term loans, unsecured	377,358	1,500,000	–	1,500,000
	<u>23,172,079</u>	<u>42,527,045</u>	<u>–</u>	<u>1,500,000</u>

Notes to the Financial Statements

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21. INTEREST-BEARING LONG-TERM BANK BORROWINGS

	The Group	
	2005 HK\$	2004 HK\$
Secured bank loans repayable:		
Within one year	224,039	6,555,721
In the second year	16,244,301	953,735
In the third to fifth years, inclusive	860,262	1,974,533
Beyond five years	336,646	1,817,147
	<u>17,665,248</u>	<u>11,301,136</u>
Portion classified as current liabilities (Note 20)	<u>(224,039)</u>	<u>(6,555,721)</u>
Non-current portion	<u>17,441,209</u>	<u>4,745,415</u>

22. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and furniture and fixtures for its business. These leases are classified as finance lease and have remaining lease terms ranging from one to five years. At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Within one year	238,560	687,297	229,914	636,399
In the second year	11,830	461,874	9,178	449,708
In the third to fifth years, inclusive	–	160,854	–	144,734
	<u>250,390</u>	<u>1,310,025</u>	<u>239,092</u>	<u>1,230,841</u>
Less: Future finance charges	<u>(11,298)</u>	<u>(79,184)</u>		
Present value of lease obligations	239,092	1,230,841		
Portion classified as current liabilities	<u>(229,914)</u>	<u>(636,399)</u>		
Non-current portion	<u>9,178</u>	<u>594,442</u>		

Notes to the Financial Statements

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23. DUE TO RELATED PARTIES

	The Group		The Company	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Mrs. Chong Cheng Man Shan	14,270,547	1,471,698	5,660,000	–
Mr. Chong Chun Chung	–	250,000	–	–
	<u>14,270,547</u>	<u>1,721,698</u>	<u>5,660,000</u>	<u>–</u>

Mrs. Chong is Mr. Chong Sing Yuen's wife and Mr. Chong Chun Chung is Mr. Chong Sing Yuen's son.

On 1 April 2004, Tung Hing Products Company Limited, a wholly-owned subsidiary of the Group, entered into a facility agreement with Mrs. Chong pursuant to which Mrs. Chong 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 Mrs. Chong to extend the Facility to 31 July 2006.

On 23 July 2004, the Company entered into a loan agreement with Mrs. Chong pursuant to which Mrs. Chong 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 Mrs. Chong pursuant to which the loan of HK\$5,660,000 was renewed to a one-year standby facility to 20 July 2006.

In addition, Mrs. Chong also made advance of HK\$610,547 (2004: HK\$1,471,698) to the Group as at 31 March 2005. The advance was unsecured, interest free and without fixed terms of repayment.

Notes to the Financial Statements

31 March 2005

24. DUE FROM/TO ASSOCIATES

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

25. DUE TO DIRECTORS

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

26. DEFERRED TAXATION

a) Deferred tax assets and liabilities recognised

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

	Accelerated tax depreciation HK\$	Fair value adjustments arising from acquisition of subsidiaries HK\$	Revaluation of properties HK\$	Total HK\$
At 1 April 2003	501,207	169,485	(5,449,061)	(4,778,369)
Deferred tax credited to equity	–	–	255,446	255,446
Deferred tax charged to the profit and loss account	(386,148)	–	(4,709)	(390,857)
At 31 March 2004	<u>115,059</u>	<u>169,485</u>	<u>(5,198,324)</u>	<u>(4,913,780)</u>
At 1 April 2004	115,059	169,485	(5,198,324)	(4,913,780)
Deferred tax credited to equity	–	–	36,520	36,520
Deferred tax charged to the profit and loss account	(162,918)	–	(286,509)	(449,427)
At 31 March 2005	<u>(47,859)</u>	<u>169,485</u>	<u>(5,448,313)</u>	<u>(5,326,687)</u>

Notes to the Financial Statements

31 March 2005

26. DEFERRED TAXATION (continued)

a) Deferred tax assets and liabilities recognised (continued)

	2005 HK\$	2004 HK\$
Net deferred tax assets recognised on the balance sheet	–	459,469
Net deferred tax liabilities recognised on the balance sheet	<u>(5,326,687)</u>	<u>(5,373,249)</u>
	<u><u>(5,326,687)</u></u>	<u><u>(4,913,780)</u></u>

b) Deferred tax assets not recognised

The Group has tax losses arising in Hong Kong of HK\$85,393,656 (2004: HK\$65,251,262) 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 2005, there is no significant unrecognised deferred tax liability (2004: 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.

