## Board of Directors

### Executive directors

Chong Sing Yuen *(Chairman)*
Au Tat On *(Appointed on 12 May 2006)*
Chong Chun Hing *(Resigned on 12 May 2006)*
Chong Chun Kwok, Piggy
*(Resigned on 12 May 2006)*
Chu Kiu Fat *(Resigned on 20 April 2006)*
Lu Xiao Dong *(Appointed on 12 May 2006)*
Wong Siu Keung, Joe

### Independent non-executive directors

Chan Ping Yim *(Resigned on 26 May 2006)*
Chan Shun *(Resigned on 18 August 2005)*
Cheng Kwok Hing, Andy
Yeung King Wah *(Appointed on 26 May 2006)*
Yeung Yuen Hei *(Appointed on 18 August 2005)*

## Company Secretary

Cheung Mei Ha, Jennifer
*(Resigned on 12 April 2006)*
Wong Siu Keung, Joe
*(Appointed on 12 April 2006)*

## 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

I hereby present the annual report of Northern International Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2006.

## FINANCIAL RESULTS

The Group recorded a turnover of HK$99.1 million for the year ended 31 March 2006 (2005: HK$70.1 million), representing a increase of 41% over the previous year. Gross profit margin fell to gross loss 4% (2005 gross profit: 8%) and the net loss of the Group was HK$29.8 million (2005: HK$19.6 million). Loss per share was HK10.80 cents (2005: HK0.41 cents).

## REVIEW AND PROSPECTS

The financial year ended 31 March 2006 was another difficult year for the Group. Sustained high raw material prices and growth in production costs had adversely impact on profit margin of the Group's manufacturing businesses during the year.

The Group will continuously put efforts on improving the performance in different business segments through the methods of cost control and production of higher profit margin products.

The Group will not eliminate any potential opportunity for the disposal of its major business of appropriate buyer could be seek and will under the principle of prudence carefully while actively identify potential investment opportunity in order to diversify business and improve the performance of the Group.

I believe that the Group is heading the right direction and is well placed to capitalize on any exciting investment opportunity.

## GRATITUDE

During the year and up to the date of this report, certain board members have resigned because of personal reasons. I would like to take this opportunity to express my gratitude to those board members for their valuable contributions in the past years and warm welcome for our new board members. Currently, the new board is composite with different talents and dedicated to maximize the wealth of shareholders and believes to have sufficient capacity to overcome any future challenges the Group will meet.

Taking this opportunity, I would also like to thank all shareholders, staff and business partners of the Group for their continuous supports during the year.

**CHONG SING YUEN**
*CHAIRMAN*

Hong Kong, 25 July 2006

## Executive Directors

**Mr Chong Sing Yuen**, aged 59, 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 Au Tat On**, aged 51, has been appointed an executive director of the Company in May 2006. Mr Au received a bachelor's degree in business administration from Chu Hai College in 1989 and has nearly 28-year experience in banking operations and financing.

**Mr Lu Xiao Dong**, aged 34, has been appointed an executive director of the Company in May 2006. Mr Lu received a bachelor's degree in economics from Nankai University in 1996 and has nearly 10-year experience in investment banking and extensive experience in merger and acquisition, corporate finance, company reconstruction and initial public offering.

**Mr Wong Siu Keung, Joe**, aged 41, joined the Group in 2000 and is an executive director, qualified accountant and company secretary of the Company responsible for financial planning and control of the Group. Mr Wong has extensive experience in taxation, accounting, financing and auditing fields. Mr Wong 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.

## Independent non-executive Directors

**Mr Yeung King Wah**, aged 47, was appointed independent non-executive director of the Company in May 2006. Mr Yeung is the founder of Yeung and Co Chartered Accountants (a firm of registered auditors based in the United Kingdom) – is a fellow member of the Institute of Chartered Accountants in England and Wales (FCA), and the Hong Kong Institute of Certified Public Accountants (FCPA). Mr Yeung is also a member of the Chartered Institute of Taxation in the United Kingdom (ATII). Mr Yeung obtained his bachelor degree of Commerce in Accounting from The University of Birmingham in 1981. Mr Yeung is a principal of Yeung & Co, Chartered Accountants, Registered Auditors and he has nearly 20 years experience in auditing, taxation, corporate finance, treasury, financial consulting and management gained from working in Europe and the Asia Pacific.

**Mr Cheng Kwok Hing, Andy**, aged 35, was appointed independent non-executive director of the Company in September 2004. Mr Cheng is a director of a company in Hong Kong which is engaged in distribution of Chinese herbal medicine. Mr. Cheng has extensive experience in distribution of Chinese herbal medicine.

