



**NORTHERN INTERNATIONAL HOLDINGS LIMITED**  
**北方興業控股有限公司**

(Incorporated in Bermuda with limited liability)  
(於百慕達註冊成立之有限公司)  
Stock Code 股份代號: 736

NORTHERN

**INTERIM REPORT 中期報告 2006**

**CORPORATE INFORMATION****BOARD OF DIRECTORS****Executive directors**

Chong Sing Yuen (*Chairman*)  
Zhao Qing Ji (*CEO*)(*Appointed on 30 November 2006*)  
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*)  
Cheng Kwok Hing, Andy  
Yeung King Wah (*Appointed on 26 May 2006*)  
Yeung Yuen Hei

**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  
Level 28  
Three Pacific Place  
1 Queen's Road East  
Hong Kong

**WEBSITE**

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

**STOCK CODE**

736

## INTERIM RESULTS

The board of directors (the "Directors") of Northern International Holdings Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company, its subsidiaries (the "Group") and associated companies for the six months ended 30 September 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		Six months ended 30 September	
	Notes	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<b>Continuing operation</b>			
Turnover	5	27,034	22,866
Cost of sales		<u>(22,936)</u>	<u>(16,425)</u>
Gross profit		4,098	6,441
Other revenue		671	1,163
Distribution costs		(2,369)	(1,740)
Administrative expenses		(5,883)	(7,548)
Other operating expenses		<u>(5)</u>	<u>(2,090)</u>
Loss from operating activities	6	(3,488)	(3,774)
Finance costs		<u>(802)</u>	<u>(329)</u>
Loss before taxation		(4,290)	(4,103)
Income tax	7	<u>-</u>	<u>-</u>
Loss for the period from continuing operations		(4,290)	(4,103)
<b>Discontinued operation</b>			
Loss for the period from discontinued operation		<u>(16,320)</u>	<u>(4,358)</u>
Loss for the period		<u><u>(20,610)</u></u>	<u><u>(8,461)</u></u>
<b>Attributed to:</b>			
Equity shareholders of the Company		<u><u>(20,610)</u></u>	<u><u>(8,461)</u></u>
<b>Loss per share</b>			
From continuing and discontinued operations:			
- Basic	8	<u><u>6.4 cents</u></u>	<u><u>3.2 cents</u></u>
- Diluted	8	<u><u>-</u></u>	<u><u>-</u></u>
From continuing operations:			
- Basic	8	<u><u>1.3 cents</u></u>	<u><u>1.6 cents</u></u>
- Diluted	8	<u><u>-</u></u>	<u><u>-</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2006

		<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	9	24,058	31,172
– Investment properties		43,661	41,021
Interest in leasehold land held for own use under operating leases		3,322	4,352
Interests in associates	10	–	–
Deferred tax assets		6	6
		<hr/>	<hr/>
		71,047	76,551
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		5,480	12,074
Trade and bills receivables	11	8,613	8,139
Other receivables, deposits and prepayments		3,099	2,723
Pledged deposits		500	500
Cash and cash equivalents		2,153	310
		<hr/>	<hr/>
		19,845	23,746
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade payables	12	12,331	12,622
Other payables and accruals		13,693	11,696
Interest-bearing borrowings		7,847	40,604
Tax payable		877	1,766
Obligation under finance leases		598	743
Due to related parties		18,424	13,942
Due to a shareholder		19,000	–
Due to directors		10,429	3,135
		<hr/>	<hr/>
		83,199	84,508
		<hr/>	<hr/>
<b>Net current liabilities</b>		<b>(63,354)</b>	<b>(60,762)</b>
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>7,693</b>	<b>15,789</b>
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET** *(continued)**At 30 September 2006*