Notes to the Financial Statements

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27. ISSUED CAPITAL

	2005		2004	
	No. of shares	Amount HK\$	No. of shares	Amount HK\$
Authorised:				
Ordinary shares of HK\$0.01 each	<u>30,000,000,000</u>	<u>300,000,000</u>	<u>30,000,000,000</u>	<u>300,000,000</u>
Issued and fully paid:				
At beginning of the year	<u>4,803,807,705</u>	<u>48,038,077</u>	<u>4,544,457,705</u>	<u>45,444,577</u>
Share options exercised	<u>66,150,000</u>	<u>661,500</u>	<u>259,350,000</u>	<u>2,593,500</u>
At end of the year	<u>4,869,957,705</u>	<u>48,699,577</u>	<u>4,803,807,705</u>	<u>48,038,077</u>

During the year, the subscription rights attaching to 66,150,000 (2004: 259,350,000) share options were exercised at the subscription price of HK\$0.01 (2004: HK\$0.01) per share (note 28), resulting in the issue of 66,150,000 (2004: 259,350,000) shares of HK\$0.01 each for a total cash consideration before expenses of HK\$661,500 (2004: HK\$2,593,500).

28. 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 in force for 10 years from that date.

Notes to the Financial Statements

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28. SHARE OPTION SCHEME (continued)

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the 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.

Notes to the Financial Statements

31 March 2005

28. SHARE OPTION SCHEME (continued)

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

Name or category of participant	At 1 April 2004	Number of share options				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\$
		Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					
Directors										
Mr. Chong Sing Yuen	3,350,000	-	(3,350,000)	-	-	-	30-10-2002	30-10-2002	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	0.028
Mr. Chu Bu Yang, Alexander	4,500,000	-	(4,500,000)	-	-	-	30-10-2002	30-10-2002 to 29-10-2012	0.01	0.028
	<u>77,850,000</u>	<u>-</u>	<u>(60,850,000)</u>	<u>-</u>	<u>-</u>	<u>17,000,000</u>				
Employees										
Mrs. Chong 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
	<u>7,600,000</u>	<u>-</u>	<u>(5,300,000)</u>	<u>-</u>	<u>-</u>	<u>2,300,000</u>				
Total	<u><u>85,450,000</u></u>	<u><u>-</u></u>	<u><u>(66,150,000)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>19,300,000</u></u>				

* 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.

The 66,150,000 share options exercised during the year 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 27 to the financial statements.

Notes to the Financial Statements

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28. SHARE OPTION SCHEME (continued)

At the balance sheet date, the Company had 19,300,000 (2004: 85,450,000) share options outstanding under the Scheme which represented approximately 0.4% (2004: 1.8%) 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 19,300,000 (2004: 85,450,000) additional ordinary shares of the Company and additional share capital of HK\$193,000 (2004: HK\$854,500).

29. RESERVES

(a) The 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 on page 28 of the financial statements.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 April 2002, were HK\$22,478,515 as at 1 April 2004 and 31 March 2005. The amount of goodwill is stated at its cost.

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

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

Notes to the Financial Statements

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29. RESERVES (continued)

(b) The Company

	Share premium account HK\$	Accumulated losses HK\$	Total HK\$
At 1 April 2003	24,482,848	(12,931,866)	11,550,982
Net loss for the year	–	(6,561,571)	(6,561,571)
	<u>24,482,848</u>	<u>(19,493,437)</u>	<u>4,989,411</u>
At 31 March 2004	<u>24,482,848</u>	<u>(19,493,437)</u>	<u>4,989,411</u>
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)
	<u>24,062,750</u>	<u>(26,198,209)</u>	<u>(2,135,459)</u>
At 31 March 2005	<u>24,062,750</u>	<u>(26,198,209)</u>	<u>(2,135,459)</u>

The Company had no reserves available for distribution as at 31 March 2005.

30. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2004, the Group entered into finance lease arrangements in respect of fixed assets with a capital value at the inception of the leases of HK\$1,010,000.

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with Twin Base Limited (“Twin Base”), a company in which Mr. Chong Sing Yuen had a beneficial interest:

- (i) During the year, the Group made rental payments of approximately HK\$474,000 (2004: 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 33(b) to the financial statements.

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31. RELATED PARTY TRANSACTIONS (continued)

- (ii) As at 31 March 2005, Twin Base pledged certain of its property interests to a bank to secure credit facilities to the extent of HK\$12,899,980 (2004: HK\$12,899,980) granted to the Group.

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

		The Group	
		2005	2004
	Notes	HK\$	HK\$
Purchases of raw materials			
from an associate	(i)	673,993	485,473
Management fee received			
from an associate	(ii)	<u>144,000</u>	<u>144,000</u>

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

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

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

- (c) During the year, Mr. Chong Sing Yuen and Mr. Chong Chun Kwok, Piggy, a son of Mr. Chong Sing Yuen, gave a joint and several guarantee to a financial institution to secure the credit facilities to the extent of HK\$1,500,000 (2004: HK\$1,500,000) granted to the Company. In May 2004, the Company repaid the credit facilities and the guarantees were released.

