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

If you have sold or transferred all your shares in ANEX INTERNATIONAL HOLDINGS LIMITED, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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ANEX INTERNATIONAL HOLDINGS LIMITED
安歷士國際控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 723)

MAJOR TRANSACTION

ACQUISITION OF INTEREST IN ANCEN PROPERTIES

Financial adviser to Anex International Holdings Limited



A letter from the board of directors of ANEX INTERNATIONAL HOLDINGS LIMITED is set out on pages 4 to 11 of this circular.

A notice convening the SGM of ANEX INTERNATIONAL HOLDINGS LIMITED to be held at Boardroom 3&4, M/F., Renaissance Harbour View Hotel, No. 1 Harbour Road, Wahchai, Hong Kong on Thursday, 19 October 2006 at 3:00 p.m. is set out on pages 99 and 100 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment of the meeting if they so wish.

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition by the Company from the Vendor of 30% equity interest in Ancen Properties pursuant to terms of the Share Purchase Agreement
“Ancen Properties”	Ancen Properties Limited, a 40% owned associate of the Company (before Completion) and a limited company incorporated in Hong Kong
“associate”	has the meaning given that term in the Listing Rules
“Board”	the board of directors of the Company
“Company”	Anex International Holdings Limited, a company with limited liability incorporated in Bermuda and whose shares are listed on the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the Share Purchase Agreement
“Completion Date”	31 October 2006 or other date to be agreed between the Company and the Vendor
“Consideration”	consideration of the Acquisition
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Dongguan Jia Lake” (東莞嘉湖山莊建造有限公司)	a limited liability company established in accordance with the laws of the PRC, in which Ancen Properties is entitled to the profit sharing in accordance with the equity holding stake
“Enlarged Group”	the Group as enlarged by Completion
“HK\$”	Hong Kong dollar, the lawful currency of the Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) who are independent of, and not connected with, the Company and its subsidiaries or any connected persons of the Company or any of their respective associate under the Listing Rules

DEFINITIONS

“Latest Practicable Date”	28 September 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular
“PRC Property”	including (i) a parcel of land situated on the North-west Junction between Wuhuan Road and Guanzhang Road, Hengkeng Village (previously known as “Jinyinling, Hengkeng Management Zone”), Liaobu Town, Dongguan, Guangdong Province, the PRC; (ii) 51 unsold street-front shop units of Jiayi Garden, Jiafu Garden and Phase I of Jiahui Garden, and 202 unsold shop units on level 1 & 2, restaurant, karaoke & supermarket on level 2 of Jia Lake shopping mall, Dongguan Jia Lake Mountain Villa, Jinyinling Section, Guanzhang Highway, Hengkeng Administration District, Liaobu Town, Dongguan, Guangdong Province, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	holder(s) of the Shares
“Share Purchase Agreement”	a share purchase agreement and a respective supplemental agreement dated 8 September 2006 entered into between the Vendor and the Company relating to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Mr. Mo Zhiming, an Independent Third Party

DEFINITIONS

“%” per cent

“sq.m.” square metre(s)

For the purpose of this circular, the exchange rate between HK\$ and RMB is calculated at HK\$:RMB1.025.

LETTER FROM THE BOARD



ANEX INTERNATIONAL HOLDINGS LIMITED

安歷士國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 723)

Executive Directors:

Mr. Cheng Tun Nei (*Chairman*)

Mr. Kwok Hon Lam (*Vice-Chairman*)

Dr. Siu Miu Man (*Chief Executive Officer*)

Mr. Kwok Chi Hang, Peter

Mr. Cheung Tze Kit, Larry

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Director:

Mr. Yeung Chee Tat

Principal Place of Business

in Hong Kong:

Room 1606-7, West Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Independent Non-executive Directors:

Mr. Chan Sun Kwong

Mr. Fung Kwan Yin, James

Mr. Chow Nim Sun, Nelson

30 September 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF INTEREST IN ANCEN PROPERTIES

INTRODUCTION

The Board is pleased to announce that on 8 September 2006, the Vendor and the Company entered into the Share Purchase Agreement whereby the Company agreed to acquire 30% equity interest in Ancen Properties from the Vendor at a consideration of HK\$18,290,000. The principal business of Ancen Properties is property development.

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, which requires the approval by the Shareholders at the SGM. The purpose of this circular is to provide you with further information of the Acquisition and the notice of SGM.

* For identification purpose only

LETTER FROM THE BOARD

THE SHARE PURCHASE AGREEMENT

Date:

8 September 2006

Parties:

Vendor: Mr. Mo Zhiming

Purchaser: The Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Group and connected persons of the Group.

Assets to be acquired:

Pursuant to the Share Purchase Agreement, the Purchaser agreed to acquire and the Vendor agreed to sell 30% equity interest in Ancen Properties.

The Vendor owns 30% of the issued share capital of Ancen Properties and Ancen Properties is an associate of the Company. Upon Completion, Ancen Properties will become a 70% owned subsidiary of the Company. Accordingly, the Company's interest in Ancen Properties will be accounted for as an interest in a subsidiary in its financial statements.

Consideration and payment terms

Pursuant to the Share Purchase Agreement, the Consideration shall be HK\$18,290,000. It was arrived at after arm's length negotiation between the Company and to be addressed in the following:

- (i) the audited net asset value of Ancen Properties was approximately HK\$37,963,000 (or about HK\$11,389,000 attributable to the 30% equity interests to be acquired by the Company) as at 31 March 2006;
- (ii) the latest transacted price of real estates in the proximity of those of Ancen Properties; and
- (iii) the property valuation report of Ancen Properties namely, the PRC Property, prepared by Vigers Appraisal and Consulting Limited ("Vigers"), a firm of independent professional valuers, as set out in Appendix IV to this circular. The appraised value of the PRC Property as at 31 August 2006 by Vigers was RMB68,400,000 (equivalent to about HK\$66,732,000) assuming that the PRC Property had obtained a valid certificate of state-owned land use or real estate ownership certificate under the name of Dongguan Jia Lake and freely transferable in the market.

LETTER FROM THE BOARD

As detailed in the section headed “Information on the PRC Property”, according to the PRC Legal Opinions, there is no foreseeable obstacles for Dongguan Jia Lake to obtain the Real Estate Ownership Certificate and Land Use Right under its name as and when Dongguan Jia Lake has settled all the outstanding taxes and payments in full and applies for the Real Estate Ownership Certificate and Land Use Right in accordance with the relevant application procedures. On the basis of the above, and the fact that Dongguan Liaobu Town Real Estate Development Company can only transfer the title of the land to Dongguan Jia Lake and that Dongguan Jia Lake is the sole user and investor of the PRC Property and Dongguan Jia Lake is entitled to the income derived from the PRC Property according to the relevant joint venture agreements established in 1992, the Directors are of the view that reference to the valuation report set out in Appendix IV to this circular when determining the consideration is fair and reasonable. For details of the abovementioned, please refer to the section headed “Information on the PRC Property”.

Pursuant to the Share Purchase Agreement, 15% of the Consideration, being HK\$2,743,500, was paid by the Company to the lawyer of the Vendor upon signing of the Share Purchase Agreement as a partial payment of the Consideration. The balance will be paid upon Completion.

The Consideration will be financed by the proceeds from the Company’s rights issue in June 2006. The Directors believe that the Acquisition will enable the Group to obtain full access to and better allocate the resources currently owned by Ancen Properties. As such, the Directors consider that the funding of the Acquisition is consistent with the use of proceeds as set out in the Company’s prospectus dated 9 June 2006.

Condition precedent

Completion of the Share Purchase Agreement is conditional upon approval of the Acquisition by the Shareholders at the SGM. No Shareholders are required to abstain from voting at the SGM in respect of the resolution to approve the Acquisition.

If the condition precedent of the Share Purchase Agreement fails to be satisfied or obtained on or before the Completion Date, the Share Purchase Agreement will be terminated and rescinded.

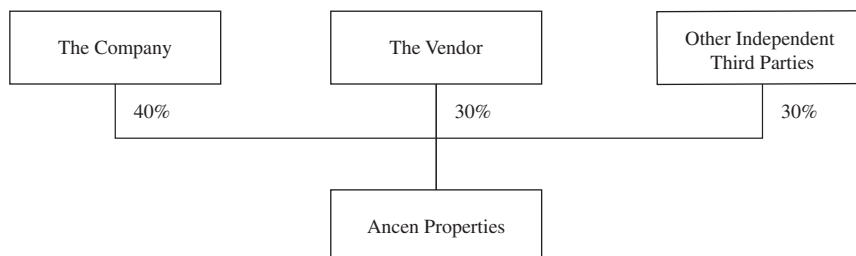
INFORMATION ON ANCEN PROPERTIES

The principal business of Ancen Properties is property development in the PRC. Ancen Properties owns, through its 100% owned PRC subsidiary, a residential and commercial property development project namely, “Jia Lake Mountain Villa” (東莞嘉湖山莊), located at Dongguan, Guangdong Province, the PRC. Ancen Properties is a company established by the Company and other Independent Third Parties in 1992 for the purpose of carrying out the “Jia Lake Mountain Villa” (東莞嘉湖山莊) property development project. This project covers four phases and the first three phases were developed.

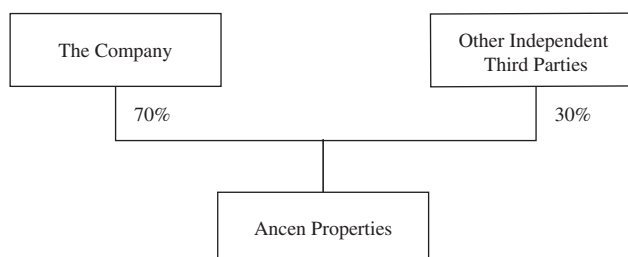
Set out below is the existing shareholding structure of Ancen Properties and the shareholding structure upon Completion.

LETTER FROM THE BOARD

Existing shareholding structure



Upon Completion



The audited financial information of Ancen Properties which has been prepared under generally accepted accounting principles in Hong Kong are summarised below:

	For the year ended	
	31 March	
	2006	2005
	HK\$'000	HK\$'000
Net asset value	37,963	45,149
Net (loss)/profit before taxation and extraordinary items	(6,508)	2,121
Net (loss)/profit after taxation and extraordinary items	(7,186)	1,571

The accountants' report on Ancen Properties is set out in Appendix II to this circular.

The Company currently has one representative on the board of directors of Ancen Properties which comprise four members. Upon Completion, the Company will increase its board representatives to three members. The remaining one board member is the representative of the shareholders of Ancen Properties other than the Company.

INFORMATION ON THE PRC PROPERTY

The PRC Property included (i) a parcel of land under development situated on the North-west junction between Wuhan Road and Guangzhang Road, Hengkeng Village (previously known as Jinyinling, Hengkeng Management Zone), Liaobu Town, Dongguan City, Guangdong Province, the PRC; and (ii) 51 unsold street-front shop units of Jiayi Garden, Jiafu Garden and Phase I of Jiahui Garden, and 202 unsold shop units on level 1 & 2, restaurant, karaoke & supermarket on level 2 of Jia Lake shopping mall, Dongguan Jia Lake Mountain Villa, Jinyinling Section, Guanzhang Highway, Hengkeng Administration District, Liaobu Town, Dongguan, Guangdong Province, the PRC.

LETTER FROM THE BOARD

The PRC Property, or phase 4 of the residential and commercial property development project namely, “Jia Lake Mountain Villa”(東莞嘉湖山莊), located at Dongguan, Guangdong Province, the PRC, was part of a joint venture arrangement set up in 1992 between Ancen Properties and Dongguan Liaobu Town Real Estate Development Company(東莞市寮步房地產開發公司), an independent third party of the Company. According to the relevant PRC regulations at the time, Ancen Properties and Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) entered into a legally binding agreement whereby Ancen Properties paid for all costs relating to the obtaining of the land use right of the PRC Property and that Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司), a PRC party, holds the title to the PRC Property. In the same year, Ancen Properties and Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) established a joint venture, Dongguan Jia Lake, in which Ancen Properties is entitled to the net income derived from the PRC Property. The agreement also stated that Dongguan Liaobu Town Real Estate Development Company can only transfer the title of the PRC Property to Dongguan Jia Lake and that Dongguan Jia Lake is the sole investor and user of the property.

According to the legal opinions obtained by the Company from Guangdong Guanxin Law Firm (廣東莞信律師事務所) (the “PRC Legal Opinions”), a law firm in Dongguan Guangdong Province, the PRC, an independent third party of the Group and Ancen Properties, Dongguan Jia Lake enjoys the use of the PRC Property and income derived from the PRC Property including lease and from other lawful means. However, Dongguan Jia Lake is not entitled to dispose of the PRC Property by way of transfer or mortgage in the open market until it has obtained a valid Certificate of State-owned Land Use (the “Land Use Right”) or a Real Estate Ownership Certificate in the name of Dongguan Jia Lake (as at the Latest Practicable Date, the Real Estate Ownership Certificate was registered under the name of Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司)). In order to obtain the Land Use Right for the parcel of land, a PRC company wholly owned by Dongguan Jia Lake shall be established and outstanding taxes and payments (as at 31 March 2006) in the amount of approximately RMB2,116,000 (equivalent to approximately HK\$2,064,000), which comprised of approximately RMB150,000 (equivalent to approximately HK\$146,000) as set up cost (成立費), RMB1,780,000 (equivalent to approximately HK\$1,737,000) as pre-determined management fee (掛扣管理費), and approximately RMB186,000 (equivalent to approximately HK\$181,000) as name transferral fee (轉名費) will be payable by the newly established PRC company to the relevant PRC parties and authorities. On the other hand in order to obtain the Real Estate Ownership Certificate for those unsold shops, outstanding taxes and payments (as at 31 March 2006) in the amount of approximately RMB5,538,000 (equivalent to approximately HK\$5,403,000), which comprised of approximately RMB1,420,000 (equivalent to HK\$1,385,000) as business tax (營業稅), approximately RMB648,000 (equivalent to approximately HK\$632,000) as pre-determined management fee (掛扣管理費), and approximately RMB3,470,000 (equivalent to approximately HK\$3,308,000) as other tax payments (其它稅費) shall payable by Dongguan Jia Lake to the relevant PRC parties and authorities. All fees payable by Dongguan Jia Lake relating to the obtaining of Land Use Rights and Real Estate Ownership Certificates are payable by Dongguan Jia Lake. According to Ancen Properties and Dongguan Jia Lake, they intend to hold the shops of the PRC Property as long term investment. As there is no intention to dispose of the shops of the PRC Property, there is no immediate need to obtain the Real Estate Ownership Certificate. According to the PRC Legal Opinions, there are no circumstances which render Dongguan Jia Lake being liable for any penalty in relation to the outstanding taxes and payments for the purpose of obtaining the Land Use Right and the Real Estate Ownership Certificate. The PRC Legal Opinions further advises that when Dongguan Jia Lake has settled all the outstanding taxes and payments in full and applies for the Real Estate Ownership Certificate and the Land Use Right in accordance with the relevant application procedures, there is no

LETTER FROM THE BOARD

foreseeable obstacle for Dongguan Jia Lake to obtain the Real Estate Ownership Certificate and the Land Use Right under its name. Based on the PRC legal opinions, the Directors are confident that there would not be any obstacle in obtaining the Real Estate Ownership Certificate after payment of all outstanding taxes and charges and the Board is optimistic that the new Real Estate Ownership Certificate could be obtained within 4 months and the Land Use Right within 7 months from the Completion Date.

The parcel of land under the PRC Property held for future development is at present vacant and is still in early planning stage. Upon completion of the initial planning and market research on home owners' preference and demand, the Company will then submit the relevant building plans to the respective government departments in the PRC to apply for the Permission Certificate for (i) construction land-use planning; (ii) construction works planning; and (iii) construction works commencement.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in the design and manufacture of electrical appliances, trading of merchandise and investment in property development businesses.

As disclosed in the Company's prospectus dated 9 June 2006, one of the main strategies of the Company is to diversify its business into property development. The Company has started, and will continue, through Ancen Properties to explore and engage in property development in the PRC.

The Directors are of the view that the Acquisition signifies the Group's continuing efforts to implement its expansion strategy. The Acquisition will broaden the earning base and therefore help strengthen and consolidate the property development business of the Group.