**Mr Yeung Yuen Hei**, aged 41, was appointed independent non-executive director of the Company in August 2005. Mr Yeung is a solicitor practising in Hong Kong. Mr Yeung holds a bachelor of laws degree from the University of London and a postgraduate certificate in laws from the University of Hong Kong. Mr Yeung is a partner of Yeung and Tsang, Solicitors and Mr Yeung serves as honorary legal adviser to the Parent Teacher Association of Kwong Ming School – PM session, a sport association and an association on building management consultation in Yuen Long district.

## REVIEW OF RESULTS

The Group's turnover was HK$99.1 million (2005: HK$70.1 million), representing an increase of 41.2% over the same period of last year. Gross margin fell to gross loss of 4% (2005: gross profit of 8%) due to increase in material prices and production cost. Net loss of the Group was HK$29.8 million (2005: HK$19.6 million) and loss per share was HK10.8 cents (2005: HK0.41 cents).

## BUSINESS REVIEW AND PROSPECTS

### Consumer electronics business

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

Subsequent to the balance sheet date, considering continuously underperformance of consumer electronic business, the Group decided to terminate it.

### Snap off blade cutter business

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

The Group will continue to develop new models and add into the existing product mix in order to improve the result of the business segment. The Group will not eliminate any potential opportunity for the disposal of its major business if appropriate buyer could be seek.

### Geographical segment analysis

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

## INVESTMENT POSITION AND PLANNING

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

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

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

## SHARE CAPITAL AND OPTION

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

**Consolidation of shares and adjustment to options**

A proposal to consolidate 20 issued and un-issued shares of HK$0.01 each into 1 share of HK$0.20 each (the "New Share(s)") (the "Consolidation") was approved by the shareholders of the Company on 4 May 2005. The Consolidation and change in board lot size for trading in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 shares to 5,000 New Shares became effective on 5 May 2005. Immediately after the Consolidation, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares.

Before the Consolidation, the Company had outstanding options granted under the share option scheme of the Company to subscribe for a total of 19,300,000 shares at the price of HK$0.01 per share. Immediately after the Consolidation, the number of shares issuable under each outstanding option granted was reduced by 95%, and the exercise price per share was increased from HK$0.01 to HK$0.20. Accordingly, after the Consolidation became effective, the Company had outstanding options to subscribe for a total of 965,000 New Shares at the exercise price of HK$0.20 per New Share.

**Subscription of new shares**

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

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

## POST BALANCE SHEET EVENTS

### Subscription of new shares

On 18 May 2006, the Company and an independent subscriber entered into a conditional agreement for the subscription of 58,000,000 new shares of HK$0.2 each at a price of HK$0.23 per share for a total of HK$13,340,000. The net proceeds from the subscription of approximately HK$13.24 million will be used as general working capital. The subscription is being granted of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited. Details of the subscription have been disclosed in the Company's announcement dated 19 May 2006.

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

### Disposal of the property

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

### Termination of consumer electronics business

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

## CHARGES ON GROUP'S ASSETS

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

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

## CONTINGENT LIABILITIES

### The Group

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

### The Company

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

## EMPLOYEES

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

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

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 109.

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 110. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Company and property, plant and equipment, and investment properties of the Group during the year are set out in notes 16 and 17 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 32 and 33 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.

## 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 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2006, 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$26,743,438, may be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$30,000 (2005: HK$11,000).

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49% of the total sales for the year and sales to the largest customer included therein amounted to 28%. 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 14%.

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.

## DIRECTORS

The directors of the Company during the year were:

**Executive directors:**

Chong Sing Yuen *(Chairman)*
Au Tat On *(Appointed on 12 May 2006)*
Chong Chun Hing *(Resigned on 12 May 2006)*
Chu Kiu Fat *(Resigned on 20 April 2006)*
Chong Chun Kwok, Piggy *(Resigned on 12 May 2006)*
Lu Xiao Dong *(Appointed on 12 May 2006)*
Wong Siu Keung, Joe

**Independent non-executive directors:**

Chan Ping Yim *(Resigned on 26 May 2006)*
Chan Shun *(Resigned on 18 August 2005)*
Cheng Kwok Hing, Andy
Yeung King Wah *(Appointed on 26 May 2006)*
Yeung Yuen Hei *(Appointed on 18 August 2005)*

Mr Chong Sing Yuen, the director retiring by rotation in accordance with Bye-law 87 of the Company's Bye-laws, and Mr Au Tat On and Mr Lu Xiao Dong appointed by the Board on 12 May 2006, and Mr Yeung King Wah, the director appointed by the board on 26 May 2006 pursuant to Bye-law 86(2) of the Company's By-laws being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws. 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.

