THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

North Asia Strategic Holdings Limited
北亞策略控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 8080)

VERY SUBSTANTIAL ACQUISITION

Financial adviser to North Asia Strategic Holdings Limited

SOMERLEY LIMITED

A letter from the board of directors of North Asia Strategic Holdings Limited is set out on pages 5 to 20 of this circular.

A notice convening a special general meeting of North Asia Strategic Holdings Limited to be held at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong at 10:00 a.m. on Wednesday, 29th November 2006 is set out on pages 222 to 223 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at www.nasholdings.com.

10th November 2006

* *For identification purpose only*

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

"Agreement"	the conditional subscription agreement dated 16th October 2006 entered into among Good Tactics, the Target, the Existing Target Shareholders and the Company in relation to the Subscription
"AICV"	Asia Internet Capital Ventures LP
"AIP"	Autron India Private Limited, a company incorporated in India and a wholly-owned subsidiary of the Company since 3rd November 2006
"Ajia Parties"	NASAC and Mr. Tsang
"Amtec"	American Tec Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company since 3rd November 2006
"Amtec Group"	Amtec and its subsidiaries
"API"	Ajia Partners Inc., a company incorporated in the Cayman Islands and the controlling company of NASA
"Autron"	Autron Corporation Limited, a company incorporated in Australia and was the former holding company of Amtec and AIP before they were acquired by the NAS Group
"associates"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of the Directors
"Company" or "NAS"	North Asia Strategic Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on GEM
"Completion"	completion of the Agreement
"Convertible Bonds"	convertible bonds with total face value of HK$20 million issued by the Company to the Ajia Parties, which are convertible into new Shares at an initial conversion price of HK$0.1566 per Share (subject to adjustments). Details of the Convertible Bonds are set out in the circular of the Company dated 20th June 2005

"Director(s)"	director(s) of the Company
"Enlarged Group"	the NAS Group after Completion
"Existing Target Shareholders"	the two existing shareholders who are also the ultimate beneficial owners and co-founders of the Target, both possess substantial experience in the fishmeal and aquatic feed industry and respectively own 80% and 20% of the entire issued Target Shares as at the date of the Agreement (and 48% and 12% respectively upon full conversion of the Target Preferred Shares)
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Good Tactics"	Good Tactics Limited (佳略有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huge Top"	Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands
"Independent Third Parties"	third parties independent of the Company and its connected persons (within the meaning under the GEM Listing Rules)
"Latest Practicable Date"	8th November 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Mr. Cho"	Mr. Henry Cho Kim, the Deputy Chairman and an executive Director of the Company
"Mr. Chow"	Mr. Savio Chow Sing Nam, the Chief Executive Officer and an executive Director of the Company
"Mr. Malm"	Mr. Göran Sture Malm, the Chairman and an executive Director of the Company
"Mr. Tsang"	Mr. Moses Tsang Kwok Tai, a substantial shareholder of the Company
"Mr. Yao"	Mr. Andrew Yao Cho Fai, an executive Director

"NAS Group"	the Company and its subsidiaries
"NASA"	North Asia Strategic Advisors, a company incorporated in the Cayman Islands and a subsidiary of API
"NASAC"	North Asia Strategic Acquisition Corp., a company incorporated in the Cayman Islands and the controlling shareholder of the Company. NASA controls 100% of the voting capital of NASAC
"PCB"	printed circuit board, printed wiring board or etched wiring board
"Placements"	the placements of the Preference Shares completed by the Company in February, March and September 2006 (details of which are set out in the Company's announcements dated 30th December 2005 and 26th July 2006 and circulars dated 24th January 2006 and 17th August 2006)
"PRC"	the People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
"Preference Share(s)"	the non-voting convertible preference share(s) of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Agreement"	the shareholders' agreement to be executed by Good Tactics, the Target, the Existing Target Shareholders and the Company upon Completion
"SMT"	the technology commonly known in the electronics industry as "surface mount technology", being certain methods for constructing electronic circuits by which the components are mounted directly onto the surface of PCBs
"Special General Meeting"	the special general meeting of the Company to be held to consider and, if thought fit, approve the Subscription

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the proposed subscription of the Target Preferred Shares by Good Tactics pursuant to the terms and conditions of the Agreement
"Target"	Coland Group Limited, a company incorporated in Bermuda with limited liability
"Target Group"	the Target and its subsidiaries
"Target Preferred Shares"	a total of 100,000,000 convertible preferred shares of HK$0.10 each in the share capital of the Target to be issued by the Target to Good Tactics pursuant to the terms and conditions of the Agreement
"Target Share(s)"	the ordinary share(s) of HK$0.10 each in the share capital of the Target
"Timeless"	Timeless Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Cho
"TN"	TN Development Limited
"VSC"	Van Shung Chong Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1001)
"VSC BVI"	Van Shung Chong (B.V.I.) Limited, a wholly-owned subsidiary of VSC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

For the purpose of illustration in this circular, figures in US$ are translated into HK$ at the rate of US$1 to HK$7.76.

North Asia Strategic Holdings Limited
北亞策略控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 8080)

Executive Directors:
Mr. Göran Sture Malm *(Chairman)*
Mr. Henry Cho Kim *(Deputy Chairman)*
Mr. Savio Chow Sing Nam *(Chief Executive Officer)*
Mr. Andrew Yao Cho Fai

Independent non-executive Directors:
Mr. Philip Ma King Huen
Mr. Kenny Tam King Ching
Mr. Edgar Kwan Chi Ping

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
78th Floor
The Center
99 Queen's Road Central
Hong Kong

10th November 2006

To the Shareholders and, for information only, the holders of the Preference Shares and the Convertible Bonds

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 19th October 2006, the Board announced that the Company, Good Tactics (a wholly-owned subsidiary of the Company), the Existing Target Shareholders and the Target have on 16th October 2006 entered into the Agreement, pursuant to which Good Tactics has conditionally agreed to subscribe for the Target Preferred Shares to be issued by the Target at an aggregate subscription price of HK$143,333,333. The Target Group is principally engaged in the processing and sale of fishmeal, the refining and sale of fish oil, the manufacturing and sale of aquatic feed products and the trading of other raw materials relating to aquatic feeds in the PRC. The Target Preferred Shares are convertible into Target Shares at the initial conversion ratio of one Target Preferred Share for one Target Share (subject to customary adjustments). Upon full conversion of the Target Preferred Shares into the Target Shares at the initial conversion ratio, Good Tactics will become interested in 40% of the enlarged issued Target Shares.

* *For identification purpose only*

The Subscription constitutes a very substantial acquisition for the Company under the GEM Listing Rules and is subject to approval of the Shareholders. As no Shareholder or its associates have interests in the Agreement which are different from other Shareholders, no Shareholder is required to abstain from voting on the resolution to be proposed at the Special General Meeting to approve the Subscription.

The purpose of the circular is to provide you with, among other things, further details of the Subscription, financial information of the NAS Group, the Target Group and the Enlarged Group, and a notice to convene the Special General Meeting at which an ordinary resolution will be proposed to approve the Subscription.

THE AGREEMENT

Date: 16th October 2006

Parties:

Subscriber: Good Tactics

Issuer: the Target

Guarantors: the Company, as guarantor for the obligations of Good Tactics under the Agreement; and the Existing Target Shareholders, as guarantors for the obligations of the Target under the Agreement

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Target, the Existing Target Shareholders and their respective associates are Independent Third Parties. As at the date of the Agreement, the Target was wholly owned by the Existing Target Shareholders.

Securities to be subscribed:

Subject to the terms and conditions of the Agreement, the Target shall issue and Good Tactics shall subscribe for a total of 100,000,000 Target Preferred Shares at a total subscription price of HK$143,333,333 (equivalent to approximately HK$1.43 per Target Preferred Share).

The principal terms of the Target Preferred Shares are as follows:

Redemption and conversion:	The Target Preferred Shares are not redeemable. The Target Preferred Shares shall be automatically converted into the Target Shares at the initial conversion ratio of one Target Preferred Share to one Target Share, subject to customary adjustments, on the earlier of (i) the first day on which the Target Shares are capable of being traded on the Stock Exchange, the Singapore Exchange Securities Trading Limited, The NASDAQ Stock Market, AIM or such other stock exchange as may be approved by the holder(s) of the Target Preferred Shares pursuant to a qualified initial public offering; and (ii) the date approved by affirmative votes of the holder(s) of the Target Preferred Shares holding in aggregate at least 50% of the Target Preferred Shares. Holder(s) of the Target Preferred Shares shall also have the right to convert the Target Preferred Shares into Target Shares at any time prior to conversion pursuant to the aforesaid events at the then prevailing conversion ratio. Adjustment to conversion ratio will arise as a result of certain changes in the share capital of the Target including, among other things, capital reorganisation involving consolidation, sub-division or re-classification of shares, bonus issue by way of capitalisation of profits or reserves, capital distributions and subsequent issue of rights, options, warrants and other convertible securities in the Target. The Target Shares, when issued, shall rank pari passu in all respects with all other Target Shares then in issue on the date of conversion including the right to any dividends or other distributions declared, made or paid, the record date of which falls on a date on or after the date of conversion. Upon full conversion of the Target Preferred Shares at the initial conversion ratio of one Target Preferred Share to one Target Share, an aggregate of 100,000,000 Target Shares will be issued to Good Tactics, representing approximately 66.7% of the total issued Target Shares as at the Latest Practicable Date. Good Tactics and the Existing Target Shareholders will then be respectively interested in 40% and 60% of the total issued Target Shares as enlarged by the Target Shares to be issued upon conversion of all the Target Preferred Shares assuming that no additional Target Shares have been further issued prior to such conversion.