		<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current liabilities</b>			
Interest-bearing borrowings		1,153	1,271
Obligation under finance leases		—	188
		<u>1,153</u>	<u>1,459</u>
<b>Net assets</b>		<b><u>6,540</u></b>	<b><u>14,330</u></b>
<b>Capital and reserves</b>			
Share capital	13	69,900	58,300
Reserves		<u>(63,360)</u>	<u>(43,970)</u>
<b>Total equity attributable to equity shareholders of the company</b>		<b><u>6,540</u></b>	<b><u>14,330</u></b>
<b>TOTAL EQUITY</b>		<b><u>6,540</u></b>	<b><u>14,330</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2006*

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Land and buildings revaluation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits/ accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2006	58,300	26,743	546	(11,153)	(457)	(59,649)	14,330
Issue of new shares	11,600	-	-	-	-	-	11,600
Premium on issue of new shares, net of expenses	-	1,740	-	-	-	-	1,740
Translation differences	-	-	-	-	(520)	-	(520)
Loss for the period	-	-	-	-	-	(20,610)	(20,610)
<b>As at 30 September 2006 (Unaudited)</b>	<b>69,900</b>	<b>28,483</b>	<b>546</b>	<b>(11,153)</b>	<b>(977)</b>	<b>(80,259)</b>	<b>6,540</b>
As at 1 April 2005	48,700	24,063	-	(11,153)	(112)	(29,846)	31,652
Issue of new shares	9,600	-	-	-	-	-	9,600
Premium on issue of new shares, net of expenses	-	2,680	-	-	-	-	2,680
Translation differences	-	-	-	-	(329)	-	(329)
Loss for the period	-	-	-	-	-	(8,461)	(8,461)
<b>As at 30 September 2005 (Unaudited)</b>	<b>58,300</b>	<b>26,743</b>	<b>-</b>	<b>(11,153)</b>	<b>(441)</b>	<b>(38,307)</b>	<b>35,142</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2006*

	<b>Six months ended 30 September</b>	
	<b>2006 (Unaudited) HK\$'000</b>	<b>2005 (Unaudited) HK\$'000</b>
Net cash generated from/(used in) operating activities	18,146	(2,871)
Net cash generated from/(used in) investing activities	666	(2,746)
Net cash (used in)/generated from financing activities	<u>(17,308)</u>	<u>14,581</u>
Net increase in cash and cash equivalents	1,504	8,964
Effect of foreign exchange rate changes	(24)	-
Cash and cash equivalents at beginning of the period	<u>(316)</u>	<u>3,698</u>
Cash and cash equivalents at end of the period	<u><u>1,164</u></u>	<u><u>12,662</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	2,153	13,154
Bank overdrafts	<u>(989)</u>	<u>(492)</u>
	<u><u>1,164</u></u>	<u><u>12,662</u></u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

30 September 2006

**1. BASIS OF PREPARATION**

This interim financial report is unaudited but has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the Group's financial statements for the year ended 31 March 2006. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

**2. PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for certain properties which are measured at fair value or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended 31 March 2006 as described in the annual financial statements for the year ended 31 March 2006.

The Group ceased to carry on electronic consumer business during the period, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the results derived from the operations of electronic customer business are presented as discontinued operation in current accounting period. The comparative figures for the corresponding period in 2005 have been reclassified to conform with current period's presentation.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 March 2007.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>2</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006

**2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

The adoption of the above new standards, amendments to standards and interpretations did not result in substantial changes to the Group's accounting policies.

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The Directors anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments – Disclosures <sup>1</sup>
HK (IFRIC) – INT 8	Scope of HKFRS <sup>2</sup>
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006

**3. PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of the Group are properties investment, manufacture and sale of electronic consumer products and snap off blade cutters.

