
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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北方興業控股有限公司*

NORTHERN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 736)

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY SHARE HELD ON RECORD DATE

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LIMITED

Underwriter



KINGSTON SECURITIES LIMITED

Independent financial adviser to the Independent Board Committee and Independent Shareholders

ALTUS CAPITAL LIMITED

Shareholders should note that the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company if, prior to 4:00 p.m. on the third business day immediately after the latest date for acceptance of the Offer Shares, any of the following grounds of termination happens: (a) there develops or occurs: (i) the coming into force of any new law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (iv) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter materially and adversely affects the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or its major subsidiaries or the destruction of any material asset of the Group; or (v) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement or other documents in connection with the Open Offer, or (b) there comes to the notice of the Underwriter any matter or event showing any of the representations and warranties given by the Company under the Underwriting Agreement to be untrue or inaccurate in any respect which the Underwriter considers to be material.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

Existing Shares have been dealt in on an ex-entitlement basis since Wednesday, 2 March 2005, and that dealings in such Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

A letter of advice from Altus Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its opinion regarding the Open Offer is set out on pages 19 to 29 of this circular.

A notice convening a special general meeting of Northern International Holdings Limited to be held at 10:00 a.m. on Tuesday, 22 March 2005 at Novotel Century Hong Kong, Plaza IV, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong is set out on page 92 of this circular. If you are not able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal office of the Company at Block A, 2nd Floor, Man Foong Industrial Building, 7 Cheung Lee Street, Chaiwan, Hong Kong and in any event not less than 48 hours before the time for holding the meeting or any adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such case the proxy form shall be deemed to be revoked.

TERMINATION OF UNDERWRITING AGREEMENT

Shareholders should note that the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company if, prior to 4:00 p.m. on the third business day immediately after the latest date for acceptance of the Offer Shares, any of the following grounds of termination happens:

- (a) there develops or occurs:
 - (i) the coming into force of any new law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (iv) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter materially and adversely affects the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or its major subsidiaries or the destruction of any material asset of the Group; or
 - (v) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement or other documents in connection with the Open Offer, or
- (b) there comes to the notice of the Underwriter any matter or event showing any of the representations and warranties given by the Company under the Underwriting Agreement to be untrue or inaccurate in any respect which the Underwriter considers to be material.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

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DEFINITIONS

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

| | |
|-------------------------------|--|
| “Altus” | Altus Capital Limited, a licensed corporation to carry on business in types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities, corporate finance and asset management) under the SFO |
| “Announcement” | the announcement of the Company issued on 28 January 2005 in relation to, inter alia, the Open Offer |
| “Application Form(s)” | the application form(s) for use by the Qualifying Holders to apply for the Offer Shares |
| “associates” | has the meaning ascribed thereto in the Listing Rules |
| “Board” | the board of Directors |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | Northern International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange |
| “Director(s)” | the director(s) of the Company, including the independent non-executive directors of the Company |
| “Excluded Shareholders” | the Shareholders who are excluded from the Open Offer as mentioned in the section headed “Rights of Excluded Shareholders” in this circular |
| “Group” | the Company and its subsidiaries |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | a committee of the Board comprising Mr. Chan Ping Yim, Mr. Chan Shun and Mr. Cheng Kwok Hing, Andy |
| “Independent Shareholders” | Shareholders not being Directors (other than independent non-executive directors of the Company), chief executive of the Company and their respective associates |

DEFINITIONS

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|---------------------------|--|
| “Latest Practicable Date” | 3 March 2005, being the latest practicable date for ascertaining certain information for inclusion in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Offer Shares” | not less than 4,869,957,705 new Shares and not more than 4,889,257,705 new Shares to be issued under the Open Offer |
| “Open Offer” | the proposed issue of the Offer Shares by way of open offer on the basis of one Offer Share for every Share held and on the terms to be set out in the Prospectus Documents and summarised herein |
| “Options” | outstanding options granted to Mr. Wong Siu Keung, Joe, being an executive Director, and certain employees of the Group under the share option scheme adopted by the Company on 4 October 2002 to subscribe for an aggregate of 19,300,000 Shares at the exercise price of HK\$0.01 per Share, subject to adjustment |
| “PRC” | the People’s Republic of China, which, for the purpose of this circular, excludes Taiwan, Hong Kong and Macau Special Administration Region of the PRC |
| “Prospectus” | the Open Offer prospectus to be despatched by the Company |
| “Prospectus Documents” | the Prospectus and the Application Form |
| “Qualifying Holders” | the Shareholders whose names appear on the register of members of the Company on the Record Date and not being the Excluded Shareholders |
| “Record Date” | 8 March 2005 |
| “Registrar” | Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, the Company’s branch share registrar in Hong Kong |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| “SGM” | the special general meeting of the Company to be convened to approve the Open Offer and the issue of the Offer Shares |
| “Shares” | Share(s) of HK\$0.01 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of Shares |

DEFINITIONS

| | |
|--------------------------|--|
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription Price” | the subscription price of HK\$0.020 per Offer Share under the Open Offer |
| “Underwriter” | Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the SFO |
| “Underwriting Agreement” | the underwriting agreement dated 20 January 2005 between the Company and the Underwriter in relation to the Open Offer |
| “Underwritten Shares” | up to 3,589,257,705 Offer Shares underwritten by the Underwriter |
| “Win Channel” | Win Channel Investments Limited, a company incorporated in the British Virgin Islands and is beneficially wholly owned by Mr. Chim Pui Chung |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “%” | per cent. |

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

| | |
|---|--|
| Last day of dealings in Shares on cum-entitlement basis | Tuesday, 1 March 2005 |
| First day of dealings in Shares on ex-entitlement basis | Wednesday, 2 March 2005 |
| Latest time for lodging transfers of Shares in order to be entitled to the Open Offer | 4:00 p.m. on Thursday, 3 March 2005 |
| Despatch of circular for the Shareholders relating to the Open Offer, containing, among other things, a notice convening the SGM | Friday, 4 March 2005 |
| Register of members closes (both dates inclusive) | Friday, 4 March 2005 to Tuesday, 8 March 2005 |
| Record Date for the purpose of ascertaining Shareholders' entitlement under the Open Offer | Tuesday, 8 March 2005 |
| Register of members reopens | Wednesday, 9 March 2005 |
| Latest time for lodging forms of proxy for the purpose of the SGM (not less than 48 hours before the SGM) | 10:00 a.m. on Sunday, 20 March 2005 |
| SGM to be held | 10:00 a.m. on Tuesday, 22 March 2005 |
| Despatch of the Prospectus Documents | Wednesday, 23 March 2005 |
| Latest time for lodging application for the Offer Shares and payment | 4:00 p.m. on Friday, 8 April 2005 |
| Latest time for the Open Offer to become unconditional | 4:00 p.m. on Wednesday, 13 April 2005 |
| Announcement of results of the Open Offer | Friday, 15 April 2005 |
| Despatch of certificates for the Offer Shares | Friday, 15 April 2005 |
| Dealings in Offer Shares commence | Tuesday, 19 April 2005 |

Dates stated in this circular for events mentioned in the timetable are indicative only and may be extended or varied. Any change to the expected timetable for the Open Offer will be announced as appropriate.

To qualify for the Open Offer, Shareholders must be registered as members of the Company on the register of members of the Company on the Record Date, being Tuesday, 8 March 2005 and not be Excluded Shareholders.

EXPECTED TIMETABLE

Shareholders who are registered as members of the Company at the time the SGM be held (on 22 March 2005) will be entitled to vote in respect of the resolution relating to the Open Offer. Qualifying Holders subsequently sell their Shares and whose names are not registered in the register of members of the Company at the time the SGM be held will not be entitled to vote in respect of the resolution relating to the Open Offer.

It should be noted that existing Shares have been dealt in on an ex-entitlement basis since Wednesday, 2 March 2005 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Wednesday, 13 April 2005), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

LETTER FROM THE BOARD



北方興業控股有限公司*
NORTHERN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code : 736)

Executive Directors:

Mr. Chong Sing Yuen
Mr. Chong Chun Hing
Mr. Chu Kiu Fat
Mr. Wong Siu Keung, Joe
Mr. Chong Chun Kwok, Piggy

Independent non-executive Directors:

Mr. Chan Ping Yim
Mr. Chan Shun
Mr. Cheng Kwok Hing, Andy

Registered Office:

Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal place of business:

Block A, 2nd Floor
Man Foong Industrial Building
7 Cheung Lee Street
Chaiwan
Hong Kong

4 March 2005

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE
FOR EVERY SHARE HELD ON RECORD DATE**

INTRODUCTION

On 28 January 2005, the Company announced that the Board proposed to raise approximately not less than HK\$97.3 million and not more than HK\$97.7 million (before expenses) by issuing not less than 4,869,957,705 but not more than 4,889,257,705 Offer Shares at a price of HK\$0.020 per Offer Share by way of the Open Offer, payable in full on application, on the basis of one Offer Share for every Share held on the Record Date. The Open Offer will not be available to Excluded Shareholders.

The Independent Board Committee has been established to consider the Open Offer. Altus has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Open Offer.

* For identification only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information, among other things, on the Open Offer, the recommendation of the Independent Board Committee, the advice of Altus in respect of the Open Offer and the notice of SGM at which a resolution will be proposed to consider and, if thought fit, approve the Open Offer and the issue of the Offer Shares.

PROPOSED OPEN OFFER

Issue statistics

| | | |
|---|---|--|
| Basis of the Open Offer | : | One Offer Share for every Share held on the Record Date |
| Subscription Price | : | HK\$0.020 per Offer Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 4,869,957,705 Shares |
| Number of Shares upon the exercise of the Options in full | : | 4,889,257,705 Shares |
| Number of Offer Shares | : | Not less than 4,869,957,705 and not more than 4,889,257,705 Offer Shares |
| Number of Shares in issue upon completion of the Open Offer | : | Not less than 9,739,915,410 and not more than 9,778,515,410 Shares |
| Number of Offer Shares undertaken to be taken up by Win Channel | : | 1,300,000,000 Offer Shares, being the full entitlement of Win Channel under the Open Offer |
| Number of Offer Shares underwritten by the Underwriter | : | up to 3,589,257,705 Offer Shares |

As at the Latest Practicable Date, the Company has outstanding options for the holders of Options to subscribe for a total of 19,300,000 Shares at the exercise price of HK\$0.01 per Share, subject to adjustment.

Save for the Options, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

Qualifying Holders

The Company will send (i) the Prospectus Documents to the Qualifying Holders; and (ii) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, Shareholders must be registered as members of the Company on the register of members of the Company on the Record Date and not be Excluded Shareholders and holders of the Options must exercise their respective Options in accordance with the relevant procedures specified in the share option scheme of the Company on or before Thursday, 3 March 2005, be registered as members of the Company on the register of members of the Company on the Record Date and not be Excluded Shareholders.

LETTER FROM THE BOARD

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (with the relevant Share certificates) for registration with the Registrar by 4:00 p.m. on 3 March 2005. The Registrar is:

Secretaries Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong

The invitation to subscribe for the Offer Shares to be made to the Qualifying Holders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange. Each of the Qualifying Holders will be entitled to subscribe for the number of Offer Shares which is equal to or less than his entitlement but not any Offer Shares in excess of his entitlement to subscribe for the Offer Shares. The Directors consider that such structure of the Open Offer, which will involve less administrative work and costs, is in the best interest of the Company and the Shareholders as a whole.

Any Offer Shares not taken up by the Qualifying Holders will be taken up by the Underwriter pursuant to the Underwriting Agreement at the Subscription Price.

Fraction of Offer Shares

Given the Open Offer is made on the basis of one Offer Share for every Share held on the Record Date, there will be no fraction of Offer Shares.

Closure of register of members

The register of members of the Company will be closed from Friday, 4 March 2005 to Tuesday, 8 March 2005 (both dates inclusive) to determine the eligibility of Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

HK\$0.020 per Offer Share, payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 33.3% to the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 20 January 2005, being the last trading day before the date of the Announcement;
- (ii) a discount of approximately 20.0% to the theoretical ex-entitlement price of approximately HK\$0.025 per Share based on the aforesaid closing price per Share;
- (iii) a discount of approximately 32.0% to the average closing price of HK\$0.0294 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 20 January 2005, being the last trading day before the date of the Announcement;
- (iv) a discount of approximately 31.3% to the average closing price of HK\$0.0291 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 20 January 2005, being the last trading day before the date of the Announcement;
- (v) a premium of approximately 61.3% over the net asset value per Share of approximately HK\$0.0124 with reference to the latest published audited financial statements of the Group as at 31 March 2004;
- (vi) the closing price of HK\$0.02 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

LETTER FROM THE BOARD

- (vii) the theoretical ex-entitlement price of HK\$0.02 per Share based on the closing price per share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter, with reference to the prevailing market prices of the Shares. The Board considers that the terms of the Open Offer are fair and reasonable and the discount of the Subscription Price as compared to the recent market prices of Shares would encourage Shareholders to participate in the Open Offer and accordingly the future growth of the Group.

Status of the Offer Shares

The Offer Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid in respect thereof on or after the date of allotment and issue of such Offer Shares.

Certificates for the Offer Shares

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Friday, 15 April 2005 to those Qualifying Holders who have validly applied and paid for the Offer Shares at their own risks.

Rights of Excluded Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. Based on the Company's register of members as at the Latest Practicable Date, there was one Shareholder (holding 86,120 Shares and with registered address located in the British Virgin Islands) with registered address outside Hong Kong. The Company will comply with all necessary requirements specified in rule 13.36(2)(a) (including notes 1 & 2) of the Listing Rules and will only exclude from the Open Offer Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong and who the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges, consider it necessary or expedient to do so. The basis of exclusion of any Shareholders from the Open Offer, if any, will be disclosed in the Prospectus.

The Company will send the Prospectus to the Excluded Shareholders for their information only. The Company will not send the Application Forms to the Excluded Shareholders. Those entitlements of the Excluded Shareholders under the Open Offer will be taken up by the Underwriter. The Excluded Shareholders will be entitled to attend and vote at the SGM.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the

LETTER FROM THE BOARD

Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, the Underwriter has agreed to underwrite up to 3,589,257,705 Offer Shares.

The Underwriter and its ultimate beneficial owners are not connected persons (as defined in the Listing Rules) of the Company and are independent of the Company or its connected persons (as defined in the Listing Rules). The Company will pay to the Underwriter an underwriting commission calculated at 2.0% of the aggregate Subscription Price of the 3,589,257,705 Underwritten Shares (being the maximum number of the Underwritten Shares).

UNDERTAKING OF WIN CHANNEL

Win Channel, which as at the Latest Practicable Date is beneficially interested in 1,300,000,000 Shares (representing about 26.69% of the issued share capital of the Company as at the Latest Practicable Date), has undertaken to the Company and the Underwriter that:

- (a) it will up to and inclusive of the latest date for application of the Offer Shares remain the beneficial owner of at least 1,300,000,000 Shares and will subscribe for the entitlement in full in respect of such Shares under the Open Offer; and
- (b) it will procure that votes in respect of the aforesaid Shares be cast in favour of all the necessary resolution(s) to implement the Open Offer.

Win Channel is beneficially wholly owned by Mr. Chim Pui Chung.

TERMINATION OF THE UNDERWRITING AGREEMENT

Shareholders should note that the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company if, prior to 4:00 p.m. on the third business day immediately after the latest date for acceptance of the Offer Shares, any of the following grounds of termination happens:

- (a) **there develops or occurs:**
 - (i) **the coming into force of any new law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or**

LETTER FROM THE BOARD

- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affects the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (iii) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is materially adverse in the context of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (iv) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter materially and adversely affects the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or its major subsidiaries or the destruction of any material asset of the Group; or
 - (v) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement or other documents in connection with the Open Offer, or
- (b) there comes to the notice of the Underwriter any matter or event showing any of the representations and warranties given by the Company under the Underwriting Agreement to be untrue or inaccurate in any respect which the Underwriter considers to be material.

If the Underwriter terminates the Underwriting Agreement, the Open Offer will not proceed.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon:

- (a) the approval of the Shareholders (other than the Directors (except for independent non-executive directors of the Company), chief executive of the Company and their respective associates) at a general meeting to be held at which the voting shall be taken on a poll and in accordance with the Listing Rules;
- (b) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Offer Shares;

LETTER FROM THE BOARD

- (c) compliance with the undertaking to take up all its entitlement under the Open Offer given by Win Channel referred to above; and
- (d) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

None of the above conditions can be waived.

WARNING OF RISKS OF DEALING IN SHARES

The Open Offer is conditional upon the obligations of the Underwriter under the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Shareholders and potential investors should therefore exercise caution when dealing in Shares, and if they are in any doubt about their positions, they should consult their professional advisers.