Transferability:	The Target Preferred Shares are transferable subject to the provisions of the Shareholders' Agreement as described further in the section headed "The Shareholders' Agreement" below.
Voting:	Holder(s) of the Target Preferred Shares will be entitled to vote at general meetings of the Target prior to conversion of the Target Preferred Shares into the Target Shares on an as if fully converted basis. The holder(s) of the Target Preferred Shares shall vote together with the holders of the Target Shares and not as a separate class or series.
Ranking:	Dividends or other distributions, if any, of the Target shall be distributed proportionately amongst the holders of the Target Shares and the Target Preferred Shares, and each Target Preferred Share shall for such purpose be deemed to be equal to the number of the Target Shares into which it is convertible on the record date for such distribution. In the event of liquidation, winding up, dissolution, consolidation, merger, reorganisation, other form of disposal of the whole or substantially the whole of the business and assets of the Target Group, or any person or group of persons acting in concert purchases or otherwise acquires or obtains not less than 60% in nominal value of the Target Shares, the holder(s) of the Target Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Target to the holders of the Target Shares or any other class or series of shares by reason of their ownership thereof, an amount equal to 100% of the initial issue price of each Target Preferred Share held, together with the amount of any arrears of declared but unpaid dividends in respect of such Target Preferred Shares and the amount such holder of the Target Preferred Shares would receive if the Target Preferred Shares were converted into the Target Shares. If a surplus remains after a distribution to the holders of the Target Preferred Shares as described above, the balance of such assets and retained profits shall be distributed proportionately among the holders of the Target Shares and the Target Preferred Shares, on the basis that each Target Preferred Share being deemed for such purpose to be equal to the number of the Target Shares into which such Target Preferred Share is convertible on the date of such event.

Other than the Target Preferred Shares to be issued pursuant to the Agreement, there are no other outstanding convertible securities of the Target in issue as at the Latest Practicable Date.

Subscription price:

The aggregate subscription price for the Target Preferred Shares is HK$143,333,333 and shall be payable as to:

(i) HK$71,666,666.5 at Completion; and

(ii) the balance of HK$71,666,666.5 in one or more payment(s) as may be required by the Target to finance its business plan, monthly budget and schedule for the use of funds as set out in condition (v) below after the utilisation (including the application of part of the proceeds for re-financing or replacement or releasing cash or property security provided by the Existing Target Shareholders to secure the banking facilities of the Target Group) in full of the proceeds paid in (i) above, provided that all unpaid amounts shall be paid on the first anniversary of the date of Completion (or if it is not a business day, the next following business day).

Each of the Existing Target Shareholders and the Target warrants that if the unaudited consolidated profit after taxation of the Target for the eight months ended 31st August 2006 (the "Actual August NPT") is less than 95% of HK$34,686,000, they shall jointly and severally on demand of Good Tactics pay to Good Tactics an amount equal to 5 times 40% of the difference between the Actual August NPT and HK$34,686,000, subject to a maximum of HK$14,333,333.

The subscription price for the Target Preferred Shares was determined after arm's length negotiations between the Company and the Target after considering the historical profitability of the Target Group and the prospects of the industry in which the Target Group operates. In determining the aggregate subscription price of the Target Preferred Shares, the Directors have made reference to the growth trend in the industry as evidenced by the increase in production of aquatic feed in the PRC. According to statistics contained in ChinaFeedOnline.com and 全國飼料工業統計資料 (National Feed Industry Statistics), the production of acquatic feeds in the PRC increased from approximately 4.9 million metric tonnes in 2000 to approximately 9.8 million metric tonnes in 2005, representing a compound annual growth rate of approximately 14.9%. Based on the above, the Directors are confident about the demand for aquaculture in the PRC. Having considered the future prospects of the aquatic feed market and the proven profitable track record of the Target Group as mentioned in paragraph headed "Information on the Target Group" below, the Directors are of the view that the terms of the Subscription including the subscription price are fair and reasonable.

Conditions:

Completion is subject to the following conditions being fulfilled or waived (as the case may be) on or before 31st January 2007 (or such later date as the parties to the Agreement may agree):

(i) the adoption by the Target of the new memorandum and bye-laws, the alteration of the Target's authorised share capital to HK$50,000,000 divided into 500,000,000 Target Shares and HK$10,000,000 divided into 100,000,000 Target Preferred Shares, the completion of all applicable filing and/or registration requirements in connection therewith and the approval (if required) of the Agreement and the transactions contemplated thereunder including the issue and allotment of the Target Preferred Shares by the shareholders of the Target;

(ii) all necessary regulatory and government consents, licences and approvals for the transactions contemplated under the Agreement having been obtained;

(iii) completion of the due diligence review by Good Tactics and Good Tactics being satisfied with such review in all respects in its sole discretion;

(iv) the approval (if required) of the Agreement and the transactions contemplated thereunder by the shareholders of Good Tactics and/or the Shareholders in the manner required by the GEM Listing Rules;

(v) a business plan, the monthly budget and a schedule showing the use and timing of the use of funds from the proceeds of the Subscription by the Target Group, each prepared in English and submitted by the Target to Good Tactics covering the business and operations of the Target Group for a period commencing from a date which falls on or before Completion to 31st December 2008 all having been mutually agreed by Good Tactics and the Existing Target Shareholders (such approval not to be unreasonably withheld by Good Tactics or the Existing Target Shareholders);

(vi) the Target and the Existing Target Shareholders having delivered to Good Tactics in English (a) a certified true copy of the audited consolidated financial statements of the Target Group for the three financial years ended 31st December 2005; and (b) a copy of each of the unaudited proforma consolidated accounts of the Target Group and the unaudited accounts of each subsidiary for the period commencing 1st January 2006 and ended on 31st August 2006 certified as true and accurate by a director of the Target;

(vii) the audited consolidated profit after taxation of the Target for the year ended 31st December 2005 as shown in the audited accounts is not less than 95% of HK$37,331,000 and the audited consolidated profit after taxation of the Target for the six months ended 30th June 2006 is not less than 90% of HK$31,000,000; and

(viii) each member of the Target Group having entered into service agreement with their key management staff.

Good Tactics may, at its absolute and sole discretion by notice in writing to the Target, waive any or all of the above conditions before 31st January 2007 (or such later date as the parties to the Agreement may agree). Good Tactics will not waive condition (iv) and at present does not have any intention to waive any other conditions as mentioned above. If any of the above conditions are not fulfilled or waived by Good Tactics on or before 31st January 2007 (or such later date as the parties to the Agreement may agree), the Agreement shall terminate and none of the parties thereto shall have any liabilities to the others save for any antecedent breaches and obligations which are expressed in the Agreement to survive.

As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived.

Completion:

Completion shall take place on the 7th business day after the fulfillment or waiver of the above conditions (or such other date as Good Tactics and the Target may agree in writing).

Rescission rights of Good Tactics:

If at any time prior to Completion:

(i) there is any matter or event showing that any of the representations and warranties given by the Target and the Existing Target Shareholders under the Agreement to be untrue or misleading or any of the representations and warranties having been breached in any respect; or

(ii) any of the Target or the Existing Target Shareholders is in breach of any obligations on its part under the Agreement; or

(iii) the performance of the terms of the Agreement and the transactions contemplated thereunder by any party to the Agreement and/or any members of the Target Group is or may, in the opinion of Good Tactics, be affected by an event or series of events including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God or accident, any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority or any change or development occurs involving a change in taxation or exchange control (or the implementation or deregulation of any exchange control); or

(iv) if a liquidator or receiver or other person carrying out any similar function is appointed in respect of any part of assets or undertakings of any member of the Target Group or if an order is made or a resolution is passed for the winding up of any member of the Target Group; or

(v) there occurs any material adverse change in the financial markets in Hong Kong, any outbreak of hostilities or escalation thereof including, without limitation, as a result of terrorist attacks or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, or currency exchange rates or exchange controls, in each case the effect of which is such as to make it, in the judgment of Good Tactics, impracticable or inadvisable to subscribe for the Target Preferred Shares; or

(vi) there occurs in the opinion of Good Tactics, acting reasonably, any material adverse change in the financial and trading position or prospects of the Target Group whether or not as a result of the consummation of the transactions contemplated under the Agreement; or

(vii) there is any material breach of any of the representations and warranties given by the Target and the Existing Target Shareholders under the Agreement or other terms of the Agreement by the Target and the Existing Target Shareholders,

then Good Tactics may without any liability to the Target elect not to complete the Subscription by giving notice of the same in writing to the Target.