**4. SEGMENT INFORMATION**

The analysis of the Group's turnover and loss from operations by business and geographical segments for the six months ended 30 September 2006 and 2005 are as follows:

**(a) Business segments**

*Six months ended 30 September 2006 (Unaudited)*

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

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

Six months ended 30 September 2005 (Unaudited)

	Continuing operations			Discontinued operation	Consolidated HK\$'000
	Snap off blade cutters HK\$'000	Corporate and others HK\$'000	Total HK\$'000	Electronic customer products HK\$'000	
Revenue	<u>21,357</u>	<u>1,509</u>	<u>22,866</u>	<u>37,901</u>	<u>60,767</u>
Segment results	<u>389</u>	<u>(4,167)</u>	(3,778)	(3,607)	(7,385)
Interest income			4	-	4
Loss from operations			(3,774)	(3,607)	(7,381)
Finance costs			(329)	(751)	(1,080)
Loss before taxation			(4,103)	(4,358)	(8,461)
Income tax			-	-	-
Net loss from ordinary activities attributable to equity shareholders			<u>(4,103)</u>	<u>(4,358)</u>	<u>(8,461)</u>

## (b) Geographic segments

	Six month ended 30 September					
	2006			2005		
	Continuing operations HK\$'000	Discontinued operation HK\$'000	Total HK\$'000	Continuing operations HK\$'000	Discontinued operation HK\$'000	Total HK\$'000
Hong Kong	2,992	2,245	5,237	2,839	35,947	38,786
Mainland China	4,587	-	4,587	3,947	-	3,947
Europe	8,565	87	8,652	7,396	45	7,441
North America	3,809	-	3,809	6,164	2	6,166
East Asia	5,806	3	5,809	960	1,905	2,865
Others	1,275	-	1,275	1,560	2	1,562
	<u>27,034</u>	<u>2,335</u>	<u>29,369</u>	<u>22,866</u>	<u>37,901</u>	<u>60,767</u>

## 5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income received and receivable from investment properties during the period.

**6. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after (crediting)/charging:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income	(95)	(5)
Surplus on revaluation on investment property	(617)	-
Depreciation	882	1,697
Amortisation of leasehold land and land use rights	55	57
	<u>55</u>	<u>57</u>

**7. TAXATION**

No (2005: Nil) income tax has been provided as the Group has no estimated assessable profits during the period.

**8. LOSS PER SHARE**

The calculation of basic loss per share from continuing and discontinued operations is based on the loss attributable to shareholders for the period of HK\$20,609,610 (2005: HK\$8,461,096) and on the weighted average number of 324,142,694 shares (2005: 260,547,066) in issue during the period.

The calculation of basic loss per share from continuing operations is based on the loss attributable to shareholders for the period of HK\$4,290,417 (2005: HK\$4,103,482) and on the weighted average number of 324,142,694 shares (2005: 260,547,066) in issue during the period.

Diluted loss per share has not been disclosed as the impact of the potential ordinary shares was anti-dilutive for both periods.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 September 2006, the Group acquired property, plant and equipment at a cost of HK\$12,102 (Six months ended 30 September 2005: HK\$2,761,080). The Group ceased to carry on electronic consumer business during the period. The Group provided an impairment loss for the property, plant and equipment related to electronic business at the net book value of HK\$3,843,766, and disposal of the plant and machinery of net book value of HK\$1,369,567. The sales proceeds of the plant and machinery is HK\$582,524 and resulting from a loss on disposal of HK\$787,043 during the period.

During the period, the Group had changed the usage of a leasehold property located at Hong Kong, which is occupied by the Group as office in the previous year. The Group rented out the office and received a rental income during the period. As a result, net book value of building HK\$1,048,000 and interest in leasehold land held for own use under operating lease HK\$974,441 were reclassified as investment property. The investment property was valued by independent third party at HK\$2,640,000 during the period and a surplus on revaluation on investment property of HK\$617,560 was recognised in the income statement.

**10. INTERESTS IN ASSOCIATES**

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
	Share of net assets	-
Due from associates	16,025	16,025
	<u>16,025</u>	<u>16,025</u>
Less: impairment losses	(16,025)	(16,025)
	<u>-</u>	<u>-</u>

**11. TRADE AND BILLS RECEIVABLES**

The Group allows an average credit period of 60 days. The following is an aging analysis of trade and bills receivables at the balance sheet date:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 60 days	5,712	5,363
61-90 days	539	1,068
Over 90 days	2,362	1,708
	<u>8,613</u>	<u>8,139</u>