The Company has received the annual confirmations of independence from Mr Yeung King Wah, Mr Yeung Yuen Hei and Mr Cheung Kwok Hing, Andy, and as at the date of this report still considers them to be independent. The Company also received the annual confirmation of independence from Mr Chan Ping Yim, and as at the date of his resignation still considers him to be independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of directors of the Company are set out on pages 5 and 6 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

Ms Cheng Man Shan, the spouse of 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 37 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 2006 in relation to the business of the Group taken as a whole.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES

At 31 March 2006, 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 position in the Company's ordinary shares**

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

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

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

Save as disclosed above, as at 31 March 2006, none of 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 Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interest and short positions in shares" above, and the share option scheme in note 33 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 March 2006, 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:

| | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Win Channel Investments Limited *(Note 1)* | Directly beneficially owned | 65,000,000 | 22.30% |
| Chim Pui Chung | Through a controlled corporation | 65,000,000 | 22.30% |
| Easy Huge Holdings Limited *(Note 2)* | Directly beneficially owned | 48,000,000 | 16.47% |
| Ng Kin Wah *(Note 2)* | Through a controlled corporation | 48,000,000 | 16.47% |

*Note 1:* The interest was held by Win Channel Investments Limited, a company wholly owned by Mr Chim Pui Chung.

*Note 2:* The interest was held by Easy Huge Holdings Limited, a company wholly owned by Mr Ng Kin Wah.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interest 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:

| | *HK$* |
|---|---|
| Non-current assets | 2,293,074 |
| Current assets | 9,045,425 |
| Current liabilities | (41,099,382) |
| | (29,760,883) |
| Share capital | 2,000,031 |
| Accumulated losses | (31,760,914) |
| | (29,760,883) |

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.

## CONNECTED TRANSACTIONS

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

  (i) During the year, the Group made rental payment of approximately HK$474,000 (2005: HK$474,000) to Twin Base for a motor vehicle 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 37(a)(i) to the financial statements.

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

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

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

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

Material related party transactions entered into by the Group during the year ended 31 March 2006, which do not constitute connected transactions under the Listing Rules, are disclosed in note 37 to the financial statements.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

## CORPORATE GOVERNANCE

Information on the Company's compliance of the Code of Corporate Governance Practice ("CG Code") as set out in Appendix 14 to the Listing Rules and deviations from certain code provisions of the CG Code for the year is set out in the Corporate Governance Report in this annual report.

## AUDIT COMMITTEE

During the year, the audit committee of the Company comprises three independent non-executive directors. As at the date of this report, they are Messrs. Yeung King Wah, Cheng Kwok Hing, Andy and Yeung Yuen Hei (the "Audit Committee").

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice during the year in conjunction with auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

## 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 2006.

## AUDITORS

The financial statements for the year ended 31 March 2006 were audited by CCIF CPA Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint CCIF CPA Limited as auditors of the Company.

ON BEHALF OF THE BOARD

**CHONG SING YUEN**
*CHAIRMAN*

Hong Kong, 25 July 2006

In view of the corporate governance practices, the Company has adopted a set of clear guidelines to explain its policies, practices and procedures which we aim to follow to ensure that our standards meets our shareholders' expectations. The Company has committed to maintain a high standard of corporate governance based on the principles of the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effective on 1 January 2005. The Company recognizes the maintenance of good corporate governance practices is essential to the growth of the Company and has complied with all the CG Code except for certain deviations that are discussed later in this report.

## BOARD OF DIRECTORS

### Composition

As at the date of this report, the board of directors ("Board") comprises seven directors ("Director(s)") of the Company of which four are executive Directors and three are independent non executive Directors. The members of Directors and Board Committee as at the date of this annual report are as follows:

**Executive directors:**

Chong Sing Yuen *(Chairman)*
Au Tat On *(Appointed on 12 May 2006)*
Chong Chun Hing *(Resigned on 12 May 2006)*
Chu Kiu Fat *(Resigned on 20 April 2006)*
Chong Chun Kwok, Piggy *(Resigned on 12 May 2006)*
Lu Xiao Dong *(Appointed on 12 May 2006)*
Wong Siu Keung, Joe