THE SHAREHOLDERS' AGREEMENT

At Completion, Good Tactics, the Target, the Existing Target Shareholders and the Company shall enter into the Shareholders' Agreement to regulate the respective shareholders' rights of Good Tactics and the Existing Target Shareholders in the Target.

The present board of directors of the Target consists of three members, including the Existing Target Shareholders. Pursuant to the Shareholders' Agreement, the board of directors of the Target following Completion shall consist of not more than five directors. The Existing Target Shareholders will be entitled to appoint not more than three representatives, while Good Tactics will be entitled to appoint such number of directors in proportion to its interests in the issued share capital of the Target on an as if fully converted basis, rounded up to the nearest integral number of directors. Accordingly, Good Tactics shall be entitled to appoint two representatives if there are five directors on the board of the Target.

In addition, Good Tactics agrees that, subject to compliance with all applicable regulatory requirements and if requested by the lenders of the existing banking facilities of the Target Group, Good Tactics and/or the Company shall provide corporate guarantees, provided that (i) the maximum aggregate liability to be guaranteed by Good Tactics and/or the Company does not exceed its pro rata share of shareholding in the total issued share capital of Target on a fully diluted basis as if the Target Preferred Shares have been fully converted; and (ii) the Existing Target Shareholders jointly or severally also provide comfort required by the lender of that relevant banking facility in respect of their pro rata share of liability equal to their percentage shareholding in the total issued share capital of the Target on a fully diluted basis as if the Target Preferred Shares have been fully converted. In the event such guarantees are required from Good Tactics and/or the Company, the Company shall comply with the relevant provisions of the GEM Listing Rules. As at the Latest Practicable Date, none of the lenders of the existing banking facilities of the Target Group has made such request.

The Shareholders' Agreement shall also contain provisions which give Good Tactics first right of refusal over sale of shares in the Target by the Existing Target Shareholders and vice versa. In addition, Good Tactics also has (i) a tag along right to require the Existing Target Shareholders to procure the purchaser for their shares to also purchase shares from Good Tactics on no less favourable terms; and (ii) for so long as the Existing Target Shareholders will hold not less than 51% of the Target Shares in issue, the first right to participate (in proportion to its interest in the Target Shares on an as if converted basis) in future new issues of securities by the Target.

INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in the processing and sale of fishmeal, the refining and sale of fish oil, the manufacturing and sale of aquatic feed products and the trading of other raw materials relating to aquatic feeds, in the PRC. The production base of the Target Group is located in Fuzhou, the PRC, with capability to process a diversified range of fishmeal products and refine fish oil with raw materials mainly imported from overseas countries. The aquatic feed products produced by the Target Group include eel feed, freshwater fish feed, marine fish feed, shrimp feed and frog feed; and the fish oil is mainly used as a nutritional additive to various types of aquatic feed. Products of the Target Group are sold primarily to aquatic feed distributors, feed manufacturers and aquaculture farms in the PRC through the Target Group's distribution network comprising eight branch offices in the PRC.

As set out in the accountants' report contained in Appendix II to this circular, the Target Group recorded net profit before tax and extraordinary items of approximately HK$47.0 million and HK$43.4 million respectively for each of the two years ended 31st December 2004 and 2005. The net profit after tax and extraordinary items for each of the two years ended 31st December 2004 and 2005 were approximately HK$40.5 million and HK$37.3 million respectively. For the six-month ended 30th June 2006, the Target Group recorded net profit before and after tax and extraordinary items of approximately HK$41.3 million and HK$31.0 million respectively. The audited consolidated net asset value of the Target Group attributable to the shareholders of the Target as at 30th June 2006 was approximately HK$144.3 million.

The proceeds from the Subscription are intended to be used by the Target Group to finance the expansion of the production of existing or new fish oil products and storage facilities and expansion of existing or building of new aquatic feed plant(s), expansion into the seafood processing business and future merger and acquisition activities in accordance with the business plan, monthly budget and schedule for the use of funds as agreed by Good Tactics and the Target as mentioned in condition (v) in the paragraph headed "Conditions" above. Subject to the approval of the board of the Target at any time after Completion to do so, the Target may also apply up to HK$23,000,000 of the proceeds for re-financing or replacement or release of cash and property security provided by the Existing Target Shareholders to secure the banking facilities of the Target Group.

REASONS FOR THE SUBSCRIPTION

The NAS Group is principally engaged in the trading of steel products, provision of procurement services for steel products, operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services. On 3rd November 2006, the NAS Group completed the acquisition of the entire issued share capital of Amtec and AIP, which are engaged in the business of trading SMT and PCB assembly equipment, machinery and spare parts and providing related installation, training, repair and maintenance services in the PRC and India. The aggregate consideration of such acquisition amounted to US$60 million (equivalent to approximately HK$465.6 million). Details of the aforesaid acquisition are set out in the circular of the Company dated 13th October 2006.

In view of the rapid growth of the PRC economy and the improvement in living standards, the demand for aquaculture in the PRC has seen continuous growth in recent years. In particular, production of aquatic feed has increased from approximately 4.9 million metric tonnes in 2000 to approximately 9.8 million metric tonnes in 2005 according to statistics contained in ChinaFeedOnline.com and 全國飼料工業統計資料 (National Feed Industry Statistics). The Board is positive about the aquatic feed industry in the PRC as a whole. Given its established position as one of the largest fishmeal importers in the PRC and the experience of the management team, the Board believes the Target Group has a competitive niche to capture the growth potential in the aquatic feed industry. Part of the proceeds from the Subscription are intended to be used by the Target Group to finance the expansion of the production of existing or new fish oil products and storage facilities and expansion of existing or building of new aquatic feed plant(s), expansion into the seafood processing business and future merger and acquisition activities. Having considered the future prospects of the aquatic feed market, the proven profitable track record of the Target Group and the business plan of the Target Group after the Subscription, the Board considers that the Subscription is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable.

The Company has since February 2006 completed Placements of convertible preference shares raising approximately HK$1,266.9 million (net of expenses) of new capital. The new capital is intended to be used for the acquisition of strategic, possibly controlling stakes in companies with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications businesses with a view to diversifying the operations of the NAS Group from its cyclical steel trading business. The Subscription is in line with the diversification strategy of the NAS Group as mentioned above. In accordance with the terms of the Placements, the subscription price for the Placements shall be payable in cash by the placees in four equal installments and half of the subscription monies from the Placements (approximately HK$640.2 million) has been received by the NAS Group. The Company has served notices to require the placees to accelerate payment of the third installment of the subscription monies according to the terms of the Placements to fund the Subscription.

Upon full conversion of the Target Preferred Shares into the Target Shares at the initial conversion ratio of one to one, Good Tactics will become interested in 40% of the enlarged issued Target Shares assuming that no additional Target Shares have been further issued prior to such conversion. The two Existing Target Shareholders will then be interested in 48% and 12% of the enlarged total issued Target Shares upon such conversion. As the NAS Group will share joint control with the Existing Target Shareholders over the strategic financial and operating decisions of the Target Group pursuant to the Shareholders' Agreement following Completion, it is expected that the Target Group will be accounted for as a jointly controlled entity by the NAS Group under Hong Kong Accounting Standard 31.

MANAGEMENT DISCUSSIONS ON THE TARGET GROUP

Set out below is the summary of the financial data of the Target Group extracted from the accountants' report contained in Appendix II to this circular.

	Year ended 31st December			**Six months ended 30th June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Results					
Revenue	823,096	989,165	1,224,299	537,206	471,853
Gross profit	66,562	103,703	115,053	48,378	81,621
Profit before taxation	29,550	47,026	43,385	14,711	41,261
Profit for the year/period	24,514	40,468	37,331	12,675	31,002

	As at 31st December			**As at 30th June**
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Assets and liabilities				
Non-current assets	49,619	64,985	65,424	74,350
Current assets	387,361	481,209	611,574	494,773
Current liabilities	(347,623)	(414,968)	(540,256)	(415,191)
Non-current liabilities	(4,674)	(10,244)	(9,825)	(9,593)
Net assets	84,683	120,982	126,917	144,339

Financial and business performance

Year ended 31st December 2003

Turnover for the year reached approximately HK$823.1 million with gross profit at approximately HK$66.6 million. Other income of approximately HK$9.4 million was recognised during the year of 2003, approximately HK$7.9 million of which was the insurance claims resulting from losses and damages of raw materials. After adding the other income of approximately HK$9.4 million and deducting the distribution costs of approximately HK$11.2 million and administrative expenses of approximately HK$24.5 million, the Target Group recorded net profit for the year of approximately HK$24.5 million.