**12. TRADE PAYABLES**

The following is an aging analysis of trade payables at the balance sheet date:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Within 60 days	5,729	5,759
61-90 days	758	1,142
Over 90 days	5,844	5,721
	<u>12,331</u>	<u>12,622</u>

**13. SHARE CAPITAL**

	As at 30 September 2006	
	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.2 each		
Authorised:		
Balance at beginning and end of the period	<u>1,500,000,000</u>	<u>300,000</u>
Issued and fully paid:		
Balance at beginning of the period	291,497,885	58,300
Issue of new shares	<u>58,000,000</u>	<u>11,600</u>
Balance at end of the period	<u>349,497,885</u>	<u>69,900</u>

**14. RELATED PARTY TRANSACTIONS**

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

- (i) The Group paid rentals of approximately HK\$197,500 (2005: HK\$237,000) to Twin Base for a motor vehicle. The rentals were charged in accordance with a motor vehicle rental agreement.
- (ii) As at 30 September 2006, Twin Base had pledged certain of its property interests to a bank to secure the credit facilities to the extent of HK\$7,234,000 (31 March 2006: HK\$12,899,980) granted to the Group.
- (iii) During the period, Twin Base advanced HK\$4,061,859 (2005: HK\$ Nil) to the Group. The advances are unsecured, interest-free and are repayable on demand.

**14. RELATED PARTY TRANSACTIONS** (continued)

- (b) During the period, Mrs. Chong advanced HK\$14,362,094 (2005: HK\$15,658,111) to the Group. The advances are unsecured, interest-free and are repayable on demand.
- (c) During the period, Mr. Chim Pui Chung, a shareholder of the Company, advanced HK\$19,000,000 (2005: HK\$ Nil) to the Group. The advances are unsecured, interest-free and are repayable on demand.
- (d) During the period, Mr Chong Sing Yuen, a director of the Company advanced approximately HK\$10,374,018 (2005:HK \$3,135,539) to the Group. The advances are unsecured, interest-free and are repayable on demand.
- (e) Key management compensation

Details of compensation paid to key management of the Group (all being Directors) are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Salaries and other benefits	2,120	2,273
Contribution to retirement benefit scheme	26	42
	<u>2,146</u>	<u>2,315</u>

**15. OPERATING LEASE COMMITMENTS****(a) The Group as lessor:**

The Group had total future minimum lease payments receivable under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 September	As at 31 March
	2006	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	2,769	3,130
In the second to fifth years, inclusive	5,130	4,185
Over five years	985	2,643
	<u>8,884</u>	<u>9,958</u>

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

The Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	As at 30 September	As at 31 March
	2006	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	<u>-</u>	<u>198</u>

**16. CHARGES ON GROUP'S ASSETS**

The Group's investment properties situated in Panyu, PRC are all rented out. As at 30 September 2006, Nil (31 March 2006: 100%) of the Group's investment properties were pledged to banks to secure credit facilities granted to the Group.

As at 30 September 2006, approximately 12% (31 March 2006: 64%) of the Group's land and buildings were pledged to banks to secure credit facilities granted to the Group.

**17. DISCONTINUED OPERATION**

The Group decided to terminate the consumer electronic business due to the continuous under performance.

The loss generated from electronic business segment during the period ended 30 September 2006 was approximately HK\$16,320,000 (30 September 2005: approximately HK\$4,358,000).

**18. COMPARATIVE FIGURES**

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

**19. APPROVAL OF INTERIM FINANCIAL REPORT**

The interim financial report was approved and authorised for issue by the board on 20 December 2006.

## INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend (2005: Nil). Accordingly, no closure of register of members of the Company is proposed.

## REVIEW OF RESULTS

During the period, the Group's turnover was HK\$29.4 million (2005: HK\$60.8 million), representing an decrease of 51.6% over last period. Gross margin fell to gross loss of 3% (2005: gross profit of 7%) due to increase in material prices and production cost. Net loss of the Group was HK\$20.6 million (2005: HK\$8.5 million) and loss per share was HK6.4 cents (2005: HK3.2 cents).