The Company was approached by the Vendor in August 2006 in relation to the Acquisition. Having taken into account various factors, including those set out above, the Directors (including independent non-executive Directors) consider that the terms of the Share Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Group and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Ancen Properties will become a subsidiary of the Company. The following sets out, for illustrative purposes only, the key financials of the unaudited pro forma consolidated balance sheet as at 31 March 2006 of the Enlarged Group, assuming the Acquisition had been completed on 31 March 2006. Please refer to Appendix III to this circular for the unaudited pro forma financial information of the Enlarged Group.

As at 31 March 2006

	The Group <i>HK\$'million</i>	The Enlarged Group <i>HK\$'million</i>	Approximate % change
Total assets	197.6	229.4	16.1%
Total liabilities	89.7	110.1	22.7%
Net asset value	107.9	119.3	10.6%

LETTER FROM THE BOARD

For the year ended 31 March 2006

	The Group <i>HK\$'million</i>	The Enlarged Group <i>HK\$'million</i>	Approximate % change
Net losses	59.9	64.2 (Note)	7.2%

Note: The net losses of the Enlarged Group represented the net loss of the Group and the Target Group after eliminating the consolidation adjustment of the share of loss of the associate of HK\$2.9 million.

Gearings

As extracted from the annual report of the Company for the year ended 31 March 2006, the gearing ratio of the Group, calculated with reference to the total interest-bearing borrowings of HK\$26.8 million and the Group's shareholders' equity of HK\$107.8 million was approximately 24.9%.

As set out in Appendix III to this circular, assuming Completion had taken place on 31 March 2006, the gearing ratio of the Enlarged Group, calculated with reference to the Enlarged Group's total interest-bearing borrowings of HK\$26.8 million and the Enlarged Group's shareholders' equity of HK\$130.6 million was approximately 20.5%.

SGM

The Acquisition constituted a major transaction for the Company under Chapter 14 of the Listing Rules, which requires the approval of the Shareholders in the SGM. No Shareholders has material interest in the Acquisition and are required to abstain from voting at the SGM in respect of the resolution to approve the Acquisition.

A notice convening the SGM is set out on pages 99 to 100 of this circular. Ordinary resolution in respect of the Acquisition will be proposed at the SGM.

An accompanying form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed on it and return it to the branch share registrar of the Company in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment of the meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment of the meeting if they so wish.

PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to Bye-Law 66 of the Bye-Laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of the meeting; or

LETTER FROM THE BOARD

- (ii) by at least three members present in person, or in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by 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 one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a 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 one-tenth of the total sum paid up on all shares conferring that right.

RECOMMENDATION

The Board consider that the terms of the Acquisition are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Directors recommend all the Shareholders to vote in favour of the ordinary resolution set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
ANEX INTERNATIONAL HOLDINGS LIMITED
Cheng Tun Nei
Chairman

1. INDEBTEDNESS

At the close of business on 31 August 2006, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Enlarged Group had a contingent liability for warranty claims of approximately HK\$3,263,000 and a buy-back undertaking with a bank in order to facilitate mortgage arrangements provided by the bank to the buyers of the properties. Under this buy-back undertaking, the Enlarged Group may be obliged to buy back properties in the event of any defaults by the initial mortgagors (who are unrelated to the Enlarged Group) of properties sold. The outstanding mortgage balances granted by the bank as at 31 August 2006 was approximately HK\$19,389,000. The Enlarged Group aggregate outstanding borrowings of approximately HK\$34,151,000, comprising the following:

- (i) secured packing loans of approximately HK\$13,876,000;
- (ii) secured trust receipt loans of approximately HK\$10,920,000;
- (iii) secured factoring and bills discounted with recourse of approximately HK\$2,175,000 and HK\$2,566,000, respectively;
- (iv) unsecured other loans of approximately HK\$1,200,000; and
- (v) unsecured finance lease payables of approximately HK\$3,414,000.

The Enlarged Group's bank borrowings were secured by the Enlarged Group's time deposits, first legal charges over certain of the Enlarged Group's leasehold land and buildings, corporate guarantee executed by the Company and personal guarantee executed by a Director, respectively.

Save as disclosed and apart from intra-group liabilities, the Enlarged Group did not have any mortgage charges, debentures or other loan capital bank overdrafts, loan or other similar indebtedness finance lease commitments guarantees or other material contingent liabilities as at the close of business on 31 August 2006.

2. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2006, the date to which the latest published audited financial statements of the Group were made up.

3. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances, and taking into account the Enlarged Group's cashflow generated from the operating activities and present available banking facilities, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of the publication of this circular.

4. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management discussion and analysis as extracted from the annual report of the Company for the year ended 31 March 2006.

Business Review

The Group's turnover dropped by 35.1% to HK\$182.3 million for the year ended 31 March 2006 as compared with the year ended 31 March 2005. This was due to the fact that the drastic increases in prices of essential raw materials and the soaring price of crude oil kept on significantly impacting the cost of production and hampered the lean profit margin. Worse still, the competition of home appliances manufacturing industry was so keen that just part of the increased cost could be passed on to our customers as product prices were invariably the key element of successful transactions. The sales turnover was dropped accordingly.

Business Prospects

In view of the persistent hardship pertained to the home appliances manufacturing industry, experienced and competent professionals have been invited to join the Board to enhance corporate management since 2006. The new management team has unanimously agreed that gradual diversification is a must.

The Group is now taking a more aggressive stance to seek for new and lucrative opportunities, aiming to increase the Group's profit and overall performance. More efforts and resources will be deployed in real estate development and building material business in the near future. Our corporate strategy is to strengthen our current setup in home appliances business, but simultaneously diversifies into property development and related building materials business, supported by markets both in Mainland China and Hong Kong.

In conclusion, we would continue to keep abreast on market trends in order to enhance our competitiveness. With such diversification of our current business lines taking place, we believe our prospects will be promising and brilliant.

Business Outlook

Core Business – Home Appliances Manufacturing

Since our establishment, our core business is engaged in design, manufacturing, and sales of home appliances and electrical products. Through years of incessant efforts, we have seized and secured a leading stance in the industry.

In view of the difficulties and uncertainties associated with the home appliances business, our management team has been taking positive steps to tackle the challenges. On the one hand, to prune down the production cost, we have adopted measures such as new production facilities acquired to foster a better production management, which not only increases the workers' per capita productivity but also lowers wastage and inventory. Simultaneously, we are going to adopt the Oracle enterprise resource planning system to facilitate cost control and profit analysis.

On the other hand, to broaden our revenue sources, a well recognized America household brandname distributorship for expanding OBM (original brand manufacturing) strategy has been acquired during the year in order to extend product line on hand. We also plan to expand the customer bases by appointing international and regional sales agents to procure and promote sales. We are developing and strengthening our marketing strategies and sales volume. We will continue to strive for improvement of profitability through new design and new products. We will also analyze the feasibility to extend our service and business potential with our industry partners through new forms of business like brand name building in the global market.

New Business with Enormous Potential

As oil and raw materials price soar, the production costs of home appliances are getting higher. In view of the foreseeable keen competition in the industry, the Group decides to diversify our business lines in addition to our manufacturing business, striving for higher profit gains.

As such, apart from manufacturing home appliances, the Group, after thorough research and analysis, decides to invest more of its resources into property development and related building materials business in order to increase our competitiveness.

Property Development

China's economy grows at a skyrocketing pace and people's living standard greatly improves. Therefore, demands for high-quality real estate products including residential units, villas, hotels and commercial complexes are high in many provinces and cities. We thus plan to place more resources into property development in both Mainland China and Hong Kong.

We are now actively exploring on a number of potential projects in the two regions.

Building Materials Business

With rapid development in property market of Mainland China and Hong Kong, significant growth has also been noted in the building materials sector. Trendy and light-weight building materials are in high demand and shall become the mainstream in the building industry in the coming years. We are closely monitoring the associated business opportunities in the building materials markets.

Our ultimate aim is to take a strong stand in sales of household appliances through product renovations and differentiations, but simultaneously explore and engage in lucrative property development projects and related building material trade in both Mainland China and Hong Kong. We believe with diversification processes come to play, shareholders shall have a fruitful return for investment.

Dividend

The Directors do not recommend payment of any dividend for the year ended 31 March 2006 (2005: Nil).

Liquidity and Financial Resources

The Group's gearing ratio expressed as a percentage of total interest-bearing borrowings over equity attributable to the Company's equity holders, risen from 20.0% at the beginning of the year to 24.9% as at 31 March 2006. The increase was mainly due to the net worth of the Group dropped as a result of the effect of the loss for the year. Working capital fell from last year's level to HK\$10.2 million as the reduction in inventories was made during the year.

The Group has HK\$26.8 million (2005: HK\$27.3 million) interest-bearing borrowings consisted of HK\$23.3 million secured trust receipt loans, factoring loans, bills discounted and packing loans; HK\$2.1 million finance lease payable and other loans of HK\$1.4 million. The aforesaid loans comprise approximately 96.5% (2005: 72.2%) thereof repayable within one year and 2.8% (2005: 27.3%) thereof repayable within the second year and the balance of 0.7% (2005: 0.5%) thereof repayable in the third year. All the loans are denominated in Hong Kong dollars. As at 31 March 2006, the Group had total cash and bank balances and pledged deposits amounting to HK\$19.6 million (2005: HK\$9.8 million).

The Directors believe that the existing financial resources are sufficient to cover its existing business. If the Group requires additional funding to capture business opportunities that may arise in the future, the Directors are confident that the Group will be able to obtain financing in favourable items.

Statutory or Legal Requirements of the Industry Market and Products

The Group has adopted certain measures implemented by the European Union (EU) in respect of our electrical appliances exporting to Europe, as follows:

- 1 Restriction of Hazardous Substances Directive (RoHS) 2002/95/EC – restricts the using of hazardous substances in the product of electrical appliances.
- 2 Waste Electrical and Electronic Equipment Directive (WEEE) 2002/96/EC – sets regulation on reuse, recycle and recovery targets for electrical appliances.

Human Resources and Remuneration Policy

During the year, the Group employed an average total of 1,603 (2005: 2,164) employees mostly in Hong Kong and Mainland China. The total amount of remuneration paid by the Group to its employees (including Directors) for the year was HK\$36.0 million (2005: HK\$39.2 million).

The Group believes that employees' commitments and the provision of a harmonious working atmosphere to employees are important to the Group's success. It rewards its employees according to prevailing market practices, employees' individual experience and performance. Staff benefits include medical insurance coverage and provident fund scheme. To attract and retain high caliber employees, the Group also awards discretionary bonuses to its employees based on their performance evaluation and it also maintains staff share option scheme.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Future Plans for Material Investment or Capital Assets

As at 31 March 2006, the Group had future plans to invest HK\$3.0 million and HK\$1.5 million for purchasing new machineries and upgrading existing production facilities and for procuring enterprise resource planning system and expansion of electronic networking system respectively.

Charge on Assets and Pledged Deposits

General banking facilities granted to the Group were secured by certain properties of the Group situated in Hong Kong, which comprised leasehold land and buildings at a net book value amounting to HK\$13.5 million (2005: HK\$15.0 million) at end of year and time deposits of HK\$7.3 million (2005: HK\$1.0 million) at end of year.

Contingent Liabilities

As at 31 March 2005 and 2006, the Group did not have any significant contingent liabilities.

Exposure to Exchange Risk

The Group mainly operates in mainland China, the USA, Germany and Hong Kong. Most of the Group's transactions, assets and liabilities are dominated in Renminbi, United States Dollars, Euro Dollars and Hong Kong Dollars.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign risks by performing regular review and monitoring its foreign exchange exposures.

Financial Instruments for Hedging Purposes

The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year.

5. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated income statements and financial positions for each of the three years ended 31 March 2006 as extracted from the annual report of the Group for the year ended 31 March 2006. The auditors' reports as set out in the annual reports of the Group for each of the three years ended 31 March 2006 were unqualified. There was no extraordinary or exceptional item affecting the financial statements of the Group for each of the three years ended 31 March 2006.

	Result of the Group		
	For the year ended 31 March		
	2006	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)	(restated)
Turnover	182,324	280,937	239,205
(Loss)/profit before taxation	(60,075)	679	(8,645)
Taxation	176	(304)	(276)
(Loss)/profit for the year	(59,899)	375	(8,921)
Minority interests	163	(82)	(78)
(Loss)/profit attributable to shareholders of the Company	<u>(59,736)</u>	<u>293</u>	<u>(8,999)</u>
(Loss)/Earnings per share – Basic	<u>(10.46 cents)</u>	<u>0.06 cents</u>	<u>(1.97 cents)</u>
(Loss)/Earnings per share – Diluted	<u>not applicable</u>	<u>not applicable</u>	<u>not applicable</u>

	Assets and liabilities of the Group as at 31 March		
	2006	2005	2004
	HK\$'000	HK\$'000 (restated)	HK\$'000 (restated)
Total assets	197,596	222,794	230,882
Total liabilities	89,685	86,067	100,014
Net assets	<u>107,911</u>	<u>136,727</u>	<u>130,868</u>
Equity attributable to equity shareholders of the Company	107,833	136,452	130,692
Minority interests	<u>78</u>	<u>275</u>	<u>176</u>
Total equity	<u>107,911</u>	<u>136,727</u>	<u>130,868</u>

Note: The results for the years ended 31 March 2004 and 2005, and the assets, liabilities and equity as at 31 March 2004 and 2005 have been restated as a result of the prior year adjustment in respect of the adoption of Hong Kong Accounting Standards 1 “Presentation of Financial Statements”, 17 “Leases” and 32 “Financial Instruments: Disclosure and Presentation” as well as Interpretation 21 “Income Tax – Recovery of Revalued Non-Depreciation Assets” issued by the Hong Kong Institute of Certified Public Accountants.

6. AUDITED FINANCIAL STATEMENTS

The following is the audited consolidated income statements of the Group for each of the two years ended 31 March 2006, the audited consolidated balance sheets of the Group and the audited balance sheets of the Company as at 31 March 2005 and 31 March 2006, the audited consolidated statements of changes in equity of the Group and the audited consolidated cash flow statements of the Group for each of the two years ended 31 March 2006, together with accompanying notes to the accounts extracted from the annual report of the Company for the year ended 31 March 2006:

CONSOLIDATED INCOME STATEMENTS

For the year ended 31 March 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
TURNOVER	7	182,324	280,937
COST OF SALES		(166,051)	(224,685)
GROSS PROFIT		16,273	56,252
OTHER REVENUE	7	901	2,681
		17,174	58,933
Selling and distribution expenses		(14,519)	(17,406)
Administrative expenses		(40,686)	(39,645)
Other operating expenses	8	(16,836)	–
		(72,041)	(57,051)
(LOSS)/PROFIT FROM OPERATIONS	8	(54,867)	1,882
Finance costs	9	(2,334)	(1,832)
Share of (loss)/profit of an associate		(2,874)	629
(LOSS)/PROFIT BEFORE TAXATION		(60,075)	679
Taxation	12	176	(304)
(LOSS)/PROFIT FOR THE YEAR		<u>(59,899)</u>	<u>375</u>
ATTRIBUTABLE TO:			
Equity shareholders of the Company	13	(59,736)	293
Minority interests		(163)	82
(LOSS)/PROFIT FOR THE YEAR		<u>(59,899)</u>	<u>375</u>
(LOSS)/EARNINGS PER SHARE			
– Basic	14(a)	<u>(10.46 cents)</u>	<u>0.06 cents</u>
– Diluted	14(b)	<u>Not applicable</u>	<u>Not applicable</u>

CONSOLIDATED BALANCE SHEET*As at 31 March 2006*

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	82,714	86,189
Interests in leasehold land held for own use under operating leases	16	5,368	6,164
Interest in an associate	18	16,108	18,982
Note receivable	19	–	5,105
		<u>104,190</u>	<u>116,440</u>
CURRENT ASSETS			
Inventories	20	34,189	62,909
Mould deposits		8,862	6,306
Trade receivables	21	23,832	23,246
Prepayments, deposits and other receivables		6,961	4,066
Pledged deposits		7,320	1,001
Cash and bank balances		12,242	8,826
		<u>93,406</u>	<u>106,354</u>
CURRENT LIABILITIES			
Bank overdrafts		552	–
Trade payables	22	31,473	41,789
Other payables and accruals		19,304	12,661
Due to a director	23	6,000	–
Interest-bearing bank and other loans	24	24,776	19,044
Finance lease payables	25	1,116	678
		<u>83,221</u>	<u>74,172</u>
NET CURRENT ASSETS		<u>10,185</u>	<u>32,182</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>114,375</u>	<u>148,622</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	–	6,900
Finance lease payables	25	935	686
Deferred tax liabilities	26	5,529	4,309
		<u>6,464</u>	<u>11,895</u>
NET ASSETS		<u><u>107,911</u></u>	<u><u>136,727</u></u>
CAPITAL AND RESERVES			
Share capital	27	76,864	45,752
Reserves	29(a)	30,969	90,700
Total equity attributable to equity shareholders of the Company		<u>107,833</u>	<u>136,452</u>
Minority interests		<u>78</u>	<u>275</u>
TOTAL EQUITY		<u><u>107,911</u></u>	<u><u>136,727</u></u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2006