Shareholders should note that existing Shares have been dealt in on an ex-entitlement basis since Wednesday, 2 March 2005 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Wednesday, 13 April 2005), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming none of the Options will be exercised before the Record Date:

| | Immediately before completion of the Open Offer | | Immediately after completion of the Open Offer (assuming all Qualifying Holders take up their respective entitlements under the Open Offer) | | Immediately after completion of the Open Offer (assuming no Qualifying Holder takes up his/her/its entitlement under the Open Offer except for Win Channel) | |
|--|---|------------------|--|------------------|---|------------------|
| | <i>Shares</i> | <i>Per cent.</i> | <i>Shares</i> | <i>Per cent.</i> | <i>Shares</i> | <i>Per cent.</i> |
| | <i>(approximately)</i> | | <i>(approximately)</i> | | <i>(approximately)</i> | |
| Win Channel (<i>Note 1</i>) | 1,300,000,000 | 26.69 | 2,600,000,000 | 26.69 | 2,600,000,000 | 26.69 |
| Mr. Chong Sing Yuen (<i>Notes 2 & 5</i>) | 28,231,047 | 0.58 | 56,462,094 | 0.58 | 28,231,047 | 0.29 |
| Mr. Wong Siu Keung Joe (<i>Notes 2 & 3</i>) | 8,000,000 | 0.16 | 16,000,000 | 0.16 | 8,000,000 | 0.08 |
| Mr. Chu Kiu Fat (<i>Note 2</i>) | 40,000 | 0.00 | 80,000 | 0.00 | 40,000 | 0.00 |
| Public: | | | | | | |
| Underwriter (<i>Note 4</i>) | – | – | – | – | 3,569,957,705 | 36.65 |
| Other public Shareholders | 3,533,686,658 | 72.57 | 7,067,373,316 | 72.57 | 3,533,686,658 | 36.29 |
| Total | 4,869,957,705 | 100.00 | 9,739,915,410 | 100.00 | 9,739,915,410 | 100.00 |

LETTER FROM THE BOARD

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming the Options will have been exercised in full before the Record Date:

| | Immediately before completion of the Open Offer | | Immediately after completion of the Open Offer (assuming all Qualifying Holders take up their respective entitlements under the Open Offer) | | Immediately after completion of the Open Offer (assuming no Qualifying Holder takes up his/her/its entitlement under the Open Offer except for Win Channel) | |
|---|---|---------------|--|---------------|---|---------------|
| | Shares | Per cent. | Shares | Per cent. | Shares | Per cent. |
| | (approximately) | | (approximately) | | (approximately) | |
| Win Channel (Note 1) | 1,300,000,000 | 26.59 | 2,600,000,000 | 26.59 | 2,600,000,000 | 26.59 |
| Mr. Chong Sing Yuen (Notes 2 & 5) | 28,231,047 | 0.58 | 56,462,094 | 0.58 | 28,231,047 | 0.29 |
| Mr. Wong Siu Keung Joe (Notes 2 & 3) | 25,000,000 | 0.51 | 50,000,000 | 0.51 | 25,000,000 | 0.26 |
| Mr. Chu Kiu Fat (Note 2) | 40,000 | 0.00 | 80,000 | 0.00 | 40,000 | 0.00 |
| Holders of the Options (other than Mr. Wong Siu Keung Joe (Note 3)) | 2,300,000 | 0.04 | 4,600,000 | 0.04 | 2,300,000 | 0.02 |
| Public: | | | | | | |
| Underwriter (Note 4) | – | – | – | – | 3,589,257,705 | 36.71 |
| Other public Shareholders | 3,533,686,658 | 72.28 | 7,067,373,316 | 72.28 | 3,533,686,658 | 36.13 |
| Total | <u>4,889,257,705</u> | <u>100.00</u> | <u>9,778,515,410</u> | <u>100.00</u> | <u>9,778,515,410</u> | <u>100.00</u> |

Notes:

- Win Channel is a company incorporated in the British Virgin Islands and beneficially wholly owned by Mr. Chim Pui Chung. Save for the holding of the 1,300,000,000 Shares and being a substantial shareholder of the Company, each of Win Channel, Mr. Chim Pui Chung and their respective associates is independent of and not connected with the Company or any connected person (as defined in the Listing Rules) of the Company. According to Win Channel and Mr. Chim Pui Chung, none of them has been a controlling shareholder (as defined in the Listing Rules) of the Company or an associate of any controlling shareholder (as defined in the Listing Rules) of the Company or other connected persons (as defined in the Listing Rules) of the Company.
- An executive Director.
- As at the Latest Practicable Date, the Company had outstanding options for the holders of Options to subscribe for a total of 19,300,000 Shares at the exercise price of HK\$0.01 per Share. Mr. Wong Siu Keung, Joe, being an executive Director, had options to subscribe for 17,000,000 Shares and the remaining options were held by certain employees of the Group who are not connected persons (as defined in the Listing Rules) of the Company and not connected with any connected person (as defined in the Listing Rules) of the Company.
- According to the Underwriter, as at the Latest Practicable Date, the Underwriter had entered into a sub-underwriting agreement with independent sub-underwriter, to sub-underwrite 670,000,000 Underwritten Shares, representing about 6.85% of enlarged issued share capital of the Company immediately upon the completion of the Open Offer (assuming all the Options will have been exercised before the Record Date). Therefore the Underwriter will at no time hold 30% or more interests in the Company upon the completion of the Open Offer. It is the intention of the Underwriter to place down any Offer Shares under the Open Offer upon being notified the number of Offer Shares required to be taken up by it under the Underwriting Agreement.
- As at the Latest Practicable Date, Mr. Chong Sing Yuen had beneficial interests in 25,881,047 Shares and his spouse had interests in 2,350,000 Shares.

LETTER FROM THE BOARD

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Board considers that the Open Offer will enable the Group to strengthen its capital base and to enhance its financial position. Since the Open Offer will allow the Qualifying Holders to maintain their shareholdings in the Company, the Board considers raising capital through the Open Offer is in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds from the Open Offer will be approximately not less than HK\$94.0 million and will be used for possible investment to be made in order to diversify the Group's business into other businesses so as to broaden its revenue base and earnings potential. However, as at the Latest Practicable Date, the Directors have not yet identified any specific items of such possible investment. To diversify the Group's business into other businesses, the Directors consider that gaming and entertainment businesses may serve the Group's purpose. Therefore the Directors cannot rule out any possibility of applying the proceeds to be raised from the Open Offer for investments in such businesses in Macau or elsewhere but such investments may or may not proceed. The existing management of the Company has no experience in the management or operation of gaming and entertainment business. Nonetheless, these businesses are not the Company's targeted investment for the time being. The net proceeds from the Open Offer will be retained as general working capital of the Group before any of the above investment is identified. Further announcement will be made when such investment is identified.

The estimated expense of the Open Offer is about HK\$3.2 million including underwriting commission, professional fees and other related expenses, which will be borne by the Company.

There was no other equity fund raising activities of the Company during the 12 months ended immediately before the Latest Practicable Date.

ADJUSTMENTS TO THE OPTIONS

Under the terms of the share option scheme of the Company pursuant to which the Options were granted, adjustment to the exercise price and/or number of the options granted is required upon the completion of the Open Offer. Such adjustment(s) will be reviewed by the auditors of the Company pursuant to the terms of share option scheme of the Company and will be set out in the Company's announcement of results of acceptance of the Open Offer.

GENERAL

The Group is principally engaged in the business of manufacture and sale of snap off blade cutters and electronic consumer products, including toys and home appliances, as well as property investment in Hong Kong and the PRC.

The SGM will be held to consider and, if thought fit, passing the resolution (with voting to be taken by a poll) to approve the Open Offer and the issue of the Offer Shares.

Under the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive directors of the Company), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer at the SGM. Therefore, Mr. Chong Sing Yuen, Mr. Wong Siu Keung Joe and Mr. Chu Kiu Fat, being the executive Directors, and their respective associates (including the

LETTER FROM THE BOARD

spouse of Mr. Chong Sing Yuen who held interests in 2,350,000 Shares as at the Latest Practicable Date) will abstain from voting in favour of the resolution relating to the Open Offer pursuant to the Listing Rules.

Under the Listing Rules, parties that are required to abstain from voting in favour at the general meeting pursuant to the Listing Rules may vote against the resolution at the general meeting of the issuer provided that their intention to do so has been stated in the relevant listing document or circular to shareholders. Any such party may change his mind as to whether to abstain or vote against the resolution, in which case the issuer must, if it becomes aware of the change before the date of the general meeting, immediately despatch a circular to its shareholders or publish an announcement in the newspapers notifying its shareholders of the change and, if known, the reason for such change. Where the circular is despatched or the announcement is published less than 14 days before the date originally scheduled for the general meeting, the meeting must be adjourned before considering the relevant resolution to a date that is at least 14 days from the date of despatch or publication by the chairman or, if that is not permitted by the issuer's constitutional documents, by resolution to that effect.

Based on the confirmations received by the Board, none of Mr. Chong Sing Yuen, Mr. Wong Siu Keung Joe and Mr. Chu Kiu Fat and their respective associates (including the spouse of Mr. Chong Sing Yuen) has intention to vote against the resolution in respect of the Open Offer. In case that any of them has changed his mind as to whether to abstain or vote against the resolution, in which case the Company will, if it becomes aware of the change before the date of the SGM immediately publish an announcement in the newspapers notifying its shareholders of the change and, if known, the reason for such change. Where the announcement is published less than 14 days before the date of the SGM, the Company will propose a resolution to its Shareholders to adjourn the SGM so as to comply with the aforesaid provision under the Listing Rules.

There was no (i) voting trust or other agreement or arrangement or understanding entered into by or binding upon each of Mr. Chong Sing Yuen, Mr. Wong Siu Keung, Joe and Mr. Chu Kiu Fat and their respective associates; or (ii) obligation or entitlement of each of Mr. Chong Sing Yuen, Mr. Wong Siu Keung, Joe and Mr. Chu Kiu Fat and their respective associates, whereby he had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of his Shares to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interest of each of Mr. Chong Sing Yuen, his spouse, Mr. Wong Siu Keung, Joe and Mr. Chu Kiu Fat in the Company as disclosed in this circular and the numbers of Shares in respect of which he/she will control or will be entitled to exercise control over the voting rights at the SGM.

SGM

You will find on page 92 of this circular a notice convening the SGM to be held at 10:00 a.m. on Tuesday, 22 March 2005 at Novotel Century Hong Kong, Plaza IV, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong.

A resolution will be proposed as an ordinary resolution to approve the Open Offer and the issue of the Offer Shares.

LETTER FROM THE BOARD

Voting at the SGM will be taken on a poll and the results of the SGM will be announced by publication in both an English language and a Chinese language newspapers in Hong Kong on the business day following the SGM.

A form of proxy for use at the SGM is enclosed with this circular. If you do not intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the principal office of the Company at Block A, 2nd Floor, Man Foong Industrial Building, 7 Cheung Lee Street, Chaiwan, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

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

- (a) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy entitled to vote at the meeting; or
- (b) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than 10% of the total voting rights of all the members having the right to vote at the meeting; or
- (c) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee comprising three independent non-executive Directors set out on page 18 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM as regards the resolution relating to the Open Offer and the letter from Altus which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer with the principal factors and reasons considered by it in arriving thereat. The full text of the letter from Altus is set out on pages 19 to 29 of this circular.

The Directors are of the opinion that the Open Offer is in the interests of the Company. Accordingly, the Directors recommend you to vote in favour of the ordinary resolution to be proposed at the SGM.

Your attention is also drawn to the information contained in the Appendices to this circular.

By Order of the Board
Northern International Holdings Limited
Chong Sing Yuen
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



北方興業控股有限公司*
NORTHERN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code : 736)

4 March 2005

To the Independent Shareholders

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Open Offer, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 4 March 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms and conditions of the Open Offer and the advice of and principal factors and reasons considered by Altus in relation thereto as set out on pages 19 to 29 of the Circular, we are of the opinion that the Open Offer is in the interest of the Company and the Shareholders as a whole and the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the SGM in relation to the Open Offer.

Yours faithfully,

Chan Ping Yim
*Independent non-executive
Director*

Chan Shun
*Independent non-executive
Director*

Cheng Kwok Hing, Andy
*Independent non-executive
Director*

* For identification only

LETTER FROM ALTUS

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Altus Capital Limited setting out their opinion regarding the Open Offer for the purpose of inclusion in this circular.

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

4 March 2005

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY SHARE HELD

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 4 March 2005 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 January 2005, the Board announced, among other things, the Company's proposal to raise approximately not less than HK\$97.3 million and not more than HK\$97.7 million before expenses, which is estimated to be approximately HK\$3.2 million, by issuing not less than 4,869,957,705 and not more than 4,889,257,705 Offer Shares at a price of HK\$0.02 per Offer Share by way of Open Offer, payable in full on application, on the basis of one Offer Share for every Share held on the Record Date. The Open Offer will not be available to the Excluded Shareholders. Win Channel has undertaken to the Company and the Underwriter that (i) it will up to and inclusive of the latest date for application of the Offer Shares remain the beneficial owner of at least 1,300,000,000 Shares and will subscribe for the entitlement in full in respect of such Shares under the Open Offer; and (ii) it will procure that votes in respect of the aforesaid Shares be cast in favour of all the necessary resolution(s) to implement the Open Offer. The Underwriter has agreed to fully underwrite up to 3,589,257,705 Offer Shares, pursuant to the Underwriting Agreement dated 20 January 2005, subject to and upon the terms and conditions thereof. Given that the Open Offer will increase the issued share capital of the Company by more than 50%, the Open Offer is required under the Listing Rules to be subject to approval by Shareholders at the SGM. Under the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive directors of the Company), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer. Since there is no controlling Shareholder in the Company, Mr. Chong Sing Yuen, Mr.

LETTER FROM ALTUS

Wong Siu Keung Joe and Mr. Chu Kiu Fat, being the executive Directors, and their respective associates (including the spouse of Mr. Chong Sing Yuen who holds interests in 2,350,000 Shares as at Latest Practicable Date) will abstain from voting in favour of the resolution relating to the Open Offer pursuant to the Listing Rules.

The Independent Board Committee has been established to advise whether the Open Offer is in the interests of the Company and the Shareholders as a whole and make recommendation on voting on the resolution regarding the Open Offer. The Independent Board Committee comprising Mr. Ching Ping Yim, Mr. Chan Shun and Mr. Cheng Kwok Hing Andy, all being independent non-executive Directors, has been formed to advise the Independent Shareholders in this respect.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date of the Circular. The Directors confirm that they have provided sufficient information to us to form a reasonable basis for our opinion. We consider we have obtained sufficient information to form a reasonable basis for our opinion and have assumed that all statements of belief, opinion and intention of the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have not, however, conducted an independent in-depth investigation into the affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Open Offer, we have considered the following principal factors and reasons:

1. Business and financial position of the Group

The Group is principally engaged in the business of manufacture and sale of snap off blade cutters and electronic consumer products, including toys and home appliances, as well as property investment in Hong Kong and the PRC.

As stated in the Company's 2004 annual report (the "Annual Report"), turnover of the Group was reduced to approximately HK\$81.0 million from approximately HK\$106.7 million, a reduction of approximately 24.1%. Such reduction was due to the adverse effect on the Group's electronic business by SARS during the financial year. The gross profit of the Group was also reduced to approximately HK\$10.3 million from approximately HK\$32.4 million, due to the increase of the raw material prices. Therefore, the net profit of approximately HK\$2.7 million in the previous year also turned into a net loss of HK\$15.5 million. As stated in the Annual Report, the Group recorded net current liabilities of approximately HK\$29.1 million and cash and cash equivalents of approximately HK\$1.7 million as at 31 March 2004 which compared to net current liabilities of approximately HK\$7.2 million and cash and cash equivalents of approximately HK\$9.5 million as at 31 March 2003.

LETTER FROM ALTUS

As stated in the Company's interim report for the six months ended 30 September 2004 (the "Interim Report"), the turnover of the Group for the six months ended 30 September 2004 reduced to approximately HK\$33.9 million from approximately HK\$47.1 million when compared with the same period in the previous year. Such reduction was due to the slower than expected recovery of the Group's electronics business. The net profit of approximately HK\$0.8 million in the previous year also turned into a net loss of approximately HK\$8.9 million, which was due to the high raw material prices. As stated in the Interim Report, the Group recorded net current liabilities of approximately HK\$31.1 million and cash and cash equivalents of approximately HK\$1.8 million as at 30 September 2004 which compared to net current liabilities of approximately HK\$29.1 million and cash and cash equivalents of approximately HK\$1.7 million as at 31 March 2004.

2. Principal terms of the Open Offer

i. Basis of the Open Offer

The Company will make the Open Offer on a basis of one Offer Share for every Share held on the Record Date at the Subscription Price, payable in full on acceptance. Based on the number of issued Shares as at the Latest Practicable Date, not less than 4,869,957,705 and not more than 4,889,257,705 Offer Shares will be offered for subscription under the Open Offer.

ii. Subscription Price

The Subscription Price of HK\$0.02, was determined after arm's length negotiations between the Company and the Underwriters. The Subscription Price represents:

- (i) a discount of approximately 33.3% to the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 20 January 2005, being the last trading day ("Last Trading Day") before the publication of the Announcement;
- (ii) a discount of approximately 20.0% to the theoretical ex-entitlement price of approximately HK\$0.025 per Share based on the closing price per Share on the Last Trading Day;
- (iii) a discount of approximately 32.0% to the average closing price of HK\$0.0294 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 31.3% to the average closing price of HK\$0.0291 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 61.3% over the net asset value per Share of approximately HK\$0.0124 with reference to the latest published audited financial statements of the Group as at 31 March 2004;
- (vi) the closing price of HK\$0.02 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

LETTER FROM ALTUS

- (vii) the theoretical ex-entitlement price of HK\$0.02 per Share based on the closing price per Share on the Latest Practicable Date.

Set out below are the Shares' highest daily closing prices, lowest daily closing prices and the month/period end closing prices quoted from the Stock Exchange and the average daily closing prices for the twelve-month period up to the Latest Practicable Date (the "Review Period"):

| Month | Highest closing price of the month/period <i>HK\$</i> | Lowest closing price of the month/period <i>HK\$</i> | Month/ period end closing price <i>HK\$</i> | Average daily closing price of the month/period <i>HK\$</i> |
|--|--|---|--|---|
| 2004 | | | | |
| March | 0.036 | 0.017 | 0.019 | 0.0230 |
| April | 0.025 | 0.017 | 0.017 | 0.0210 |
| May | 0.017 | 0.012 | 0.016 | 0.0146 |
| June | 0.015 | 0.012 | 0.014 | 0.0140 |
| July | 0.014 | 0.013 | 0.013 | 0.0133 |
| August | 0.013 | 0.011 | 0.012 | 0.0120 |
| September | 0.014 | 0.012 | 0.012 | 0.0129 |
| October | 0.015 | 0.013 | 0.014 | 0.0142 |
| November | 0.031 | 0.014 | 0.031 | 0.0200 |
| December | 0.044 | 0.022 | 0.036 | 0.0289 |
| 2005 | | | | |
| January | 0.042 | 0.023 | 0.023 | 0.0314 |
| February | 0.025 | 0.021 | 0.024 | 0.0226 |
| March (up to the Latest Practicable Date) <i>(Note)</i> | 0.023 | 0.020 | 0.020 | 0.0213 |

Note: Shares were dealt in on an ex-entitlement basis on 2 March 2005.