**Independent non-executive directors:**

Chan Ping Yim *(Resigned on 26 May 2006)*
Chan Shun *(Resigned on 18 August 2005)*
Cheng Kwok Hing, Andy
Yeung King Wah *(Appointed on 26 May 2006)*
Yeung Yuen Hei *(Appointed on 18 August 2005)*

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. Decisions requiring the Board's approval include, among others, all matters of objective and strategic importance, corporate governance practices, changes in Board members, major transactions and investment commitments, annual budget and financial matters, all policy matters etc. The day-to-day management, administration and operation of the Company are delegated to senior management which is accountable to the Board for the implementation of the Group's overall strategies and coordination of overall business operations.

The Board members are fully committed to their roles and have always acted, individually and collectively, in the best interests of the Company and its shareholders at all times. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 5 to 6 under the section headed "Biographical Details of Directors" of this annual report.

During the year ended 31 March 2006, the Board held 19 regular Board meetings. The attendance of each member at the Board meetings is set out below:

| **Name** | **Number of meetings attended/Total** |
|---|---|
| **Executive directors:** | |
| Chong Sing Yuen *(Chairman)* | 10/19 |
| Au Tat On *(Appointed on 12 May 2006)* | N/A |
| Chong Chun Hing *(Resigned on 12 May 2006)* | 12/19 |
| Chu Kiu Fat *(Resigned on 20 April 2006)* | 18/19 |
| Chong Chun Kwok, Piggy *(Resigned on 12 May 2006)* | 19/19 |
| Lu Xiao Dong *(Appointed on 12 May 2006)* | N/A |
| Wong Siu Keung, Joe | 18/19 |
| **Independent non-executive directors:** | |
| Chan Ping Yim *(Resigned on 26 May 2006)* | 9/19 |
| Chan Shun *(Resigned on 18 August 2005)* | 2/11 |
| Cheng Kwok Hing, Andy | 1/19 |
| Yeung King Wah *(Appointed on 26 May 2006)* | N/A |
| Yeung Yuen Hei *(Appointed on 18 August 2005)* | 4/9 |

**Chairman**

The roles of the chairman of the Board and the chief executive officer (after resignation of Mr Chong Chun Kwok, Piggy in May 2006) of the Company have been performed by Mr Chong Sing Yuen. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Mr Chong Sing Yuen, being the Chairman of the Group since 1998, takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary.

**Executive Directors**

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

**Independent Non-executive Directors**

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participations provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

**Corporate Governance**

During the year, the Company was in compliance with the CG Code, except for the deviation from the requirement of code provision A4.2 in respect of rotation of Directors.

The Company was passed the resolution in the Company's annual general meeting on 29 September 2005 that new Bye-Law of the Company was adopted, which requiring "at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to one-third but not less than one-third) shall retire from office by rotation so that each director shall be subject to retirement at least once every three years".

Upon the resignation of Mr Chong Chun Kwok, Piggy, chief executive officer of the Company on 12 May 2006, the Group do not have an officer titled chief executive officer. Mr Chong Sing Yuen is the Chairman of the Company and acts as chief executive officer of the Company, which is deviated from the requirement of the code provision A2. The Board considers that this structure is conductive with strong and consistent leadership, enabling the Company to respond promptly and efficiently. The Company will appoint chief executive officer if the appropriate candidate is found.

**Audit Committee**

The audit committee has been established by the Board. The audit committee currently comprises three independent non-executive Directors. The functions of the audit committee are:

- to make recommendations to the board concerning the appointment, reappointment, retention, evaluation and termination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the Company's independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding two years;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;

- to review the Company's risk assessment and management policies;
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures; and
- to obtain and review reports from management and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

The new terms of the reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board.

During the year, the audit committee held 2 meetings, details of attendance are set out below:

| **Members** | **Number of meetings attended/Total** |
|---|---|
| Chan Ping Yim *(Resigned on 26 May 2006)* | 2/2 |
| Chan Shun *(Resigned on 18 August 2005)* | 0/1 |
| Cheng Kwok Hing, Andy | 2/2 |
| Yeung King Wah *(Chairman) (Appointed on 26 May 2006)* | N/A |
| Yeung Yuen Hei *(Appointed on 18 August 2005)* | 1/1 |

**Remuneration and Nomination Committee**

The remuneration and nomination committee have been established by the Board. The audit committee currently comprises one executive Director and three independent non-executive Directors. The functions of Remuneration and Nomination Committees are:

- to recommend to the board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- to determine the remuneration packages of all executive directors and senior management;
- to review and approve performance-based remuneration; and
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of office or appointment.