	Notes	Attributable to equity shareholders of the Company						Minority interest HK\$'000	Total equity HK\$'000
		Share capital HK\$'000	Capital reserve HK\$'000	Dis-tributable reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000		
At 1 April 2004, as previously reported		45,752	2,789	4,995	19,856	263	66,525	176	140,356
Effect of the changes in accounting policies		–	–	–	(10,023)	–	(354)	–	(10,377)
At 1 April 2004, as restated		45,752	2,789	4,995	9,833	263	66,171	176	129,979
Surplus on revaluation		–	–	–	4,756	–	–	–	4,756
Deferred tax credited in the revaluation reserve	26	–	–	–	1,276	–	–	–	1,276
Exchange realignment		–	–	–	–	324	–	17	341
Net income recognised directly in equity		–	–	–	6,032	324	–	17	6,373
Net profit for the year		–	–	–	–	–	293	82	375
At 31 March 2005, as restated		45,752	2,789	4,995	15,865	587	66,464	275	136,727
At 1 April 2005, as restated		45,752	2,789	4,995	15,865	587	66,464	275	136,727
Surplus on revaluation		–	–	–	1,862	–	–	–	1,862
Deferred tax charged in the revaluation reserve	26	–	–	–	(1,220)	–	–	–	(1,220)
Exchange realignment		–	–	–	–	(637)	–	(34)	(671)
Net income recognised directly in equity		–	–	–	642	(637)	–	(34)	(29)
Revaluation reserve released on disposals		–	–	–	(417)	–	417	–	–
Placement of shares	27	9,151	–	–	–	–	–	–	9,151
Rights issue	27	21,961	–	–	–	–	–	–	21,961
Loss for the year		–	–	–	–	–	(59,736)	(163)	(59,899)
At 31 March 2006		76,864	2,789	4,995	16,090	(50)	7,145	78	107,911
Reserves retained by:									
Company and subsidiaries		76,864	2,789	4,995	16,090	(50)	(8,040)	78	92,726
An associate		–	–	–	–	–	15,185	–	15,185
At 31 March 2006		76,864	2,789	4,995	16,090	(50)	7,145	78	107,911
Company and subsidiaries		45,752	2,789	4,995	15,865	587	48,405	275	118,668
An associate		–	–	–	–	–	18,059	–	18,059
At 31 March 2005		45,752	2,789	4,995	15,865	587	66,464	275	136,727

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 March 2006*

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(60,075)	679
Adjustments for:		
Amortisation of land lease premium	142	176
Finance costs	2,334	1,832
Share of loss/(profit) of an associate	2,874	(629)
Interest income	(120)	(40)
Loss/(gain) on disposal of property, plant and equipment	2,162	(1,533)
Depreciation	10,634	10,990
Impairment losses on note receivable	755	–
Write-down and write off of inventories	13,546	–
Impairment losses on trade and other receivables	968	–
Surplus on revaluation of buildings	–	(428)
Operating (loss)/profit before changes in working capital	(26,780)	11,047
Decrease/(increase) in inventories	15,174	(3,842)
(Increase)/decrease in trade receivables	(599)	10,251
(Increase)/decrease in prepayments, deposits and other receivables	(2,454)	1,829
Increase in due to a director	6,000	–
Decrease in trade payables	(10,316)	(7,948)
Increase/(decrease) in other payables and accruals	6,643	(2,876)
Increase in factoring loans, secured	6,114	–
Increase/(decrease) in packing loans, secured	2,679	(12,083)
(Decrease)/increase in bills discounted, secured	(5,934)	9,304
Increase in trust receipt loans, secured	1,448	4,622
Cash (used in)/generated from operations	(8,025)	10,304
Overseas taxes refunded/(paid)	176	(304)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(7,849)	10,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from an associate	–	4,560
Purchases of property, plant and equipment	(4,732)	(3,462)
Proceeds from disposal of property, plant and equipment	2,404	2,196
Decrease in an amount due from an associate	–	20,552
Decrease in an amount due to an associate	–	(22,760)
Increase in mould deposits	(6,701)	(6,575)
Settlement of note receivable	4,500	–
(Increase)/decrease in pledged deposits	(6,319)	1,637
Interest received	120	40
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(10,728)	(3,812)

CONSOLIDATED CASH FLOW STATEMENT (Continued)*For the year ended 31 March 2006*

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of shares	9,151	–
Rights issue	21,961	–
Repayment of other loans	(5,475)	(3,900)
Interest paid	(2,216)	(1,756)
Interest element on finance lease payments	(118)	(76)
Capital element of finance lease payments	(1,206)	(769)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	22,097	(6,501)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,520	(313)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,826	8,798
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	(656)	341
CASH AND CASH EQUIVALENTS AT END OF YEAR	11,690	8,826
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	12,242	8,826
Bank overdrafts	(552)	–
	11,690	8,826

BALANCE SHEET*As at 31 March 2006*

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	189	–
Interests in subsidiaries	17	112,007	107,494
Interest in an associate	18	923	923
Note receivable	19	–	5,105
		<u>113,119</u>	<u>113,522</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		533	387
Cash and bank balances		<u>1,283</u>	<u>79</u>
		<u>1,816</u>	<u>466</u>
CURRENT LIABILITIES			
Other payables and accruals		1,291	206
Due to a director	23	<u>6,000</u>	<u>–</u>
		<u>7,291</u>	<u>206</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(5,475)</u>	<u>260</u>
NET ASSETS		<u><u>107,644</u></u>	<u><u>113,782</u></u>
CAPITAL AND RESERVES			
Share capital	27	76,864	45,752
Reserves	29(b)	<u>30,780</u>	<u>68,030</u>
TOTAL EQUITY		<u><u>107,644</u></u>	<u><u>113,782</u></u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

1. CORPORATE INFORMATION

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

- design and manufacture of electrical appliances
- trading of merchandise

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which in collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The financial statements have been prepared under the historical cost convention, except that the buildings held for own use were stated at revalued amount.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Adoption of HKFRSs

The following new and revised HKFRSs are relevant to the Group’s financial statements and are adopted for the first time for the preparation of the current year’s financial statements. In accordance with the relevant requirements under these HKFRSs where permitted, comparative amounts of the financial statements for the year ended 31 March 2005 have been restated.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(a) Adoption of HKFRSs (Continued)**

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

- HKAS 1 has affected the presentation and disclosure of the financial statements;
- HKASs 8, 27, 28 and 33 have affected the disclosure of the financial statements;
- HKASs 2, 7, 10, 12, 14, 16, 18, 19, 21, 23, 32, 36, 37, 39, HKFRS 3, HKAS-Int 15 and HKAS-Int 21 have no material effect on the Group's accounting policies; and
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights and leasehold land from property, plant and equipment to operating leases. For the effect of changes in accounting policy, please refer to note 3(a).

The adoption of HKFRS 2 has resulted in a change in accounting policy as described below.

In prior years, no amounts were recognised when employees (the term of which includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

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

The change in policy had no effect on the financial statements as no options existed at 1 April 2004 or granted during the year and last year.

(b) Subsidiaries and controlled entities

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(c) Associates**

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

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

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

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

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

(d) Property, plant and equipment

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

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

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

Other items of plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

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

- when a deficit arises on revaluation, it will be charged to income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to income statement.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)(d) **Property, plant and equipment** (*Continued*)

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

Buildings	Over the unexpired term of lease
Furniture and fixtures	20%
Machinery, engineering and other equipment	10%
Motor vehicles	10%
Moulds	10%

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

(e) **Leased assets**(i) *Classification of assets leased to the group*

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

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) *Assets acquired under finance leases*

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the company or group will obtain ownership of the asset, the life of the asset, as set out in note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) *Operating lease charges*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)(f) **Impairment of assets**

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

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

(g) **Inventories**

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

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

(h) **Trade and other receivables**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(i) Cash and cash equivalents**

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

(j) Trade and other payables

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

(k) Interest-bearing borrowings

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

(l) Taxation

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(l) Taxation (Continued)**

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised. Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

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

- (i) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable; and
- (ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(o) Translation of foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(o) Translation of foreign currencies (Continued)**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(p) Borrowing costs

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

(q) Related parties

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

(r) Employee benefits**(i) Short term employee benefits and contributions to defined contribution retirement plans.**

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

(ii) 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. The 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 rules of the central pension scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(r) Employee benefits (Continued)****(iii) Share option scheme**

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

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

(iv) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Segment information

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

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

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

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

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

3. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The following sets out information on the significant changes in accounting policies for the prior accounting periods reflected in the financial statements.

Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005.

Effect on the consolidated financial statements:

Consolidated income statement for the year ended 31 March 2005

	2005 (as previously reported) HK\$'000	Effect of new policy (increase/(decrease) in profit for the year)			2005 (as restated) HK\$'000
		HKAS 1 HK\$'000	HKAS 17 HK\$'000 (note a)	Sub-total HK\$'000	
Turnover	280,937	–	–	–	280,937
Cost of sales	(224,685)	–	–	–	(224,685)
Gross profit	56,252	–	–	–	56,252
Other revenue	1,192	–	1,489	1,489	2,681
	57,444	–	1,489	1,489	58,933
Selling and distribution costs	(17,406)	–	–	–	(17,406)
Administrative expenses	(39,762)	–	117	117	(39,645)
Profit from operations	276	–	1,606	1,606	1,882
Finance costs	(1,832)	–	–	–	(1,832)
Share of profit of an associate	849	(220)	–	(220)	629
(Loss)/profit before taxation	(707)	(220)	1,606	1,386	679
Taxation	(524)	220	–	220	(304)
(Loss)/profit for the year	(1,231)	–	1,606	1,606	375
Attributable to:					
Equity shareholders of the Company	(1,313)	–	1,606	1,606	293
Minority interests	82	–	–	–	82
(Loss)/profit for the year	(1,231)	–	1,606	1,606	375
(Loss)/earnings per share					
Basic	(0.29 cents)	–	0.35 cents	0.35 cents	0.06 cents
Diluted	Not applicable	–	–	–	Not applicable
Other significant disclosure items:					
Depreciation	(11,283)	–	293	293	(10,990)
Amortisation of land lease premium	–	–	(176)	(176)	(176)
Gain on disposal of property, plant and equipment	44	–	1,489	1,489	1,533

3. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)

Consolidated balance sheet as at 31 March 2005

	2005 (as previously reported) HK\$'000	HKAS 1 HK\$'000	Effect of new policy (increase/(decrease) in net assets)		Sub-total HK\$'000	2005 (as restated) HK\$'000
			HKAS 17 HK\$'000 (note a)	HKAS 32 HK\$'000 (note b)		
Non-current assets						
Property, plant and equipment	108,504	–	(22,315)	–	(22,315)	86,189
Interests in leasehold land held for own use under operating leases	–	–	6,164	–	6,164	6,164
Interest in an associate	18,982	–	–	–	–	18,982
Note receivable	5,105	–	–	–	–	5,105
	<u>132,591</u>	<u>–</u>	<u>(16,151)</u>	<u>–</u>	<u>(16,151)</u>	<u>116,440</u>
Current assets						
Inventories	62,909	–	–	–	–	62,909
Mould deposits	6,306	–	–	–	–	6,306
Trade receivables	13,942	–	–	9,304	9,304	23,246
Prepayments, deposits and other receivables	4,066	–	–	–	–	4,066
Pledged deposits	1,001	–	–	–	–	1,001
Cash and bank balances	8,826	–	–	–	–	8,826
	<u>97,050</u>	<u>–</u>	<u>–</u>	<u>9,304</u>	<u>9,304</u>	<u>106,354</u>
Current liabilities						
Trade payables	(41,789)	–	–	–	–	(41,789)
Other payables and accruals	(12,661)	–	–	–	–	(12,661)
Interest-bearing bank and other loans	(9,740)	–	–	(9,304)	(9,304)	(19,044)
Finance lease payables	(678)	–	–	–	–	(678)
	<u>(64,868)</u>	<u>–</u>	<u>–</u>	<u>(9,304)</u>	<u>(9,304)</u>	<u>(74,172)</u>
Net current assets	<u>32,182</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>32,182</u>
Total assets less current liabilities	<u>164,773</u>	<u>–</u>	<u>(16,151)</u>	<u>–</u>	<u>(16,151)</u>	<u>148,622</u>
Non-current liabilities						
Interest-bearing bank and other loans	(6,900)	–	–	–	–	(6,900)
Finance lease payables	(686)	–	–	–	–	(686)
Deferred tax liabilities	(6,611)	–	2,302	–	2,302	(4,309)
	<u>(14,197)</u>	<u>–</u>	<u>2,302</u>	<u>–</u>	<u>2,302</u>	<u>(11,895)</u>
Minority interests	(275)	275	–	–	275	–
Net assets	<u>150,301</u>	<u>275</u>	<u>(13,849)</u>	<u>–</u>	<u>(13,574)</u>	<u>136,727</u>
CAPITAL AND RESERVES						
Share capital	45,752	–	–	–	–	45,752
Capital reserve	2,789	–	–	–	–	2,789
Distributable reserve	4,995	–	–	–	–	4,995
Property revaluation reserve	29,301	–	(13,436)	–	(13,436)	15,865
Exchange fluctuation reserve	587	–	–	–	–	587
Retained profits	66,877	–	(413)	–	(413)	66,464
Total equity attributable to equity shareholders of the Company	<u>150,301</u>	<u>–</u>	<u>(13,849)</u>	<u>–</u>	<u>(13,849)</u>	<u>136,452</u>
Minority interests	<u>–</u>	<u>275</u>	<u>–</u>	<u>–</u>	<u>275</u>	<u>275</u>
Total equity	<u>150,301</u>	<u>275</u>	<u>(13,849)</u>	<u>–</u>	<u>(13,574)</u>	<u>136,727</u>

3. EFFECT OF CHANGES IN ACCOUNTING POLICIES (Continued)**(a) Leasehold land and buildings held for own use**

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

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

Further details of the new policy are set out in note 2(d). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

(b) Bills discounted with recourse

In prior years, discounted bills with recourse were net off with trade receivables and disclosed as contingent liabilities.

With effect from 1 April 2005, in order to comply with HKAS 32, the group has adopted a new policy for discounted bills with recourse. Under the new policy, the discounted bills are accounted for as financial liability.

4. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to the following risks:

(a) Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk whilst borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group borrowings have been disclosed in note 24 to the financial statements.

(b) Foreign currency risk

The Group mainly operates in mainland China, the USA, Germany and Hong Kong. Most of the Group's transactions, assets and liabilities are dominated in Renminbi, United States Dollars, Euro Dollars and Hong Kong Dollars.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign risks by performing regular review and monitoring its foreign exchange exposures.

(c) Credit risk

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. Management has a credit policy in place and the exposures to these credit risks are monitored on a going basis.

(d) Liquidity risk

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Property, plant and equipment and depreciation

The Group management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined on the value-in-use calculation. These calculations require use of estimate.

6. SEGMENT INFORMATION

Segment information is presented in respect of the Group's geographical segments. Information related to geographical segments based on the location of external customers is chosen because it is more relevant to the Group internal financial reporting. The Group has two business segments, namely the design and manufacture of electrical appliances and the trading of merchandise. No further business segment information is presented as over 90% of the Group's consolidated turnover, results and assets are related to the design and manufacture of electrical appliances.

The following table presents segment revenue, segment assets and capital expenditure information for the Group's geographical segments.