The closing prices of the Shares during the Review Period were within the range of HK\$0.011 to HK\$0.044 prior to the issue of the Announcement. The highest closing price of HK\$0.044 was recorded on 29 December 2004 while the lowest closing price of HK\$0.011 was recorded on 18 August 2004, 19 August 2004, 20 August 2004 and 23 August 2004. The Share price has decreased to HK\$0.02 on the Latest Practicable Date.

LETTER FROM ALTUS

We have also reviewed the trading volume of the Shares during the Review Period, a summary of which is set out below:

| | Number of Shares traded per month/period | Average number of Shares traded per trading day | Shares traded during the month/period as a percentage of the issued share capital of the Company <i>(note i)</i> | Shares traded during the month/period as a percentage of Shares held by the public <i>(note ii)</i> |
|--|--|--|---|---|
| | (Shares) | (Shares) | % | % |
| 2004 | | | | |
| March | 1,047,100,000 | 61,594,118 | 21.50 | 29.63 |
| April | 839,196,482 | 44,168,236 | 17.23 | 23.75 |
| May | 402,740,000 | 20,137,000 | 8.27 | 11.40 |
| June | 235,990,000 | 11,237,619 | 4.85 | 6.68 |
| July | 86,600,000 | 4,123,810 | 1.78 | 2.45 |
| August | 68,390,000 | 3,108,636 | 1.40 | 1.94 |
| September | 210,100,000 | 10,004,762 | 4.31 | 5.95 |
| October | 208,168,000 | 10,956,211 | 4.27 | 5.89 |
| November | 2,946,395,000 | 133,927,045 | 60.50 | 83.38 |
| December | 4,977,439,939 | 237,020,949 | 102.21 | 140.86 |
| 2005 | | | | |
| January | 3,457,309,247 | 230,487,283 | 70.99 | 97.84 |
| February | 623,473,000 | 36,674,882 | 12.80 | 17.64 |
| March (up to the Latest Practicable Date) | 67,818,307 | 22,606,102 | 1.39 | 1.92 |

Notes:

- i. Based on a total of 4,869,957,705 issued Shares outstanding as at the date of the Announcement
- ii. Based on 3,533,686,658 Shares in public hands as at the date of the Announcement

As illustrated in the table above, the monthly trading volume of the Shares fluctuated widely from a low of approximately 1.40% to a high of approximately 102.21% of the Company's total issued share capital as at the date of the Announcement. The aggregate number of Shares traded in August 2004 was as low as 1.40% of the Company's issued share capital while turnover of the Shares peaked in December 2004 where the percentage of the total number of Share traded in relation to the Company's issued share capital per month amounted to approximately 102.21%.

LETTER FROM ALTUS

We have selected and reviewed, to the best of our knowledge, all the open offers announced by the companies (the “Comparable Offers”) that are listed on the main board in the year immediately preceding the date of the Announcement, and have summarised our findings in the table below:

| Company (Stock code) | Date of announcement | Basis of provisional allotment for the open offer | Discount I <i>(note 1)</i> (%) | Discount II <i>(note 2)</i> (%) |
|---|-------------------------|---|--------------------------------------|---------------------------------------|
| Same Time Holdings Limited (451) | 3 February 2004 | 1 for 2 | 48.39 | 38.46 |
| Enerchina Holdings Limited (622) | 19 February 2004 | 2 for 1 | 55.06 | 28.57 |
| China Investment Fund Company Limited (612) | 4 March 2004 | 5 for 1 | 50.00 | 14.38 |
| Massive Resources International Corporation Limited (70) | 4 March 2004 | 2 for 1 | 43.48 | 18.75 |
| China Silver Dragon Group Limited (855) | 28 April 2004 | 1 for 2 | 29.82 | 22.18 |
| Theme International Holdings Limited (990) | 17 September 2004 | 1 for 1 | 42.31 | 26.83 |
| Tse Sui Luen Jewellery Holdings (International) Limited (417) | 6 October 2004 | 1 for 5 | 80.19 | 77.00 |
| Radford Capital Investment Limited (901) | 28 October 2004 | 1 for 2 | 4.76 | 3.85 |
| Jackin International Holdings Limited (630) | 3 December 2004 | 1 for 2 | 50.00 | 40.00 |
| Maxx Bioscience Holdings Limited (512) | 6 January 2005 | 2 for 1 | 41.49 | 19.12 |
| Xin Corporation Limited (1141) | 14 January 2005 | 1 for 2 | 25.93 | 18.86 |
| | | Maximum | 80.19 | 77.00 |
| | | Minimum | 4.76 | 3.85 |
| | | Median | 43.48 | 22.18 |
| | | Mean | 42.86 | 28.00 |
| The Company | 28 January 2005 | 1 for 1 | 33.33 | 20.00 |

Notes:

- i. Being the discount to the closing price per share on the last trading day prior to the relevant press announcement.
- ii. Being the discount to the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to the relevant press announcement.

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As shown in the table above, all the subscription prices of the Comparable Offers were set at discounts to the respective closing prices of the shares on the last trading day immediately before the relevant announcements were released and the discounts ranged from a low of approximately 4.76% to a high of approximately 80.19%. Such subscription prices also represented discounts from approximately 3.85% to 77.00% to the theoretical ex-entitlements prices per share based on the respective closing prices per share on the last trading day immediately before the relevant announcements were released.

The Subscription Price is at a discount of 33.33% to the closing price per Share on the Last Trading Day and at a 20.00% discount to the theoretical ex-entitlement price per Share based on the closing price per Share on the Last Trading Day. Such discounts are within the range of and are lower than the average and median among those of the Comparable Offers. Accordingly, we consider that the Subscription Price to be fair and reasonable as all Qualifying Holders are offered an equal opportunity to participate in the expansion of the capital base of the Company at a price below the closing price of the Shares on the Last Trading Day.

3. Reasons for the Open Offer

i. Use of net proceeds

As stated in the interim report for the six months ended 30 September 2004, the turnover of the snap off blade cutter business fell 9% year-on-year to HK\$21.5 million (2003: HK\$23.7 million) for the six months ended 30 September 2004 (“Interim Period”), which accounted for approximately 63.4% of the total turnover of the Group. The profit margin of the business was adversely affected by high raw material prices. As a result, the contribution of the snap off blade cutter business to the Group changed to negative HK\$0.7 million (2003: HK\$2.8 million).

For the electronics business, the recovery of OEM sales was slower than expected in the Interim Period. As a result, the overall turnover of the electronics business fell 51% year-on-year to HK\$10.7 million in the Interim Period (2003: HK\$21.8 million), which accounted for approximately 31.6% of the total turnover of the Group. The contribution of the electronics business to the Group changed to negative HK\$3.8 million (2003: HK\$2.2 million). Monthly turnover of the electronics business recovered gradually to pre-SARS level by September 2004. New ODM products were launched during the Interim Period and moderate growth in ODM sales is expected in the second half of the financial year ended 31st March 2005.

Based on the above, the Board considered that it would be beneficial for the Group to diversify its investments into other businesses so as to broaden its revenue base and earnings potential.

As stated in the Letter, the net proceeds from the Open Offer will be used for possible investment to be made in order to diversify the Group’s investments into other businesses so as to broaden its revenue base and earnings potential. However, as at the Latest Practicable Date, the Directors have not yet identified any specific items of possible investment. The Directors consider that gaming and entertainment businesses may serve the Group’s purpose, therefore the Directors cannot rule out any possibility of applying the proceeds to be raised from the Open Offer for

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investments in such businesses in Macau or elsewhere. Since the Directors have not yet identified any specific items of possible investment, Shareholders should note that 1) appropriate investment opportunities may or may not arise; and 2) even opportunities arise, they may or may not be the gaming and entertainment businesses. In such a case, the Company may not utilise the net proceeds as currently planned. Shareholders should also note that, even such investment opportunities are in relation to gaming and entertainment business, the existing management of the Company has no experience in the management or the operation of gaming and entertainment business.

Based on the current information of the Directors, investments in the gaming and entertainment businesses generally require substantial amounts of capital. Also, they believe that appropriate investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. As such, the Directors consider that it will provide flexibility to the Company by maintaining a certain amount of capital in order to make investments where suitable opportunities arise. The net proceeds from the Open Offer will be retained as general working capital of the Group before any of the above investment is identified.

Furthermore, as at 31 December 2004, the Group had total outstanding borrowings of approximately HK\$51.4 million, including the advance by Ms. Cheng Man Shan (spouse of Mr. Chong Sing Yuen) of approximately HK\$13.7 million. Based on the shareholders' fund of approximately HK\$51.2 million as at 30 September 2004, the gearing ratio of the Group would be approximately 100.4%. Due to the high gearing ratio, the Directors are of the view that it is in the interests of the Company and the Shareholders to raise funds for the Group's by means of the Open Offer. Furthermore, net proceeds from the Open Offer will enable the Group to strengthen its capital base and to improve its financial position. Having considered the financial position of the Group, we concur with the view of the Directors and consider that it is reasonable for the Group to raise funds through the Open Offer.

ii. Alternative fund raising methods

According to the Directors, the Company has not conducted any fund raising exercise in the twelve months immediately preceding the Latest Practicable Date.

The Directors have advised that various fund raising methods, such as raising of additional borrowings/debt, placement of new Shares and rights issue, have been considered in order to meet the financial requirements of the Group. The Directors consider that, based on the current gearing level, it would be difficult for the Group to obtain additional borrowings/debts with favourable terms to finance its investments. A placement of new Shares to third parties would result in the Shareholders' existing interests being diluted. Although both open offer and rights issue allow Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company, the Directors consider that the Open Offer, which does not require time for trading of nil-paid rights shares and will not incur additional costs in respect to the trading of nil-paid rights, is more time and cost effective and is in the interest of the Company and the Shareholders as a whole, to raise capital. Moreover, the underwriting arrangements of the Open Offer were finalised pursuant to negotiations among the parties to the Underwriting Agreement, taking into account the shorter time frame of the Open Offer.

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Having considered the above, we agree with the Directors' view and consider that the Open Offer is an acceptable and reasonable fund raising method of the Company.

4. Financial effects of the Open Offer

i. On net tangible asset value

A statement of pro forma unaudited adjusted consolidated net tangible asset value of the Group based on the unaudited consolidated net tangible asset value of the Group as at 30 September 2004 adjusted for the effect of the Open Offer on the net asset value of the Group is set out in the Appendix I to the Circular.

The unaudited consolidated net tangible asset value of the Group as at 30 September 2004 was approximately HK\$51.2 million and the unaudited net tangible asset value per Share was approximately HK\$0.0105. After the Open Offer, not only the pro forma unaudited consolidated net tangible asset value of the Group would increase to approximately HK\$145.2 million (assuming none of the Options will be exercised before the Record Date), but also the pro forma unaudited net tangible asset value per Share would increase to approximately HK\$0.0149, representing an increase of 41.9%. Such increase in the unaudited net tangible asset value per Share following completion of the Open Offer is primarily due to the premium of the Subscription Price to the unaudited net tangible asset value per Share before the Open Offer. Accordingly, we are of the view that such increase in both unaudited consolidated net tangible asset value and unaudited net tangible asset value per Share are in the interests of the Company and the Shareholders as a whole.

ii. On gearing ratio

According to the financial information set out in Appendix I to the Circular, the Group had total borrowings of approximately HK\$51.4 million as at 31 December 2004, resulting in a gearing ratio (calculated on the basis of the Group's total borrowings over shareholders' equity of approximately HK\$51.2 million as at 30 September 2004) of approximately 100.4%. Upon completion of the Open Offer, assuming the total borrowings of the Group remained at approximately HK\$51.4 million and the shareholders' equity increased to approximately HK\$145.4 million (assuming none of the Options will be exercised before the Record Date) which is stated in the paragraph headed "Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets of the Group" in appendix I to the Circular, the gearing ratio of the Group would decrease to approximately 35.4% after the Open Offer. Accordingly, we are of the view that such decrease in gearing is desirable and is in the interests of the Company and the Shareholders as a whole.

iii. On cash and bank balance

The Group had total cash and bank balance with bank of approximately HK\$1.83 million and negative working capital of approximately HK\$31.1 million as at 30 September 2004. The net proceeds of the Open Offer is estimated to be approximately HK\$94.0 million. As stated in the paragraph headed "Use of proceeds" above, the net proceed from the Open Offer will be retained as general working capital of the Group before any of the above investment is identified. The Group, therefore, would have an improved cash position upon completion of the Open Offer and

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the working capital position would return to positive, we consider such an improvement to the Group's financial position beneficial to the Company and its Shareholders as a whole.

5. Potential dilution effect

The Open Offer is on the basis of one Offer Share for every Share held and the detailed shareholding structure of the Company before and immediately after completion of the Open Offer has been set out in the Letter. As stated in the Letter, the Prospectus Documents will only be sent to the Qualifying Holders. Copies of the Prospectus will be sent to the Excluded Shareholders for information only and their interest in the Company upon completion of the Open Offer would be diluted by up to approximately 50.0%.

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite up to 3,589,257,705 Offer Shares. Assuming all Qualifying Holders have taken up their respective entitlements under the Open Offer, there would be no dilution effect on their interests in the Company immediately after completion of the Open Offer. However, should the Qualifying Holders choose not to subscribe in full for their entitlements of Offer Shares, their interest in the Company upon completion of the Open Offer would be diluted by up to approximately 50.0%.

In spite of the potential dilution effect to the Independent Shareholders and no trading arrangement for the nil-paid rights shares, we consider that the arrange under the Open Offer is still fair and reasonable to the Independent Shareholders as a whole for the following reasons:

- The Independent Shareholders have their choice whether to accept the Open Offer or not.
- Those Qualifying Holders accepting the Open Offer in full shall remain their interest unchanged in the Company after the Open Offer.
- Those Qualifying Holders not accepting the Open Offer and the non-Qualifying Holders shall have their interests in the Company diluted but they shall be able to share the potential benefits arising from the improvement of the financial position of the Group after completion of the Open Offer since the unaudited net tangible asset value per Share would increase from approximately HK\$0.0105 to approximately HK\$0.0149.

RECOMMENDATION

Having considered the above factors and reasons, in particular,

- the Group's current financial situation;
- the Subscription Price and the terms of the Open Offer;
- the use of net proceeds of the Open Offer;
- that the Open Offer is a better way to raise funds when compared with other alternatives; and

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- that the Open Offer provides funding for the operation and investment, enhances the capital base of the Group and improves liquidity and financial position of the Group;

we are of the opinion that the Open Offer is in the interests of the Group and the Shareholders so far as the Shareholders as a whole are concerned and the terms of it are fair and reasonable. We have advised the Independent Board Committee accordingly and would recommend to the independent Shareholders to vote in favour of the ordinary resolution to approve the Open Offer at the SGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Kevin Chan
Executive Director

1. SHARE CAPITAL

The authorised and issued share capital of the Company at the Latest Practicable Date were as follows:

| <i>Authorised:</i> | <i>HK\$</i> |
|--|-----------------------|
| <u>30,000,000,000</u> Shares as at the Latest Practicable Date | <u>300,000,000.00</u> |
| <i>Issued and fully paid:</i> | |
| 4,803,807,705 Shares as at 31 March 2004 | 48,038,077.05 |
| 66,150,000 Shares for the exercise of share options from 1 April 2004 to the Latest Practicable Date | 661,500.00 |
| <u>4,869,957,705</u> Shares as at the Latest Practicable Date | <u>48,699,577.05</u> |
| <u>4,869,957,705</u> Offer Shares (assuming none of the Options will be exercised before the Record Date) | <u>48,699,577.05</u> |
| <u>9,739,915,410</u> Shares upon the completion of Open Offer | <u>97,399,154.10</u> |

All the Shares in issue and Offer Shares to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

As at the Latest Practicable Date, the Company had outstanding options for the holders of Options to subscribe for a total of 19,300,000 shares at the exercise price of HK\$0.01 per Share, subject to adjustment.

Save for the Options, the Company has no other derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

Save as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

2. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The Company's auditors have issued modified opinions of fundamental uncertainty relating to the going concern basis for preparing the Group's financial statements for the year ended 31 March 2002 and 2004 respectively. Save for modified opinions referred above, the Company's auditors have not issued any qualified or modified opinion on the Group's financial statements for the three preceding years. Shareholders may refer to the Company's annual reports 2002 and 2004 for the content of the auditors' reports with such modified opinions (copies of the relevant pages of the Company's annual reports 2002 and 2004 containing the relevant full auditors' reports are enclosed for your reference). Also, the Company's annual reports 2002 and 2004 (with the respective auditors' reports incorporated therein) will be available for inspection at the office of Jennifer Cheung & Co. at Unit A, 19th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong during normal business hours up to and including 21 March 2005.