## BUSINESS REVIEW AND PROSPECTS

### Consumer electronics business

The turnover of the Group's electronics business was HK\$2.3 million (2005: HK\$37.9 million), a 94% decrease over last period. Adversely affected by an overall increase in material prices and production costs, the electronics business enhances its negative contribution to HK\$15.6 million (2005: HK\$3.6 million). In response to the negative result on this segment, the Group terminated the consumer electronics business in June 2006.

### Snap off blade cutter business

The turnover of the Group's cutter business was HK\$25.7 million (2005: HK\$21.4 million), a 20% increase over last period. Adversely affected by an overall increase in material prices and production costs, the results of this business segment turned to a negative contribution of HK\$2.7 million (2005: profit contribution of HK\$0.4 million).

### Investment properties business

The turnover of the Group's investment properties business was HK\$1.3 million (2005: HK\$1.5 million), a 13% decrease over last period. During the period, most of the Group's investment properties are situated in Northern Industrial Complex, Panyu, Guangdong Province of the PRC.

Subsequent to the balance sheet date, the investment properties in Panyu have been disposed and the Group has acquired investment properties in Shanghai in order to enhance the investment properties business. Please refer to the post balance sheet event for details. Those investment properties in Shanghai will generate a stable stream of income for the Group. The Group leased back certain properties in Panyu in November 2006 so as to operate the snap off blade cutters business.

### 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 30 September 2006, the current and non-current liabilities of the Group amounted to HK\$83 million (As at 31 March 2006: HK\$85 million) and HK\$1.2 million (As at 31 March 2006: HK\$1.5 million), respectively. The amount of net current liabilities enhances further to HK\$63.3 million mainly due to the increase in the loss incurred during the period.

During the period, the Group recorded an operating cash inflow of HK\$18.1 million (2005: 2.9 million outflow) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rise to 147% (2005: 115%).

The Group's financial position will enhance after the Group has entered into placement agreements with independent third parties in December 2006, which will raise net proceeds of HK\$26.3 million subsequent to the balance sheet date.

## USE OF PROCEEDS FROM ISSUE OF SHARES

On 18 May 2006, 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 58 million new shares at a price of HK\$0.23 per new share. All conditions of the agreement for the subscription were fulfilled and the 58 million new shares were issued to the subscriber in mid 2006. The net proceeds from the subscription of approximately HK\$13.24 million were used to finance general working capital requirements of the Group.

## POST BALANCE SHEET EVENTS

### Subscription of new shares

In December 2006, the Company entered into a conditional subscription agreement with ten subscribers, third parties independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), for the subscription of approximately 69 million new shares at a price of HK\$0.38 per new share under the general mandate granted to the Directors pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 30 August 2006. The net proceeds from the subscription of approximately HK\$26.3 million will be used as general working capital. The subscription is to be completed on or before 29 December 2006.

### Disposal of the properties in Panyu

On 8 July 2006, the Group entered into a letter of agreement with an independent third party to dispose all of its interest in the properties in Panyu in PRC, at a consideration of RMB75 million, resulting a gain of RMB4 million attributable to the Group. For details, please refer to the circular dated 14 August 2006. The disposal was completed on 26 October 2006.

### Acquisition of the interest in the investment properties in Shanghai

On 21 August 2006, the Company entered into a sale and purchase agreement with an independent third party to acquire the entire issued capital of Luck Grow Group Limited, whose principal assets are the properties in Shanghai and the sale loan for consideration of approximately HK\$182.5 million. For details, please refer to the circular dated 31 October 2006. The acquisition was completed on 27 November 2006.

## CHARGES ON GROUP'S ASSETS

As at 30 September 2006, Nil (31 March 2006: 100%) of the Group's investment properties were pledged to banks to secure credit facilities granted to the Group.

As at 30 September 2006, approximately 12% (31 March 2006: 94%) 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 Nil (31 March 2006: HK\$338,000) as at 30 September 2006.

### The Company

As at the balance sheet date, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries amounting to HK\$28,343,580 (31 March 2006: HK\$57,469,794).