	Segment revenue		Other segment information			
	Sales to		Segment assets		Capital expenditure	
	external customers					
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(restated)		
Europe	90,544	133,594	85,874	94,662	4,587	4,832
North America	58,416	87,058	58,953	61,954	2,951	3,079
South America	13,760	16,228	17,452	9,697	695	572
Asia Pacific	11,111	26,389	9,335	21,131	561	931
Middle East	5,752	9,702	7,213	6,164	292	342
Oceania	2,741	7,966	2,661	5,027	138	281
Corporate and others	—	—	16,108	24,159	—	—
	<u>182,324</u>	<u>280,937</u>	<u>197,596</u>	<u>222,794</u>	<u>9,224</u>	<u>10,037</u>

6. SEGMENT INFORMATION (*Continued*)

Carrying amount of segment assets and capital expenditure by location of assets are as follows:

	Segment assets		Capital expenditure	
	2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000
Europe	10,527	16,861	13	120
North America	10,341	11,254	–	8
South America	6,001	246	–	–
Asia Pacific	151,812	169,371	9,211	9,909
Middle East	2,427	514	–	–
Oceania	380	389	–	–
Corporate and others	16,108	24,159	–	–
	<u>197,596</u>	<u>222,794</u>	<u>9,224</u>	<u>10,037</u>

7. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of good sold, after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Turnover		
Sales of goods	182,324	280,937
Other revenue		
Interest income	120	40
Sale of moulds	63	–
Sale of scrap materials	333	531
Others	385	149
Gain on disposal of property, plant and equipment	–	1,533
Surplus on revaluation of buildings	–	428
	<u>901</u>	<u>2,681</u>
	<u>183,225</u>	<u>283,618</u>

8. (LOSS)/PROFIT FROM OPERATIONS

The Group's (loss)/profit from operations are arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Cost of inventories sold*	166,051	224,685
Depreciation	10,634	10,990
Amortization of land lease premium	142	176
Minimum lease payments under operating leases for land and buildings (including director's quarter)	817	1,008
Auditors' remuneration	390	630
Staff costs (excluding directors' remuneration – note 10)		
Wages and salaries	27,511	32,295
Severance payments	2,165	32
Pension scheme contributions	429	419
	30,105	32,746
Impairment losses on trade receivables	13	–
Exchange losses, net	509	1,747
Share of an associate's taxation	271	220
Other operating expenses		
Impairment losses on other receivables	955	–
Write off of inventories	12,964	–
Loss on disposal of property, plant and equipment	2,162	–
Impairment loss on note receivable	755	–
	<u>16,836</u>	<u>–</u>

* Included depreciation of HK\$8,088,000 (2005: HK\$8,455,000) and staff costs of HK\$16,163,000 (2005: HK\$20,637,000), the amount of which is also included in the respective total amounts disclosed separately above.

9. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	2,216	1,756
Interest on finance leases	118	76
	<u>2,334</u>	<u>1,832</u>

10. DIRECTORS' REMUNERATION

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

		2006		
	Fees	Salaries and other	Retirement	Total
	HK\$'000	benefits	scheme	
		HK\$'000	contributions	HK\$'000
			HK\$'000	
Executive directors				
Chau Kwok Wai	–	716	10	726
Cheng Tun Nei	–	168	2	170
Kwok Hon Ching	–	1,120	11	1,131
Kwok Hon Kau, Johnny	–	918	6	924
Kwok Hon Lam	–	1,686	24	1,710
Kwok Chi Hang, Peter	–	420	12	432
Lee Yu Leung	–	233	6	239
Loo Pak Hong	–	–	–	–
Siu Miu Man	–	336	2	338
	–	5,597	73	5,670
Non-executive directors				
Lee Yu Leung	–	–	–	–
To Wing Yee, Janice	10	–	–	10
	10	–	–	10
Independent non-executive directors				
Chan Kwok Wai	23	–	–	23
Chan Sun Kwong	25	–	–	25
Chow Cheuk Lap	50	–	–	50
Chow Nim Sun, Nelson	10	–	–	10
Fung Kwan Yin, James	8	–	–	8
Lee Ho Man, Eric	50	–	–	50
Liu Kam Lung	10	–	–	10
Tsun Kok Chung, Richard	8	–	–	8
Wong Lung Tak, Patrick	50	–	–	50
Wong Tik Tung	23	–	–	23
Yeung Lung Sang Sam, Lennon	–	–	–	–
	257	–	–	257
	267	5,597	73	5,937

10. DIRECTORS' REMUNERATION (Continued)

		2005		
	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Chau Kwok Wai	–	702	12	714
Kwok Hon Ching	–	1,820	12	1,832
Kwok Hon Kau, Johnny	–	1,800	12	1,812
Kwok Hon Lam	–	1,932	24	1,956
	–	6,254	60	6,314
Independent non-executive directors				
Chow Cheuk Lap	50	–	–	50
Lee Ho Man, Eric	50	–	–	50
Wong Lung Tak, Patrick	50	–	–	50
	150	–	–	150
	150	6,254	60	6,464

There was no arrangement under which a director has waived or agreed to waive any emoluments during the two years.

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included four (2005: four) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid individuals for the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	564	564
Retirement scheme contributions	12	12
	576	576

12. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxation for other subsidiaries are charged at the appropriate current rates of taxation in the relevant countries.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Current tax		
– Hong Kong	–	–
– Overseas	(176)	304
	<u>(176)</u>	<u>304</u>
Tax (credit)/expense	<u>(176)</u>	<u>304</u>

Reconciliation between tax (credit)/expense and accounting (loss)/profit at applicable tax rates:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
(Loss)/profit before taxation	(60,075)	679
	<u>(60,075)</u>	<u>679</u>
Tax at domestic income tax rate applicable of profits in the respective countries	(14,259)	239
Tax effect of non-taxable income	(210)	(1,514)
Tax effect of non-deductible expenses	503	1,710
Tax losses utilised from previous periods	–	(282)
Tax effect of losses not recognised	13,790	139
Others	–	12
	<u>(176)</u>	<u>304</u>
Tax (credit)/expense	<u>(176)</u>	<u>304</u>

In accordance with the applicable enterprise income tax law of mainland China, the subsidiary established in mainland China is subject to mainland China enterprise income tax (“EIT”) at a rate of 24% and a local tax of 3%. A wholly-owned subsidiary established in mainland China was exempted from EIT for its first two profit-making years of operations and thereafter is eligible for a 50% relief from EIT for the following three years.

The tax rate applicable to subsidiaries established and operating in Republic of Germany and the United States of America (the “USA”) is 40% and 35% respectively.

13. NET (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The net loss attributable to equity shareholders of the Company was HK\$37,250,000 (2005: profit of HK\$3,466,000) which has been dealt with in the financial statements of the Company.

14. (LOSS)/EARNINGS PER SHARE

- (a) The calculation of basic (loss)/earnings per share is based on the net loss attributable to equity shareholders of the Company of HK\$59,736,000 (2005: profit of HK\$293,000) and the weighted average number of 570,999,242 (2005: 467,259,419) ordinary shares in issue during the year.
- (b) Diluted earnings per share has not been disclosed as no diluting events existed in both years.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings held for own use HK\$'000	Furniture and fixtures HK\$'000	Machinery, engineering and other equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost or valuation						
At 1 April 2004						
– As previously reported	54,560	10,747	21,850	3,530	51,065	141,752
– Effect of the changes in accounting policies under HKAS 17	(17,380)	–	–	–	–	(17,380)
– As restated	37,180	10,747	21,850	3,530	51,065	124,372
Additions	–	1,314	2,161	175	6,387	10,037
Written off	–	(616)	(5,644)	(271)	(3,464)	(9,995)
Revaluation surplus	4,055	–	–	–	–	4,055
At 31 March 2005, as restated	41,235	11,445	18,367	3,434	53,988	128,469
At 1 April 2005, as restated	41,235	11,445	18,367	3,434	53,988	128,469
Additions	–	2,367	3,067	–	3,790	9,224
Disposals	(1,471)	–	(2,007)	(3,259)	(2,151)	(8,888)
Written off	–	(2,816)	(3,337)	–	(3,455)	(9,608)
Revaluation surplus	636	–	–	–	–	636
Exchange realignment	–	(76)	–	–	–	(76)
At 31 March 2006	40,400	10,920	16,090	175	52,172	119,757
Analysis of cost or revaluation						
At cost	–	10,920	16,090	175	52,172	79,357
At valuation	40,400	–	–	–	–	40,400
	40,400	10,920	16,090	175	52,172	119,757
Accumulated depreciation						
At 1 April 2004	–	4,837	13,099	2,927	21,551	42,414
Provided during the year	1,129	2,145	2,001	360	5,355	10,990
Written off	–	(616)	(5,644)	(271)	(3,464)	(9,995)
Written back on revaluation	(1,129)	–	–	–	–	(1,129)
At 31 March 2005	–	6,366	9,456	3,016	23,442	42,280
At 1 April 2005	–	6,366	9,456	3,016	23,442	42,280
Provided during the year	1,230	2,075	1,772	141	5,416	10,634
Written back on disposals	(4)	–	(890)	(3,125)	(956)	(4,975)
Written off	–	(2,816)	(3,337)	–	(3,455)	(9,608)
Written back on revaluation	(1,226)	–	–	–	–	(1,226)
Exchange realignment	–	(62)	–	–	–	(62)
At 31 March 2006	–	5,563	7,001	32	24,447	37,043
Net book value						
At 31 March 2006	40,400	5,357	9,089	143	27,725	82,714
At 31 March 2005	41,235	5,079	8,911	418	30,546	86,189

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

- (a) The net book value of property, plant and equipment held under finance leases included in the total amount of machinery, engineering and other equipment at 31 March 2006 amounted to HK\$2,877,000 (2005: HK\$2,534,000).
- (b) The Group's leasehold land and buildings held for own use were revalued as at 31 March 2006 by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuers, at open market value as analysed below:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land and buildings located in		
– Hong Kong	18,550	19,750
– Mainland China	44,000	43,800
	<u>62,550</u>	<u>63,550</u>

- (c) The analysis of net book value of leasehold land and buildings as at 31 March 2006 is as follows:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Held under medium term leases in		
– Hong Kong	13,474	14,980
– Mainland China	32,294	32,419
	<u>45,768</u>	<u>47,399</u>
Representing:		
Buildings carried at revalued amount	40,400	41,235
Interest in leasehold land held for own use under operating leases	<u>5,368</u>	<u>6,164</u>
	<u>45,768</u>	<u>47,399</u>

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$29,438,000 (2005: HK\$32,078,000).

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

- (d) At 31 March 2006, certain of the Group's buildings with a net book value of HK\$10,270,000 (2005: HK\$11,042,000) were pledged to secure general banking facilities granted to the Group.

The Company

	Furniture and equipment <i>HK\$'000</i>
Cost	
At 1 April 2004 and 1 April 2005	–
Additions	189
At 31 March 2006	189
Accumulated depreciation	
At 1 April 2004 and 1 April 2005	–
Provided for the year	–
At 31 March 2006	–
Net book value	
At 31 March 2006	189
At 31 March 2005	–

16. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group

HK\$

Cost

At 1 April 2004

– As previously reported

– Effect of changes in accounting policies under HKAS 17

–

8,919

– As restated

8,919

Disposals

(909)

At 31 March 2005, as restated

8,010

At 1 April 2005, as restated

8,010

Disposals

(830)

At 31 March 2006

7,180

Amortisation

At 1 April 2004

– As previously reported

– Effect of changes in accounting policies under HKAS 17

–

1,916

– As restated

1,916

Charge for the year

176

Written back on disposals

(246)

At 31 March 2005, as restated

1,846

At 1 April 2005, as restated

1,846

Charge for the year

142

Written back on disposals

(176)

At 31 March 2006

1,812

Net book value

At 31 March 2006

5,368

At 31 March 2005

6,164

At 31 March 2006, the leasehold land in Hong Kong with net book value of HK\$3,204,000 (2005: HK\$3,938,000) was pledged to secure general banking facilities granted to the Group.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	60,953	60,953
Due from subsidiaries	212,236	175,723
	273,189	236,676
Less: Provision for impairment losses	(161,182)	(129,182)
	112,007	107,494

The amounts due from subsidiaries are unsecured, have no fixed terms of repayment and are interest-free, except for an amount due from a subsidiary of HK\$4,050,000 (2005: HK\$3,805,000), which bears interest at rates ranging from 5.0% to 7.5% (2005: 5.0%) per annum.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			directly	indirectly	
Anex Electrical Company Limited ("AECL")	Hong Kong	HK\$3,009,000 (Note a)	100	–	Sale of electrical appliances
Anex Industrial Corporation Limited	Hong Kong	HK\$500,000	–	100	Property investment
Anco Industrial Company Limited	British Virgin Islands/ Mainland China	US\$100	–	100	Property investment
Anex USA Products, Inc.	United States of America	US\$10,000	–	100	Sale of electrical appliances
Melwick (HK) Limited ("Melwick")	Hong Kong	HK\$2	100	–	Dormant (Note b)
Anco Industrial Company Limited	Hong Kong	HK\$10,000	–	100	Dormant
Anex Germany Products GmbH	Republic of Germany	EUR25,565	–	95	Sale of electrical appliances
Antec Appliances Limited	Hong Kong	HK\$2	100	–	Provision of agency service and investment holding
Anex Japan Corporation	Japan	JPY10,000,000	–	95	Dormant

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			directly	indirectly	
東莞安達電器製品有限公司*	Mainland China	HK\$20,000,000	–	100	Manufacturing electrical appliances
Anex International Management Limited	Hong Kong	HK\$1	100	–	Provision of management service
Anex Construction and Engineering Holdings Limited	British Virgin Islands	US\$1	100	–	Dormant
Anex Properties Holdings Limited	British Virgin Islands	US\$1	100	–	Dormant
Anex Construction & Engineering Limited	Hong Kong	HK\$1	–	100	Dormant

Notes (a) The issued share capital of AECL comprises 3,000 non-voting deferred shares of HK\$100 each and 90 ordinary shares of HK\$100 each.

The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of AECL by virtue or in respect of their holdings of such non-voting deferred shares. The holders of the non-voting deferred shares shall not be entitled to any participation in the profit or assets of AECL except for a fixed non-cumulative dividend at the rate of 5% per annum for any financial year of AECL in respect of which the net profit of AECL available for dividend exceeds HK\$1,000,000,000. On winding-up AECL, the holders of the non-voting deferred shares shall be entitled, out of the surplus assets of AECL, to a return of the capital paid up on the non-voting deferred shares held by them respectively after a total sum of HK\$100,000,000,000 has been distributed in such winding-up on respect of each of the ordinary shares of AECL.

(b) Subsequent to the balance sheet date on 11 July 2006, the application for deregistering Melwick was approved by the Companies Registry. Normally, it takes about five months to deregister a company.

* A wholly-foreign owned enterprise registered in mainland China.

18. INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets	15,185	18,059	–	–
Due from an associate	923	923	923	923
	<u>16,108</u>	<u>18,982</u>	<u>923</u>	<u>923</u>

The amount due from an associate is unsecured, interest free and has no fixed terms of repayment.

18. INTEREST IN AN ASSOCIATE (Continued)

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activity
Ancen Properties Limited	Corporate	Hong Kong	40%	Real estate development

Extracts of the financial statements of the Group's associate are as follows:

	2006 HK\$'000	2005 HK\$'000
Consolidated income statement		
Turnover	10,481	9,236
Net (loss)/profit from ordinary activities attributable to shareholders	(7,186)	1,573
Consolidated balance sheet		
Non-current assets	4,819	4,819
Current assets*	58,639	60,979
Current liabilities	(17,713)	(12,868)
Non-current liabilities	(7,782)	(7,782)

* A time deposit and certain cash and bank balances of Ancen Properties Limited and its subsidiary (the "Ancen Group") amounting to HK\$2,284,000 (2005: HK\$3,995,000) as at 31 March 2006 were pledged to a bank as security for its obligation under a buy-back undertaking entered into between the Ancen Group and the bank. Under this buy-back undertaking, the Ancen Group may be obliged to buy back properties in the event of any defaults by the initial mortgagors (who are unrelated to the Group) of properties sold. As at 31 March 2006, the outstanding mortgage balances granted by the bank amounted to HK\$18,232,000 (2005: HK\$15,640,000).