Year ended 31st December 2004

Turnover of the Target Group reached approximately HK$989.2 million with gross profit of approximately HK$103.7 million in 2004, representing an increase of approximately 20.2% and 55.7% respectively as compared to those in 2003. The growth was contributed by the rise in the selling price, the offering of a wider product range to customers and the continuing marketing effort by the sales team in the PRC. The drop in other income by approximately HK$5.9 million was mainly due to the drop of insurance claims from approximately HK$7.9 million in 2003 to HK$2.4 million in 2004. The distribution costs increased by approximately 86.6% from approximately HK$11.2 million in 2003 to HK$20.9 million in 2004 mainly due to the increase in sales and the rise of crude oil price in 2004. More staff was recruited to cope with the expansion of the business of the Target Group and this contributed primarily to the rise of the administrative expenses from approximately HK$24.5 million in 2003 to HK$28.9 million. Based on the above, the Target Group achieved net profit for the year of approximately HK$40.5 million.

Year ended 31st December 2005

The Target Group recorded a turnover of approximately HK$1,224.3 million and gross profit of HK$115.1 million in 2005, representing an increase of approximately 23.8% and 11.0% respectively as compared to those in 2004. The improvement was mainly attributable to the increase in the sales of fishmeal as a result of the marketing efforts of the Target Group. As a result of the revaluation of RMB against US$, an exchange gain of approximately HK$7.9 million was recognised in 2005. Such exchange gain contributed to the increase in other income from approximately HK$3.5 million in 2004 to HK$10.3 million in 2005. The distribution costs and administrative expenses recorded an increase of approximately 24.1% and 23.7% respectively and the increase was generally in line with the growth of the business of the Target Group. A higher level of borrowings amounted to approximately HK$325.2 million was needed mainly for the purpose of sourcing raw materials and business expansion. Finance costs thus jumped from approximately HK$10.4 million in 2004 to HK$20.3 million in 2005 due to the surge of global interest rates and the higher borrowing level in 2005. As a result of various factors discussed above, net profit for the year of approximately HK$37.3 million was achieved by the Target Group.

Six months ended 30th June 2006

While the turnover for the first half year of 2006 amounted to approximately HK$471.9 million, representing a drop of about 12.2% from the corresponding period of 2005, the gross profit increased by about 68.6% to approximately HK$81.6 million. During the first half of 2006, fishmeal prices surged as a result of the shortage in supply of fishmeal in Peru but yet continued strong demand. In order to minimise the financial and business risks arising from the increase in global fishmeal prices, the Target Group reduced its sales in brown fishmeal and concentrated on white fishmeal sales in which the Target Group had competitive advantage over its competitors. This resulted in a drop in turnover but a rise in gross profit. Due to appreciation of RMB against US$ during the first half of 2006, the Target Group recorded an exchange gain of approximately HK$2.3 million which contributed primarily to the increase of other income during the period. As a result of the increase of global crude oil prices and the labour shortage in PRC ports, the Target Group incurred more freight and loading charges which in turn gave rise to the increase of distribution costs during the period. Administrative expenses also increased due to the increase of bad debt provision and professional fee charges. The Target Group recorded net profit of approximately HK$31.0 million during the six months ended 30th June 2006.

Financial resources and liquidity

The Target Group's capital structure as of 30th June 2006 consisted of shareholders' equity of approximately HK$144.3 million and bank borrowings of approximately HK$272.9 million, compared to shareholders' equity of approximately HK$126.9 million and bank borrowings of approximately HK$325.2 million as at 31st December 2005. Gearing ratios (bank borrowings divided by shareholders' equity) as at 31st December 2003, 2004 and 2005 and 30th June 2006 were approximately 2.11, 1.88, 2.56 and 1.89 respectively.

The Target Group generated net cash inflow of approximately HK$12.2 million and HK$4.0 million for the year ended 31st December 2003 and for the six months period ended 30th June 2006 respectively. A net cash outflow of approximately HK$8.8 million and HK$3.3 million were recorded for each of the two years ended 31st December 2004 and 2005 respectively.

Non-current assets, comprising (a) property, plant and equipment; (b) prepaid lease payments in respect of the land use rights; and (c) investment properties, amounted to approximately HK$74.4 million in total as at 30th June 2006. Additions of property, plant and equipment, mainly represented by the construction of fishmeal storage facilities and fish oil storage tanks in the PRC, amounted to approximately HK$10.9 million during first half year of 2006.

Cash and cash equivalents

As at 30th June 2006, the Target Group had cash and cash equivalents of approximately HK$19.8 million and pledged bank deposits of approximately HK$144.5 million as collateral for its banking facilities.

Investments

The Target Group did not have any investments as at 30th June 2006.

Foreign currency exposure

The sales of the Target Group are mainly denominated in RMB while its purchases are mainly denominated in US$. Therefore, fluctuation in the exchange rates between RMB and US$ will have an impact on the Target Group's profitability. However, given the persistent pressure on RMB appreciation against US$, the Target Group is in a favourable position as it receives RMB from its customers and pays US$ to its suppliers.

Number of employees and remuneration policies

As at 30th June 2006, the Target Group had about 303 employees. Salaries, double pay and bonuses are determined according to the performance of the employees. The Target Group provides on-the-job training, medical insurance and provident fund scheme to its employees. Total staff costs incurred during the first half year of 2006 amounted to approximately HK$9.2 million, compared to approximately HK$8.6 million, HK$12.8 million and HK$16.4 million incurred during the years 2003, 2004 and 2005 respectively.

Prospects of the Target Group

The Target Group is principally engaged in the processing and sale of fishmeal, the refining and sale of fish oil, the manufacturing and sale of aquatic feed products and the trading of other raw materials relating to aquatic feeds, in the PRC. Riding on the growth in the economy and the aquaculture industry in the PRC, it is expected that the Target Group can enjoy a continuous growth in revenue. Moreover, the Target Group is planning to expand its production scale, develop new marketing strategies, and explore opportunities to expand further down stream, including into the seafood processing business. Based on the above, it is expected that the business of the Target Group would be strengthened.

FINANCIAL EFFECTS OF THE SUBSCRIPTION ON THE NAS GROUP

The NAS Group had an audited net asset value of approximately HK$1,049.6 million as at 31st March 2006. The NAS Group intends to satisfy the consideration in cash by internal resources (including the proceeds from the Placements) and therefore the Subscription would not have any effect on the net asset value of the NAS Group, save for the expenses incurred for the Subscription. Upon Completion, the Target Group will be accounted for as a jointly controlled entity by the NAS Group. As shown in the pro forma financial information of the Enlarged Group contained in Appendix III to this circular, a goodwill of approximately HK$31.1 million will arise from the Subscription upon Completion. It should be noted that such goodwill is estimated on the assumption that the fair value of the net assets of the Target Group is the same as their carrying amount. The amount of goodwill to be recorded will depend on the fair value of the net assets of the Target Group to be determined on Completion.

The NAS Group recorded an audited turnover of approximately HK$359.9 million and loss attributable to equity holders of the Company of approximately HK$12.0 million for the year ended 31st March 2006. The Target Group recorded an audited turnover of approximately HK$1,224.3 million and HK$471.9 million and audited net profit of approximately HK$37.3 million and HK$31.0 million for the year ended 31st December 2005 and the six months ended 30th June 2006 respectively. Upon Completion, it is expected that the Target Group will be accounted for as a jointly controlled entity by the NAS Group and thus 40% of the income, assets and liabilities of the Target Group will be consolidated into the accounts of the NAS Group. Given the historical profitability of the Target Group, it is expected that the Subscription would further diversify the business of the NAS Group and enhance its earning base in the future.

GEM LISTING RULES IMPLICATION

The Subscription constitutes a very substantial acquisition of the Company under the GEM Listing Rules and is subject to the approval of the Shareholders. As no Shareholder or its associates have interests in the Agreement which are different from the other Shareholders, no Shareholder is required to abstain from voting on the resolution to be proposed at the Special General Meeting to approve the Subscription.

SPECIAL GENERAL MEETING

Set out in this circular is a notice convening the Special General Meeting to be held at 78th Floor, The Center, 99 Queen’s Road Central, Hong Kong at 10:00 a.m. on Wednesday, 29th November 2006 at which an ordinary resolution will be proposed to approve the Subscription.

A form of proxy for use at the Special General Meeting is accompanying this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 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 the holding of the Special General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you so wish.

RECOMMENDATION

The Directors consider that the terms of the Agreement are fair and reasonable and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Subscription.

GENERAL

Your attention is drawn to the financial information of the NAS Group and the Target Group, the pro forma financial information of the Enlarged Group and the other additional information set out in the appendices to this circular.

For and on behalf of
North Asia Strategic Holdings Limited
Savio Chow Sing Nam
Executive Director and Chief Executive Officer

1. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information of the NAS Group for the three years ended 31st March 2006, as extracted from the relevant annual reports of the Company.

Results

	Year ended 31st March		
	2004	**2005**	**2006**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Revenue	1,429,443	859,685	359,948
Loss before income tax	(25,042)	(4,497)	(16,995)
Income tax (expense)/credit	(889)	(5,946)	5,007
Loss after income tax but before minority interests	(25,931)	(10,443)	(11,988)
Minority interests	220	—	—
Loss attributable to the equity holders of the Company	(25,711)	(10,443)	(11,988)
Loss per Share — Basic	HK(163) cents	HK(65.4) cents	HK(17.7) cents

Assets and Liabilities

	As at 31st March		
	2004	**2005**	**2006**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	387,187	165,748	1,105,190
Total liabilities	(374,542)	(163,611)	(55,595)
Shareholders' equity	12,645	2,137	1,049,595

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the NAS Group, the balance sheet of the Company together with the notes to the financial statements of the NAS Group as extracted from pages 46 to 108 of the annual report of the Company for the year ended 31st March 2006. References to page numbers in this section are to the page numbers of such annual report of the Company.