The following table summarised the results, assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the published audited financial statements for the three years ended 31 March 2004 and the interim results for the six months ended 30 September 2003 and 2004.

| | Consolidated Income Statement | | | | |
|--|--|--------------|--|--------------|--------------|
| | For the six months ended 30 September | | Consolidated Income Statement Year ended 31 March | | |
| | 2004 | 2003 | 2004 | 2003 | 2002 |
| | (Unaudited) | (Unaudited) | (Audited) | (Audited) | (Audited) |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | | (Restated) | |
| TURNOVER | 33,875,981 | 47,060,594 | 81,001,038 | 106,656,953 | 76,132,182 |
| Cost of sales | (31,017,463) | (34,157,129) | (70,651,252) | (74,245,795) | (60,583,084) |
| Gross profit | 2,858,518 | 12,903,485 | 10,349,786 | 32,411,158 | 15,549,098 |
| Other revenue and gains | 975,233 | 1,302,295 | 2,668,955 | 1,859,990 | 10,136,286 |
| Selling and distribution costs | (3,027,946) | (3,638,335) | (7,363,214) | (6,167,700) | (4,096,117) |
| Administrative expenses | (8,459,845) | (8,903,896) | (18,174,067) | (19,016,953) | (15,225,616) |
| Other operating expenses | – | – | (140,000) | (3,869,077) | (580,000) |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | (7,654,060) | 1,663,549 | (12,658,540) | 5,217,418 | 5,783,651 |
| Finance costs | (1,243,456) | (838,133) | (2,133,108) | (1,937,366) | (2,422,292) |
| Share of profits and losses of associates | – | – | – | (133,252) | (687,291) |
| PROFIT/(LOSS) BEFORE TAX | (8,897,516) | 825,416 | (14,791,648) | 3,146,800 | 2,674,068 |
| Tax | – | (21,195) | (733,283) | (423,331) | (1,090,357) |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | (8,897,516) | 804,221 | (15,524,931) | 2,723,469 | 1,583,711 |
| EARNINGS/(LOSS) PER SHARE | | | | | |
| Basic | (0.18 cents) | 0.02 cents | (0.34 cents) | 0.06 cents | 0.04 cents |
| Diluted | N/A | N/A | N/A | N/A | N/A |

| | Condensed consolidated balance sheet | | Consolidated balance sheet | | |
|--|--------------------------------------|---------------------|----------------------------|--------------------|---------------------|
| | As at 30 September | | As at 31 March | | |
| | 2004 | 2003 | 2004 | 2003 | 2002 |
| | (Unaudited) | (Unaudited) | (Audited) | (Audited) | (Audited) |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | | (Restated) | |
| NON-CURRENT ASSETS | | | | | |
| Fixed assets | 98,257,205 | 96,626,800 | 99,151,697 | 96,063,722 | 94,571,450 |
| Interests in associates | – | – | – | – | 2,333,252 |
| Deferred tax assets | 459,469 | – | 459,469 | 491,441 | – |
| | <u>98,716,674</u> | <u>96,626,800</u> | <u>99,611,166</u> | <u>96,555,163</u> | <u>96,904,702</u> |
| CURRENT ASSETS | | | | | |
| Inventories | 17,141,842 | 18,122,830 | 14,907,353 | 16,462,050 | 16,016,303 |
| Trade and bills receivables | 10,970,232 | 11,244,293 | 7,609,782 | 8,323,235 | 6,366,246 |
| Other receivables | 2,491,330 | 3,783,293 | 3,232,067 | 2,434,527 | 2,036,184 |
| Due from associates | – | – | 3,000,000 | – | 3,000,000 |
| Pledged time deposits | 2,000,000 | – | 5,000,000 | – | – |
| Cash and cash equivalents | 1,826,189 | 13,125,407 | 1,690,698 | 9,521,288 | 9,553,627 |
| | <u>34,429,593</u> | <u>46,276,132</u> | <u>35,439,900</u> | <u>36,741,100</u> | <u>36,972,360</u> |
| CURRENT LIABILITIES | | | | | |
| Trade payables | 11,455,548 | 9,031,887 | 9,764,435 | 9,144,336 | 9,700,803 |
| Tax payable | 1,445,057 | 1,458,806 | 1,676,153 | 1,333,727 | 1,604,986 |
| Other payables and accruals | 8,334,152 | 7,078,425 | 7,932,102 | 8,848,807 | 7,815,939 |
| Interest-bearing bank and other borrowings | 29,153,355 | 40,966,587 | 43,163,444 | 24,202,876 | 30,644,192 |
| Due to related parties | 13,990,000 | – | 1,721,698 | – | 5,346,183 |
| Due to directors | 631,000 | 154,167 | 289,167 | 374,167 | 522,824 |
| Due to an associate | 540,636 | 342,618 | – | – | – |
| | <u>65,559,748</u> | <u>59,032,480</u> | <u>64,546,999</u> | <u>43,903,913</u> | <u>55,634,927</u> |
| NET CURRENT LIABILITIES | <u>(31,130,155)</u> | <u>(12,756,348)</u> | <u>(29,107,099)</u> | <u>(7,162,813)</u> | <u>(18,662,567)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>67,586,519</u> | <u>83,870,452</u> | <u>70,504,067</u> | <u>89,392,350</u> | <u>78,242,135</u> |
| NON-CURRENT LIABILITIES | | | | | |
| Interest-bearing bank loans | 10,187,599 | 5,203,009 | 4,745,415 | 11,626,920 | 3,744,092 |
| Finance lease payables | 850,726 | 1,055,039 | 594,442 | 469,806 | 272,837 |
| Deferred tax liabilities | 5,373,249 | – | 5,373,249 | 5,269,810 | – |
| | <u>16,411,574</u> | <u>6,258,048</u> | <u>10,713,106</u> | <u>17,366,536</u> | <u>4,016,929</u> |
| | <u>51,174,945</u> | <u>77,612,404</u> | <u>59,790,961</u> | <u>72,025,814</u> | <u>74,225,206</u> |
| CAPITAL AND RESERVES | | | | | |
| Issued capital | 48,319,577 | 45,448,577 | 48,038,077 | 45,444,577 | 45,444,577 |
| Reserves | 2,855,368 | 32,163,827 | 11,752,884 | 26,581,237 | 28,780,629 |
| | <u>51,174,945</u> | <u>77,612,404</u> | <u>59,790,961</u> | <u>72,025,814</u> | <u>74,225,206</u> |

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited Consolidated Income Statement, Consolidated Statement of Change of Equity and Consolidated Cash Flow Statement of the Group for the years ended 31 March 2004 and 31 March 2003, the audited Balance Sheets of the Group and the Company as at 31 March 2004 and 31 March 2003 together with accompanying notes as extracted from the annual report of the Company for the year ended 31 March 2004:

Consolidated Profit and Loss Account*Year ended 31 March 2004*

| | <i>Notes</i> | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> (Restated) |
|---|--------------|----------------------------|--|
| TURNOVER | 5 | 81,001,038 | 106,656,953 |
| Cost of sales | | <u>(70,651,252)</u> | <u>(74,245,795)</u> |
| Gross profit | | 10,349,786 | 32,411,158 |
| Other revenue and gains | | 2,668,955 | 1,859,990 |
| Selling and distribution costs | | (7,363,214) | (6,167,700) |
| Administrative expenses | | (18,174,067) | (19,016,953) |
| Other operating expenses | | <u>(140,000)</u> | <u>(3,869,077)</u> |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | 6 | (12,658,540) | 5,217,418 |
| Finance costs | 7 | (2,133,108) | (1,937,366) |
| Share of profits and losses of associates | | <u>–</u> | <u>(133,252)</u> |
| PROFIT/(LOSS) BEFORE TAX | | (14,791,648) | 3,146,800 |
| Tax | 10 | <u>(733,283)</u> | <u>(423,331)</u> |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 11 | <u><u>(15,524,931)</u></u> | <u><u>2,723,469</u></u> |
| EARNINGS/(LOSS) PER SHARE | 12 | | |
| Basic | | <u><u>(0.34 cents)</u></u> | <u><u>0.06 cents</u></u> |
| Diluted | | <u><u>N/A</u></u> | <u><u>N/A</u></u> |

Consolidated Balance Sheet

31 March 2004

| | <i>Notes</i> | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> (Restated) |
|--|--------------|----------------------------|--|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 99,151,697 | 96,063,722 |
| Interests in associates | 15 | – | – |
| Deferred tax assets | 26 | 459,469 | 491,441 |
| | | <u>99,611,166</u> | <u>96,555,163</u> |
| CURRENT ASSETS | | | |
| Inventories | 16 | 14,907,353 | 16,462,050 |
| Trade and bills receivables | 17 | 7,609,782 | 8,323,235 |
| Other receivables | | 3,232,067 | 2,434,527 |
| Due from associates | 18 | 3,000,000 | – |
| Pledged time deposits | 19 | 5,000,000 | – |
| Cash and cash equivalents | 19 | 1,690,698 | 9,521,288 |
| | | <u>35,439,900</u> | <u>36,741,100</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 20 | 9,764,435 | 9,144,336 |
| Tax payable | | 1,676,153 | 1,333,727 |
| Other payables and accruals | | 7,932,102 | 8,848,807 |
| Interest-bearing bank and other borrowings | 21 | 43,163,444 | 24,202,876 |
| Due to related parties | 24 | 1,721,698 | – |
| Due to directors | 25 | 289,167 | 374,167 |
| | | <u>64,546,999</u> | <u>43,903,913</u> |
| NET CURRENT LIABILITIES | | <u>(29,107,099)</u> | <u>(7,162,813)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 70,504,067 | 89,392,350 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | 22 | 4,745,415 | 11,626,920 |
| Finance lease payables | 23 | 594,442 | 469,806 |
| Deferred tax liabilities | 26 | 5,373,249 | 5,269,810 |
| | | <u>10,713,106</u> | <u>17,366,536</u> |
| | | <u>59,790,961</u> | <u>72,025,814</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 27 | 48,038,077 | 45,444,577 |
| Reserves | 29(a) | 11,752,884 | 26,581,237 |
| | | <u>59,790,961</u> | <u>72,025,814</u> |

Consolidated Statement of Changes in Equity

Year ended 31 March 2004

| Notes | Issued share capital HK\$ | Share premium account HK\$ | Goodwill HK\$ (Restated) | Reserves | | | Retained profits HK\$ (Restated) | Total HK\$ (Restated) | Total HK\$ (Restated) |
|--|------------------------------|-------------------------------|--------------------------------|--|-------------------------|--------------------------------------|--|-----------------------------|-----------------------------|
| | | | | Land and buildings revaluation reserve HK\$ (Restated) | Special reserve HK\$ | Exchange fluctuation reserve HK\$ | | | |
| At 1 April 2002: | 45,444,577 | 24,482,848 | (22,648,000) | 17,964,529 | (11,152,801) | 51,728 | 20,082,325 | 28,780,629 | 74,225,206 |
| As previously reported | | | | | | | | | |
| Prior year adjustment: | | | | | | | | | |
| SSAP 12 – restatement of deferred tax | - | - | 169,485 | (3,815,601) | - | - | 429,815 | (3,216,301) | (3,216,301) |
| As restated | 45,444,577 | 24,482,848 | (22,478,515) | 14,148,928 | (11,152,801) | 51,728 | 20,512,140 | 25,564,328 | 71,008,905 |
| Deficit on revaluation | - | - | - | (1,706,560) | - | - | - | (1,706,560) | (1,706,560) |
| Net profit for the year | - | - | - | - | - | - | 2,723,469 | 2,723,469 | 2,723,469 |
| At 31 March 2003 | <u>45,444,577</u> | <u>24,482,848</u> | <u>(22,478,515)</u> | <u>12,442,368</u> | <u>(11,152,801)</u> | <u>51,728</u> | <u>23,235,609</u> | <u>26,581,237</u> | <u>72,025,814</u> |
| At 1 April 2003: | | | | | | | | | |
| As previously reported | 45,444,577 | 24,482,848 | (22,648,000) | 17,882,271 | (11,152,801) | 51,728 | 22,743,560 | 31,359,606 | 76,804,183 |
| Prior year adjustment: | | | | | | | | | |
| SSAP 12 – restatement of deferred tax | - | - | 169,485 | (5,439,903) | - | - | 492,049 | (4,778,369) | (4,778,369) |
| As restated | 45,444,577 | 24,482,848 | (22,478,515) | 12,442,368 | (11,152,801) | 51,728 | 23,235,609 | 26,581,237 | 72,025,814 |
| Exercise of share option | 2,593,500 | - | - | - | - | - | - | - | 2,593,500 |
| Surplus on revaluation | - | - | - | 696,578 | - | - | - | 696,578 | 696,578 |
| Net loss for the year | - | - | - | - | - | - | (15,524,931) | (15,524,931) | (15,524,931) |
| At 31 March 2004 | <u>48,038,077</u> | <u>24,482,848</u> | <u>(22,478,515)</u> | <u>13,138,946</u> | <u>(11,152,801)</u> | <u>51,728</u> | <u>7,710,678</u> | <u>11,752,884</u> | <u>59,790,961</u> |
| Reserves retained by the Company and subsidiaries: | | | | | | | | | |
| 31 March 2004 | <u>48,038,077</u> | <u>24,482,848</u> | <u>(22,478,515)</u> | <u>13,138,946</u> | <u>(11,152,801)</u> | <u>51,728</u> | <u>7,710,678</u> | <u>11,752,884</u> | <u>59,790,961</u> |
| 31 March 2003 | <u>45,444,577</u> | <u>24,482,848</u> | <u>(22,478,515)</u> | <u>12,442,368</u> | <u>(11,152,801)</u> | <u>51,728</u> | <u>23,235,609</u> | <u>26,581,237</u> | <u>72,025,814</u> |

Consolidated Cash Flow Statement*Year ended 31 March 2004*

| | <i>Notes</i> | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
|--|--------------|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax | | (14,791,648) | 3,146,800 |
| Adjustments for: | | | |
| Finance costs | 7 | 2,133,108 | 1,937,366 |
| Share of profits and losses of associates | | – | 133,252 |
| Interest income | 6 | (21,524) | (7,634) |
| Depreciation | 6 | 3,446,202 | 2,958,391 |
| Revaluation deficit/(surplus) of investment properties | 6 | (440,000) | 1,503,400 |
| Revaluation deficit/(surplus) of land and buildings | 6 | (6,400) | 165,677 |
| Provision for slow-moving and obsolete inventories | 6 | 580,000 | – |
| Provision for amount due from an associate | 6 | – | 2,200,000 |
| Provision for bad and doubtful debts | 6 | 140,000 | – |
| Recovery of trade receivables | 6 | – | (501,001) |
| Recovery of amount due from an associate | 6 | – | (1,000,000) |
| | | <hr/> | <hr/> |
| Operating profit/(loss) before working capital changes | | (8,960,262) | 10,536,251 |
| Decrease/(increase) in inventories | | 974,697 | (445,747) |
| Decrease/(increase) in trade and bills receivables | | 573,453 | (1,455,988) |
| Increase in other receivables | | (797,540) | (398,343) |
| Decrease/(increase) in amounts due from associates | | (3,000,000) | 3,000,000 |
| Increase/(decrease) in trade payables | | 620,099 | (556,467) |
| Increase/(decrease) in other payables and accruals | | (916,705) | 1,032,868 |
| Decrease in amounts due to directors | | (85,000) | (148,657) |
| | | <hr/> | <hr/> |
| Cash generated from/(used in) operations | | (11,591,258) | 11,563,917 |
| Interest received | | 21,524 | 7,634 |
| Taxes paid | | – | (756,824) |
| | | <hr/> | <hr/> |
| Net cash inflow/(outflow) from operating activities | | (11,569,734) | 10,814,727 |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (4,636,645) | (5,436,998) |
| Increase in pledged time deposits | | (5,000,000) | – |
| Repayment of amount due from an associate | | – | 1,000,000 |
| | | <hr/> | <hr/> |
| Net cash outflow from investing activities | | (9,636,645) | (4,436,998) |
| | | <hr/> | <hr/> |

Consolidated Cash Flow Statement*Year ended 31 March 2004*

| | <i>Notes</i> | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
|--|--------------|----------------------------|----------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of share capital | 27 | 2,593,500 | – |
| New bank loans | | 26,321,302 | 21,722,021 |
| Repayment of bank loans | | (17,497,286) | (24,388,052) |
| Net addition/(repayment) of trust receipt loans | | (524,249) | 3,331,058 |
| Advances from related parties | | 1,721,698 | – |
| Repayment of amount due to a related company | | – | (5,346,183) |
| Capital element of finance lease rental payments | | (648,709) | (397,497) |
| Interest element of finance lease rental payments | | (83,201) | (59,789) |
| Interest paid | | <u>(2,049,907)</u> | <u>(1,877,577)</u> |
| Net cash inflow/(outflow) from financing activities | | <u>9,833,148</u> | <u>(7,016,019)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (11,373,231) | (638,290) |
| Cash and cash equivalents at beginning of year | | <u>8,808,935</u> | <u>9,447,225</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| | | <u><u>(2,564,296)</u></u> | <u><u>8,808,935</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 19 | 1,690,698 | 9,521,288 |
| Bank overdrafts | 21 | <u>(4,254,994)</u> | <u>(712,353)</u> |
| | | <u><u>(2,564,296)</u></u> | <u><u>8,808,935</u></u> |

Balance Sheet

31 March 2004

| | <i>Notes</i> | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
|--|--------------|----------------------------|----------------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 57,498 | 84,654 |
| Interests in subsidiaries | 14 | <u>53,785,689</u> | <u>55,396,611</u> |
| | | <u>53,843,187</u> | <u>55,481,265</u> |
| CURRENT ASSETS | | | |
| Other receivables | | 336,750 | – |
| Due from an associate | 18 | 1,500,000 | – |
| Cash and cash equivalents | 19 | <u>22,831</u> | <u>3,096,520</u> |
| | | <u>1,859,581</u> | <u>3,096,520</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 921,113 | 1,196,472 |
| Interest-bearing bank and other borrowings | 21 | 1,500,000 | 11,587 |
| Due to directors | 25 | <u>254,167</u> | <u>374,167</u> |
| | | <u>2,675,280</u> | <u>1,582,226</u> |
| NET CURRENT ASSETS/(LIABILITIES) | | <u>(815,699)</u> | <u>1,514,294</u> |
| | | <u><u>53,027,488</u></u> | <u><u>56,995,559</u></u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 27 | 48,038,077 | 45,444,577 |
| Reserves | 29(b) | <u>4,989,411</u> | <u>11,550,982</u> |
| | | <u><u>53,027,488</u></u> | <u><u>56,995,559</u></u> |

Notes to Financial Statements*31 March 2004***1. CORPORATE INFORMATION**

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

During the year, the Group was involved in the following principal activities:

- manufacture and sale of snap off blade cutters
- manufacture and sale of electronic consumer products, including toys and home appliances
- property investment

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) AND INTERPRETATION

The following revised SSAP and Interpretation is effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : “Income taxes”
- Interpretation 20 : “Income taxes – Recovery of revalued non-depreciable assets”

This SSAP and Interpretation prescribes new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP and Interpretation, are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- deferred tax liability has been recognised on the revaluation of the Group’s land and buildings; and
- a deferred tax asset has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) AND INTERPRETATION (continued)

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 26 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 26 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$15,524,931 (2003: net profit of HK\$2,723,469) during the year, reported net current liabilities of HK\$29,107,099 (2003: HK\$7,162,813) as at 31 March 2004, and reported a net cash outflow from operating activities of HK\$11,569,734 (2003: net cash inflow of HK\$10,814,727) and an overall decrease in cash and cash equivalents of HK\$11,373,231 (2003: HK\$638,290) for the year.