19. NOTE RECEIVABLE

	The Group and the Company 2006 HK\$'000	2005 HK\$'000
Note receivable	—	5,400
Less: Provision for impairment losses	—	(295)
	—	5,105

The note receivable from Cosmedia Limited, an independent third party, bears interest at a rate of 0.5% per annum, is repayable on or before September 2006 and is secured against the shares in Cosmedia Limited. The note receivable was fully settled in August 2005 after deducting the discount of HK\$900,000. A waiver of interest receivable of HK\$150,000 was made during the year.

20. INVENTORIES

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	12,055	31,138
Work in progress	9,895	19,704
Finished goods	12,239	12,067
	<u>34,189</u>	<u>62,909</u>

The amount of inventories carried at net realisable value at 31 March 2006 is HK\$5,361,000 (2005: HK\$9,354,000).

The amount of write-down of inventories to net realisable value and write off of inventories recognised as an expense during the year is HK\$582,000 (2005: HK\$Nil) and HK\$12,964,000 (2005: HK\$Nil) respectively.

21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit and letters of credit, except for new customers, where payment in advance and cash on delivery are normally required. Invoices are normally payable between 30 and 60 days after issuance, except for certain well-established customers, where the terms are extended to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
0 – 30 days	15,945	16,322
31 – 60 days	7,119	1,759
61 – 90 days	658	588
Over 90 days	110	4,577
	<u>23,832</u>	<u>23,246</u>

22. TRADE PAYABLES

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

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	11,198	6,789
31 – 60 days	5,951	5,252
61 – 90 days	4,080	6,727
Over 90 days	10,244	23,021
	<u>31,473</u>	<u>41,789</u>

23. DUE TO A DIRECTOR

	The Group and the Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cheng Tun Nei	6,000	–

The amount due to a director is unsecured, interest bearing at a rate of 1% per annum over and above the Hong Kong Dollar Prime Lending Rate as quoted by Hang Seng Bank Limited (the “Prime Rate”) and is repayable on or before 28 August 2006. The Prime Rate as at 31 March 2006 is 7.75% per annum.

24. INTEREST-BEARING BANK AND OTHER LOANS

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(restated)
Factoring loans, secured	6,114	–
Bills discounted, secured	3,370	9,304
Packing loans, secured	4,193	1,514
Trust receipt loans, secured	9,674	8,226
Other loan, unsecured	1,425	6,900
	<u>24,776</u>	<u>25,944</u>
Factoring loans repayable within one year	6,114	–
Bills discounted repayable within one year	3,370	9,304
Packing loans repayable within one year	4,193	1,514
Trust receipt loans repayable within one year	9,674	8,226
Other loan repayable within one year	1,425	–
Other loan repayable in the second year	–	6,900
	<u>24,776</u>	<u>25,944</u>
Portion classified as current liabilities	<u>(24,776)</u>	<u>(19,044)</u>
Non-current portion	<u>–</u>	<u>6,900</u>

Notes:

- (a) The Group’s banking facilities are secured by:
- (i) mortgages over certain of the Group’s leasehold land and buildings which had an aggregate net book value at the balance sheet date of HK\$13,474,000 (2005: HK\$14,980,000);
 - (ii) its time deposits amounting to HK\$7,320,000 (2005: HK\$1,001,000);
 - (iii) the director, Kwok Chi Hang, Peter, of the Company has given a personal guarantee amounted to HK\$10,000,000 (2005: HK\$Nil); and
 - (iv) the former director, Kwok Hon Ching, of the Company has given a personal guarantee amounted to HK\$22,000,000 (2005: HK\$22,000,000). The personal guarantee has been released on 7 June 2006.
- (b) Other loan is unsecured and interest bearing at rates ranging from 5.25% to 9.00% (2005: 4.00% to 5.00%) per annum.

25. FINANCE LEASE PAYABLES

The Group leases certain of its engineering equipment for its design and manufacture business. These leases are classified as finance leases and have remaining lease terms ranging from two to three years.

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

	The Group					
	Present	2006	Total	Present	2005	Total
	value of the	Interest	minimum	value of the	Interest	minimum
	minimum	expense	lease	minimum	expense	lease
	lease	relating to	payments	lease	relating to	payments
	payments	future		payments	future	
	periods	periods		periods	periods	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,116	87	1,203	678	55	733
After one year but within two years	757	33	790	541	19	560
After two years but within five years	178	4	182	145	2	147
After five years	–	–	–	–	–	–
	935	37	972	686	21	707
	<u>2,051</u>	<u>124</u>	<u>2,175</u>	<u>1,364</u>	<u>76</u>	<u>1,440</u>

26. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movement during the year is as follows:

	Revaluation of buildings	
	2006	2005
	HK\$'000	HK\$'000
		(restated)
At 1 April, as restated	4,309	5,585
Deferred tax charged/(credited) to buildings revaluation reserve during the year	1,220	(1,276)
At 31 March	<u>5,529</u>	<u>4,309</u>

The Group has tax losses arising in Hong Kong of HK\$142,754,000 (2005: HK\$67,206,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available of the companies in which losses arose. The tax losses do not expire under current tax legislation.

Save as disclosed above, there was no other significant deferred tax liabilities that required to be provided for in the financial statements (2005: Nil).

27. SHARE CAPITAL

	2006		2005	
	<i>No. of shares '000</i>	<i>HK\$'000</i>	<i>No. of shares '000</i>	<i>HK\$'000</i>
Authorised ordinary shares of HK\$0.10 each:				
At beginning of year	800,000	80,000	800,000	80,000
Increase in authorised share capital (<i>note a</i>)	2,200,000	220,000	–	–
At end of year	<u>3,000,000</u>	<u>300,000</u>	<u>800,000</u>	<u>80,000</u>
Issued and fully paid:				
At beginning of year	457,525	45,752	457,525	45,752
Issue of share by placement and subscription (<i>note b</i>)	91,505	9,151	–	–
Issue of share by rights issue (<i>note c</i>)	219,612	21,961	–	–
At end of year	<u>768,642</u>	<u>76,864</u>	<u>457,525</u>	<u>45,752</u>

- (a) On 30 March 2006, the Company held a special general meeting to increase its authorised share capital from HK\$80,000,000 comprising of 800,000,000 shares of HK\$0.10 each to HK\$300,000,000 comprising of 3,000,000,000 shares of HK\$0.10 each by the creation of an additional 2,200,000,000 shares of HK\$0.10 each.
- (b) On 28 September 2005, the Company successfully placed 91,504,969 new shares to independent investors at a price of HK\$0.10 per new share on a fully underwritten basis. The gross proceeds amounted to HK\$9,151,000 and the net proceeds from the placing of HK\$8,500,000. The net proceeds from the placing has been used as general working capital of the Company.
- (c) On 17 November 2005, rights issue of two rights shares for every five existing shares was made, at an issue price of HK\$0.10 per rights share, resulting in the issue of 219,611,926 shares of HK\$0.10 each for a total cash consideration. The gross proceeds amounted to HK\$21,961,000 and the net proceeds from the rights issue of HK\$21,000,000. The net proceeds from rights issue will be used for purchasing new machinery and upgrading existing production facilities, procuring enterprise resource planning system and expansion of electronic networking system, to repay certain borrowings and used as general working capital of the Group.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) and the principal terms of the Scheme are as follows:

(i) Purpose

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operation.

(ii) Eligible participants

Eligible participants of the share option scheme include the Company’s directors and other employees of the Group.

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.

28. SHARE OPTION SCHEME (Continued)**(iii) Maximum number of shares**

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 as at the date of passing the Ordinary Resolution on 9 September 2002. As at the date of this Annual Report, the total number of shares available for issue under the Scheme is 45,752,484, representing 2.98% of the issued share capital.

(iv) Maximum entitlement of each eligible participant

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.

(v) Option period

The Scheme became effective on 9 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

(vi) Acceptance of offer

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on the date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

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

(vii) Exercise price

The Exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (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.

(viii) The remaining life of the Scheme

The directors shall be entitled at any time within 10 years commencing on 9 September 2002 to offer the grant of an option to any eligible participants.

No share option has been granted since the Scheme became effective on 9 September 2002.

29. RESERVES**(a) The Group**

The amounts of the Group's reserves and the movements therein for the two years are presented in the consolidated statement of changes in equity on page 36 of the financial statements.

(b) The Company

	Contributed surplus <i>HK\$'000</i>	Distributable reserve <i>HK\$'000</i>	(Accumulated losses)/ Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	60,733	4,995	(1,164)	64,564
Net profit for the year	—	—	3,466	3,466
At 31 March 2005 and 1 April 2005	60,733	4,995	2,302	68,030
Net loss for the year	—	—	(37,250)	(37,250)
At 31 March 2006	<u>60,733</u>	<u>4,995</u>	<u>(34,948)</u>	<u>30,780</u>

(c) Nature of purposes of the reserves

- (i) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in June 1991, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.
- (ii) Pursuant to a special resolution passed on 15 September 2003, the share premium account of the Company was reduced by an amount of HK\$103,948,000 to Nil and of which HK\$98,953,000 was applied towards the elimination of the accumulated losses of the Company as at 31 March 2003, with the remaining balance of HK\$4,995,000 being credited to a distributable reserve of the Company. The reduction of share premium account was effective on 6 October 2003.
- (iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the overseas subsidiaries. The reserve is dealt with in accordance with the accounting policy set out in note 2(o).

(d) Distributability of reserves

At 31 March 2006, the aggregate amount of reserves available for the distribution to equity shareholders of the Company calculated in accordance with the Companies Act 1981 of Bermuda (as amended) was HK\$30,780,000 (2005: HK\$68,030,000) in certain circumstances.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest expense paid to an associate (a)	–	5
Interest expense paid to a director (b)	45	–
Rental of a director's quarter paid to a related company (c)	484	480
Rental of office premises paid to a related company (d)	73	–
	<u> </u>	<u> </u>

- (a) The interest expense related to an advance from an associate which was fully repaid in 2005. The interest was calculated at a rate of 0.125% per annum.
- (b) The interest expense related to an advance from a director, Cheng Tun Nei. The interest is calculated at a rate of 1% per annum over and above the Prime Rate.
- (c) The Company has entered into a lease agreement with a related company, Mountain-Dew Limited, a company controlled by Kwok Hon Lam, a director of the Company, to lease a director's quarter for a period of 33 months commencing on 1 March 2006 at a monthly rental of HK\$45,000 (2005: HK\$40,000).
- (d) The Company has entered into a lease agreement with a related company, Gold Regent International Limited, a company controlled by Cheng Tun Nei, a director of the Company, to lease office premises for a period of two years commencing on 1 March 2006 at a monthly rental of HK\$73,340 (2005: HK\$Nil).

31. MAJOR NON-CASH TRANSACTIONS

- (a) Included in the prior year were mould deposits of approximately HK\$3,190,000 (2005: HK\$5,596,000) which were transferred to moulds under property, plant and equipment in current year.
- (b) During the year, the Group entered into finance lease arrangements in respect of machinery, engineering and other equipment with a total capital value at the inception of the leases of HK\$1,302,000 (2005: HK\$979,000).

32. CONTINGENT LIABILITIES

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

	The Company 2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Guarantees granted to subsidiaries for		
Banking facilities	39,800	22,000
Finance lease payables	2,051	1,364
	<u> </u>	<u> </u>
	41,851	23,364
	<u> </u>	<u> </u>

As at 31 March 2006, guarantees given in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of HK\$23,351,000 (2005: HK\$19,044,000).

33. OPERATING LEASE COMMITMENTS

The Group leases certain of its director's quarter and office premises under operating lease commitments. Leases for these properties are negotiated for terms ranging from one to three years.

As at 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,420	502	880	–
In the second to fifth years, inclusive	1,707	–	807	–
	<u>3,127</u>	<u>502</u>	<u>1,687</u>	<u>–</u>

34. CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 March 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for	<u>1,450</u>	<u>557</u>

35. EVENT AFTER BALANCE SHEET DATE

- (a) On 30 June 2006, rights issue of one rights share for every existing share together with an issue of two bonus warrants for every five rights shares was made, at an issue price of HK\$0.10 per rights share, resulting in the issue of 768,641,743 shares of HK\$0.10 each for a total cash consideration. As a result, a total of 307,456,696 warrants were issued which entitling the holders thereof to subscribe for new shares at an initial subscription price of HK\$0.10 per share upon exercise of one warrant. The gross proceeds amounted to HK\$76,864,000 and the net proceeds from the rights issue of HK\$74,000,000. The net proceeds from rights issue will be used for investment in property sector in mainland China, repayment of trust receipt loans due in July 2006 and reduction of the Group's indebtedness and retaining as general working capital.
- (b) Subsequent to the balance sheet date on 3 April 2006 and 30 May 2006, the Group entered into finance lease arrangement in respect of property, plant and equipment with a total capital value of HK\$1,553,000. Leases for these property, plant and equipment are negotiated for the term of three years.

36. COMPARATIVE FIGURES

As further explained in note 2(a) to the financial statements, due to adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

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

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

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

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

⁵ Effective for annual periods beginning on or after 1 May 2006.

⁶ Effective for annual periods beginning on or after 1 June 2006.

**CCIF****CCIF CPA LIMITED**

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

30 September 2006

The Board of Directors
Anex International Holdings Limited
Room 1606-7, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Ancen Properties Limited (the “Company”) and its subsidiary (collectively referred to as the “Group”) including the consolidated income statements, the consolidated statement of changes in equity and the consolidated cash flow statements of the Group for each of the three years ended 31 March 2004, 31 March 2005 and 31 March 2006 (collectively the “Relevant Period”), and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2004, 2005 and 2006 (the “Financial Information”) and the notes thereto for inclusion in the circular dated 30 September 2006 issued by Anex International Holdings Limited (the “Circular”) in relation to the proposed acquisition of 30% equity interest in the Company (the “Acquisition”).

The Company was incorporated in Hong Kong on 27 February 1992 with limited liability and has not carried on any business since its incorporation except for acting as the investment holding company of the subsidiary set out below. As at the date of this report, the Company had direct interest in the following subsidiary:

<u>Name</u>	<u>Place of incorporation/ registration and operations</u>	<u>Registered capital</u>	<u>Percentage of equity directly attributable to the Company</u>	<u>Principal activity</u>
東莞嘉湖山莊建造 有限公司	Mainland China	RMB162,000,000	100%	Real estate development

The audited financial statements of the Group for each of the two years ended 31 March 2004 and 31 March 2005 were prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which is collective term included all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong and were audited by Messrs. Ernst & Young, Certified Public Accountants.

The audited financial statements of the Company for the year ended 31 March 2006 were prepared in accordance with applicable HKFRSs, which is collective term included all applicable individual HKFRSs, HKASs and Interpretations issued by HKICPA, and accounting principles generally accepted in Hong Kong and except for no consolidated financial statements have been prepared to incorporate the subsidiary’s result and cash flows for the year ended 31 March 2006 and the Group’s state of affairs at 31 March 2006 was audited by Messrs. Golden Mark & Company, Certified Public Accountants.

The unaudited consolidated management accounts of the Group for the year ended 31 March 2006 were prepared by the director of the Company in accordance with applicable HKFRSs, which is collective term included all applicable individual HKFRSs, HKASs and Interpretations issued by HKICPA, and accounting principle generally accepted in Hong Kong and examined by us.

The Financial Information, together with the notes thereto, has been prepared by the directors of the Company in accordance with HKFRSs based on the audited financial statements or, where applicable, unaudited consolidated management accounts of the Group on the basis set out in note 2 in Section B below, after making such adjustments as are appropriate.

The directors of the Company are responsible for the preparation of the Financial Information together with the notes thereto as set out in Section B to D below which give a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information.

For the purpose of this report, we have examined the audited financial statements and the unaudited consolidated management accounts of the Group for the Relevant Period and have carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. We have not audited financial statements of the Company and its subsidiary in respect to any period subsequent to 31 March 2006.

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

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

In our opinion, for the purpose of this report, the Financial Information together with the notes thereto gives a true and fair view of the Group's consolidated results and cash flows for the Relevant Period and of the state of affairs of the Group and the Company as at 31 March 2004, 2005 and 2006.