"Consolidated Income Statement
For the year ended 31st March 2006

	Note	2006 HK$'000	2005 HK$'000
Revenue			
— Sales		355,426	854,564
— Commission		4,522	5,121
		359,948	859,685
Cost of sales		(354,154)	(828,580)
Gross profit		5,794	31,105
Other gains — net	*20*	5,051	2,087
Selling and distribution expenses		(2,180)	(7,494)
General and administrative expenses		(22,364)	(25,139)
Operating (loss)/profit		(13,699)	559
Finance costs	*23*	(3,296)	(5,056)
Loss before income tax		(16,995)	(4,497)
Income tax credit/(expense)	*24*	5,007	(5,946)
Loss for the year, attributable to equity holders of the Company	*25*	(11,988)	(10,443)
Loss per share for loss attributable to the equity holders of the Company — Basic	*26*	HK(17.7) cents	HK(65.4) cents

The notes are an integral part of these consolidated financial statements.

Balance Sheets
As at 31st March 2006

		Consolidated		Company	
		2006	**2005**	**2006**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Plant and equipment	*6*	478	1,411	—	—
Website development costs	*7*	6	21	—	—
Long-term investment	*8*	—	780	—	—
Investments in and amounts due from subsidiaries	*9*	—	—	—	1
Subscription receivables, non-current portion	*18*	494,135	—	494,135	—
Total non-current assets		494,619	2,212	494,135	1
Current assets					
Inventories	*10*	26,399	94,936	—	—
Deposits for purchase of inventories		—	27,387	—	—
Trade receivables	*11*	115	3,977	—	—
Prepayments, deposits and other receivables	*12*	16,745	7,893	707	30
Amounts due from subsidiaries	*33*	—	—	3,000	—
Subscription receivables, current portion	*18*	271,410	—	271,410	—
Pledged bank deposits	*13*	3,055	16,080	—	13,049
Cash and cash equivalents	*13*	292,847	13,263	289,941	12
Total current assets		610,571	163,536	565,058	13,091
Current liabilities					
Short-term bank borrowings	*14*	—	(24,360)	—	—
Trade payables	*15*	(36,916)	(121,018)	—	—
Accruals and other payables	*16*	(2,545)	(7,441)	(1,920)	(71)
Receipts in advance		(792)	(5,256)	—	—
Current income tax liabilities		(700)	(5,536)	—	—
Total current liabilities		(40,953)	(163,611)	(1,920)	(71)
Net current assets/(liabilities)		569,618	(75)	563,138	13,020
Total assets less current liabilities		1,064,237	2,137	1,057,273	13,021

		Consolidated		Company	
		2006	2005	2006	2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Amounts due to subsidiaries	*33*	—	—	—	(3,907)
Convertible bonds	*17*	(14,642)	—	(14,642)	—
Total non-current liabilities		(14,642)	—	(14,642)	(3,907)
Net assets		1,049,595	2,137	1,042,631	9,114
Equity					
Capital and reserves attributable to equity holders of the Company:					
Share capital	*18*	74,790	159,659	74,790	159,659
Reserves	*19*	974,805	(157,522)	967,841	(150,545)
Shareholders' equity		1,049,595	2,137	1,042,631	9,114

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31st March 2006

		Attributable to equity holders of the Company		
		Share capital	Reserves	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April 2004		159,638	(146,993)	12,645
Loss for the year		—	(10,443)	(10,443)
Translation adjustments		—	(86)	(86)
Change in fair value of a long-term investment		—	548	548
Realised upon disposal of a long-term investment		—	(548)	(548)
Issue of ordinary shares upon exercise of warrants		21	—	21
Balance at 31st March 2005 and 1st April 2005		159,659	(157,522)	2,137
Loss for the year		—	(11,988)	(11,988)
Capital reorganisation	*18*	(159,529)	159,529	—
Issue of ordinary shares	*18*			
— upon exercise of warrants		30	—	30
— under a subscription agreement		639	9,361	10,000
— under an open offer		159	2,341	2,500
Issue of preference shares		73,832	980,764	1,054,596
Share issue expenses				
— ordinary shares		—	(2,186)	(2,186)
— preference shares		—	(12,173)	(12,173)
Convertible bonds				
— equity component	*17*	—	6,388	6,388
Translation adjustments		—	291	291
Balance at 31st March 2006		74,790	974,805	1,049,595

The notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the year ended 31st March 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Net cash outflow generated from operations	27(a)	(6,028)	(52,249)
Interest paid		(2,266)	(5,056)
Mainland China enterprise income tax paid		—	(2,096)
Mainland China enterprise income tax refunded		172	473
Net cash used in operating activities		(8,122)	(58,928)
Cash flows from investing activities			
Dividend received from an investment		—	659
Increase in long-term investment		—	(780)
Proceeds from disposal of investments		—	26,447
Cash disposed of by sale of subsidiaries, net of proceeds of sale	27(c)	(9,506)	(1,396)
Additions of plant and equipment	6	(113)	(190)
Proceeds from sales of plant and equipment	27(b)	15	129
Additions of website development costs		—	(5)
Interest received		1,000	580
Decrease in pledged bank deposits		13,025	18,359
Net cash generated from investing activities		4,421	43,803
Cash flows from financing activities			
Issue of ordinary shares		12,530	21
Issue of convertible bonds		20,000	—
Issue of preference shares		289,050	—
Share issue expenses		(13,935)	—
New short-term bank loans		—	6,615
Repayment of short-term bank loans		(24,360)	(9,450)
Net decrease in trust receipts bank loans		—	(24,231)
Net cash generated from/(used in) financing activities		283,285	(27,045)
Net increase/(decrease) in cash and bank balances			
Increase/(Decrease) in cash and cash equivalents		279,584	(42,170)
Cash and bank balances at beginning of the year		13,263	55,433
Cash and bank balances at end of the year		292,847	13,263

The notes are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. General information

North Asia Strategic Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in trading of steel products, provision of procurement services for steel products (including the operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services), and investment holding.

The Company is a limited liability company incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and of its principal place of business is 78th Floor, The Center, 99 Queen's Road Central, Hong Kong.

The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

These financial statements are presented in HK dollars, unless otherwise stated.

These financial statements have been approved for issue by the Company's Board of Directors on 21st June 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively the "HKFRS"). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the years. Although these estimates are based on management's best knowledge of event and actions, actual results ultimately may differ from these estimates.

The adoption of new/revised HKFRS

During the year ended 31st March 2006, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

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 the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
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 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 33, 36, 38 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of certain disclosures.

- HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36 and 38 and HKFRS 3 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements.

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

- The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and accounting treatment of financial assets and liabilities commencing from the current year.

- The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the income statement. Commencing from the current year, the Group expenses the cost of share options in the income statement. The transitional provision of HKFRS 2 requires the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 be expensed retrospectively in the income statement of the respective periods. However, as no share options were granted after 7th November 2002, the adoption of HKFRS 2 had no material effect on the Group's policy.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, whenever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

- HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;

- HKAS 39 — does not permit recognition, derecognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis;

- HKFRS 2 — only retrospective application for equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

- HKFRS 3 — prospectively after 1st January 2005.

The Group has not early adopted the following new Standards or Interpretations or Amendments that have been issued but are not yet effective. The Company's Directors and the Group's management anticipate that the adoption of these Standards or Interpretations or Amendments in future periods will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

2.2 *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements and furniture	3 to 5 years
— Office equipment	3 to 5 years
— Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are charged to the income statement.

2.7 Inventories

Inventories comprise of finished goods of steel products and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises the direct costs of merchandise and costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within general and administrative expenses.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares and non-redeemable preference shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of convertible bonds is determined using market interest rates for equivalent non-convertible bonds. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects. The liability portion is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(a) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group participates in defined contribution plans, under which the Group pays contributions to state/trustees-administered funds on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employment costs when they are due.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses. It recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales revenue

Revenue from sales of goods is recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Commission from procurement and online steel trading services

Commission from procurement and online steel trading services is recognised when the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Advance payments received from customers prior to delivery of goods and provision of services are recorded as receipts in advance.

2.16 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

3. Financial risk management

3.1 Financial risk factors

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

Management regularly manage the financial risks of the Group. Because of the simplicity of the financial structure and the current operation of the Group, no major hedging activities are undertaken by management.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar and Chinese Renminbi. The Group currently does not hedge its foreign exchange exposure.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

The Group maintains sufficient cash and credit lines to meet its liquidity requirement.

(d) Cash flow and fair value interest-rate risk

The Group's cash and cash equivalents are interest-bearing assets. The Group's income and operating cash flows can be affected by changes in market interest rates.

The Group has no interest bearing liabilities that can be affected by changes in market interest rates.