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31. RELATED PARTY TRANSACTIONS (continued)

- (d) During the year, Mrs. Chong, the spouse of Mr. Chong Sing Yuen, granted a credit facility of HK\$8,000,000 and a loan of HK\$5,660,000 to the Group, the details of which are set out in note 23 to the financial statements. In addition, Mrs. Chong advanced HK\$610,547 (2004: HK\$1,471,698) to the Group. The advances were unsecured, interest free and without fixed terms of repayment.
- (e) During the year, Mr. Chong Chun Kwok, Piggy, a director of the Company and a son of Mr. Chong Sing Yuen advanced HK\$3,650,000 (2004: NIL) to the Group. The advances were unsecured, interest free and without fixed terms of repayment.
- (f) During the year ended 31 March 2004, Mr. Chong Chun Chung, a son of Mr. Chong Sing Yuen advanced HK\$250,000 to the Group. The advances were unsecured, interest free and repayable on demand. During the year ended 31 March 2005, the Group repaid HK\$250,000 to Mr. Chong Chun Chung.
- (g) During the year ended 31 March 2004, Mr. Chong Sing Yuen advanced shareholder's loans of approximately HK\$5,992,000 in aggregate to the Group. These shareholders loans were unsecured, interest free and were fully repaid during the year ended 31 March 2004.

32. BANKING FACILITIES

As at 31 March 2005, the banking facilities of the Group were secured by the following:

- a) Pledged time deposits of HK\$500,000 (2004: HK\$5,000,000).
- b) Investment properties of HK\$40,816,100 (2004: HK\$47,910,000) and land and buildings of HK\$26,105,881(2004:HK\$34,396,469).
- c) Trade receivables of HK\$941,940 (2004: Nil).
- d) Guarantees provided by directors of the Company.

Notes to the Financial Statements

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33. OPERATING LEASE ARRANGEMENT

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:

	2005 HK\$	2004 HK\$
Not later than one year	2,971,753	3,405,266
In the second to fifth years, inclusive	6,931,241	9,284,548
Over five years	2,312,597	3,017,770
	<u>12,215,591</u>	<u>15,707,584</u>

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	
	2005 HK\$	2004 HK\$
Within one year	<u>197,500</u>	<u>197,500</u>

Notes to the Financial Statements

31 March 2005

34. CONTINGENT LIABILITIES

a) 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\$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. 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 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.

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\$55,201,866 (2004: HK\$88,137,723).

35. POST BALANCE SHEET DATE EVENTS

- a) Pursuant to an ordinary resolutions 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. Upon completion of the share consolidation, the authorised share capital of the Company remained at HK\$300,000,000, but divided into 1,500,000,000 shares of HK\$0.20 each. Immediately after the share consolidation, the Company had 243,497,885.25 issued shares 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.

- b) On 14 July 2005, the Company and an independent subscriber entered into a conditional agreement for the subscription of 48,000,000 new shares of HK\$0.20 each at a price of HK\$0.26 per share for a total of HK\$12,480,000. The net proceeds from the subscription of approximately HK\$12.28 million will be used as general working capital. 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. If the condition is not fulfilled on or before 3 August 2005 (or such other date as the parties may mutually agree) the subscription agreement will lapse. Details of the subscription were disclosed in the Company's announcement dated 15 July 2005.

Five Year Financial Summary

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

RESULTS

	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
TURNOVER	<u>70,084</u>	<u>81,001</u>	<u>106,657</u>	<u>75,343</u>	<u>39,877</u>
PROFIT/(LOSS) BEFORE TAX	<u>(19,126)</u>	<u>(14,792)</u>	<u>3,147</u>	<u>2,674</u>	<u>(25,059)</u>
Tax	<u>(511)</u>	<u>(733)</u>	<u>(423)</u>	<u>(1,085)</u>	<u>(746)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>(19,637)</u>	<u>(15,525)</u>	<u>2,724</u>	<u>1,589</u>	<u>(25,805)</u>
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(19,637)</u>	<u>(15,525)</u>	<u>2,724</u>	<u>1,589</u>	<u>(25,805)</u>
ASSETS AND LIABILITIES					
TOTAL ASSETS	<u>129,595</u>	<u>135,051</u>	<u>133,296</u>	<u>134,320</u>	<u>124,781</u>
TOTAL LIABILITIES	<u>(89,152)</u>	<u>(75,260)</u>	<u>(61,270)</u>	<u>(63,311)</u>	<u>(64,909)</u>
	<u>40,443</u>	<u>59,791</u>	<u>72,026</u>	<u>71,009</u>	<u>59,872</u>