Notwithstanding its liquidity concerns as at 31 March 2004, 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) Subsequent to the balance sheet date, the Group has finalised negotiations with certain bankers which agreed to extend credit facilities of approximately HK\$30,400,000 to the Group.
- (b) In April 2004, Mrs. Chong Cheng Man Shan, who is the spouse of the Company’s chairman, Mr. Chong Sing Yuen, granted to the Group a standby facility of HK\$8,000,000 which enables the Group to have sufficient funds for operation purposes.
- (c) In June 2004, the Group was granted an extension of the repayment due date for 18 months in respect of a short term bank loan amounting to RMB3,000,000. In addition, a bank conditionally agreed to extend the repayment due dates for 18 months in respect of two bank loans amounting to RMB3,325,000 and RMB10,590,000 upon their maturities on 17 August 2004 and 27 September 2004, respectively.
- (d) In July 2004, the Group was granted an extension of the repayment due date for one year in respect of a short term bank loan amounting to US\$540,000. In addition, a bank conditionally agreed to extend the repayment due date for one year in respect of a short term bank loan amounting to HK\$3,000,000 upon its maturity on 16 August 2004.
- (e) In July 2004, Mrs. Chong Cheng Man Shan advanced a loan of HK\$5,660,000 to the Group for the repayment of a short term bank loan of the Group to be matured on 16 August 2004. The loan is unsecured, interest-free and is 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 aforementioned short term bank loan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of presentation (continued)**

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 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

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

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

Goodwill

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment properties**

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

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

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

Leased assets

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

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income tax**

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) management income, when the services are provided;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits***Paid leave carried forward*

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

Employment Ordinance long service payments

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

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

Retirement benefit scheme and other retirement benefits

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

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

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

Share option scheme

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currencies**

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

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

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

4. SEGMENT INFORMATION

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

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

- (a) the snap off blade cutters segment manufactures and sells snap off blade cutters;
- (b) the electronic consumer products segment manufactures and sells electronic consumer products; and
- (c) the corporate and other segment comprises corporate and rental income and expense item.

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

| | Snap off blade cutters | | Electronic consumer products | | Corporate and others | | Eliminations | | Consolidated | |
|---|---------------------------|-------------------|---------------------------------|-------------------|-------------------------|--------------------|--------------|--------------|---------------------|--------------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| | | | | | | | | | | (Restated) |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 47,642,313 | 44,496,640 | 30,229,484 | 59,506,358 | 3,129,241 | 2,653,955 | - | - | 81,001,038 | 106,656,953 |
| Other revenue and gains | 923,774 | 68 | 673,657 | 672,793 | 1,050,000 | 1,179,495 | - | - | 2,647,431 | 1,852,356 |
| Total | <u>48,566,087</u> | <u>44,496,708</u> | <u>30,903,141</u> | <u>60,179,151</u> | <u>4,179,241</u> | <u>3,833,450</u> | <u>-</u> | <u>-</u> | <u>83,648,469</u> | <u>108,509,309</u> |
| Segment results | <u>2,888,822</u> | <u>5,948,908</u> | <u>(11,386,540)</u> | <u>6,822,781</u> | <u>(4,182,346)</u> | <u>(7,561,905)</u> | <u>-</u> | <u>-</u> | <u>(12,680,064)</u> | <u>5,209,784</u> |
| Interest income | | | | | | | | | 21,524 | 7,634 |
| Profit/(loss) from operating activities | | | | | | | | | (12,658,540) | 5,217,418 |
| Finance costs | | | | | | | | | (2,133,108) | (1,937,366) |
| Share of profits and losses of associates | - | - | - | - | - | (133,252) | - | - | - | (133,252) |
| Profit/(loss) before tax | | | | | | | | | (14,791,648) | 3,146,800 |
| Tax | | | | | | | | | (733,283) | (423,331) |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | <u>(15,524,931)</u> | <u>2,723,469</u> |

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

| | Snap off blade cutters | | Electronic consumer products | | Corporate and others | | Eliminations | | Consolidated | |
|--|---------------------------|------------|---------------------------------|-------------|-------------------------|-----------|--------------|------|--------------|-------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| | | (Restated) | | (Restated) | | | | | | (Restated) |
| Segment assets | 26,523,484 | 25,302,022 | 100,972,022 | 99,378,163 | 7,096,091 | 8,124,637 | - | - | 134,591,597 | 132,804,822 |
| Unallocated assets | - | - | - | - | - | - | - | - | 459,469 | 491,441 |
| Total assets | | | | | | | | | 135,051,066 | 133,296,263 |
| Segment liabilities | 9,768,390 | 5,672,685 | 8,489,229 | 10,899,606 | 1,449,783 | 1,795,019 | - | - | 19,707,402 | 18,367,310 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | 55,552,703 | 42,903,139 |
| Total liabilities | | | | | | | | | 75,260,105 | 61,270,449 |
| Other segment information: | | | | | | | | | | |
| Depreciation | 554,766 | 600,919 | 2,864,280 | 2,083,124 | 27,156 | 274,348 | - | - | 3,446,202 | 2,958,391 |
| Recovery of amount due from an associate | - | - | - | - | - | 1,000,000 | - | - | - | 1,000,000 |
| Provision for amount due from an associate | - | - | - | - | - | 2,200,000 | - | - | - | 2,200,000 |
| Provision for bad and doubtful debts | - | - | 140,000 | - | - | - | - | - | 140,000 | - |
| Provision for slow-moving and obsolete inventories | - | - | 580,000 | - | - | - | - | - | 580,000 | - |
| Recovery of trade receivables | - | - | - | 501,001 | - | - | - | - | - | 501,001 |
| Revaluation surplus/(deficit) of investment properties recognised directly in the profit and loss account | - | - | (610,000) | (1,033,400) | 1,050,000 | (470,000) | - | - | 440,000 | (1,503,400) |
| Revaluation surplus/(deficit) of land and buildings recognised directly in the profit and loss account | 6,400 | (165,677) | - | - | - | - | - | - | 6,400 | (165,677) |
| Revaluation surplus/(deficit) of land and buildings recognised directly in equity | (4,399) | (246,466) | 700,977 | (1,460,094) | - | - | - | - | 696,578 | (1,706,560) |
| Capital expenditure | 1,031,778 | 4,183,140 | 4,614,867 | 1,781,476 | - | 237,382 | - | - | 5,646,645 | 6,201,998 |

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

Group

| | Hong Kong | | Mainland China | | Europe | | North America | | East Asia | | Others | | Eliminations | | Consolidated | |
|-----------------------------|------------|------------|----------------|-------------|------------|------------|---------------|------------|-----------|-----------|-----------|-----------|--------------|------|--------------|-------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| Segment revenue: | | | | | | | | | | | | | | | | |
| Sales to external customers | 33,972,767 | 60,822,797 | 1,723,538 | 1,321,831 | 19,831,606 | 21,413,167 | 10,461,465 | 11,947,296 | 5,694,548 | 2,533,742 | 9,317,114 | 8,618,120 | - | - | 81,001,038 | 106,656,953 |
| Other segment information: | | | | | | | | | | | | | | | | |
| Segment assets | 30,392,210 | 31,232,703 | 104,199,387 | 101,572,119 | - | - | - | - | - | - | - | - | - | - | 134,591,597 | 132,804,822 |
| Capital expenditure | 1,010,939 | 4,701,996 | 4,635,706 | 1,500,002 | - | - | - | - | - | - | - | - | - | - | 5,646,645 | 6,201,998 |

5. TURNOVER

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

Revenue from the following activities has been included in turnover:

| | Group | |
|--------------------------------------|-------------------|--------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Sale of snap off blade cutters | 47,642,313 | 44,496,640 |
| Sale of electronic consumer products | 30,229,484 | 59,506,358 |
| Gross rental income | 3,129,241 | 2,653,955 |
| | <u>81,001,038</u> | <u>106,656,953</u> |

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
|--|----------------------------|----------------------------|
| Depreciation | 3,446,202 | 2,958,391 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | – | 152,100 |
| Motor vehicles | 474,000 | 474,000 |
| | <u>474,000</u> | <u>626,100</u> |
| Auditors' remuneration | 480,000 | 420,000 |
| Staff costs (including directors' remuneration (<i>note 8</i>)): | | |
| Wages and salaries | 22,834,033 | 20,832,155 |
| Pension scheme contributions | 660,126 | 306,020 |
| | <u>23,494,159</u> | <u>21,138,175</u> |
| Exchange losses, net | 523,587 | 233,675 |
| Revaluation deficit/(surplus) of investment properties | (440,000) | 1,503,400 |
| Revaluation deficit/(surplus) of land and buildings | (6,400) | 165,677 |
| Provision for amount due from an associate | – | 2,200,000 |
| Provision for bad and doubtful debts | 140,000 | – |
| Provision for slow-moving and obsolete inventories | 580,000 | – |
| Recovery of trade receivables | – | (501,001) |
| Recovery of amount due from an associate | – | (1,000,000) |
| Interest income | (21,524) | (7,634) |
| | <u><u>(21,524)</u></u> | <u><u>(7,634)</u></u> |

7. FINANCE COSTS

| | Group | |
|--|----------------------------|----------------------------|
| | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
| Interest on bank loans, overdrafts and other loans | | |
| wholly repayable within five years | 1,788,733 | 1,589,086 |
| Interest on bank loans wholly repayable after five years | 261,174 | 288,491 |
| Interest on finance leases | 83,201 | 59,789 |
| | <u>2,133,108</u> | <u>1,937,366</u> |
| | <u><u>2,133,108</u></u> | <u><u>1,937,366</u></u> |

8. DIRECTORS' REMUNERATION

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

| | Group | |
|---|------------------|------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Fees: | | |
| Independent non-executive directors | 200,000 | 200,000 |
| Other emoluments: | | |
| Executive directors | | |
| Salaries, allowances and benefits in kind | 7,965,398 | 7,230,380 |
| Pension scheme contributions | 119,430 | 99,171 |
| | <u>8,084,828</u> | <u>7,329,551</u> |
| | <u>8,284,828</u> | <u>7,529,551</u> |

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

| | Number of directors | |
|--------------------------------|----------------------------|-------------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 9 | 9 |
| HK\$4,500,001 to HK\$5,000,000 | – | 1 |
| HK\$5,000,001 to HK\$5,500,000 | 1 | – |
| | <u>10</u> | <u>10</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees are as follows:

| | Group | |
|---|------------------|------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Salaries, allowances and benefits in kind | 1,723,007 | 1,489,397 |
| Pension scheme contributions | 24,000 | 24,000 |
| | <u>1,747,007</u> | <u>1,513,397</u> |

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

| | Number of employees | |
|--------------------------------|----------------------------|-------------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 1 | 2 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | – |
| | <u>2</u> | <u>2</u> |

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|-------------------------------|----------------|----------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| | | (Restated) |
| Current – Hong Kong | | |
| Charge for the year | 251,000 | 150,000 |
| Overprovision in prior years | – | – |
| Current – Elsewhere | 91,426 | 335,565 |
| Deferred (<i>note 26</i>) | 390,857 | (62,234) |
| | <u>733,283</u> | <u>423,331</u> |
| Total tax charge for the year | <u>733,283</u> | <u>423,331</u> |

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

| | Hong Kong | | Mainland China | | Total | |
|--|---------------------|---------------|---------------------------|---------------|---------------------|---------------|
| | <i>HK\$</i> | % | <i>HK\$</i> | % | <i>HK\$</i> | % |
| Loss before tax | <u>(13,780,210)</u> | | <u>(1,011,438)</u> | | <u>(14,791,648)</u> | |
| Tax at the statutory tax rate | (2,411,536) | 17.5 | (333,775) | 33.0 | (2,745,311) | 18.6 |
| Lower tax rate for specific provinces or local authority | – | – | 201,918 | (20.0) | 201,918 | (1.3) |
| Income not subject to tax | (510,142) | 3.7 | – | – | (510,142) | 3.4 |
| Expenses not deductible for tax | 180,188 | (1.3) | 578,779 | (57.2) | 758,967 | (5.2) |
| Tax losses not recognised as deferred tax assets | <u>3,027,851</u> | <u>(22.0)</u> | <u>–</u> | <u>–</u> | <u>3,027,851</u> | <u>(20.5)</u> |
| Tax charge at the Group's effective rate | <u>286,361</u> | <u>(2.1)</u> | <u>446,922</u> | <u>(44.2)</u> | <u>733,283</u> | <u>(5.0)</u> |

Group – 2003

| | Hong Kong | | Mainland China | | Total | |
|--|--------------------|---------------|---------------------------|------------|------------------|-------------|
| | <i>HK\$</i> | % | <i>HK\$</i> | % | <i>HK\$</i> | % |
| Profit/(loss) before tax | <u>(6,182,958)</u> | | <u>9,329,758</u> | | <u>3,146,800</u> | |
| Tax at the statutory tax rate | (989,274) | 16.0 | 3,078,820 | 33.0 | 2,089,546 | 66.4 |
| Lower tax rate for specific provinces or local authority | (39,820) | 0.6 | (2,354,107) | (25.2) | (2,393,927) | (76.1) |
| Income not subject to tax | (395,072) | 6.4 | (458,183) | (4.9) | (853,255) | (27.1) |
| Expenses not deductible for tax | 557,247 | (9.0) | – | – | 557,247 | 17.7 |
| Tax losses not recognised as deferred tax assets | <u>1,023,720</u> | <u>(16.5)</u> | <u>–</u> | <u>–</u> | <u>1,023,720</u> | <u>32.6</u> |
| Tax charge at the Group's effective rate | <u>156,801</u> | <u>(2.5)</u> | <u>266,530</u> | <u>2.9</u> | <u>423,331</u> | <u>13.5</u> |

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$6,561,571 (2003: profit of HK\$26,622,103).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$15,524,931 (2003: profit of HK\$2,723,469) and the weighted average of 4,548,528,197 (2003: 4,544,457,705) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the year ended 31 March 2004 and 2003 have not been disclosed as the impact of the potential ordinary shares was anti-dilutive during these years.

13. FIXED ASSETS**Group**

| | Investment properties HK\$ | Land and buildings HK\$ | Leasehold improve- ments HK\$ | Plant and machinery HK\$ | Furniture and fixtures HK\$ | Motor vehicles HK\$ | Total HK\$ |
|-------------------------------------|----------------------------------|-------------------------------|--|--------------------------------|-----------------------------------|---------------------------|--------------------|
| Cost or valuation: | | | | | | | |
| At beginning of year | 47,521,000 | 44,389,000 | 5,369,827 | 30,049,201 | 10,277,278 | 1,375,597 | 138,981,903 |
| Additions | - | - | 3,374,323 | 1,892,734 | 379,588 | - | 5,646,645 |
| Disposals | - | - | - | (658,962) | - | - | (658,962) |
| Surplus/(deficit) on revaluation | 440,000 | (670,000) | - | - | - | - | (230,000) |
| At 31 March 2004 | 47,961,000 | 43,719,000 | 8,744,150 | 31,282,973 | 10,656,866 | 1,375,597 | 143,739,586 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | - | - | 8,744,150 | 31,282,973 | 10,656,866 | 1,375,597 | 52,059,586 |
| At 31 March 2004 valuation | 47,961,000 | 43,719,000 | - | - | - | - | 91,680,000 |
| | <u>47,961,000</u> | <u>43,719,000</u> | <u>8,744,150</u> | <u>31,282,973</u> | <u>10,656,866</u> | <u>1,375,597</u> | <u>143,739,586</u> |
| Accumulated depreciation: | | | | | | | |
| At beginning of year | - | - | 3,359,352 | 28,680,376 | 9,502,856 | 1,375,597 | 42,918,181 |
| Provided during the year | - | 1,117,532 | 1,097,656 | 707,852 | 523,162 | - | 3,446,202 |
| Disposals | - | - | - | (658,962) | - | - | (658,962) |
| Eliminated on revaluation | - | (1,117,532) | - | - | - | - | (1,117,532) |
| At 31 March 2004 | - | - | 4,457,008 | 28,729,266 | 10,026,018 | 1,375,597 | 44,587,889 |
| Net book value: | | | | | | | |
| At 31 March 2004 | <u>47,961,000</u> | <u>43,719,000</u> | <u>4,287,142</u> | <u>2,553,707</u> | <u>630,848</u> | <u>-</u> | <u>99,151,697</u> |
| At 31 March 2003 | <u>47,521,000</u> | <u>44,389,000</u> | <u>2,010,475</u> | <u>1,368,825</u> | <u>774,422</u> | <u>-</u> | <u>96,063,722</u> |

13. FIXED ASSETS (Continued)

Company

| | Furniture and fixtures HK\$ |
|---|--|
| Cost: | |
| At beginning of year and at 31 March 2004 | 135,782 |
| Accumulated depreciation: | |
| At beginning of year | 51,128 |
| Provided during the year | 27,156 |
| At 31 March 2004 | 78,284 |
| Net book value: | |
| At 31 March 2004 | 57,498 |
| At 31 March 2003 | 84,654 |

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery and furniture and fixtures at 31 March 2004 were HK\$1,705,274 (2003: HK\$792,213) and nil (2003: HK\$354,174), respectively.

The Group's land and buildings were revalued individually on 31 March 2004 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$6,340,000 based on their existing use, and at HK\$37,379,000 using the depreciated replacement cost method, as appropriate. Revaluation surplus of HK\$696,578 (2003: deficit of HK\$1,706,560) and HK\$6,400 (2003: deficit of HK\$165,677), resulting from the above valuations, have been charged to the land and buildings revaluation reserve and profit and loss account, respectively.

Had these land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK\$29,797,575 (2003: HK\$30,707,695).

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

| | <i>Notes</i> | Hong Kong HK\$ | Elsewhere HK\$ | Total HK\$ |
|--------------------|--------------|---------------------------|---------------------------|-----------------------|
| At valuation: | | | | |
| Long term leases | (i) | 6,340,000 | – | 6,340,000 |
| Medium term leases | (ii) | – | 37,379,000 | 37,379,000 |
| | | <u>6,340,000</u> | <u>37,379,000</u> | <u>43,719,000</u> |

Notes:

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

13. FIXED ASSETS (continued)

The Group's investment properties included above are held under the following lease term:

| | Hong Kong <i>HK\$</i> | Elsewhere <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------|---------------------------------|---------------------------------|-----------------------------|
| At valuation: | | | |
| Medium term leases | <u>6,000,000</u> | <u>41,961,000</u> | <u>47,961,000</u> |

The Group's investment properties were revalued on 31 March 2004 by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, at HK\$47,961,000 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 34 to the financial statements.