3.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgement

Estimates and judgement 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 that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Useful lives and residual values of plant and equipment

The Group's management determines the estimate useful lives, residual values and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions. Management reassesses these estimates at each balance sheet date.

4.3 Estimated recoverability of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

4.4 Income taxes

The Group is subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the amount of the provision for income taxes. There are certain 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 income tax and deferred tax provisions in the period in which such determination is made.

5. Segment information

5.1 Primary reporting format — business segments

The Group is organised into three major business segments — steel trading, procurement services for steel products (including the operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services), and investment holding. The steel trading business segment derives revenue from the sale of goods. The procurement services for steel products business segment derives commission income from procurement and online steel trading services. The investment holding business segment derives revenue from dividend income.

The business segment results are analysed as follows:

	Year ended 31st March 2006			
	Steel trading	**Procurement services**	**Investment holding**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	355,426	4,522	—	359,948
Segment results	(5,615)	3,754	(10,450)	(12,311)
Other gains — net	3,608	—	1,443	5,051
Unallocated expenses				(6,439)
Operating loss				(13,699)
Finance costs				(3,296)
Loss before income tax				(16,995)
Income tax credit				5,007
Loss for the year				(11,988)
Assets				
Segment assets	48,493	68	1,056,193	1,104,754
Unallocated assets				436
				1,105,190
Liabilities				
Segment liabilities	(38,311)	—	(16,580)	(54,891)
Unallocated liabilities				(704)
				(55,595)
Capital expenditure	64	—	—	64
Unallocated				49
				113
Depreciation and amortisation	367	15	—	382
Unallocated				6
				388

	Year ended 31st March 2005			
	Steel trading	**Procurement services**	**Investment holding**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	854,564	5,121	—	859,685
Segment results	(1,654)	604	(62)	(1,112)
Other gains — net	515	—	1,572	2,087
Unallocated expenses				(416)
Operating profit				559
Finance costs				(5,056)
Loss before income tax				(4,497)
Income tax expense				(5,946)
Loss for the year				(10,443)
Assets				
Segment assets	164,155	353	780	165,288
Unallocated assets				460
				165,748
Liabilities				
Segment liabilities	(163,235)	—	(71)	(163,306)
Unallocated liabilities				(305)
				(163,611)
Capital expenditure	191	5	780	976
Depreciation and amortisation	1,016	27	—	1,043

Unallocated costs represent corporate and administrative expenses that cannot be allocated into the individual segment.

Segment assets consist primarily of plant and equipment, subscription receivables, inventories, trade receivables and operating cash.

Segment liabilities comprise operating liabilities.

5.2 Secondary reporting format — geographical segments

The Group's activities are conducted predominantly in Hong Kong and Mainland China. Turnover by geographical segments is determined on the basis of the destination of shipment of goods for steel trading, location of service performed for procurement services, location of sellers for online commission income, and location of the investment for dividend income.

Geographical segments results are analysed as follows:

	Year ended 31st March 2006			
	Hong Kong	Mainland China	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	3,184	356,764	—	359,948
Segment results	(15,199)	2,868	(868)	(13,199)
Unallocated expenses				(500)
Operating loss				(13,699)
Assets	1,059,151	45,971	68	1,105,190
Capital expenditure	49	64	—	113

	Year ended 31st March 2005			
	Hong Kong	Mainland China	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	15,280	844,405	—	859,685
Segment results	(586)	4,162	(2,601)	975
Unallocated expenses				(416)
Operating profit				559
Assets	1,891	163,373	484	165,748
Capital expenditure	61	910	5	976

6. Plant and equipment

	Leasehold improvements and furniture *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1st April 2004				
Cost	651	2,415	2,460	5,526
Accumulated depreciation	(362)	(1,626)	(616)	(2,604)
Net book amount	289	789	1,844	2,922
Year ended 31st March 2005				
Opening net book amount	289	789	1,844	2,922
Additions	94	96	—	190
Disposals	(67)	(45)	(104)	(216)
Disposal of subsidiaries	(24)	(41)	(404)	(469)
Depreciation	(143)	(471)	(402)	(1,016)
Closing net book amount	149	328	934	1,411
At 31st March 2005				
Cost	543	2,213	1,779	4,535
Accumulated depreciation	(394)	(1,885)	(845)	(3,124)
Net book amount	149	328	934	1,411
Year ended 31st March 2006				
Opening net book amount	149	328	934	1,411
Additions	40	73	—	113
Disposals	(28)	—	(10)	(38)
Disposal of subsidiaries	(90)	(50)	(495)	(635)
Depreciation	(62)	(203)	(108)	(373)
Closing net book amount	9	148	321	478
At 31st March 2006				
Cost	334	2,150	804	3,288
Accumulated depreciation	(325)	(2,002)	(483)	(2,810)
Net book amount	9	148	321	478

Depreciation expense of HK$373,000 (2005: HK$1,016,000) has been included in general and administrative expenses.

7. Website development costs

	HK$'000
At 1st April 2004	
Cost	33,364
Accumulated amortisation	(33,321)
Net book amount	43
Year ended 31st March 2005	
Opening net book amount	43
Additions	5
Amortisation	(27)
Closing net book amount	21
At 31st March 2005	
Cost	33,369
Accumulated amortisation	(33,348)
Net book amount	21
Year ended 31st March 2006	
Opening net book amount	21
Amortisation	(15)
Closing net book amount	6
At 31st March 2006	
Cost	33,369
Accumulated amortisation	(33,363)
Net book amount	6

Amortisation expense of HK$15,000 (2005: HK$27,000) has been included in general and administrative expenses.

8. Long-term investment

	As at 31st March 2006 *HK$'000*	**As at 31st March 2005** *HK$'000*
Unlisted investment, at cost	—	780

As at 31st March 2005, unlisted investment represented a 10% interest in Foshan Nanhai STS Metal Co., Ltd., a joint venture enterprise established in Mainland China, held by Greater China Metal Limited, a wholly owned subsidiary of the Group. Foshan Nanhai STS Metal Co., Ltd., is principally engaged in manufacturing, processing and trading of cold rolled stainless steel.

During the year ended 31st March 2006, the Group disposed of its entire interest in Greater China Metal Limited and consequently its investment in the 10% interest in Foshan Nanhai STS Metal Co., Ltd.

9. Investments in and amounts due from subsidiaries

	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	3,500	3,500
Amounts due from subsidiaries	145,308	135,876
Less: Accumulated impairment losses	(148,808)	(139,375)
	—	1

The following is a list of subsidiaries as at 31st March 2006:

Name	**Place of incorporation and kind of legal entity**	**Principal activities**	**Particulars of issued share capital**	**Percentage of equity interest held by the Group**
Ace Level Investments Limited *(i)*	British Virgin Islands, limited liability company	Investment holding	1 Ordinary share of US$1 each	100%
i-AsiaB2B Group Limited *(i)*	British Virgin Islands, limited liability company	Investment holding	1 Ordinary share of US$1 each	100%
ISA Group Holdings Limited	British Virgin Islands, limited liability company	Investment holding	10,000 Ordinary share of US$1 each	100%
iSteel Holdings (B.V.I.) Limited	British Virgin Islands, limited liability company	Investment holding	1 Ordinary share of US$1 each	100%
iSteel (MT) Holdings Limited	British Virgin Islands, limited liability company	Investment holding	1 Ordinary share of US$1 each	100%
iSteelAsia (Hong Kong) Limited	Hong Kong, limited liability company	Operation of an e-commerce vertical portal business for online steel trading	2 Ordinary shares of HK$1 each	100%

Name	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued share capital	Percentage of equity interest held by the Group
iSteelAsia Limited	British Virgin Islands, limited liability company	Operation of an e-commerce vertical portal business for online steel trading	10 Ordinary shares of US$1 each	100%
iSteelAsia Logistics Macao Commercial Offshore Company Limited	Macau, limited liability company	Trading of steel	1 Ordinary share of MOP100,000 each	100%
MetalAsia Holdings Limited	British Virgin Islands, limited liability company	Investment holding	2,000 Ordinary shares of US$1 each	100%
Metal Logistics Company Limited	Hong Kong, limited liability company	Trading of steel and provision of procurement services	4 Ordinary shares of HK$1 each	100%
North Asia Strategic (HK) Limited *(i)*	Hong Kong, limited liability company	Management	1 Ordinary share of HK$1 each	100%
Shanghai iSteelAsia International Limited *(ii)*	Mainland China, limited liability company	Trading of steel	US$200,000	100%
Tianjin iSteelAsia International Limited *(ii)*	Mainland China, limited liability company	Trading of steel	US$200,000	100%
Ya Gang Wang Co. Limited	British Virgin Islands, limited liability company	Investment holding	1 Ordinary share of US$1 each	100%
Yu Tai Steel (Shanghai) Co. Ltd. *(ii)*	Mainland China, limited liability company	Trading of steel	US$200,000	100%

Notes:

(i) Shares of these companies are held directly by the Company. Shares of the other companies are held indirectly.

(ii) These are wholly owned foreign enterprises established in Mainland China to operate for periods from 10 to 50 years up to 2011 to 2052.