In addition, the Remuneration and Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Where vacancies exist, the Remuneration and Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

For the avoidance of doubt, the Directors and their associates do not participate in decisions making relating to their own remuneration.

During the year, the remuneration and nomination committee held 1 meeting, details of attendence are set out below:

| **Members** | **Number of meetings attended/Total** |
|---|---|
| **Executive director:** | |
| Chong Chun Kwok, Piggy *(Resigned on 12 May 2006)* | 1/1 |
| Chu Kiu Fat *(Resigned on 20 April 2006)* | 1/1 |
| Wong Siu Keung, Joe | N/A |
| **Independent non-executive directors:** | |
| Chan Ping Yim *(Resigned on 26 May 2006)* | 1/1 |
| Chan Shun *(Resigned on 18 August 2005)* | N/A |
| Cheng Kwok Hing, Andy | 1/1 |
| Yeung King Wah *(Chairman) (Appointed on 26 May 2006)* | N/A |
| Yeung Yuen Hei *(Appointed on 18 August 2005)* | 1/1 |

## DIRECTORS' SECURITIES TRANSACTION

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

Having made specific enquiry of the Directors, all Directors confirmed that they had compiled with the required standards as set out in the Model Code throughout the year.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the year. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on pages 29 and 30 of this annual report.

### Internal Controls

The annual review requirement of the effectiveness of the Company's internal control system under the CG Code shall apply to the Company beginning its fiscal year ending 31 March 2007 as such code provision on internal control is to be implemented for the accounting period commencing on or after 1 July 2005.

### Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, CCIF CPA Limited, for the year is set out as follows:

| **Services rendered** | **Fee paid/payable Approximately** *HK$* |
|---|---|
| Audit services (2005: approximately HK$230,000) | 290,000 |
| Non-audit services (2005: approximately HK$114,000) | 15,000 |
| Taxation services | – |
| Other services | – |
| Total: | 305,000 |

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. To facilitate and enhance the relationships and communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at annual general meetings to address shareholders' queries;

2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders to facilitate the enforcement of shareholders' rights;

3. interim and annual results are announced as early as possible so that the shareholders are kept informed of the Group's performance and operations; and

4. corporate website www.northern.com.hk contains extensive information and updates on the Company's business developments and operations, financial information and other information.

CCIF

**CCIF CPA LIMITED**
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF**
**NORTHERN INTERNATIONAL HOLDINGS LIMITED**
*(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)*

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

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

## BASIS OF OPINION

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

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

## FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

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

## OPINION

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

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 25 July 2006

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

# CONSOLIDATED INCOME STATEMENT



*For the Year ended 31 March 2006*

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

The notes on pages 38 to 109 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

*31 March 2006*

| | Notes | 2006 HK$ | 2005 HK$ (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **31,172,423** | 30,281,775 |
| Investment properties | 17 | **41,021,222** | 40,816,010 |
| Interests in leasehold land held for own use under operating leases | 18 | **4,351,938** | 4,523,254 |
| Interests in associates | 20 | **–** | – |
| Deferred tax assets | 31 | **5,724** | 37,924 |
| | | **76,551,307** | 75,658,963 |
| **Current assets** | | | |
| Inventories | 21 | **12,073,678** | 20,469,604 |
| Trade and bills receivables | 22 | **8,139,100** | 10,389,460 |
| Other receivables, deposits and prepayments | | **2,722,882** | 4,258,604 |
| Pledged deposits | 23 | **500,000** | 500,000 |
| Cash and cash equivalents | 23 | **310,189** | 4,199,721 |
| | | **23,745,849** | 39,817,389 |
| **Current liabilities** | | | |
| Trade payables | 24 | **12,622,220** | 11,083,400 |
| Other payables and accruals | | **11,695,737** | 10,475,356 |
| Due to associates | 25 | **–** | 1,655,405 |
| Due to directors | 26 | **3,135,539** | 4,206,329 |
| Due to a related party | 27 | **13,941,893** | 14,270,547 |
| Obligations under finance leases | 28 | **742,961** | 229,914 |
| Interest-bearing borrowings | 29 | **40,603,814** | 22,794,721 |
| Tax payable | 30 | **1,766,284** | 1,659,370 |
| | | **84,508,448** | 66,375,042 |
| **Net current liabilities** | | **(60,762,599)** | (26,557,653) |
| **Total assets less current liabilities** | | **15,788,708** | 49,101,310 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 29 | **1,270,754** | 17,441,209 |
| Obligations under finance leases | 28 | **188,174** | 9,178 |
| | | **1,458,928** | 17,450,387 |
| **NET ASSETS** | | **14,329,780** | 31,650,923 |