At 31 March 2004, the Group's investment properties with a value of HK\$47,961,000 (2003: HK\$47,521,000) and the Group's land and buildings with a net book value of HK\$34,396,469 (2003: HK\$18,293,848) were pledged to secure general banking facilities granted to the Group (note 22).

14. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|----------------------------|----------------------------|
| | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
| Unlisted shares, at cost | 35,741,016 | 35,741,016 |
| Due from subsidiaries | 69,320,052 | 103,770,688 |
| Due to subsidiaries | <u>(15,518,083)</u> | <u>(48,357,797)</u> |
| | 89,542,985 | 91,153,907 |
| Provision for impairment | <u>(35,757,296)</u> | <u>(35,757,296)</u> |
| | <u>53,785,689</u> | <u>55,396,611</u> |

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out in note 31 to the financial statements.

15. INTERESTS IN ASSOCIATES

| | Group | |
|--------------------------|----------------------------|----------------------------|
| | 2004 <i>HK\$</i> | 2003 <i>HK\$</i> |
| Share of net assets | – | – |
| Due from associates | <u>16,025,387</u> | <u>15,713,271</u> |
| | 16,025,387 | 15,713,271 |
| Provision for impairment | <u>(16,025,387)</u> | <u>(15,713,271)</u> |
| | <u>–</u> | <u>–</u> |

15. INTERESTS IN ASSOCIATES (continued)

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

Particulars of the associates are as follows:

| Name | Business structure | Place of incorporation and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---------------------------------------|---------------------------|--|---|-----------------------------------|
| Levington Associates Limited* | Corporate | British Virgin Islands | 50 | Investment holding |
| Northern Newland Engineering Limited* | Corporate | Hong Kong | 40 | Provision of engineering services |

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

The financial statements of the above associates are coterminous with those of the Group, except for Northern Newland Engineering Limited which has a financial year ending 30 April. The Group's financial statements have taken into account the results of Northern Newland Engineering Limited between 1 May 2003 and 31 March 2004.

16. INVENTORIES

| | Group | |
|------------------|-------------------|-------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Raw materials | 10,679,308 | 11,263,449 |
| Work in progress | 2,425,270 | 2,504,819 |
| Finished goods | 1,802,775 | 2,693,782 |
| | <u>14,907,353</u> | <u>16,462,050</u> |

17. 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. An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, and net of provisions, is as follows:

| | Group | |
|----------------|------------------|------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Within 60 days | 6,659,435 | 7,647,831 |
| 61 to 90 days | 57,701 | 105,319 |
| Over 91 days | 892,646 | 570,085 |
| | <u>7,609,782</u> | <u>8,323,235</u> |

18. DUE FROM AN ASSOCIATE

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

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | <i>Note</i> | Group | | Company | |
|-----------------------------|-------------|------------------|------------------|----------------|------------------|
| | | 2004 | 2003 | 2004 | 2003 |
| | | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Cash and bank balances | | 1,690,698 | 9,521,288 | 22,831 | 3,096,520 |
| Time deposits | | 5,000,000 | – | – | – |
| | | <u>6,690,698</u> | <u>9,521,288</u> | <u>22,831</u> | <u>3,096,520</u> |
| Less: pledged time deposits | 22(iii) | (5,000,000) | – | – | – |
| | | <u>1,690,698</u> | <u>9,521,288</u> | <u>22,831</u> | <u>3,096,520</u> |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$1,130,000 (2003: HK\$1,195,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Purchase of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES

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

| | Group | |
|----------------|------------------|------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Within 60 days | 6,033,316 | 5,768,010 |
| 61 to 90 days | 292,778 | 1,254,094 |
| Over 91 days | 3,438,341 | 2,122,232 |
| | <u>9,764,435</u> | <u>9,144,336</u> |

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | <i>Note</i> | Group | | Company | |
|---|-------------|-------------------|-------------------|------------------|---------------|
| | | 2004 | 2003 | 2004 | 2003 |
| | | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Bank overdrafts | | | | | |
| – unsecured | 22 | 4,254,994 | 712,353 | – | – |
| Current portion of bank and other loans | 22 | 38,272,051 | 23,090,779 | 1,500,000 | – |
| | | <u>42,527,045</u> | <u>23,803,132</u> | <u>1,500,000</u> | <u>–</u> |
| Current portion of finance lease payables | 23 | 636,399 | 399,744 | – | 11,587 |
| | | <u>43,163,444</u> | <u>24,202,876</u> | <u>1,500,000</u> | <u>11,587</u> |

22. INTEREST-BEARING BANK LOANS AND OVERDRAFTS, AND OTHER LOANS

| | Group | | Company | |
|---|---------------------|---------------------|--------------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Bank overdrafts: | | | | |
| Secured | 4,214,102 | – | – | – |
| Unsecured | 40,892 | 712,353 | – | – |
| | <u>4,254,994</u> | <u>712,353</u> | <u>–</u> | <u>–</u> |
| Bank loans: | | | | |
| Secured | 41,517,466 | 34,717,699 | – | – |
| Unsecured | – | – | – | – |
| | <u>41,517,466</u> | <u>34,717,699</u> | <u>–</u> | <u>–</u> |
| Other loans: | | | | |
| Unsecured | 1,500,000 | – | 1,500,000 | – |
| | <u>47,272,460</u> | <u>35,430,052</u> | <u>1,500,000</u> | <u>–</u> |
| | | | | |
| | Group | | Company | |
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Bank overdrafts repayable within one year or on demand | <u>4,254,994</u> | <u>712,353</u> | <u>–</u> | <u>–</u> |
| Bank loans repayable: | | | | |
| Within one year or on demand | 36,772,051 | 23,090,779 | – | – |
| In the second year | 953,735 | 6,874,580 | – | – |
| In the third to fifth years, inclusive | 1,974,533 | 2,582,860 | – | – |
| Beyond five years | 1,817,147 | 2,169,480 | – | – |
| | <u>41,517,466</u> | <u>34,717,699</u> | <u>–</u> | <u>–</u> |
| Other loans repayable: | | | | |
| Within one year or on demand | 1,500,000 | – | 1,500,000 | – |
| | <u>47,272,460</u> | <u>35,430,052</u> | <u>1,500,000</u> | <u>–</u> |
| Portion classified as current liabilities (note 21) | <u>(42,527,045)</u> | <u>(23,803,132)</u> | <u>(1,500,000)</u> | <u>–</u> |
| Long term portion | <u>4,745,415</u> | <u>11,626,920</u> | <u>–</u> | <u>–</u> |

Certain of the Group's bank loans are secured by:

- (i) mortgages over the Group's investment properties, which had an aggregate carrying value at the balance sheet date of HK\$47,961,000 (2003: HK\$47,521,000);
- (ii) mortgages over certain of the Group's land and buildings, which had an aggregate net book value at the balance sheet date of HK\$34,396,469 (2003: HK\$18,293,848); and
- (iii) the pledge of the Group's time deposits amounting to HK\$5,000,000 (2003: Nil).

23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and furniture and fixtures for its business. These leases are classified as finance lease and have remaining lease terms ranging from one to five years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

| | Minimum lease payments 2004 HK\$ | Minimum lease payments 2003 HK\$ | Present value of minimum lease payments 2004 HK\$ | Present value of minimum lease payments 2003 HK\$ |
|---|---|---|--|--|
| Amounts payable: | | | | |
| Within one year | 687,297 | 442,866 | 636,399 | 399,744 |
| In the second year | 461,874 | 354,394 | 449,708 | 336,008 |
| In the third to fifth years, inclusive | 160,854 | 140,800 | 144,734 | 133,798 |
| | <u>1,310,025</u> | <u>938,060</u> | <u>1,230,841</u> | <u>869,550</u> |
| Total minimum lease payments | 1,310,025 | 938,060 | <u>1,230,841</u> | <u>869,550</u> |
| Future finance charges | (79,184) | (68,510) | | |
| | <u>1,230,841</u> | <u>869,550</u> | | |
| Total net finance lease payables | 1,230,841 | 869,550 | | |
| Portion classified as current liabilities (<i>note 21</i>) | (636,399) | (399,744) | | |
| | <u>594,442</u> | <u>469,806</u> | | |
| Long term portion | <u>594,442</u> | <u>469,806</u> | | |

Company

| | Minimum lease payments 2004 HK\$ | Minimum lease payments 2003 HK\$ | Present value of minimum lease payments 2004 HK\$ | Present value of minimum lease payments 2003 HK\$ |
|---|---|---|--|--|
| Amounts payable: | | | | |
| Within one year | – | 11,777 | – | 11,587 |
| In the second year | – | – | – | – |
| | <u>–</u> | <u>11,777</u> | <u>–</u> | <u>11,587</u> |
| Total minimum lease payments | – | 11,777 | <u>–</u> | <u>11,587</u> |
| Future finance charges | – | (190) | | |
| | <u>–</u> | <u>11,587</u> | | |
| Total net finance lease payables | – | 11,587 | | |
| Portion classified as current liabilities (<i>note 20</i>) | – | (11,587) | | |
| | <u>–</u> | <u>–</u> | | |
| Long term portion | <u>–</u> | <u>–</u> | | |

24. DUE TO RELATED PARTIES

The amount represented advances made to the Group by Mrs. Chong Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, and Mr. Chong Chun Chung, a son of Mr. Chong Sing Yuen.

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

25. DUE TO DIRECTORS

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

26. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated balance sheet:

| | Group | |
|--------------------------|--------------------|--------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| | | (Restated) |
| Deferred tax assets | 459,469 | 491,441 |
| Deferred tax liabilities | (5,373,249) | (5,269,810) |
| | <u>(4,913,780)</u> | <u>(4,778,369)</u> |

The components of deferred tax assets and liabilities and the movements during the year are as follows:

Group

| | 2004 | | | |
|---------------------------------------|------------------------|-----------------------|----------------------|--------------------|
| | Accelerated tax | Fair value | Revaluation | Total |
| | depreciation | adjustments | of properties | HK\$ |
| | <i>HK\$</i> | arising from | <i>HK\$</i> | <i>HK\$</i> |
| | | acquisition of | | |
| | | subsidiaries | | |
| | | <i>HK\$</i> | | |
| At 1 April 2003 | | | | - |
| As previously reported | - | - | - | - |
| Prior year adjustment: | | | | |
| SSAP 12 – restatement | | | | |
| of deferred tax | 501,207 | 169,485 | (5,449,061) | (4,778,369) |
| | <u>501,207</u> | <u>169,485</u> | <u>(5,449,061)</u> | <u>(4,778,369)</u> |
| As restated | 501,207 | 169,485 | (5,449,061) | (4,778,369) |
| Deferred tax credited to equity | | | | |
| during the year | - | - | 255,446 | 255,446 |
| Deferred tax charged | | | | |
| to the profit and loss account | | | | |
| during the year (note 10) | (386,148) | - | (4,709) | (390,857) |
| | <u>(386,148)</u> | <u>-</u> | <u>(4,709)</u> | <u>(390,857)</u> |
| Net deferred tax assets/(liabilities) | | | | |
| at 31 March 2004 | <u>115,059</u> | <u>169,485</u> | <u>(5,198,324)</u> | <u>(4,913,780)</u> |

26. DEFERRED TAX (continued)

Group

| | 2003 | | | |
|---|---|---|--------------------------------------|--------------------|
| | Accelerated tax depreciation HK\$ | Fair value adjustments arising from acquisition of subsidiaries HK\$ | Revaluation of properties HK\$ | Total HK\$ |
| At 1 April 2002 | | | | |
| As previously reported | – | – | – | – |
| Prior year adjustment: SSAP 12 – restatement of deferred tax | 429,815 | 169,485 | (3,815,601) | (3,216,301) |
| As restated | 429,815 | 169,485 | (3,815,601) | (3,216,301) |
| Deferred tax debited to equity during the year | – | – | (1,624,302) | (1,624,302) |
| Deferred tax credited/(charged) to the profit and loss account during the year (<i>note 10</i>) | 71,392 | – | (9,158) | 62,234 |
| Gross deferred tax liabilities at 31 March 2003 | <u>501,207</u> | <u>169,485</u> | <u>(5,449,061)</u> | <u>(4,778,369)</u> |

The Group has tax losses arising in Hong Kong of HK\$65,251,262 (2003: HK\$47,949,256) 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 2004, there is no significant unrecognised deferred tax liability (2003: 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.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. As a consequence of the adoption of this revised SSAP, net amounts of HK\$390,857 were charged to the consolidated profit and loss account for the year ended 31 March 2004 in respect of the deferred tax of the Group.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The comparative statements for the year ended 31 March 2003 have been restated to conform to the new policy. The effect of the change in this accounting policy on the consolidated financial statements in respect of the year ended 31 March 2003 is summarised below:

- (i) deferred tax assets and liabilities as at 31 March 2003 have been increased by HK\$491,441 and HK\$5,269,810, respectively; and
- (ii) retained profits and goodwill as at 31 March 2003 have been increased by HK\$492,049 and HK\$169,485, respectively, and the land and buildings revaluation reserve as at 31 March 2003 has been decreased by HK\$5,439,903.

27. SHARE CAPITAL

Shares

| | 2004 HK\$ | 2003 HK\$ |
|---|--------------------|--------------------|
| <i>Authorised:</i> | | |
| 30,000,000,000 ordinary shares of HK\$0.01 each | <u>300,000,000</u> | <u>300,000,000</u> |
| <i>Issued and fully paid:</i> | | |
| 4,803,807,705 (2003: 4,544,457,705) ordinary shares of HK\$0.01 each | <u>48,038,077</u> | <u>45,444,577</u> |

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

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

| | Number of shares in issue | Issued share capital HK\$ |
|----------------------------------|------------------------------|---------------------------------|
| At 1 April 2002 and 1 April 2003 | 4,544,457,705 | 45,444,577 |
| Share options exercised | <u>259,350,000</u> | <u>2,593,500</u> |
| At 31 March 2004 | <u>4,803,807,705</u> | <u>48,038,077</u> |

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

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

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

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

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

28. SHARE OPTION SCHEME (continued)

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.

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

| Name or category of participant | At 1 April 2003 | Granted during the year | Number of share options | | Cancelled during the year | At 31 March 2004 | Date of grant of share options** | Exercise period of share options | Exercise price of share options*** | Price of Company's shares at exercise date of options**** |
|---------------------------------|--------------------|-------------------------|---------------------------|------------------------|---------------------------|-------------------|----------------------------------|----------------------------------|------------------------------------|---|
| | | | Exercised during the year | Lapsed during the year | | | | | HKS | HKS |
| Directors | | | | | | | | | | |
| Mr. Chong Sing Yuen | 3,350,000 | - | - | - | - | 3,350,000 | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | N/A |
| Mr. Sun Tak Yan, Desmond | 45,000,000 | - | (10,000,000) | - | - | 35,000,000 | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.026 |
| Mr. Chong Chun Kwok, Piggy | 45,000,000 | - | (45,000,000) | - | - | - | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.026 |
| Mr. Chong Chun Man | 45,000,000 | - | (45,000,000) | - | - | - | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.025 |
| Mr. Chu Kiu Fat | 45,000,000 | - | (45,000,000) | - | - | - | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.028 |
| Mr. Wong Siu Keung, Joe | 45,000,000 | - | (10,000,000) | - | - | 35,000,000 | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.028 |
| Mr. Chu Bu Yang, Alexander | 4,500,000 | - | - | - | - | 4,500,000 | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | N/A |
| Mr. Chong Chun Hing | 4,500,000 | - | (4,500,000) | - | - | - | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.024 |
| Mr. Wong, Bingley | 4,500,000 | - | (4,500,000) | - | - | - | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | 0.027 |
| | 241,850,000 | - | (164,000,000) | - | - | 77,850,000 | | | | |
| Employees | | | | | | | | | | |
| Mrs. Chong Cheng Man Shan* | 1,150,000 | - | - | - | - | 1,150,000 | 30-10-2002 | 30-10-02 to 29-10-12 | 0.01 | N/A |
| Other employees | 102,350,000 | - | (95,350,000) | - | (550,000) | 6,450,000 | 31-10-2002 | 31-10-02 to 30-10-12 | 0.01 | 0.026 |
| | 103,500,000 | - | (95,350,000) | - | (550,000) | 7,600,000 | | | | |
| Total | 345,350,000 | - | (259,350,000) | - | (550,000) | 85,450,000 | | | | |

* 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.

28. SHARE OPTION SCHEME (continued)

The 259,350,000 share options exercised during the year resulted in the issue of 259,350,000 ordinary shares of the Company and new share capital of HK\$2,593,500, as detailed in note 27 to the financial statements.

At the balance sheet date, the Company had 85,450,000 share options outstanding under the Scheme which represented approximately 1.8% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 85,450,000 additional ordinary shares of the Company and additional share capital of HK\$854,500.

29. 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 on page 21 of the financial statements.

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 April 2002, were HK\$22,478,515 as at 1 April 2003 and 31 March 2004. The amount of goodwill is stated at its cost.

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

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

(b) Company

| | <i>Notes</i> | Share premium account HK\$ | Accumulated losses HK\$ | Total HK\$ |
|--------------------------------------|--------------|---|--|-----------------------|
| At 1 April 2002 | | 24,482,848 | (39,553,969) | (15,071,121) |
| Net profit for the year | 11 | — | 26,622,103 | 26,622,103 |
| At 31 March 2003 and 1 April 2003 | | 24,482,848 | (12,931,866) | 11,550,982 |
| Net loss for the year | 11 | — | (6,561,571) | (6,561,571) |
| At 31 March 2004 | | <u>24,482,848</u> | <u>(19,493,437)</u> | <u>4,989,411</u> |

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**Major non-cash transactions**

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,010,000 (2003: HK\$765,000).