10. Inventories — Group

	As at 31st March 2006 *HK$'000*	As at 31st March 2005 *HK$'000*
Rolled flat steel products	26,399	94,936

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$354,154,000 (2005: HK$828,580,000).

11. Trade receivables

	Consolidated	
	As at 31st March 2006 *HK$'000*	As at 31st March 2005 *HK$'000*
Trade receivables	589	4,455
Less: Provision for impairment of receivables	(474)	(478)
	115	3,977

The Group generally requires sales to be settled by cash upon delivery, with some cases granting a credit period of 30 to 90 days. Aging analysis of trade receivables is as follows:

	Consolidated	
	As at 31st March 2006 *HK$'000*	As at 31st March 2005 *HK$'000*
0 to 90 days	—	3,959
91 to 180 days	—	3
181 to 270 days	115	15
271 to 365 days	—	—
Over 365 days	474	478
	589	4,455

The carrying amounts of trade receivables approximate their fair values.

During the year ended 31st March 2006, the Group recognised a loss of HK$21,000 (2005: $1,761,000) for the impairment of its trade receivables. The loss has been included in general and administrative expenses in the income statement.

12. Prepayments, deposits and other receivables

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	91	5,016	—	30
Deposits	328	299	—	—
Interest receivable	707	—	707	—
Amounts due from former subsidiaries	15,392	—	—	—
Balance of consideration for disposal of subsidiaries	98	1,536	—	—
Other receivables	129	1,042	—	—
	16,745	7,893	707	30

The carrying amounts of other receivables approximate their fair values.

13. Cash and cash equivalents and Pledged bank deposits

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and on hand	10,748	13,263	7,842	12
Short-term bank deposits	282,099	—	282,099	—
	292,847	13,263	289,941	12
Pledged bank deposits	3,055	16,080	—	13,049
	295,902	29,343	289,941	13,061

As at 31st March 2006, the effective interest rate on short-term bank deposits was approximately 4.0% (2005: Nil) per annum; these deposits have an average maturity of 30 days (2005: Nil).

The pledged deposits were pledged as collateral for the Group's banking facilities and the effective interest rate on pledged bank deposits was approximately 4.3% (2005: 0.85%) per annum, these deposits have an average maturity of 182 days (2005: 183 days) *(see note 31)*.

Cash and cash equivalents were denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	291,555	883	289,933	9
US dollar	4,173	16,761	8	13,052
Renminbi *("RMB")*	174	11,698	—	—
Others	—	1	—	—
	295,902	29,343	289,941	13,061

The Group's cash and cash equivalents denominated in RMB are deposited with banks in Mainland China. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China Government.

14. Borrowings

	As at 31st March 2006	As at 31st March 2005
	HK$'000	*HK$'000*
Current		
Short-term bank borrowings	—	24,360
	—	24,360

The short-term bank borrowings were secured by pledged bank deposits.

All short-term borrowings were due within one year and denominated in Renminbi.

The effective interest rates at the balance sheet date were as follows:

	As at 31st March 2006	As at 31st March 2005
	HK$'000	*HK$'000*
Short-term bank borrowings	—	5.5% - 5.6%

15. Trade payables

The aging analysis of trade payables is as follows:

	As at 31st March 2006	As at 31st March 2005
	HK$'000	*HK$'000*
0 to 90 days	36,916	18,272
91 to 180 days	—	93,467
181 to 270 days	—	8,079
271 to 365 days	—	—
1 to 2 years	—	1,200
	36,916	121,018

16. Accruals and other payables

	Group		Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrual for operating expenses	2,020	2,657	1,920	71
Provision for claim	—	2,977	—	—
Other payables	525	1,807	—	—
	2,545	7,441	1,920	71

17. Convertible bonds

In August 2005, the Company issued convertible bonds at face value of HK$20,000,000, which are denominated in Hong Kong dollar.

The bonds will mature in August 2010 or can be converted into a total of approximately 127,714,000 shares in the Company, with a par value of HK$0.01 each, at the holders' option, at HK$0.1566 per share. In addition, the holders have the right to request the Group to redeem in whole or in part the outstanding bonds on 7th December 2007.

The fair values of the liability component and the equity conversion component were determined upon issuance of the bonds. The liability component is subsequently stated at amortised cost. The fair value of the liability component was calculated using a market interest rate for a term loan offered to the Group of 8.0% per annum. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity as other reserves.

The convertible bonds recognised in the balance sheet are calculated as follows:

	At 31st March 2006 *HK$'000*
Face value of convertible bonds issued on 8th August 2005	20,000
Equity component	(6,388)
Liability component on initial recognition at 8th August 2005	13,612
Accrued interest expense	1,030
Liability component at 31st March 2006	14,642

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 8.0% to the liability component.

18. Share capital

	Ordinary shares		Preference shares		
	Number of shares	Ordinary shares capital	Number of shares	Preference shares capital	Total
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*
Authorised					
At 1st April 2004 and 31st March 2005	4,000,000	400,000	—	—	400,000
Capital reorganisation	36,000,000	—	—	—	—
Creation of preference shares	—	—	30,000,000	300,000	300,000
At 31st March 2006	40,000,000	400,000	30,000,000	300,000	700,000
Analysed as —					
Ordinary shares of HK$0.01 each	40,000,000	400,000	—	—	400,000
Preference shares of HK$0.01 each	—	—	30,000,000	300,000	300,000
	40,000,000	400,000	30,000,000	300,000	700,000
Issued					
At 1st April 2004	1,596,384	159,638	—	—	159,638
Issue of shares upon exercise of warrants	206	21	—	—	21
At 31st March 2005	1,596,590	159,659	—	—	159,659
Capital reorganisation *(Note a(i))*	(1,580,919)	(159,529)	—	—	(159,529)
Issue of ordinary shares					
— upon exercise of warrants *(Note 28)*	298	30	—	—	30
— under a subscription agreement *(Note a(ii))*	63,857	639	—	—	639
— under an open offer *(Note a(iii))*	15,969	159	—	—	159
Issue of preference shares	—	—	7,383,167	73,832	73,832
At 31st March 2006	95,795	958	7,383,167	73,832	74,790

(a) On 14th July 2005, the Company approved the following transactions at its special general meeting:

(i) — For every 100 ordinary shares of HK$0.10 each consolidate into one share of HK$10.0 and thereafter reduce the Company's issued share capital by way of cancellation of the paid-up capital to the extent of HK$9.99 on each issued consolidated share such that the par value of all the issued consolidated shares would be reduced from HK$10.0 each to HK$0.01 each;

— Increase in the Company's authorised share capital back to its original amount of HK$400,000,000 by the creation of additional 36,000,000,000 ordinary share of HK$0.01 each;

— Cancel the Company's entire share premium reserve of approximately HK$11,099,000;

The credits arising from the aforementioned capital reduction of approximately HK$159,529,000 and from the cancellation of the share premium reserve of HK$11,099,000, totaling approximately HK$170,628,000, were transferred to the Company's contributed surplus account and were set off against the Company's accumulated losses;

(ii) Issue an aggregate of approximately 63,857,000 shares with a par value of HK$0.01 each, after the aforementioned capital reorganisation, at a subscription price of HK$0.1566 each, raising approximately HK$10,000,000;

(iii) An offer to shareholders to subscribe new shares with a par value of HK$0.01 each, at a subscription price of HK$0.1566 each, on the basis of one new share for holder of one share after the aforementioned capital reorganisation. In this transaction, the Company issued approximately 15,969,000 shares of HK$0.01 each, after the aforementioned capital reorganisation, raising approximately HK$2,500,000. Such an offer was underwritten by Van Shung Chong (B.V.I.) Limited, a then substantial shareholder which held approximately 18.9% of the Company's equity interest;

(b) On 20th February 2006, the Company approved an increase in its authorised share capital by HK$300,000,000 by the creation of 30,000,000,000 preference shares of HK$0.01 each.

In February and March 2006, the Company issued a total of approximately 7,383,167,000 non-redeemable preference shares with a par value of HK$0.01 each, at a subscription price of HK$0.1566 each through placement, for an aggregated amount of approximately HK$1,156,200,000.

The preference shares are non-redeemable and are convertible into ordinary shares in the Company at a conversion ratio of one preference share into one ordinary share. The preference shares will rank pari passu with the ordinary shares of the Company with regards to dividend.

The subscription price is payable in cash by the subscribers in four equal instalments. The first was received by the Company in February and March 2006, upon completion of the subscription. The remaining three instalments are receivable approximately 12 months, 24 months and 36 months, respectively, after 28th February 2006. In the event that by the first anniversary (28th February 2007) or the second anniversary (28th February 2008), the Company is unable to utilise at least 75% of the subscription monies previously received for investments, the Company will not be entitled to receive the instalments which would otherwise be due on such anniversaries. However, even if the Company is not entitled to receive the instalments on the first and second anniversaries, the remaining unpaid balance will be receivable by the third anniversary (28th February 2009) or, if earlier, upon the conversion of the preference shares into ordinary shares.