(A) FINANCIAL INFORMATION
(1) CONSOLIDATED INCOME STATEMENT

For the years ended 31 March 2004, 2005 and 2006

	<i>Section B Notes</i>	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
TURNOVER	4	12,151	9,236	10,481
COST OF SALES		(9,359)	(6,185)	(6,870)
GROSS PROFIT		2,792	3,051	3,611
OTHER REVENUE	4	1,377	1,041	1,146
		4,169	4,092	4,757
Selling and distribution expenses		(541)	(389)	(498)
Administrative expenses		(3,137)	(1,582)	(2,220)
Other operating expenses	5	–	–	(8,547)
PROFIT/(LOSS) BEFORE TAXATION	5	491	2,121	(6,508)
Taxation	6	(160)	(550)	(678)
PROFIT/(LOSS) FOR THE YEAR		<u>331</u>	<u>1,571</u>	<u>(7,186)</u>
Dividends payable to equity shareholders of the Company attributable to the year:				
Interim dividend declared during the year	9	<u>–</u>	<u>11,400</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

(2) CONSOLIDATED BALANCE SHEET

At 31 March 2004, 2005 and 2006

	<i>Section B Notes</i>	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS				
Property under development	10	4,819	4,819	4,819
CURRENT ASSETS				
Completed properties held for sale	12	36,933	30,748	19,495
Due from a related company	13	22,760	–	–
Due from directors	14	22,590	7,781	3,617
Trade receivables	15	8,901	6,426	8,493
Prepayment, deposits and other receivables		463	448	571
Pledged deposits	16	2,637	3,995	2,284
Cash and bank balances		17,926	11,581	20,015
		112,210	60,979	54,475
CURRENT LIABILITIES				
Other payables and accruals		9,021	9,112	9,116
Tax payable	17	3,205	3,755	4,433
Due to shareholders	18	–	–	7,782
		12,226	12,867	21,331
NET CURRENT ASSETS		99,984	48,112	33,144
TOTAL ASSETS LESS CURRENT LIABILITIES		104,803	52,931	37,963
NON-CURRENT LIABILITIES				
Due to shareholders	18	49,825	7,782	–
NET ASSETS		54,978	45,149	37,963
CAPITAL AND RESERVES				
Share capital	19	–	–	–
Retained profits		54,978	45,149	37,963
TOTAL EQUITY		54,978	45,149	37,963

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

(3) BALANCE SHEET

At 31 March 2004, 2005 and 2006

	Section B Notes	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS				
Interest in a subsidiary	11	44,030	4,061	3,927
CURRENT ASSETS				
Due from a director	14	16,667	3,617	3,617
Cash and bank balances		1,204	905	1,041
		17,871	4,522	4,658
CURRENT LIABILITIES				
Tax payable	17	645	645	645
Due to shareholders	18	–	–	7,782
		645	645	8,427
NET CURRENT ASSETS/ (LIABILITIES)		17,226	3,877	(3,769)
TOTAL ASSETS LESS CURRENT LIABILITIES		61,256	7,938	158
NON-CURRENT LIABILITIES				
Due to shareholders	18	49,825	7,782	–
NET ASSETS		11,431	156	158
CAPITAL AND RESERVES				
Share capital	19	–	–	–
Retained profits		11,431	156	158
TOTAL EQUITY		11,431	156	158

(4) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the years ended 31 March 2004, 2005 and 2006*

	Share capital <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 April 2003	–	54,647	54,647
Net profit for the year	–	331	331
At 31 March 2004	<u>–</u>	<u>54,978</u>	<u>54,978</u>
At 1 April 2004	–	54,978	54,978
Net profit for the year	–	1,571	1,571
Dividend declared and paid during the year	–	(11,400)	(11,400)
At 31 March 2005	<u>–</u>	<u>45,149</u>	<u>45,149</u>
At 1 April 2005	–	45,149	45,149
Net loss for the year	–	(7,186)	(7,186)
At 31 March 2006	<u>–</u>	<u>37,963</u>	<u>37,963</u>

(5) CONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 March 2004, 2005 and 2006

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	491	2,121	(6,508)
Adjustments for:			
Interest income	(163)	(103)	(140)
Impairment loss on amount due from a director	–	–	4,164
Write off of completed properties held for sale	–	–	4,383
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	328	2,018	1,899
Decrease in completed properties held for sale	9,143	6,185	6,870
Decrease in due from a related company	–	22,760	–
Decrease in due from directors	–	14,809	–
(Increase)/decrease in trade receivables	(3,715)	2,475	(2,067)
(Increase)/decrease in prepayment, deposits and other receivables	(19)	15	(123)
Decrease in trade payables	(680)	–	–
Increase in other payables and accruals	105	91	4
Cash generated from operating activities	5,162	48,353	6,583
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	163	103	140
(Increase)/decrease in pledged deposits	(402)	(1,358)	1,711
Net cash (used in)/generated from investing activities	(239)	(1,255)	1,851
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid	–	(11,400)	–
Settlement of amount due to shareholders	–	(42,043)	–
Net cash used in financing activities	–	(53,443)	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,923	(6,345)	8,434
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR	13,003	17,926	11,581
CASH AND CASH EQUIVALENT AT THE END OF YEAR	17,926	11,581	20,015
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17,926	11,581	20,015

(B) NOTES TO THE FINANCIAL INFORMATION**1) GENERAL INFORMATION**

Ancen Properties Limited (the “Company”) is a limited liability company domiciled and incorporated in Hong Kong. The address of its registered office and principal place of business is 17/F., Shing Lee Commercial Building, 6-12 Wing Kut Street, Central, Hong Kong. Its principal activity is investment holding. The principal activity of the subsidiary is real estate development.

2) PRINCIPAL ACCOUNTING POLICIES**(a) Statement of compliance**

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

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation

The consolidated financial statements for each of the three years ended 31 March 2004, 2005 and 2006 comprise the Company and its subsidiary (together referred to as the “Group”). The measurement basis used in the preparation of the Financial Information is the historical cost basis.

(c) Subsidiaries

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

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

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

In the company’s balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

2) **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(d) Impairment of assets**

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

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- Intangible assets
- investment in associates and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

(e) Property development

The cost of acquiring land held under operating leases is amortised on a straight line basis over the lease term. If the property is in the course of development or redevelopment the amortisation charge is included as part of the costs of the property under development.

- **completed property held for sale**

In the case of completed properties developed by the group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property. The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(f) Trade and other receivables

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

(g) Cash and cash equivalents

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

2) PRINCIPAL ACCOUNTING POLICIES (Continued)**(h) Trade and other payables**

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

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credit. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

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

- (i) Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received; and
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2) PRINCIPAL ACCOUNTING POLICIES (Continued)**(l) Translation of foreign currencies**

The financial statements are presented in Hong Kong dollars (“HKD”), which is the Company’s functional and presentation currency. The subsidiary’s functional currency is Renminbi (“RMB”).

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

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

(m) Related parties

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

(n) Employee benefits

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

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

3) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Impairment of assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined on the value-in-use calculation. These calculations require use of estimate.

3) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) Impairment of properties held for sale

The Group makes impairment losses on properties held for sale based on an assessment of the net realisable value of the properties held for sale. Impairments are applied where events or changes in circumstances indicates that the net realizable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value and impairments expenses in the period in which such estimate has been charged.

c) Taxation

The Group is subject to taxation in mainland China. Significant judgement is required in determining the provision for tax and the timing of payment of the related tax. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales, income tax and deferred tax provisions in the period in which such determination is made.

4) TURNOVER AND REVENUE

Turnover represents income recognised on the sale of properties held for sale.

An analysis of turnover and other revenue is as follows:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Turnover			
Sales of properties held for sale	12,151	9,236	10,481
Other revenue			
Interest income	163	103	140
Write-off of trade payables	680	—	—
Exchange gain	—	—	565
Others	534	938	441
	1,377	1,041	1,146
	<u>13,528</u>	<u>10,277</u>	<u>11,627</u>

5) PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Cost of properties held for sale	9,359	6,185	6,870
Auditors' remuneration	30	39	30
Staff costs	61	61	63
Other operating expenses			
Write off of completed properties held for sale	—	—	4,383
Impairment losses on amount due from a director	—	—	4,164
	<u>—</u>	<u>—</u>	<u>8,547</u>

6) TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong during the Relevant Period. Taxation for subsidiary is charged at the appropriate current rate of taxation in the relevant country.

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current tax			
– Hong Kong	–	–	–
– Overseas	160	550	678
	<u>160</u>	<u>550</u>	<u>678</u>
Tax expense	<u>160</u>	<u>550</u>	<u>678</u>

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit/(loss) before taxation	<u>491</u>	<u>2,121</u>	<u>(6,508)</u>
Tax at domestic income tax rate applicable of profits in the respective countries	163	681	(2,149)
Tax effect on non-taxable income	(3)	(131)	–
Tax effect on non-deductible expenses	–	–	2,827
	<u>160</u>	<u>550</u>	<u>678</u>
Tax expense	<u>160</u>	<u>550</u>	<u>678</u>

In accordance with the applicable enterprise income tax law of mainland China, the subsidiary established in mainland China is subject to mainland China enterprise income tax at a rate of 30% and a local tax at a rate of 3%.

7) DIRECTORS' REMUNERATION

No directors received any fee or other emoluments in respect of their services rendered during the Relevant Period.

8) PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of approximately HK\$2,000 (2005: profit of approximately HK\$125,000 and 2004: loss of approximately HK\$3,000) which has been dealt with the financial statements of the Company.

9) DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the Relevant Period:

	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$114,000 per ordinary share	<u>–</u>	<u>11,400</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

10) PROPERTY UNDER DEVELOPMENT

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Prepayment of land use right	4,819	4,819	4,819

The land is situated in mainland China and is held under land use rights with term of 70 years starting from January 1993.

Based on the legal opinion obtained by the Group, the Group continues to enjoy the rights of possession use of the parcel of land and income derived from the parcel of land including lease and from other lawful means not withstanding the fact that the certificate of state-owned land use is not under the name of 東莞嘉湖山莊建造有限公司.

No amortisation charge was made as the amortisation charge is allowed be capitalized as part of the costs of the property under development.

11) INTEREST IN A SUBSIDIARY

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Unlisted shared, at cost	118,774	118,774	118,774
Due to a subsidiary	(74,744)	(114,713)	(114,847)
	44,030	4,061	3,927

The amount due to a subsidiary was unsecured, interest free and had no fixed terms of repayment.

Particulars of the subsidiary are as follows:

Name	Place of incorporation/ registration and operations	Registered capital	Percentage of equity directly attributable to the Company	Principal activity
東莞嘉湖山莊建造有限公司	Mainland China	RMB162,000,000	100%	Real estate development

12) COMPLETED PROPERTIES HELD FOR SALE

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Properties held for sale	39,610	33,425	26,555
Write off	(2,677)	(2,677)	(7,060)
	36,933	30,748	19,495

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

13) DUE FROM A RELATED COMPANY

	2004 HK\$'000	Maximum outstanding balance during the year HK\$'000	2005 HK\$'000	Maximum outstanding balance during the year HK\$'000	2006 HK\$'000	Maximum outstanding balance during the year HK\$'000
Anex Electrical Company Limited	22,760	22,760	—	22,760	—	—

Notes:

- a) The amount was unsecured, interest bearing at a rate of Nil (2005: 0.125% and 2004: 0.125%) and repayable on demand.
- b) The related company is controlled by Kwok Hon Ching and Kwok Hon Lam, directors of the Company.

14) DUE FROM DIRECTORS

The Group

	2004 HK\$'000	Maximum outstanding balance during the year HK\$'000	2005 HK\$'000	Maximum outstanding balance during the year HK\$'000	2006 HK\$'000	Maximum outstanding balance during the year HK\$'000
Mo Zhiming	16,667	16,667	3,617	16,667	3,617	3,617
Xiao Zhibiao	5,923	5,923	4,164	5,923	—	4,164
	22,590		7,781		3,617	

The Company

	2004 HK\$'000	Maximum outstanding balance during the year HK\$'000	2005 HK\$'000	Maximum outstanding balance during the year HK\$'000	2006 HK\$'000	Maximum outstanding balance during the year HK\$'000
Mo Zhiming	16,667	16,667	3,617	16,667	3,617	3,617

Notes:

- a) The amounts were unsecured, interest free and repayable on demand.
- b) During the year ended 31 March 2006, an impairment loss of approximately HK\$4,164,000 was made for amount due from Xiao Zhibiao.

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

15) TRADE RECEIVABLES

Sales proceeds receivables from sale of properties are settled in accordance with the terms of respective contracts. An aged analysis of the sales proceeds receivables as at the balance sheet dates and net off impairment losses for bad and doubtful debts, is as follows:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Within 3 months	1,352	1,296	550
After 3 months but within 6 months	3,450	1,514	3,098
After 6 months but within 1 year	2,519	2,276	3,865
After 1 year	1,580	1,340	980
	<u>8,901</u>	<u>6,426</u>	<u>8,493</u>

16) PLEDGED DEPOSITS

A time deposit and certain cash and bank balances of approximately HK\$2,284,000 (2005: HK\$3,995,000 and 2004: HK\$2,637,000) were pledged to a bank as security for its obligation under a buy-back undertaking entered into between the Group and the bank.

17) INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

a) Current taxation in the consolidated balance sheet represents:

The Group

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Balance of Hong Kong Profits Tax relating to prior years	645	645	645
Provision for overseas profits tax	2,560	3,110	3,788
	<u>3,205</u>	<u>3,755</u>	<u>4,433</u>

The Company

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Balance of Hong Kong Profits Tax relating to prior years	645	645	645

b) Deferred taxation

The Group and the Company did not have material unrecognized deferred taxation at the balance sheet dates.

18) DUE TO SHAREHOLDERS

The amounts were unsecured and interest free. The repayment term was changed from repayable beyond twelve months at 31 March 2004 and 2005 to repayable on demand at 31 March 2006.

APPENDIX II FINANCIAL INFORMATION OF ANCEN PROPERTIES

19) SHARE CAPITAL

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Authorised:			
10,000 ordinary shares of HK\$1 each	10	10	10
Issued and fully paid:			
100 ordinary shares of HK\$1 each	—	—	—

20) CONTINGENT LIABILITIES

The Group has provided a buy-back undertaking with a bank in order to facilitate mortgage arrangements provided by the bank to the buyers of the properties. Under this buy-back undertaking, the Group may be obliged to buy back properties in the event of any defaults by the initial mortgagors (who are unrelated to the Group) of properties sold. The outstanding mortgage balances granted by the bank as at 31 March 2004, 2005 and 2006 were approximately HK\$10,556,000, HK\$15,640,000 and HK\$18,232,000, respectively.

21) CAPITAL COMMITMENTS

As at the respective balance sheet dates of the Relevant Period, the Group had the following capital commitments not provided for in the Financial Information:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Contracted, but not provided for	31,226	31,226	31,226

22) RELATED PARTY TRANSACTION

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group entered into the following related party transaction which was carried out in the normal course of business:

	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Interest income received from a related company	29	5	—

The interest income was related to an advance to a related company which was fully repaid during the year ended 31 March 2005 (2004: HK\$22,760,000). Interest was calculated at a rate of 0.125% and 0.125% per annum (note 13) during the year ended 31 March 2004 and 2005, respectively.

23) FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, liquidity risk, cash flow interest-rate risk and fair value interest rate risk.

a) Foreign exchange risk

The Group's monetary assets and liabilities are denominated in HKD and RMB and conducted its business transactions principally in HKD and RMB. The exchange rate risk of the Group is not significant.

b) Liquidity risk

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

c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

d) Credit risk

The Group has no concentrations on credit risk. Sales are made in cash. Cash transactions are limited to high-credit-quality institutions. The extent of the Group's credit exposure is represented by the aggregate balance of cash in bank, trade receivables, other receivables and prepayments.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 20.

24) POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED 31 MARCH 2006

Up to the date of issue of the Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in the Financial Information:

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Employee benefits – Actuarial gains and losses, group plans and disclosures ²
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement – Cash flow hedge accounting of forecast intragroup transactions ² – The fair value option ² – Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: disclosures ¹
HK(IFRIC) – Int 4	Determining whether and arrangement contains a lease ²
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation Funds ²
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market waste electrical and electronic equipment ³

^{1.} Effective for annual periods beginning on or after 1 January 2007.

^{2.} Effective for annual periods beginning on or after 1 January 2006.

^{3.} Effective for annual periods beginning on or after 1 January 2005.

The directors anticipate that the adoption of these new HKFRSs in future periods will have no material impact on the Financial Information of the company.

(C) SUBSEQUENT EVENTS

There were no material subsequent events that occurred after 31 March 2006 to the date of this report.

(D) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 March 2006.