# CONSOLIDATED BALANCE SHEET

*31 March 2006*

| | Notes | 2006<br>HK$ | 2005<br>HK$<br>(restated) |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 32 | **58,299,577** | 48,699,577 |
| Reserves | 34 | **(43,969,797)** | (17,048,654) |
| **Total equity attributable to equity shareholders of the Company** | | **14,329,780** | 31,650,923 |
| **TOTAL EQUITY** | | **14,329,780** | 31,650,923 |

Approved and authorised for issue by the board of directors on 25 July 2006.

On behalf of the board

**Chong Sing Yuen**
*Director*

**Wong Siu Keung, Joe**
*Director*

The notes on pages 38 to 109 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 March 2006*

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

The notes on pages 38 to 109 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT



*Year ended 31 March 2006*

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

# CONSOLIDATED CASH FLOW STATEMENT

*Year ended 31 March 2006*

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

The notes on pages 38 to 109 form an integral part of these financial statements.

# BALANCE SHEET 

*31 March 2006*

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

Approved and authorised for issue by the board of directors on 25 July 2006

On behalf of the board

| **Chong Sing Yuen** | **Wong Siu Keung, Joe** |
|---|---|
| *Director* | *Director* |

The notes on pages 38 to 109 form an integral part of these financial statements.

## 1. CORPORATE INFORMATION

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

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

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

Notwithstanding concerns on its liquidity concerns as at 31 March 2006, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several arrangements made subsequent to the balance sheet date as further detailed below:

a) On 18 May 2006, the Company entered into a conditional agreement with a subscriber for the subscription of 58,000,000 new shares of HK$0.2 each at a price of HK$0.23 per share for a total of HK$13,340,000, before expenses. The subscription is conditional on the granting of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited, details of which are set out in note 39 (a) to the financial statements.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) STATEMENT OF COMPLIANCE

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

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

### b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

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

### c) SUBSIDIARIES AND CONTROLLED ENTITIES

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### c) SUBSIDIARIES AND CONTROLLED ENTITIES (continued)

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

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

### d) ASSOCIATES

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) ASSOCIATES (continued)

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

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

### e) GOODWILL

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

### g) INVESTMENT PROPERTIES

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

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

### h) LEASED ASSETS

*i) Classification of assets leased to the group*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### h) LEASED ASSETS (continued)

*ii) Assets acquired under finance leases*

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

*iii) Operating lease charges*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) IMPAIRMENT OF ASSETS

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

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

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

– investments in subsidiaries and associates; and

– goodwill.

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

– Calculation of recoverable amount

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) IMPAIRMENT OF ASSETS (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

### j) INVENTORIES

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### j) INVENTORIES (continued)

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

### k) TRADE AND OTHER RECEIVABLES

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

### l) CASH AND CASH EQUIVALENTS

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

### m) TRADE AND OTHER PAYABLES

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) INTEREST-BEARING BORROWINGS

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

### o) TAXATION

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### o) TAXATION (continued)

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

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

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

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

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

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

  - the same taxable entity; or

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### p) PROVISIONS AND CONTINGENT LIABILITIES

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

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

### q) REVENUE RECOGNITION

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### r) TRANSLATION OF FOREIGN CURRENCIES

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

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

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

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

### s) BORROWING COSTS

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### t) RELATED PARTIES

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

### u) EMPLOYEE BENEFITS

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

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

ii) Employment Ordinance long service payments

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### u) EMPLOYEE BENEFITS (continued)

ii) 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.

iii) Share option scheme

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### v) SEGMENT REPORTING

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

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

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

### a) Restatement of prior periods and opening balances (continued)

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

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

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

### c) Amortisation of goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets and HKAS 38, Intangible assets)

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

### c) Amortisation of goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets and HKAS 38, Intangible assets) (continued)

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

With effect from 1 April 2005, in order to comply with HKFRS 3, HKAS 36 and HKAS 38, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Impairment losses are recognised when the carrying amount of the cash generated unit to which the goodwill had been allocated exceeds its recoverable amount.