## PROSPECTS

The Group will continuously put efforts on improving the performance of the Group. The Group will under the principle of prudence carefully look for potential investment opportunity (if any) in order to diversify its business and improve the performance. The Group believes that it is heading in the right direction and tries to maximize the wealth of shareholders.

## EMPLOYEES

As at 30 September 2006, the Group had approximately 320 employees. Most of the employees were working in Panyu, Guangdong Province, the PRC. Employees are remunerated on a performance basis with reference to market practices. Share option scheme and incentive schemes are adopted to encourage personal commitment of employees to achieve the Group's business goals.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES

At 30 September 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

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Chong Sing Yuen ( <i>Note</i> )	<u>1,294,052</u>	<u>117,500</u>	<u>–</u>	<u>1,411,552</u>	<u>0.40%</u>

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

The interests of the Directors in the share options of the Company are separately disclosed under the heading "Share Option".

Save as disclosed above, as at 30 September 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' interests and short positions in shares" above, and the "Share Option" below, at no time during the period 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 30 September 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	18.60%
Chim Pui Chung (Note 1)	Through a controlled corporation	65,000,000	18.60%
Pan Chien Pu	Directly beneficially owned	58,000,000	16.60%
Easy Huge Holdings Limited (Note 2)	Directly beneficially owned	48,000,000	13.73%
Ng Kin Wah (Note 2)	Through a controlled corporation	48,000,000	13.73%

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

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

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

## SHARE OPTION

The details of share options under the Company's share option scheme during the period are as follows:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options	Price of Company's shares at exercise date of options**
	At 1 April 2006	Granted/ Exercised/ Lapsed/ Cancelled during the period	At 30 September 2006				
<b>Director</b>							
Mr. Wong Siu Keung, Joe	850,000	-	850,000	30-10-2002	30-10-02 to 29-10-12	0.20	-
<b>Employees</b>	92,500	-	92,500	31-10-2002	31-10-02 to 30-10-12	0.20	-
<b>Total</b>	<u>942,500</u>	<u>-</u>	<u>942,500</u>				

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

\*\* The price of the Company's shares 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

**SHARE OPTION** *(continued)*

As at 30 September 2006, the Company had 942,500 (31 March 2006: 942,500) share options outstanding under the share option scheme of the Company, which represented approximately 0.3% of the Company's shares in issue as on 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 additional ordinary shares of the Company and additional share capital of HK\$188,500 (31 March 2006: HK\$188,500).

**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 30 September 2005 (the "Latest Practicable Date"), to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	<i>HK\$'000</i>
Non-current assets	463
Current assets	6,880
Current liabilities	(38,696)
	<u>(31,353)</u>
Share capital	2,000
Accumulated losses	(33,353)
	<u>(31,353)</u>

As at the Latest Practicable Date, the Group's consolidated attributable interest in these affiliated companies amounted to HK\$15,254,562 and provision for impairment of HK\$15,254,562 had been made.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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 with the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the period.

## AUDIT COMMITTEE

During the period, the audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Messrs. Yeung King Wah, Cheng Kwok Hing, Andy and Yeung Yuen Hei.

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 has regularly reviewed with the management the accounting principles and policies adopted by the Group. The unaudited interim financial statements for the six months ended 30 September 2006 was reviewed by the Audit Committee.

## CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rule throughout the period except for the deviation as mentioned below:

Upon the resignation of Mr Chong Chun Kwok, Piggy, the Group do not have an officer titled chief executive officer during the period. 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 Company appointed chief executive officer on 30 November 2006.

## BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Messrs. Chong Sing Yuen, Zhao Qing Ji, Wong Siu Keung, Joe, Au Tat On, Lu Xiao Dong; and the independent non-executive directors of the Company are Messrs. Cheng Kwok Hing, Andy, Yeung Yuen Hei and Yeung King Wah.

By Order of the Board  
**Chong Sing Yuen**  
*Chairman*

Hong Kong, 20 December 2006