Yours faithfully
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP
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I) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The accompanying unaudited Pro Forma Financial Information of the Enlarged Group (as defined herein) is prepared based upon the audited financial information of Anex International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) as set out in Appendix I and the audited financial information of Ancen Properties Limited (the “Target Company”) and its subsidiary (the “Target Group”) as set out in Appendix II (collectively referred to as the “Enlarged Group”) after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the proposed acquisition of the 30% equity interest in the Target Company (the “Acquisition”) is summarized in the accompanying notes.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2006, as set out in Appendix I of this circular, and the audited consolidated balance sheet of the Target Group as at 31 March 2006 as set out in Appendix II of this circular as if the Acquisition had been completed on 31 March 2006.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. It is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group as at the date to which it is made up or at any future date.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group as at 31 March 2006 (audited) HK\$'000	The Target Group as at 31 March 2006 (audited) HK\$'000		Pro forma adjustments				Total unaudited pro forma adjustments HK\$'000	The Enlarged Group Pro Forma (unaudited) HK\$'000
			Subtotal HK\$'000	(unaudited) Note (a) HK\$'000	(unaudited) Note (b) HK\$'000	(unaudited) Note (c) HK\$'000	(unaudited) Note (d) HK\$'000		
NON-CURRENT ASSETS									
Property, plant and equipment	82,714	–	82,714						82,714
Interests in leasehold land held for own use under operating leases	5,368	–	5,368						5,368
Goodwill	–	–	–			6,901		6,901	6,901
Interest in an associate	16,108	–	16,108	(15,185)	(923)			(16,108)	–
Property under development	–	4,819	4,819						4,819
	<u>104,190</u>	<u>4,819</u>	<u>109,009</u>						<u>99,802</u>
CURRENT ASSETS									
Inventories	34,189	–	34,189						34,189
Completed properties held for sale	–	19,495	19,495						19,495
Mould deposits	8,862	–	8,862						8,862
Trade receivables	23,832	8,493	32,325						32,325
Prepayment, deposits and other receivables	6,961	4,188	11,149						11,149
Pledged deposits	7,320	2,284	9,604						9,604
Bank balances and cash	12,242	20,015	32,257			(18,290)		(18,290)	13,967
	<u>93,406</u>	<u>54,475</u>	<u>147,881</u>						<u>129,591</u>
CURRENT LIABILITIES									
Bank overdrafts	552	–	552						552
Trade payables	31,473	–	31,473						31,473
Other payables and accruals	19,304	9,116	28,420						28,420
Due to a director	6,000	–	6,000						6,000
Interest-bearing bank and other loans	24,776	–	24,776						24,776
Finance lease payables	1,116	–	1,116						1,116
Due to minority shareholder	–	7,782	7,782		(923)			(923)	6,859
Tax payable	–	4,433	4,433						4,433
	<u>83,221</u>	<u>21,331</u>	<u>104,552</u>						<u>103,629</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
ON THE ENLARGED GROUP**

	The Group as at 31 March 2006 (audited) HK\$'000	The Target Group as at 31 March 2006 (audited) HK\$'000		Pro forma adjustments				Total unaudited pro forma adjustments HK\$'000	The Enlarged Group Pro Forma (unaudited) HK\$'000
			Subtotal HK\$'000	(unaudited) Note (a) HK\$'000	(unaudited) Note (b) HK\$'000	(unaudited) Note (c) HK\$'000	(unaudited) Note (d) HK\$'000		
NET CURRENT ASSETS	10,185	33,144	43,329						25,962
TOTAL ASSETS LESS CURRENT LIABILITIES	114,375	37,963	152,338						125,764
NON-CURRENT LIABILITIES									
Finance lease payables	935	–	935						935
Deferred tax liabilities	5,529	–	5,529						5,529
	6,464	–	6,464						6,464
NET ASSETS	107,911	37,963	145,874						119,300
CAPITAL AND RESERVES									
Share capital	76,864	–	76,864						76,864
Reserves	30,969	37,963	68,932	(15,185)		(11,389)	11,389	(15,185)	53,747
Total equity attributable to equity shareholders of the Company	107,833	37,963	145,796						130,611
Minority interests	78	–	78				(11,389)	(11,389)	(11,311)
TOTAL EQUITY	107,911	37,963	145,874						119,300

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP
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NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The pro forma adjustments represent the followings:

- a. To record the elimination of the share of results of the associate in respect to the Target Company.
- b. To record the elimination of inter-company balance upon the completion of the Acquisition.
- c. To record the investment cost of 30% equity interest in the Target Group and the corresponding elimination on the consolidated balance sheet of the Enlarged Group..
- d. To record the minority interest of the Target Group on the consolidated balance sheet of the Enlarged Group.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

II) LETTER ON UNAUDITED PROFORMA FINANCIAL INFORMATION ON THE ENLARGE GROUP

The following is the text of a letter, prepared for the sole purposes of incorporation in this circular, received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong.



CCIF

CCIF CPA LIMITED

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

30 September 2006

The Directors
Anex International Holdings Limited
Room 1606-7, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Anex International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 78 to 81 under the heading of “Unaudited Pro Forma Financial Information of the Enlarged Group” (the “unaudited pro forma financial information”) in Appendix III of the Company’s circular (the “Circular”) dated 30 September 2006 in connection with the acquisition of 30% equity interest (the “Acquisition”) in Ancen Properties Limited and its subsidiary (the “Target Group”). The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information on how the Acquisition might have affected the financial information of the Group. The basis of preparing the unaudited pro forma financial information is set out on pages 78 to 81 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” is issued by the Hong Kong Institute of Certified Public Accountants.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom the reports were addressed by us at the date of the issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 March 2006 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Vigers Appraisal & Consulting Limited, an independent valuer, in connection with the valuations of the properties to be held by the Group as at 31st August 2006.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon



30th September 2006

The Board of Directors
Anex International Holdings Limited
Rooms 1606-07, 16th Floor
West Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Sheung Wan
Hong Kong

Dear Sirs,

- Re: (1) 51 Unsold Street-front Shop Units of Jiayi Garden, Jiafu Garden & Phase I of Jiahui Garden, and 202 Unsold Shop Units on Levels 1 & 2, Restaurant, Karaoke & Supermarket on Level 2 of Jia Lake Shopping Mall, Dongguan Jia Lake Mountain Villa, Jinyinling Section, Guanzhang Highway, Hengkeng Administration District, Liaobu Town, Dongguan, Guangdong Province, The People's Republic of China; and**
- (2) A Parcel of Land situated on the North-west Junction between Wuhuan Road and Guanzhang Road, Hengkeng Village (previously known as "Jinyinling, Hengkeng Management Zone"), Liaobu Town, Dongguan, Guangdong Province, The People's Republic of China**

In accordance with your instruction for us to value the property interests of the captioned two properties for Anex International Holdings Limited (referred to as "the Company") and its subsidiaries (hereinafter together referred to as "the Group"), we confirm that we have inspected the properties, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of values of the properties as at 31st August 2006 (the "Valuation Date").

Basis of Valuation

Our valuations are our opinion of market values of the property interests of the properties in concern which is defined as intended to mean *"the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm's length*

transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion". Our valuations have been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

Property Categorisation

In the course of our valuations, we have categorized the property interests of the properties in concern into the following two groups:

Group I

Property in Group I is completed property to be held by the Group for investment purpose. For the purpose of our valuation, completed property intends to mean the relevant Construction Works Completion Inspection Report and/or Occupation Permit of the building(s) thereof has/have been issued by the relevant government department(s).

Group II

The property interests in Group II is the property to be held by the Group for future development. Our valuation has been made on the basis that the property will be developed and completed in accordance with the Group's latest development proposals and/or the planning approvals as of the Valuation Date made available to us.

Valuation Method

Unless otherwise stated, we have valued the property interests of the properties in concern by adopting the comparison method of valuation on the assumption that the each property can be sold with the benefit of vacant possession. Comparisons based on prices realized on actual sales or offerings of comparable properties have been made. Comparable properties with similar sizes, character, location and so on are analyzed and carefully weighted against all respective advantages and disadvantages of the properties in order to arrive at the fair comparison of values.

Title Investigation

The properties are located in the People's Republic of China ("the PRC") and we have been given extracted copies of relevant title documents. We have not checked title to the properties nor scrutinized the original title documents, however. We have relied on the advice given by the Group and its legal adviser on the laws of the PRC, Guangdong Guanxin Law Firm (廣東莞信律師事務所) (referred to as the "PRC Legal Advisors") regarding title to the property interests of the properties. For the purpose of our valuation, we have taken into account the legal opinion of the PRC Legal Advisors. While we have exercised our professional judgement in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

Valuation Assumption

Our valuations have been made on the assumption that the property interests of the properties can be sold in the prevailing market in their existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the values of the property interests of the properties. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios.

In valuing the property interests of the properties, we have assumed that the owner(s) of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired land-use rights terms granted subject to the payment of land-use rights grant fees.

For the property interests of the property in Group II, no site investigation has been carried out to determine the suitability of the ground conditions or the services for any property development to be erected thereon. Our valuation is carried out on the assumption that these aspects are satisfactory. We have also assumed that all consents, approvals and licences from relevant government authorities for the proposals have been or will be granted without onerous conditions or delay.

Other special assumptions for each of the property interests of the property have been stated in the footnotes of the valuation certificate for the respective property, if any.

Valuation Consideration

We have inspected the exterior, and wherever possible the interior of the properties included in the attached valuation certificate. During the course of our inspections, we did not note any serious defect. However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the properties in concern are free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals, statutory notices, easements, land-use rights, site areas, gross floor areas and usable areas, development costs and in the identification of the properties.

In determining the optimum development potential of the property interests of the property in Group II, we have referred to the definitions of total gross floor area and plot ratio calculations as regulated under urban planning standards in the PRC. Total gross floor area includes substructure and superstructure of the proposed property development to be erected. In assessing the maximum permitted gross floor area of a proposed property development, carport and ancillary facilities on basement as well as refuge floor, stairhood and lift space above ground are excluded from plot ratio calculation.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.

We have not carried out detailed on-site measurement to verify the correctness of the site/floor areas in respect of the properties in concern but we have assumed that the site/floor areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which could serve to affect their values.

Remarks

Unless otherwise stated, all monetary amounts stated herein are in the currency of Renminbi (“RMB”).

We enclose herewith our Summary of Values and Valuation Certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED

David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in Asia Pacific.

SUMMARY OF VALUES

No.	Property	Capital Value in Existing State as at 31st August 2006
<i>Group I – Property Interests to be held by the Group for Investment Purposes</i>		
1.	51 Unsold Street-front Shop Units of Jiayi Garden, Jiafu Garden & Phase I of Jiahui Garden, and 202 Unsold Shop Units on Levels 1 & 2, Restaurant, Karaoke & Supermarket on Level 2 of Jia Lake Shopping Mall, Dongguan Jia Lake Mountain Villa, Jinyinling Section, Guanzhang Highway, Hengkeng Administration District, Liaobu Town, Dongguan, Guangdong Province, The PRC	No commercial value
<i>Group II – Property Interests to be held by the Group for Future Development</i>		
2.	A Parcel of Land situated on the North-west Junction between Wuhuan Road and Guanzhang Road, Hengkeng Village (previously known as “Jinyinling, Hengkeng Management Zone”), Liaobu Town, Dongguan, Guangdong Province, The PRC	No commercial value
GRAND TOTAL		No commercial value

VALUATION CERTIFICATE

Group I – Property Interests to be held by the Group for Investment Purposes

			Capital Value in Existing State as at 31st August 2006														
No.	Property	Description and Tenure	Particulars of Occupancy														
1.	51 Unsold Street-front Shop Units of Jiayi Garden, Jiafu Garden & Phase I of Jiahui Garden, and 202 Unsold Shop Units on Levels 1 & 2, Restaurant, Karaoke & Supermarket on Level 2 of Jia Lake Shopping Mall, Dongguan Jia Lake Mountain Villa, Jinyinling Section, Guanzhang Highway, Hengkeng Administration District, Liaobu Town, Dongguan, Guangdong Province, The PRC	The property comprises a total of 253 shops units, a restaurant, a karaoke and a supermarket in Dongguan Jia Lake Mountain Villa completed in 1996 to 1997. Dongguan Jia Lake Mountain Villa is a large-scale residential / commercial development consisting of three districts, namely Jiayi Garden, Jiafu Garden and Jiahui Garden with ancillary facilities such as shopping mall and clubhouse provided therein. The property has a total gross floor area of approximately 13,491.85 sq.m. with breakdown as follows: <table><tr><th>Portion</th><th>Gross Floor Area</th></tr><tr><td>51 Unsold Units</td><td>2,533.75 sq.m.</td></tr><tr><td>202 Unsold Units</td><td>7,694.26 sq.m.</td></tr><tr><td>Restaurant</td><td>1,631.92 sq.m.</td></tr><tr><td>Karaoke</td><td>692.03 sq.m.</td></tr><tr><td>Supermarket</td><td>939.89 sq.m.</td></tr><tr><td>Total</td><td><u>13,491.85 sq.m.</u></td></tr></table> The property is held for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.	Portion	Gross Floor Area	51 Unsold Units	2,533.75 sq.m.	202 Unsold Units	7,694.26 sq.m.	Restaurant	1,631.92 sq.m.	Karaoke	692.03 sq.m.	Supermarket	939.89 sq.m.	Total	<u>13,491.85 sq.m.</u>	Portion of the property with aggregate gross floor area of approximately 1,046.25 sq.m. was let to various tenants at an aggregate monthly rent of RMB16,160 with the last expiry date on 31st December 2008; whilst the remainder of the property was vacant as of the Valuation Date. No commercial value <i>(Please also refer to Notes 2 and 4 below.)</i>
Portion	Gross Floor Area																
51 Unsold Units	2,533.75 sq.m.																
202 Unsold Units	7,694.26 sq.m.																
Restaurant	1,631.92 sq.m.																
Karaoke	692.03 sq.m.																
Supermarket	939.89 sq.m.																
Total	<u>13,491.85 sq.m.</u>																

Note:

1.
 - i. Pursuant to a Certificate of State-owned Land-Use (Document No.: Dong Fu Guo Yong (1993) Zi Te No. 10) issued by State-owned Land Bureau of Dongguan City, Guangdong Province dated 12 January 1993, the land-use rights of a parcel of land located at Jinyunling, Hengkeng Administration District, Liaobu Town with site area of approximately 26,715 sq.m. is vested in the name of Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.
 - ii. Pursuant to a Certificate of State-owned Land-Use (Document No.: Dong Fu Guo Yong (1993) Zi Te No. 12) issued by State-owned Land Bureau of Dongguan City, Guangdong Province dated 25th September 1997, the land-use rights of a parcel of land located at Jinyunling, Hengkeng Administration District, Liaobu Town with site area of approximately 36,967 sq.m. is vested in the name of Dongguan Liaobu Town Real Estate Development Company for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.
 - iii. Pursuant to four Real Estate Ownership Title Certificates (Document Nos.: Certificate Nos. 535, 537, 645 and 707) issued by Real Estate Registry of Dongguan City dated 26th June 1996, 26th June 1996, 2nd July 1997 and 26th October 1997 respectively, the composite buildings of Dongguan Jia Lake Mountain Villa is held in the name of Dongguan Liaobu Town Real Estate Development Company.
2. In the course of our valuation, we have ascribed no commercial value to the property interests of the property which was held in the name of Dongguan Liaobu Town Real Estate Development Company as of the Valuation Date. Had the Group obtained a valid Certificate of State-owned Land-Use or Real Estate Ownership Certificate in the name of Dongguan Jia Lake Mountain Villa Construction Company Limited (東莞嘉湖山莊建造有限公司), the capital value of the property in existing state as of the Valuation Date (i.e. 31st August 2006) on a market value basis would be RMB28,400,000.
3. A summary of major certificates/approvals as of the Valuation Date (i.e. 31st August 2006) is shown as follows:

i.	Certificate of State-owned Land-Use	Yes
ii.	Real Estate Ownership Certificate	No
iii.	Real Estate Ownership Title Certificate	Part
4. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
 - i. Pursuant to the two Certificates of State-owned Land-Use (Document Nos.: Dong Fu Guo Yong (1993) Zi Te No. 10 and Dong Fu Guo Yong (1993) Zi Te No. 12), two pieces of land having a total site area of 63,682 sq.m. are held in the name of Dongguan Liaobu Town Real Estate Development Company. In accordance with the historical legal relationship, Dongguan Jia Lake Mountain Villa Construction Company Limited is the legal user of the said parcels of land and the unsold shops erected thereon.
 - ii. The legal owner of two pieces of land held under two Certificates of State-owned Land-Use (Document Nos.: Dong Fu Guo Yong (1993) Zi Te No. 10 and Dong Fu Guo Yong (1993) Zi Te No. 12) should be transferred and registered in the name of Dongguan Jia Lake Mountain Villa Construction Company Limited in accordance with the laws of the PRC.
 - iii. Dongguan Jia Lake Mountain Villa Construction Company Limited should have no physical legal impediment in obtaining the Certificate of State-owned Land-Use or Real Estate Ownership Certificate for the property upon proper application and full settlement of relevant taxes.
 - iv. Upon proper transferral of real estate ownership title of the property, Dongguan Jia Lake Mountain Villa Construction Company Limited has the right to occupy, use, transfer, lease, mortgage or by other means dispose of the land-use rights and real estate ownership of the property.
 - v. For the portion of the property which is subject to various tenancy agreements, the tenancy agreements concerned are legally valid.
 - vi. The property does not subject to any mortgage.
 - vii. Dongguan Jia Lake Mountain Villa Construction Company Limited is a joint venture company established by Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) and Ancen Properties Limited (安生置業有限公司).
 - viii. Dongguan Jia Lake Mountain Villa Construction Company Limited (東莞嘉湖山莊建造有限公司) is the sole user and investor of the property and is entitled to the income derived from the property.