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

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

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

*Measurement of deferred tax on movements in fair value*

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

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

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

## 5. FINANCIAL RISK MANAGEMENT

**Financial risk factors**

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

**a) Foreign exchange risk**

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

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

**b) Interest rate risk**

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

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

**c) Credit risk**

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

## 5. FINANCIAL RISK MANAGEMENT (continued)

### d) Liquidity risk

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

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

### a) Going concern basis

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

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

### b) Write-downs of inventories

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

## 7. SEGMENT INFORMATION

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

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

Summary details of the business segments are as follows:

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

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

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

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

## 7. SEGMENT INFORMATION (continued)

### a) Business segments

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

**The Group**

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

## 7. SEGMENT INFORMATION (continued)

### a) Business segments (continued)

**The Group (continued)**

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

## 7. SEGMENT INFORMATION (continued)

### a) Business segments (continued)

**The Group (continued)**

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

## 7. SEGMENT INFORMATION (continued)

### a) Business segments (continued)

**The Group (continued)**

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

## 7. SEGMENT INFORMATION (continued)

### b) Geographical segments

**The Group**

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

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

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

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

## 8. TURNOVER AND OTHER REVENUE

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

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

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

## 9. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

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

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

## 10. FINANCE COSTS

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

## 11. DIRECTORS' REMUNERATION

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

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

## 11. DIRECTORS' REMUNERATION (continued)

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

## 12. INDIVIDUALS WITH HIGHEST PAID

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

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

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

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

## 13. TAXATION

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

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

## 13. TAXATION (continued)

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

**The Group**

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

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

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

## 15. LOSS PER SHARE

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

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

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

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

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group (continued)

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

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group

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

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

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

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

*Notes:*

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

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

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

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company

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

## 17. INVESTMENT PROPERTIES

**The Group**

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

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

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

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

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

**The Group**

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

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

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

## 19. INTERESTS IN SUBSIDIARIES

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

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

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

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

## 19. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

## 20. INTERESTS IN ASSOCIATES

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

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

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

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

## 20. INTERESTS IN ASSOCIATES (continued)

* Not audited by CCIF CPA Limited

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

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

## 21. INVENTORIES

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

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

## 22. TRADE AND BILLS RECEIVABLES

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

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

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

## 23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

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

## 24. TRADE PAYABLES

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

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

## 25. DUE TO ASSOCIATES

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

## 26. DUE TO DIRECTORS

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

## 27. DUE TO A RELATED PARTY

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

Ms Cheng is Mr Chong Sing Yuen's wife.

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

## 27. DUE TO A RELATED PARTY (continued)

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

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

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

## 28. OBLIGATIONS UNDER FINANCE LEASES

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

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

## 29. INTEREST-BEARING BORROWINGS

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

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

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

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

## 29. INTEREST-BEARING BORROWINGS (continued)

The Group's bank loans are secured by:

i) investment properties of HK$41,021,222 (2005: HK$40,816,100);

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

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

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

v) guarantees provided by directors of the Company.

## 30. TAXATION IN THE CONSOLIDATED BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

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

## 31. DEFERRED TAX ASSETS

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

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

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

## 31. DEFERRED TAX ASSETS (continued)

### b) Deferred tax assets not recognised

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

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

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

## 32. SHARE CAPITAL

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

## 32. SHARE CAPITAL (continued)

*Notes:*

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

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

Share consolidation took effect on 5 May 2005.

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

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

## 33. SHARE OPTION SCHEME

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

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

## 33. SHARE OPTION SCHEME (continued)

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

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

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

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

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

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

## 33. SHARE OPTION SCHEME (continued)

For the year ended 31 March 2005

| Name or category of participant | Number of share options: At 1 April 2004 | Granted during the year | Exercise during the year | Lapsed during the year | Cancelled during the year | At 31 March 2005 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** *HK$* | Price of Company's shares at exercise date of options**** *HK$* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Mr Chong Sing Yuen | 3,350,000 | – | (3,350,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.022 |
| Mr Sun Tak Yan, Desmond | 35,000,000 | – | (35,000,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.015 |
| Mr Wong Siu Keung, Joe | 35,000,000 | – | (18,000,000) | – | – | 17,000,000 | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01<br>0.01 | 0.028<br>0.028 |
| Mr Chu Bu Yang, Alexander | 4,500,000 | – | (4,500,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | | |
| | 77,850,000 | – | (60,850,000) | – | – | 17,000,000 | | | | |
| **Employees** | | | | | | | | | | |
| Ms Cheng Man Shan* | 1,150,000 | – | (1,150,000) | – | – | – | 30-10-2002 | 30-10-2002 to 29-10-2012 | 0.01 | 0.014 |
| Other employees | 6,450,000 | – | (4,150,000) | – | – | 2,300,000 | 31-10-2002 | 31-10-2002 to 30-10-2012 | 0.01 | 0.024 |
| | 7,600,000 | – | (5,300,000) | – | – | 2,300,000 | | | | |
| Total share options | 85,450,000 | – | (66,150,000) | – | – | 19,300,000 | | | | |