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|--|--|----------|---|
| | | | Direct | Indirect | |
| Goodfit Products Company Limited | Hong Kong | HK\$1,000 Ordinary HK\$1,000,000 Non-voting deferred* | – | 100 | Sale of electronic consumer products |
| Northern Industrial (Panyu) Co., Ltd.# | Mainland China | HK\$95,000,000 Registered | – | 100 | Manufacture of electronic consumer products |
| Superior Trump Limited | Hong Kong | HK\$10,000 Ordinary | – | 100 | Property investment |
| Tung Hing Plastic (Panyu) Co., Ltd.# | Mainland China | US\$1,800,000 Registered | – | 100 | Manufacture of snap off blade cutters |
| Tung Hing Products Company Limited | Hong Kong | HK\$100 Ordinary | – | 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 People's Republic of China as a wholly foreign-owned enterprise

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

32. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|--------------|------------------|-------------------|-------------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Bills discounted with recourse | – | 2,207,676 | – | – |
| Guarantees given to banks in connection with facilities granted to subsidiaries | – | – | 88,137,723 | 60,288,000 |
| | <u>–</u> | <u>2,207,676</u> | <u>88,137,723</u> | <u>60,288,000</u> |

(b) The Group has 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 HK\$279,000 as at 31 March 2004, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

33. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by assets of the Group are included in note 22 to the financial statements.

34. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits.

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

| | Group | |
|---|-------------------|-------------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Within one year | 3,405,266 | 2,923,765 |
| In the second to fifth years, inclusive | 9,284,548 | 8,510,854 |
| Over five years | 3,017,770 | 3,970,750 |
| | <u>15,707,584</u> | <u>15,405,369</u> |

(b) As lessee

The Group leases certain of its motor vehicles under operating lease arrangements. Leases for motor vehicles are negotiated for term of one year.

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

| | Group | |
|-----------------|----------------|----------------|
| | 2004 | 2003 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Motor vehicles: | | |
| Within one year | <u>197,500</u> | <u>197,500</u> |

35. COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant commitments, other than the operating lease commitments detailed in note 34 above.

36. RELATED PARTY TRANSACTIONS

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

- (i) During the year, the Group paid rentals of approximately HK\$474,000 (2003: 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 34(b) to the financial statements.
- (ii) As at 31 March 2004, Twin Base had pledged certain of its property interests to a bank to secure the credit facilities to the extent of HK\$12,899,980 (2003: HK\$12,899,980) granted to the Group.

36. RELATED PARTY TRANSACTIONS (continued)

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

| | <i>Notes</i> | Group | |
|--|--------------|----------------|----------------|
| | | 2004 | 2003 |
| | | <i>HK\$</i> | <i>HK\$</i> |
| Purchases of raw materials from an associate | (i) | 485,473 | 352,508 |
| Management fee received from an associate | (ii) | <u>144,000</u> | <u>144,000</u> |

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

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

During the year, the Group advanced HK\$3,000,000 to its associates. These advances are unsecured, interest-free and are repayable on demand.

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

(d) During the year, Mrs. Chong Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, and Mr. Chong Chun Chung, a son of Mr. Chong Sing Yuen, advanced approximately HK\$1,722,000 in aggregate to the Group. The advances are unsecured, interest-free and are repayable on demand.

(e) During the year, Mr. Chong Sing Yuen advanced shareholder's loans of approximately HK\$5,992,000 in aggregate to the Group. These shareholder's loans were unsecured, interest-free and were fully repaid during the year.

37. POST BALANCE SHEET EVENTS

(a) On 1 April 2004, the Group and Mrs. Chong Cheng Man Shan entered into a facility agreement pursuant to which Mrs. Chong Cheng Man Shan 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 is to enable the Group to have sufficient funds for its operations. The Facility is unsecured and interest-free.

(b) On 23 June 2004, the Group was granted an extension of the repayment due date for 18 months in respect of a short term bank loan amounting to RMB3,000,000. In addition, on 22 June 2004, a bank conditionally agreed to extend the repayment due dates for 18 months in respect of two bank loans amounting to RMB3,325,000 and RMB10,590,000 upon their maturities on 17 August 2004 and 27 September 2004, respectively.

(c) On 15 July 2004, the Group was granted an extension of the repayment due date for one year in respect of a short term bank loan amounting to US\$540,000. In addition, on 20 July 2004, a bank conditionally agreed to extend the repayment due date for one year in respect of a short term bank loan amounting to HK\$3,000,000 upon its maturity on 16 August 2004.

(d) On 23 July 2004, the Group and Mrs. Chong Cheng Man Shan entered into a loan agreement pursuant to which Mrs. Chong Cheng Man Shan agreed to grant to the Group a loan of HK\$5,660,000 for the repayment of a short term bank loan of the Group to be matured in August 2004. The loan is unsecured, interest-free and is 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 aforementioned short term bank loan.

The full principal amount was drawn down by the Group on 23 July 2004.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP 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 prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2004.

4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2004 extracted from pages 1 to 14 of 2004 interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

| | <i>Notes</i> | Six months ended | |
|---|--------------|----------------------------|--------------------------|
| | | 30 September | |
| | | 2004 | 2003 |
| | | (Unaudited) | (Unaudited) |
| | | <i>HK\$</i> | <i>HK\$</i> |
| Turnover | 5 | 33,875,981 | 47,060,594 |
| Cost of sales | | <u>(31,017,463)</u> | <u>(34,157,109)</u> |
| Gross profit | | 2,858,518 | 12,903,485 |
| Other revenue and gains | | 975,233 | 1,302,295 |
| Selling and distribution costs | | (3,027,946) | (3,638,335) |
| Administrative expenses | | <u>(8,459,865)</u> | <u>(8,903,896)</u> |
| Profit/(Loss) from operating activities | 6 | (7,654,060) | 1,663,549 |
| Finance costs | | <u>(1,243,456)</u> | <u>(838,133)</u> |
| Profit/(Loss) before tax | | (8,897,516) | 825,416 |
| Tax | 7 | <u>–</u> | <u>(21,195)</u> |
| Net profit/(loss) from ordinary activities attributable to shareholders | | <u><u>(8,897,516)</u></u> | <u><u>804,221</u></u> |
| Earnings/(Loss) per share – Basic | 8 | <u><u>(0.18) cents</u></u> | <u><u>0.02 cents</u></u> |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

| | | As at 30 September 2004 (Unaudited) HK\$ | As at 31 March 2004 (Audited) HK\$ |
|--|----|--|--|
| Non-current assets | | | |
| Fixed assets | 9 | 98,257,205 | 99,151,697 |
| Deferred assets | | 459,469 | 459,469 |
| | | <u>98,716,674</u> | <u>99,611,166</u> |
| Current assets | | | |
| Inventories | | 17,141,842 | 14,907,353 |
| Trade and bills receivables | 10 | 10,970,232 | 7,609,782 |
| Other receivables | | 2,491,330 | 3,232,067 |
| Due from associates | | – | 3,000,000 |
| Pledged time deposits | | 2,000,000 | 5,000,000 |
| Cash and cash equivalents | | 1,826,189 | 1,690,698 |
| | | <u>34,429,593</u> | <u>35,439,900</u> |
| Current liabilities | | | |
| Trade payables | 11 | 11,455,548 | 9,764,435 |
| Due to an associate | | 540,636 | – |
| Tax payable | | 1,455,057 | 1,676,153 |
| Other payables and accruals | | 8,334,152 | 7,932,102 |
| Interest-bearing bank and other borrowings | | 29,153,355 | 43,163,444 |
| Due to related parties | | 13,990,000 | 1,721,698 |
| Due to directors | | 631,000 | 289,167 |
| | | <u>65,559,748</u> | <u>64,546,999</u> |
| Net current liabilities | | <u>(31,130,155)</u> | <u>(29,107,099)</u> |
| Total assets less current liabilities | | <u>67,586,519</u> | <u>70,504,067</u> |
| Non-current liabilities | | | |
| Interest-bearing bank loans | | 10,187,599 | 4,745,415 |
| Finance lease payables | | 850,726 | 594,442 |
| Deferred tax liabilities | | 5,373,249 | 5,373,249 |
| | | <u>16,411,574</u> | <u>10,713,106</u> |
| Net assets | | <u>51,174,945</u> | <u>59,790,961</u> |
| Capital and reserves | | | |
| Share capital | 12 | 48,319,577 | 48,038,077 |
| Reserves | | 2,855,368 | 11,752,884 |
| Shareholders' funds | | <u>51,174,945</u> | <u>59,790,961</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

| | Issued share capital HK\$ | Share premium account HK\$ | Goodwill HK\$ | Land and buildings revaluation reserve HK\$ | Special reserve HK\$ | Exchange fluctuation reserve HK\$ | Retained profits/ (deficit) HK\$ | Total HK\$ |
|---|------------------------------------|-------------------------------------|---------------------|---|----------------------------|--|---|-------------------|
| As at 1 April 2003 (Audited) | 45,444,577 | 24,482,848 | (22,648,000) | 17,882,271 | (11,152,801) | 51,728 | 22,743,560 | 76,804,183 |
| Issue of shares | 4,000 | - | - | - | - | - | - | 4,000 |
| Net profit for the period | - | - | - | - | - | - | 804,221 | 804,221 |
| As at 30 September 2003 and 1 October 2003 (Unaudited) | 45,448,577 | 24,482,848 | (22,648,000) | 17,882,271 | (11,152,801) | 51,728 | 23,547,781 | 77,612,404 |
| Prior year adjustment SSAP 12 – restatement of deferred tax | - | - | 169,485 | (5,439,903) | - | - | 492,049 | (4,778,369) |
| Exercise of share option | 2,589,500 | - | - | - | - | - | - | 2,589,500 |
| Surplus on revaluation | - | - | - | 696,578 | - | - | - | 696,578 |
| Net loss for the period | - | - | - | - | - | - | (16,329,152) | (16,329,152) |
| As at 31 March 2004 and 1 April 2004 (Audited) | 48,038,077 | 24,482,848 | (22,478,515) | 13,138,946 | (11,152,801) | 51,728 | 7,710,678 | 59,790,961 |
| Exercise of share option | 281,500 | - | - | - | - | - | - | 281,500 |
| Net loss for the period | - | - | - | - | - | - | (8,897,516) | (8,897,516) |
| As at 30 September 2004 (Unaudited) | <u>48,319,577</u> | <u>24,482,848</u> | <u>(22,478,515)</u> | <u>13,138,946</u> | <u>(11,152,801)</u> | <u>51,728</u> | <u>(1,186,838)</u> | <u>51,174,945</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

| | Six months ended 30 September | |
|--|----------------------------------|-----------------------------|
| | 2004 (Unaudited) HK\$ | 2003 (Unaudited) HK\$ |
| NET CASH USED IN OPERATING ACTIVITIES | (8,519,887) | (4,756,265) |
| NET CASH (USED IN)/FROM INVESTING ACTIVITIES | 4,075,365 | (2,348,649) |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | <u>7,069,187</u> | <u>9,201,526</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>2,624,665</u> | <u>2,096,612</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | <u>(2,564,296)</u> | <u>9,521,288</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | <u><u>60,369</u></u> | <u><u>11,617,900</u></u> |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 1,826,189 | 13,125,407 |
| Bank overdrafts | <u>(1,765,820)</u> | <u>(1,507,507)</u> |
| | <u><u>60,369</u></u> | <u><u>11,617,900</u></u> |

Notes:

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

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 analyses of the Group's turnover and profit/(loss) from operations by business and geographical segments for the six months ended 30 September 2004 and 2003 are as follows:

| | Six months ended | |
|---|---------------------------|--------------------------|
| | 30 September | |
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$</i> | <i>HK\$</i> |
| Business segments | | |
| Turnover | | |
| – snap off blade cutters | 21,480,293 | 23,659,864 |
| – electronic consumer products | 10,716,948 | 21,806,881 |
| – corporate and others | <u>1,678,740</u> | <u>1,593,849</u> |
| | <u><u>33,875,981</u></u> | <u><u>47,060,594</u></u> |
| Results | | |
| – snap off blade cutters | (740,382) | 2,766,241 |
| – electronic consumer products | (3,812,037) | 2,151,685 |
| – corporate and others | <u>1,565,687</u> | <u>1,478,090</u> |
| | (2,986,732) | 6,396,016 |
| Central administrative expenses | <u>(4,667,328)</u> | <u>(4,732,467)</u> |
| Profit/(Loss) from operations | (7,654,060) | 1,663,549 |
| Finance costs | <u>(1,243,456)</u> | <u>(838,133)</u> |
| Profit/(Loss) before tax | (8,897,516) | 825,416 |
| Tax | <u>–</u> | <u>(21,195)</u> |
| Net profit/(loss) from ordinary activities attributable to shareholders | <u><u>(8,897,516)</u></u> | <u><u>804,221</u></u> |

Geographical segments (by location of customers)

| | Turnover | | Profit/(Loss) from operations | |
|---------------------------------|-------------------|-------------------|-------------------------------|--------------------|
| | Six months ended | | Six months ended | |
| | 30 September | | 30 September | |
| | 2004 | 2003 | 2004 | 2003 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| North America | 6,987,311 | 7,160,802 | (616,048) | 973,226 |
| Hong Kong | 12,178,739 | 21,817,794 | (1,073,759) | 2,965,261 |
| Europe | 5,829,440 | 10,342,495 | (513,962) | 1,405,651 |
| East Asia | 2,193,914 | 2,932,583 | (193,430) | 398,568 |
| Others | 6,686,577 | 4,806,920 | (589,533) | 653,310 |
| | <u>33,875,981</u> | <u>47,060,594</u> | (2,986,732) | 6,396,016 |
| Central administrative expenses | | | <u>(4,667,328)</u> | <u>(4,732,467)</u> |
| Profit/(Loss) from operations | | | <u>(7,654,060)</u> | <u>1,663,549</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. Profit/(loss) from operating activities

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

| | Six months ended | |
|-----------------|------------------|----------------|
| | 30 September | |
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Depreciation | 1,801,304 | 1,054,569 |
| Interest income | <u>(20,387)</u> | <u>(3,247)</u> |

7. Tax

No (2003: Nil) profits tax has been provided on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Six months ended | |
|-----------|------------------|---------------|
| | 30 September | |
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Hong Kong | – | – |
| Elsewhere | – | 21,195 |
| | <u>–</u> | <u>21,195</u> |

8. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$8,897,516 (2003: net profit of HK\$804,221) and on the weighted average of 4,829,931,202 shares (2003: 4,544,501,421) in issue during the period.

9. Fixed assets

During the six months ended 30 September 2004, the Group acquired fixed assets at a cost of HK\$906,812 (Six months ended 30 September 2003: HK\$1,617,647).

10. Trade and bills receivables

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

| | As at 30 September 2004 (Unaudited) HK\$ | As at 31 March 2004 (Audited) HK\$ |
|------------------|--|--|
| Age | | |
| Within – 60 days | 9,754,110 | 6,659,435 |
| 61– 90 days | 541,382 | 57,701 |
| Over 90 days | 674,740 | 892,646 |
| | <u>10,970,232</u> | <u>7,609,782</u> |

11. Trade payables

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

| | As at 30 September 2004 (Unaudited) HK\$ | As at 31 March 2004 (Audited) HK\$ |
|----------------|--|--|
| Age | | |
| Within 60 days | 6,679,172 | 6,033,316 |
| 61– 90 days | 1,336,925 | 292,778 |
| Over 90 days | 3,439,451 | 3,438,341 |
| | <u>11,455,548</u> | <u>9,764,435</u> |

12. Share Capital

| | Number of shares | Amount HK\$ |
|---|-----------------------|--------------------|
| <i>Authorised:</i> | | |
| At 30 September 2004, ordinary shares of HK\$ 0.01 each | <u>30,000,000,000</u> | <u>300,000,000</u> |
| <i>Issued and fully paid:</i> | | |
| At 30 September 2004, ordinary shares of HK\$ 0.01 each | <u>4,831,957,705</u> | <u>48,319,577</u> |

13. Related party transactions

- (a) During the period, the Group had the following transactions with Twin Base Limited (“Twin Base”), a company in which Mr. Chong Sing Yuen has a beneficial interest:
- (i) The Group paid rentals of approximately HK\$237,000 (2003: 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 2004, Twin Base had pledged certain of its property interests to a bank to secure the credit facilities to the extent of HK\$12,899,980 (31 March 2004: HK\$12,899,980) granted to the Group.
- (b) During the period, the Group had the following material transactions with its associates:

| | <i>Notes</i> | Six months ended | |
|--|--------------|-------------------------|---------------|
| | | 30 September | |
| | | 2004 | 2003 |
| | | (Unaudited) | (Unaudited) |
| | | <i>HK\$</i> | <i>HK\$</i> |
| Purchases of raw materials from an associate | (i) | 251,634 | 322,749 |
| Management fee received from an associate | (ii) | <u>72,000</u> | <u>72,000</u> |

- (i) The purchases from an associate were made according to the prices mutually agreed between the associate and the Group.
- (ii) The management fee was charged based on mutually agreed terms between the associate and the Group.

During the period, the Group’s associates repaid HK\$3,000,000 advances to the Group. These advances are unsecured, interest-free and are repayable on demand.

- (c) During the period, Mrs. Chong Cheng Man Shan, the spouse of Mr. Chong Sing Yuen, advanced HK\$330,000 to the Group. The advances are unsecured, interest-free and are repayable on demand.
- (d) On 1 April 2004, the Group and Mrs. Chong Cheng Man Shan, entered into a facility agreement pursuant to which Mrs. Chong Cheng Man Shan 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 is to enable the Group to have sufficient funds for its operations. The Facility is unsecured and interest-free.
- (e) On 23 July 2004, the Group and Mrs. Chong Cheng Man Shan entered into a loan agreement pursuant to which Mrs. Chong Cheng Man Shan agreed to grant to the Group a loan of HK\$5,660,000 for the repayment of a short term bank loan of the Group to be matured in August 2004. The loan is unsecured, interest-free and is 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 aforementioned short term bank loan.

The full principal amount was drawn down by the Group on 23 July 2004.

14. Commitments

At the balance sheet date, the Group had no significant commitments.