VALUATION CERTIFICATE

Group II – Property Interests to be held by the Group for Future Development

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2006
2.	A Parcel of Land situated on the North-west Junction between Wuhuan Road and Guanzhang Road, Hengkeng Village (previously known as “Jinyinling, Hengkeng Management Zone”), Liaobu Town, Dongguan, Guangdong Province, The PRC	The property will be developed into a residential development with ancillary facilities such as retail shops and car parking space to be provided therein upon completion. The property is still in early planning stage. The property has a site area of approximately 5,302.00 sq.m. and a total planned gross floor area of approximately 37,975.00 sq.m., including residential gross floor area of approximately 35,800.00 sq.m., commercial gross floor area of approximately 1,300.00 sq.m. and approximately 195 car parking spaces. The estimated development cost to completion of the property is approximately RMB41,500,000 exclusive of marketing, finance and other indirect costs. The property is held for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.	The property was vacant and pending for development as of the Valuation Date.	No commercial value (Please also refer to Notes 2 and 5 below.)

Note:

1.
 - i. Pursuant to a State-owned Land-Use Rights Grant Contract (Document No.: Dong Guo Chu Rang He (1992) No. 364) issued by Municipal Government of Dongguan City on 12th January 1993 (the “Grant Contract”), Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) agreed to acquire the land-use rights of a parcel of land with site area of approximately 66,000 sq.m. for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063. According to the Grant Contract, the plot ratio and total gross floor area of the proposed development shall not be greater than 1.8 and 316,678 sq.m. respectively.
 - ii. Pursuant to a Certificate of State-owned Land-Use (Document No.: Dong Fu Guo Yong (1993) Zi Te No. 10) issued by State-owned Land Bureau of Dongguan City, Guangdong Province dated 12 January 1993, the land-use rights of a parcel of land located at Jinyunling, Hengkeng Administration District, Liaobu Town with site area of approximately 26,715 sq.m. is vested in the name of Dongguan Liaobu Town Real Estate Development Company for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.

- iii. Pursuant to a Certificate of State-owned Land-Use (Document No.: Dong Fu Guo Yong (1993) Zi Te No. 12) issued by State-owned Land Bureau of Dongguan City, Guangdong Province dated 25th September 1997, the land-use rights of a parcel of land located at Jinyunling, Hengkeng Administration District, Liaobu Town with site area of approximately 36,967 sq.m. is vested in the name of Dongguan Liaobu Town Real Estate Development Company for a land-use rights term of 70 years commencing in January 1993 and expiring in January 2063 for composite use.
2. In the course of our valuation, we have ascribed no commercial value to the property which was held in the name of Dongguan Liaobu Town Real Estate Development Company as of the Valuation Date. Had the Group obtained a valid Certificate of State-owned Land-Use in the name of Dongguan Jia Lake Mountain Villa Construction Company Limited (東莞嘉湖山莊建造有限公司), the capital value of the property in existing state as of the Valuation Date (i.e. 31st August 2006) on a market value basis would be RMB40,000,000.
3. The capital value of the property, assuming full completion under the development proposal as described in our report as of the Valuation Date (i.e. 31st August 2006) would be RMB117,000,000.
4. A summary of major certificates/approvals as of the Valuation Date (i.e. 31st August 2006) is shown as follows:

i.	State-owned Land-Use Rights Grant Contract	Yes
ii.	Certificate of State-owned Land-Use	Yes
iii.	Permission Certificate for Construction Land-Use Planning	No
iv.	Permission Certificate for Construction Works Planning	No
v.	Permission Certificate for Construction Works Commencement	No
vi.	Presale Permit of Commodity Housing	No
vii.	Construction Works Completion Inspection Report	No
5. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:
 - i. Pursuant to the two Certificates of State-owned Land-Use (Document Nos.: Dong Fu Guo Yong (1993) Zi Te No. 10 and Dong Fu Guo Yong (1993) Zi Te No. 12), two pieces of land having a total site area of 63,682 sq.m. are held in the name of Dongguan Liaobu Town Real Estate Development Company. In accordance with the historical legal relationship, Dongguan Jia Lake Mountain Villa Construction Company Limited is the legal user of the said parcels of land.
 - ii. The legal owner of two pieces of land held under two Certificates of State-owned Land-Use (Document Nos.: Dong Fu Guo Yong (1993) Zi Te No. 10 and Dong Fu Guo Yong (1993) Zi Te No. 12) should be transferred and registered in the name of Dongguan Jia Lake Mountain Villa Construction Company Limited in accordance with the laws of the PRC.
 - iii. Dongguan Jia Lake Mountain Villa Construction Company Limited should have no physical legal impediment in obtaining the Certificate of State-owned Land-Use or Real Estate Ownership Certificate for the property upon proper application and full settlement of relevant taxes.
 - iv. Upon proper transferral of real estate ownership title of the property, Dongguan Jia Lake Mountain Villa Construction Company Limited has the right to occupy, use, transfer, lease, mortgage or by other means dispose of the land-use rights and real estate ownership of the property.
 - v. Dongguan Jia Lake Mountain Villa Construction Company Limited has the right to develop the property.
 - vi. The property does not subject to any mortgage.
 - vii. Dongguan Jia Lake Mountain Villa Construction Company Limited is a joint venture company established by Dongguan Liaobu Town Real Estate Development Company (東莞市寮步房地產開發公司) and Ancen Properties Limited (安生置業有限公司).
 - viii. Dongguan Jia Lake Mountain Villa Construction Company Limited (東莞嘉湖山莊建造有限公司) is the sole user and investor of the property and is entitled to the income derived from the property.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in the Shares

Name of Directors	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Cheng Tun Nei (Note 1)	Beneficial owner and family interest	311,296,000	20.25%
Mr. Kwok Hon Lam (Note 2)	Beneficial owner and family interest	162,462,000	11.38%

Note:

1. Out of 311,296,000 Shares, 305,904,000 Shares are directly beneficially owned by Mr. Cheng Tun Nei and 5,392,000 Shares are held by his spouse Ms. Li Wa Hei.
2. Mr. Kwok Hon Lam is interested in 162,462,000 Shares: out of the 162,462,000 Shares, 87,462,000 Shares are directly beneficially owned by Mr. Kwok Hon Lam; 75,000,000 Shares are held by Armstrong Inc., which is a discretionary trust established by Madam Hui Mei Heung for the benefit of the family members of Mr. Kwok Hon Lam. Ms. Cheng Shuk Man is deemed to hold the 87,462,000 Shares by virtue of her being the spouse of Mr. Kwok Hon Lam.

- (ii) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Company's chief executive, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of Substantial Shareholders	Capacity	Number of Shares	Approximate percentage of issued share capital of the Company
Ms. Li Wa Hei (<i>Note 1</i>)	Beneficial owner and family interest	311,296,000	20.25%
Equity Trustee Limited (<i>Note 2</i>)	Trustee	225,000,000	14.63%
Ms. Cheng Shuk Man (<i>Note 3</i>)	Family interest	162,462,000	10.57%
Mr. Kwok Hon Ching (<i>Note 4</i>)	Beneficial owner and family interest	83,900,000	5.46%
Ms. Lee Shu Noo (<i>Note 5</i>)	Family interest	83,900,000	5.46%
Mr. Kwok Hon Kau Johnny (<i>Note 6</i>)	Beneficial owner and family interest	83,900,000	5.46%
Ms. Leung Wai Shan Christina (<i>Note 7</i>)	Family interest	83,900,000	5.46%
Ms. Hui Mei Heung (<i>Note 8</i>)	Founder of discretionary trust	75,000,000	4.88%
Sanfull Securities Limited	Corporate interest	112,500,000	7.32%

Notes:

1. Out of 311,296,000 shares, 5,392,000 shares are directly beneficially owned by Ms. Li Wa Hei and 305,904,000 shares are held by her spouse Mr. Cheng Tun Nei.
2. Equity Trustee Limited is the trustee of the discretionary trusts mentioned in the notes 3 and 5 below and the note 2 in section 2 “Disclosure of Interests by Directors” above.
3. Ms. Cheng Shuk Man is deemed to hold the 162,462,000 Shares by virtue of her being the spouse of Mr. Kwok Hon Lam.
4. Mr. Kwok Hon Ching is interested in 83,900,000 Shares: out of the 83,900,000 Shares, 8,900,000 Shares are directly beneficially owned by Mr. Kwok Hon Ching; 75,000,000 Shares are held by Saramade Company Limited, which is a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Ching.
5. Ms. Lee Shu Noo is deemed to hold the 83,900,000 Shares by virtue of her being the spouse of Mr. Kwok Hon Ching.
6. Mr. Kwok Hon Kau Johnny is interested in 83,900,000 Shares: out of the 83,900,000 Shares, 8,900,000 Shares are directly beneficially owned by Mr. Kwok Hon Kau Johnny; 75,000,000 Shares are held by Prominent Field Inc., which is a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Kau Johnny.
7. Ms. Leung Wai Shan Christina is deemed to hold the 83,900,000 Shares by virtue of her being the spouse of Mr. Kwok Hon Kau Johnny.
8. Ms. Hui Mei Heung is the founder of the discretionary trust as mentioned in the note 2 in section 2 “Disclosure of Interests by Directors” above.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (not being a Director or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or held any option in respect of such capital.

4. DIRECTORS’ INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been since 31 March 2006 (being the date to which the latest published audited consolidated accounts of the Group was made up) acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group save in respect the following:

- (a) on 1 March 2006, the Company entered into a tenancy agreement with a company wholly-owned by Mr. Cheng, the chairman of the Board, and his spouse for the lease of an office for a term of 2 years at a monthly rental of HK\$73,340;
- (b) on 1 March 2006, a subsidiary of the Company entered into a tenancy agreement with a company wholly-owned by Mr. Kwok Hon Lam, a Director, and his spouse for the lease of a residential property for a term of 13 months at a monthly rental of HK\$45,000; and
- (c) on 1 April 2006, the Group acquired a car from Mr. Cheng, the chairman of the Board, at approximately HK\$360,000.

As at the Latest Practicable Date, save as disclosed in this circular, there is no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

5. COMPETING INTERESTS

None of the Directors or any of their respective associates have any interests in any business which may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder).

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries within two years immediately preceding the date of this circular and are or may be material:

- (a) the sale and purchase agreement dated 11 April 2005 entered into between Anex Electrical Company Limited as vendor and Mr. Wong Kung Yue as purchaser in relation to the disposal of the interests in a property for cash consideration of HK\$2,300,000.
- (b) the placing agreement dated 15 September 2005 entered into between the Company and Get Nice Investment Limited in relation to the placing of 91,504,969 shares of the Company at HK\$0.10 each;
- (c) the underwriting agreement dated 26 October 2005 entered into between the Company and Sanfull Securities Limited in relation to the rights issue of 219,611,926 rights shares of the Company;
- (d) the underwriting agreement dated 2 May 2006 entered into between the Company and Sanfull Securities Limited in relation to the rights issue of 768,641,743 rights shares of the Company; and
- (e) the Share Purchase Agreement.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

8. EXPERTS AND CONSENTS

The following is the qualification of the experts whose statements have been included in this circular:

Name	Qualification
CCIF CPA Limited (“CCIF”)	Certified Public Accountants
Vigers Appraisal & Consulting Limited (“Vigers”)	Professional valuers
Guangdong Guanxin Lawfirm (廣東莞信律師事務所) (“Guangdong Guanxin”)	PRC lawyers

Each of CCIF, Vigers, Guangdong Guanxin has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appears.

As at the Latest Practicable Date, none of CCIF, Vigers, Guangdong Guanxin had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of CCIF, Vigers, Guangdong Guanxin had any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation (other than statutory compensation)).

10. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

Mr. Liu Kam Lung, being an associate member of Hong Kong Institute of Certified Public Accounts, a fellow member of the Association of Chartered Certified Accountants, United Kingdom, an associate member of Hong Kong Institute of Chartered Secretaries and an associate member of Institute of Chartered Secretaries of Administrators, United Kingdom, is the secretary and qualified accountant of the Company.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 1606-7, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including Thursday, 19 October 2006:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the published audited consolidated financial statements of the Group for each of the two years ended 31 March 2005 and 2006;
- (c) the accountants' report of Ancen Properties, the text of which is set out in Appendix II to this circular;
- (d) the accountants' report on the pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;
- (e) the letter issued by CCIF CPA Limited on the unaudited pro forma financial information on the Enlarged Group, the text of which is set out on pages 82 to 83 to this circular;
- (f) the property valuation reports of properties of Ancen Properties namely, the PRC Property, the text of which is set out in Appendix IV to this circular;
- (g) the written consents referred to in paragraph headed "Experts and consents" in this appendix;
- (h) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (i) the circulars of the Company dated 24 May 2006 and 15 June 2006 in relation to the rights issue and issue of bonus warrants of the Company; and
- (j) the Share Purchase Agreement

12. MISCELLANEOUS

- (a) All references to times and dates in this circular refer to Hong Kong times and dates.
- (b) In the event of any inconsistency, the English language text of this circular and the form of proxy shall prevail over the Chinese language text.

NOTICE OF SPECIAL GENERAL MEETING



ANEX INTERNATIONAL HOLDINGS LIMITED

安歷士國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 723)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Special General Meeting of the Company will be held at Boardroom 3 & 4, M/F., Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong, on Thursday, 19 October 2006 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

“THAT the share purchase agreement dated 8 September 2006 (the “Share Purchase Agreement”) (a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) entered into between the Company and the Vendor, in respect of the acquisition of 30% equity interest in Ancen Properties Limited, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

AND THAT the board of directors of the Company be and is hereby authorized to do all such acts and to enter into all such transactions, arrangements and agreements in its absolute discretion as it deems fit or appropriate to give effect to the Share Purchase Agreement, for and on behalf of the Company, and the implementation of all transactions contemplated thereunder.”

By order of the Board
Anex International Holdings Limited
Cheng Tun Nei
Chairman

Hong Kong, 30 September 2006

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the Special General Meeting may appoint one or more than one proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the Special General Meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the Company's branch share registrar in Hong Kong, Tengis Limited, 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof.
4. Completion and return of the proxy form will not preclude you from attending the Special General Meeting and voting in person if you so wish. In the event that you attend the Special General Meeting after having lodged the proxy form, it will be deemed to have been revoked.

As at the date of this notice, the board of directors of the Company comprises five executive directors, namely Mr. Cheng Tun Nei, Mr. Kwok Hon Lam, Dr. Siu Miu Man, Mr. Kwok Chi Hang, Peter and Mr. Cheng Tze Kit, Larry, one non-executive director, namely Mr. Yeung Chee Tat, and three independent non-executive directors, namely Mr. Chan Sun Kwong, Mr. Fung Kwan Yin, James and Mr. Chow Nim Sun, Nelson.