## 33. SHARE OPTION SCHEME (continued)

For the year ended 31 March 2006

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

* Spouse of Mr Chong Sing Yuen

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

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

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

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

## 33. SHARE OPTION SCHEME (continued)

At 31 March 2006, the Company had 942,500 (2005: 965,000 restated) share options outstanding under the Scheme which represented approximately 0.3% (2005: 0.4%) of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 942,500 (2005: 965,000 restated) additional ordinary shares of the Company and additional share capital of HK$188,500 (2005: HK$965,000 restated).

## 34. RESERVES

### a) Group

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

### b) Company

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

## 34. RESERVES (continued)

### c) Nature and purposes of the reserves

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

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

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

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

### d) Distributability of reserves

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

## 35. OPERATING LEASE COMMITMENTS

### a) The Group as lessor:

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

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

### b) The Group as lessee:

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

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

## 36. CONTINGENT LIABILITIES

**a) The Group**

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

**b) The Company**

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

## 37. MATERIAL RELATED PARTY TRANSACTIONS

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

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

i) During the year, the Group made rental payment of approximately HK$474,000 (2005: HK$474,000) to Twin Base for a motor vehicle. The rentals were charged in accordance with a motor vehicle rental agreement. Details of the operating lease commitments at the balance sheet date are set out in note 35(b) to the financial statements.

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

## 37. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

The amounts due to associates as at 31 March 2006 were HK$Nil (2005: HK$1,655,405) which comprises trade payables and current account balances. The balances were unsecured, interest free and without fixed terms of repayment.

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

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

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

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

## 38. LITIGATION

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

## 39. NON-ADJUSTING POST BALANCE SHEET EVENTS

a) On 18 May 2006, the Company and an independent subscriber entered into a conditional agreement for the subscription of 58,000,000 new shares of HK$0.2 each at a price of HK$0.23 per share for a total of HK$13,340,000. The net proceeds from the subscription of approximately HK$13.24 million will be used as general working capital. The subscription is being granted of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited. Details of the subscription have been disclosed in the Company's announcement dated 19 May 2006.

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

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

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

## 40. RETIREMENT BENEFITS SCHEME

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

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

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

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

## 41. COMPARATIVE FIGURES

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

## 42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006

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

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures[2] |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation[2] |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2] |
| HKAS 39 (Amendment) | The Fair Value Option[2] |
| HKAS 39 & HKFRS 4 (Amendments) | Financial Guarantee Contracts[2] |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HK (IFRIC) – INT 4 | Determining whether an Arrangement Contains a Lease[2] |
| HK (IFRIC) – INT 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2] |
| HK (IFRIC) – INT 6 | Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3] |
| HK (IFRIC) – INT 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |
| HK (IFRIC) – INT 8 | Scope of HKFRS 2[5] |
| HK (IFRIC) – INT 9 | Reassessment of Embedded Derivatives[6] |

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

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | | | |
| TURNOVER | **99,122** | 70,084 | 106,657 | 75,343 | 39,877 |
| PROFIT/(LOSS) BEFORE TAX | **(29,695)** | (19,125) | (14,702) | 3,237 | 2,764 |
| Tax | **(108)** | (511) | (733) | (423) | (1,085) |
| PROFIT/(LOSS) FOR THE YEAR | **(29,803)** | (19,636) | (15,435) | 2,814 | 1,679 |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | | | |
| ASSETS AND LIABILITIES | | | | | |
| TOTAL ASSETS | **100,297** | 115,476 | 133,296 | 134,320 | 124,781 |
| TOTAL LIABILITIES | **(85,967)** | (83,825) | (61,270) | (63,311) | (64,909) |
| | **14,330** | 31,651 | 72,026 | 71,009 | 59,872 |

*Note:* Prior year has been adjusted to reflect the change in accounting policies as described in note 4 to the financial statements. There is no significant impact on the consolidated income statement for the years ended 31 March 2004, 2003 and 2002 due to the change in accounting policies. As the restatement of the assets and liabilities for years 2004, 2003 and 2002 are both costly and time consuming, no such restatement are prepared for these respective years.