5. BUSINESS REVIEW AND PROSPECTS

The turnover of the snap off blade cutter business in the first six months of the financial year ending 31 March 2005 has been moderately lower than the corresponding period in the previous financial year. The profit margin of the business has been adversely affected by high raw material prices. It is unlikely that the business segment can make any positive contribution to the Group's results in the current financial year. A number of new products had been launched by October 2004 in order to boost turnover and improve profit margin of the business segment.

The recovery of the electronics business in the current financial year has been slower than expected. The annual turnover of the electronics business in the current financial year is expected to be lower than the previous financial year. As the development of a number of OEM items has been completed and the turnover of ODM items has gradually improved, the management is cautiously optimistic about the performance of the electronics segment in the near future.

During the first half of the financial year ending 31 March 2005, the investment properties of the Group, comprising various buildings and structures erected on a parcel of land located in Panyu, PRC and some factory units and car parking spaces in Hong Kong, have continued to generate a stable stream of income of approximately HK\$250,000 per month for the Group. The disposal of the Group's investment properties situated at Fo Tan Industrial Centre, Shatin, Hong Kong in December 2004 contributed about HK\$1.0 million net earnings to the Group in the financial year ending 31 March 2005. The rental income of the Group from its investment properties is expected to be lower after the disposal.

In light of the problems that the Group faces in connection with its concentration in its existing manufacturing business such as high prices of raw materials and shortage of labour and electricity in Pearl River Delta of PRC, the Group has the intention to diversify its investments into other businesses in order to broaden its revenue base and earning potential. It is still at the initial stage of identifying suitable investment opportunities.

6. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is a pro forma statement of unaudited adjusted consolidated net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Open Offer as if it has been completed on 30 September 2004. This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group on the completion of the Open Offer.

| | Unaudited consolidated net tangible asset as at 30 September 2004 set out in section 4 of Appendix I <i>HK\$'000</i> | Estimated net proceeds of the Open Offer <i>(Note 1)</i> <i>HK\$'000</i> | Pro forma consolidated net tangible assets after the Open Offer <i>HK\$'000</i> |
|--|---|---|---|
| Calculated at none of the Options will be exercised before the Record Date | <u>51,175</u> | <u>94,199</u> | <u>145,374</u> |
| | Net tangible assets per share before the Open Offer <i>(Note 2)</i> <i>HK\$</i> | | Net tangible assets per share after the Open Offer <i>(Note 3)</i> <i>HK\$</i> |
| Calculated at none of the Options will be exercised before the Record Date | <u>0.0105</u> | | <u>0.0149</u> |

Notes:

1. The estimated gross proceeds of the Open Offer is approximately HK\$97,399,000. Estimated expenses associated with the Open Offer amounted to approximately HK\$3,200,000, resulting in a net cash inflow of approximately HK\$94,199,000.
2. Based on the 4,869,957,705 Shares in issue as at the Latest Practicable Date.
3. Based on the 9,739,915,410 Shares which comprise 4,869,957,705 Shares in issue as at the Latest Practicable Date and 4,869,957,705 Offer Shares to be issued pursuant to the Open Offer.

7. COMFORT LETTER ON PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Set forth below is the text received by the Directors from CCIF CPA Limited, the auditors of the Company, in connection with the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group:

4 March 2005

The Directors
Northern International Holdings Limited

Dear Sirs,

We report on the pro forma statement of unaudited adjusted consolidated net tangible assets of Northern International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Section 6 of Appendix I of the Company’s circular dated 4 March 2005 (the “Circular”) in connection with the open offer of 4,869,957,705 new shares at HK\$0.02 each on the basis of one offer share for every share held (the “Open Offer”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the relevant financial information of the Group as if the completion of the Open Offer had taken place on 30 September 2004.

Responsibilities

It is the responsibilities solely of the directors of the Company to prepare the pro forma statement of unaudited adjusted consolidated net tangible assets in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by Listing Rules, on the pro forma statement of unaudited adjusted consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma statement of unaudited adjusted consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

Where applicable, we conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom. Our work, which involved an independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of unaudited adjusted consolidated net tangible assets with the directors of the Company.

Our work did not constitute an audit or a review in accordance with Statement of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the pro forma statement of unaudited adjusted consolidated net tangible assets.

The pro forma statement of unaudited adjusted consolidated net tangible assets has complied in accordance with the basis as if the Open Offer has been completed on 30 September 2004 for illustrative purposes only and, because of its nature, it may not give a true picture and may not be indicative of the financial position of the Group as at 30 September 2004 or any future date.

Opinion

In our opinion:

- (a) the pro forma statement of unaudited adjusted consolidated net tangible assets has been properly compiled by the directors of the Company on the basis as stated therein;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma statement of unaudited adjusted consolidated net tangible assets as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

8. INDEBTEDNESS**Borrowings**

As at the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding borrowings of approximately HK\$51,415,000 comprising the followings:

| | <i>HK\$'000</i> |
|---------------------------------------|-----------------|
| Trust receipt loans, secured | 8,615 |
| Bills payable, secured | 663 |
| Export bills, secured | 1,233 |
| Bank overdrafts, secured | 1,995 |
| Mortgage loan, secured | 1,764 |
| Bank loans, secured | 23,190 |
| Loans from a related party, unsecured | 13,660 |
| Finance leases payable, secured | 295 |
| | <u>51,415</u> |

The repayment schedule of the borrowings is as follows:

| | <i>HK\$'000</i> |
|------------------------------|-----------------|
| Within one year or on demand | 49,793 |
| Beyond one year | 1,622 |
| | <u>51,415</u> |

As at 31 December 2004, the Group's secured borrowings are secured by the followings:

- (i) mortgages over the Group's investment properties with carrying value of approximately HK\$41,973,000
- (ii) mortgages over certain of the Group's land and buildings with carrying value of approximately HK\$26,332,000
- (iii) pledge of the Group's time deposits amounting to approximately HK\$2,500,000
- (iv) Trade receivable of approximately HK\$862,000.
- (v) Machinery with net book value of approximately HK\$464,000.

In addition, approximately HK\$15,958,000 of the bank loans were guaranteed by the Company, of which approximately HK\$12,821,000 were also guaranteed by a director, Mr. Chong Sing Yuen. All trust receipt loans, bills payable, export bills, bank overdrafts and mortgage loan, and approximately HK\$275,000 of the finance leases payable were guaranteed by the Company. The remaining balances of the borrowings were not guaranteed.

Contingent liabilities

As at the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed in this paragraph, and apart from intra-group liabilities and normal trade payables, the Group did not have any issued, outstanding, authorised or otherwise created but unissued debentures or other loan capital, guaranteed, unguaranteed, secured or unsecured loans, bank overdrafts, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, outstanding mortgages, charges, guarantees or other material contingent liabilities at the close of business on 31 December 2004.

9. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cashflow generated from the operating activities, the financial resources available for the Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2004, the date to which the latest published audited financial statements of the Company were made up.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries and that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DIRECTORS**Executive Directors**

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

Mr. Chong Chun Hing, aged 36, is Mr. Chong Sing Yuen's son. He was appointed non-executive Director in 2000 and became an executive Director in 2002. He is responsible for marketing and product development of the Group and has extensive experience in the fields. He is also a director of RC Lab Limited.

Mr. Chu Kiu Fat, aged 38, was appointed executive Director in 2000. He is responsible for the corporate administration of the Group. Mr. Chu holds a higher diploma in accountancy from the Hong Kong Polytechnic University and has extensive experience in corporate finance and administration fields.

Mr. Wong Siu Keung, Joe, aged 40, joined the Group in 2000 and is an executive Director responsible for financial planning and control of the Group. Mr. Wong has extensive experience in taxation, accounting, financing and auditing fields. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and holds a master's degree in international accounting from the City University of Hong Kong.

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

The business address of the executive Directors is at Block A, 2nd Floor, Man Foong Industrial Building, 7 Cheung Lee Street, Chaiwan, Hong Kong.

Independent non-executive Directors

Mr. Chan Ping Yim, aged 58, was appointed an independent non-executive Director in 2004. He is a certified public accountant (practicing). He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is a partner of W.Y. Lam, Dominic Chan & Co., Certified Public Accountants. Mr. Chan was an independent non-executive director of Massive Resources International Corporation Limited from September 2004 to January 2005, a company listed on the main board of the Stock Exchange. His business address is at Suite 301, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

Mr. Chan Shun, aged 37, was appointed an independent non-executive Director in 2004. He is a director of a securities trading and investment company. He was an executive director of Starbow Holdings Limited from January 2003 to March 2004, a company listed on the main board of the Stock Exchange. His business address is at Unit 905, 9th Floor, Asia Orient Tower, Tower Place, 33 Lockhart Road, Hong Kong.

Mr. Cheng Kwok Hing, Andy, aged 33, was appointed an independent non-executive Director in 2004. He is a director of a company in Hong Kong which is engaged in distribution of Chinese herbal medicine. He has extensive experience in distribution of Chinese herbal medicine. His business address is at 3/F, Mandarin Commercial House, 38 Morrison Hill Road, Wanchai, Hong Kong.

CORPORATE INFORMATION

| | |
|---|---|
| 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 |
| Company secretary | Jennifer Cheung Mei Ha, <i>Solicitor, Hong Kong</i> |
| Qualified accountant | Wong Siu Keung, Joe FCCA, CPA (Practising) |
| Authorised representatives | Chong Sing Yuen Chu Kiu Fat |
| Auditors | CCIF CPA Limited <i>Certified Public Accountants</i> 37/F Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong |
| Principal share registrar and transfer agent | The Bank of Bermuda Limited 6 Front Street Hamilton Bermuda |
| Branch share registrar in Hong Kong | Secretaries Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong |

Principal bankers

Bank of China (Hong Kong) Limited
9th Floor, 589 Nathan Road
Mongkok
Kowloon
Hong Kong

Citibank, N.A.
18/F., Three Exchange Square
8 Connaught Place
Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
Shop 1-11
Block B
Ground Floor
Walton Estate
Chaiwan
Hong Kong

Legal advisers to the Company

on Hong Kong law
Jennifer Cheung & Co.
Unit A, 19th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

on Bermuda law
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Hong Kong

DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name | Number of Shares | Nature of interest | Percentage of shareholding |
|---------------------|---------------------------------|--------------------|----------------------------|
| Chong Sing Yuen | 28,231,047 | <i>Note 1</i> | 0.58% |
| Wong Siu Keung, Joe | 25,000,000 (<i>Note 2</i>) | Beneficial owner | 0.51% |
| Chu Kiu Fat | 40,000 | Beneficial owner | 0.0008% |

Notes :

1. 25,881,047 Shares were beneficially owned by Mr. Chong Sing Yuen and the balance of 2,350,000 Shares were beneficially owned by his spouse.
2. These consisted of 8 million Shares beneficially owned by Mr. Wong Siu Keung, Joe and options granted to him by the Company to subscribe for 17 million Shares during the period from 30 October 2002 to 29 October 2012 at the subscription price of HK\$0.01 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Interests of other persons in the share capital of the Company

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Number of Shares | Nature of interest | Percentage of shareholding (Note 3) |
|-----------------------------|---------------------------|---------------------------|--|
| Win Channel | 2.6 billion | Beneficial owner | 26.59% |
| Chim Pui Chung | 2.6 billion (Note 1) | Corporate | 26.59% |
| The Underwriter (Note 2) | 3,589,257,705 (Note 2) | Other | 36.71% |
| Chu Yuet Wah (Note 2) | 3,589,257,705 (Note 2) | Other | 36.71% |
| Ma Siu Fong (Note 2) | 3,589,257,705 (Note 2) | Other | 36.71% |

Notes :

- (1) These Shares were owned by Win Channel. Win Channel is beneficially wholly owned by Mr. Chim Pui Chung.
- (2) The Underwriter is controlled by Ms. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively. The number of Shares that each of these parties interested in is the maximum number of the Underwritten Shares.
- (3) The percentages of shareholding are calculated based on the maximum number of the then issued Shares of the Company as enlarged by the Open Offer.

Save as disclosed above, taking no account of Shares which may be taken up under the Open Offer, the Directors are not aware of any person who will immediately following the Open Offer hold or be beneficially interested in 5 per cent. or more of the Shares then in issue.

Interests in other members of the Group

As at the Latest Practicable Date, so far as is known to the Directors, Mr. Chen Ming Hsun was interested in 35% of the issued share capital of Sinwin International Limited and was the only person (other than a Director or chief executive of the Company), directly or indirectly, interested in 10 per cent. or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company.

Interests of experts in the Group

None of the experts named in the paragraph headed “Consents” in this appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

Interests in contract or arrangement

Ms. Cheng Man Shan (“Ms. Cheng”), the spouse of Mr. Chong Sing Yuen, entered into a facility agreement with Tung Hing Products Co. Ltd. (the “Subsidiary”), a wholly owned subsidiary of the Company, on 1 April 2004 whereby Ms. Cheng agreed to grant an interest-free and unsecured standby facility of HK\$8,000,000 to the Subsidiary from 1 April 2004 to 31 July 2005. Ms. Cheng also entered into a loan agreement with the Company on 23 July 2004 whereby Ms. Cheng agreed to grant to the Company an interest-free and unsecured loan of RMB6,000,000 (or equivalence of HK\$5,660,000), which is repayable on the earlier of 23 August 2005 or the date on which the Company or its subsidiary is able to obtain a new one-year or longer term loan facility to repay such loan.

Save as disclosed above, none of the Directors has interests in contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group taken as a whole.

Interests in assets

Mr. Chong Sing Yuen (an executive Director and the chairman of the Company) is the beneficial owner of the entire interest of Twin Base Limited (a connected person (as defined in the Listing Rules) of the Company), which has entered into a contract for the lease of a motor vehicle to the Company for a term of one year from 1 September 2004 to 31 August 2005 at the monthly rental of HK\$39,500 (inclusive of insurance premium, maintenance and license fee). The Directors (including the independent non-executive Directors) are of the opinion that such contract is of normal commercial terms.

Save as disclosed above, none of the Directors or experts had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2004, the date to which the latest published audited accounts were made up.

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.

Save for disclosed above, there is no existing or proposed service contract between any member of the Group and any Director (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (1) provisional agreement dated 13 October 2004 between Superior Trump Limited, a wholly owned subsidiary of the Company, as vendor (the “Vendor”) and Mr. To Sai Tak and Ms. Cheung Yeuk Kam as purchasers (the “Purchasers”) in respect of the sale of Units 9, 10, 11, 12, & 14 on 11/F, and the private car parks P34 & P35 on 2nd Floor, Fo Tan Industrial Centre, Nos. 26-28 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong (the “Property”) by the Vendor to the Purchasers at the consideration of HK\$7,150,000;
- (2) formal sale and purchase agreement dated 26 October 2004 between the Vendor and Merit Hill International Investment Limited (“Merit Hill”), a nominee of the Purchasers, in respect of the sale and purchase of the Property;
- (3) assignment dated 15 December 2005 between the Vendor and Merit Hill in respect of the assignment of the interest in the Property by the Vendor to Merit Hill; and
- (4) the Underwriting Agreement.

LITIGATION

The Company instituted legal proceedings against ASG Capital Limited and ASG Brokerage Limited (the “Defendants”) in 1998 for breach of the placing and underwriting agreement dated 9 December 1997 by failing to fulfil their underwriting obligations thereunder and for the recovery of HK\$40,000,000, being economic loss suffered by the Company together with interest and legal costs. The last action of the parties to the proceedings took place in mid-2004 when solicitors acting for the Company in the legal proceedings served a notice to inspect documents to those acting for the Defendants. The proceedings are now in a pre-trial stage of discovery of documents of the parties and the date of trial has not been fixed.

The Directors do not consider that the legal proceedings have any material impact on the business and operation of the Group for the time being.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

CONSENTS

Altus and CCIF CPA Limited have given and have not withdrawn their respective written consents to the issue of this circular with copies of their letters and the references to their names included herein in the form and context in which they are respectively included.

QUALIFICATION OF EXPERTS

The qualifications of the experts who have given opinions in this circular are as follows:

| Name | Qualification |
|------------------|--|
| Altus | A licensed corporation within the meaning of the SFO |
| CCIF CPA Limited | Certified public accountants |

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Jennifer Cheung & Co. at Unit A, 19th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong during normal business hours up to and including 21 March 2005:

- (1) the memorandum of association and the bye-laws of the Company;
- (2) the annual reports of the Company for the three years ended 31 March 2004 and the interim report of the Company for the six months ended 30 September 2004;
- (3) the circular(s) of the Company relating to notifiable transactions issued since 31 March 2004, being the date of the latest published audited accounts;
- (4) the service contracts referred to in the paragraph headed “Disclosure of interests” in this appendix;
- (5) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (6) the written consents referred to in the paragraph headed “Consents” in this appendix;
- (7) the letter of advice from Altus, the text of which is reproduced in the section headed “Letter from Altus” to this circular; and
- (8) the comfort letter from CCIF CPA Limited, the text of which is reproduced in Appendix I to this circular.

NOTICE OF THE SGM



北方興業控股有限公司*
NORTHERN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code : 736)

NOTICE IS HEREBY GIVEN that a special general meeting of the above mentioned company (the “Company”) will be held at Novotel Century Hong Kong, Plaza IV, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong on 22 March 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the issue by way of open offer of such number of new shares equal to the number of shares of the Company in issue as at 8 March 2005 (“Offer Shares”) to shareholders whose names are registered on the register of members of the Company on 8 March 2005 (other than those shareholders whose registered addresses on the register of members of the Company on 8 March 2005 are outside Hong Kong and, to whom the Directors consider that it may be unlawful, impracticable or inconvenient to make an offer of the Offer Shares) on the terms and conditions set out in a prospectus to be sent to the shareholders of the Company on or about 23 March 2005, a copy of which has been submitted to the meeting and signed by the Chairman for the purpose of identification, be and is hereby approved and the directors of the Company be and are hereby authorised to issue and allot such Offer Shares by way of open offer and otherwise on the terms set out in such prospectus.”

By Order of the Board
Jennifer Cheung Mei Ha
Secretary

Hong Kong, 4 March 2005

Principal office:
2nd Floor, Block A
Man Foong Industrial Building
7 Cheung Lee Street
Chaiwan
Hong Kong

Notes :

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Company’s principal office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

* *For identification only*