The preference shares will be automatically converted into ordinary shares upon the listing of the converted ordinary shares on the Main Board of the Stock Exchange, or on the fourth anniversary (28th February 2010), whichever is earlier.

The subscription receivables recognised in the balance sheet is calculated as follows:

	As at 31st March 2006
	HK$'000
Subscription receivables	867,153
Less: Future interest	(101,608)
Subscription receivables at fair value	765,545
Less: Non-current portion	(494,135)
Current portion	271,410

The fair values of the subscription receivables were determined upon issuance of the preference shares and calculated using a market interest rate for the banking facilities granted to the Group of 6.5% per annum.

19. Reserves

Movements were:

Group

	Share premium HK$'000	Contributed surplus HK$'000	Convertible bonds HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Cumulative translation adjustments HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1st April 2004	11,099	—	—	2,700	—	105	(160,897)	(146,993)
Loss attributable to equity holders of the Company	—	—	—	—	—	—	(10,443)	(10,443)
Translation adjustments	—	—	—	—	—	(86)	—	(86)
Change in fair value of a long-term investment	—	—	—	—	548	—	—	548
Realised upon disposal of a long-term investment	—	—	—	—	(548)	—	—	(548)
Balance at 31st March 2005	11,099	—	—	2,700	—	19	(171,340)	(157,522)
Loss attributable to equity holders of the Company	—	—	—	—	—	—	(11,988)	(11,988)
Capital reorganisation *(Note 18)*	(11,099)	170,628	—	—	—	—	—	159,529
Elimination of accumulated losses *(Note 18)*	—	(161,644)	—	—	—	—	161,644	—
Issue of ordinary shares								
— under a subscription agreement	9,361	—	—	—	—	—	—	9,361
— under an open offer	2,341	—	—	—	—	—	—	2,341
Issue of preference shares	980,764	—	—	—	—	—	—	980,764
Share issue expenses								
— ordinary shares	(2,186)	—	—	—	—	—	—	(2,186)
— preference shares	(12,173)	—	—	—	—	—	—	(12,173)
Convertible bonds								
— equity component *(Note 17)*	—	—	6,388	—	—	—	—	6,388
Translation adjustments — net	—	—	—	—	—	291	—	291
Balance at 31st March 2006	978,107	8,984	6,388	2,700	—	310	(21,684)	974,805

Company

	Share premium	Contribution surplus	Convertible bonds	Asset revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April 2004	11,099	—	—	—	(155,693)	(144,594)
Loss attributable to equity holders of the Company	—	—	—	—	(5,951)	(5,951)
Change in fair value of a long-term investment	—	—	—	548	—	548
Realised upon disposal of a long-term investment	—	—	—	(548)	—	(548)
Balance at 31st March 2005	11,099	—	—	—	(161,644)	(150,545)
Loss attributable to equity holders of the Company	—	—	—	—	(25,638)	(25,638)
Capital reorganisation *(Note 18)*	(11,099)	170,628	—	—	—	159,529
Elimination of accumulated losses *(Note 18)*	—	(161,644)	—	—	161,644	—
Issue of ordinary shares						
— under a subscription agreement	9,361	—	—	—	—	9,361
— under an open offer	2,341	—	—	—	—	2,341
Issue of preference shares	980,764	—	—	—	—	980,764
Share issue expenses						
— ordinary shares	(2,186)	—	—	—	—	(2,186)
— preference shares	(12,173)	—	—	—	—	(12,173)
Convertible bonds						
— equity component *(Note 17)*	—	—	6,388	—	—	6,388
Balance at 31st March 2006	978,107	8,984	6,388	—	(25,638)	967,841

20. Other gains — net

	2006	2005
	HK$'000	*HK$'000*
Dividend income from unlisted investments	—	659
Interest income	1,707	580
Write-back of provision for claim	2,977	—
Gain on disposal of investments	—	911
Profit/(loss) on disposal of subsidiaries *(Note 27(c))*	98	(63)
Others	269	—
	5,051	2,087

The write-back of provision for claim resulted from the settlement of a legal case and the Company's Directors consider the provision was no longer necessary.

21. Expenses by nature

Expenses included in selling and distribution expenses and general and administrative expenses are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Depreciation of plant and equipment	373	1,016
Amortisation of website development costs	15	27
Employment costs *(Note 22)*	6,139	9,416
Operating lease rental of premises	1,186	1,152
Impairment of trade receivables	21	1,761
Provision for inventories	—	1,448
Auditors' remuneration	900	500

22. Employment costs

	2006	2005
	HK$'000	*HK$'000*
Salaries, wages and allowances	6,072	9,185
Retirement benefits		
— defined contribution scheme	67	231
	6,139	9,416

(a) The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' relevant income as defined under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The monthly contribution of each of the employer and employees are subject to a cap of HK$1,000 and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The employees contribute approximately 6% to 20% of their basic salaries, while the Group contributes approximately 14% to 22.5% of such salaries and has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st March 2006 is set out below:

	Fees	**Salaries**	**Employer's contribution to retirement scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Göran Sture Malm *(i)*	309	103	8	420
Mr. Savio Chow Sing Nam *(i)*	93	593	8	694
Mr. Henry Cho Kim *(i)*	93	250	8	351
Mr. Andrew Yao Cho Fai	93	—	5	98
Mr. Desmond Fu Hay Ching	—	514	—	514
Non-executive director				
Mr. David Michael Faktor *(ii)*	17	—	—	17
Independent non-executive directors				
Mr. Philip Ma King Huen	97	—	—	97
Mr. Kenny Tam King Ching	121	—	—	121
Mr. Edgar Kwan Chi Ping *(i)*	93	—	—	93
Mr. Kennedy Wong Ying Ho *(ii)*	17	—	—	17
	933	1,460	29	2,422

(i) Appointed on 9th August 2005

(ii) Resigned on 9th August 2005

The remuneration of every director for the year ended 31st March 2005 is set out below:

	Fees	Salary	Employer's contribution to pension	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Andrew Yao Cho Fai	—	—	—	—
Mr. Desmond Fu Hay Ching	—	1,855	—	1,855
Ms. Miriam Yao Che Li *(iii)*	—	—	—	—
Non-executive director				
Mr. David Michael Faktor	10	—	—	10
Mr. Daniel Takuen Shih *(iv)*	1	—	—	1
Independent non-executive directors				
Mr. Philip Ma King Huen	10	—	—	10
Mr. Kenny Tam King Ching	40	—	—	40
Mr. Kennedy Wong Ying Ho	10	—	—	10
	71	1,855	—	1,926

(iii) Resigned on 30th June 2004

(iv) Resigned on 29th April 2004

(c) ***Five highest paid individuals***

The five individuals whose emoluments were the highest in the Group for the year including 3 (2005: 1) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2005: 4) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries and allowances	1,304	2,191
Bonuses	491	—
Employer's contributions to retirement scheme	12	24
	1,807	2,215

The emoluments fell within the following bands:

	2006	2005
Nil to HK$1,000,000	1	4
HK$1,000,001 to HK$2,000,000	1	—
	2	4

23. Finance costs

	2006	2005
	HK$'000	*HK$'000*
Interest expense		
— Interest on bank loans wholly repayable within five years	1,112	1,676
— Interest on amount due to a related company	1,154	3,380
— Convertible bonds redeemable after five years *(Note 17)*	1,030	—
	3,296	5,056

24. Income tax (Credit)/expense

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit subject to Hong Kong profits tax for the year ended 31st March 2006 (2005: Nil). Subsidiaries established in Mainland China are subjected to Mainland China enterprise income tax at rates ranging from 15% to 33% (2005: 15% to 33%). Taxation on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the countries in which the Group operates.

The amounts of income tax (credit)/expense charged to the consolidated income statement represent:

	2006	2005
	HK$'000	*HK$'000*
Current taxation		
Mainland China enterprise income tax		
— (Write-back)/provision	(5,007)	1,463
— Deferred taxation	—	4,483
	(5,007)	5,946

The taxation on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to loss of the Group as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Loss before income tax	(16,995)	(4,497)
Tax calculated at the weighted average domestic tax rates applicable to losses in the respective places/countries	(1,634)	(308)
Effect of		
— income not subject to tax	27	(36)
— expenses not deductible for tax	1	338
— deferred tax assets not recognised	1,606	2,043
— reversal of previously recognised deferred tax assets	—	4,483
— overprovisions in prior years	(5,007)	(574)
Tax (credit)/expense	(5,007)	5,946

For the year ended 31st March 2006, the weighted average applicable tax rate was approximately 9.6% (2005: 6.8%). The change in weighted average applicable tax rates is mainly caused by a change in the distribution of the profit/loss among the group companies in different tax jurisdictions and with different tax rates.

25. Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$25,638,000 (2005: HK$5,951,000).

26. (Loss) per share

The calculations of basic loss per share for the year ended 31st March 2006 were based on the consolidated loss attributable to shareholders of approximately HK$11,988,000 (2005: HK$10,443,000) and on the weighted average number of 67,582,000 shares (2005: 15,964,000 shares — after reflecting the consolidation of 100 shares into 1 share) in issue during the year.

27. Cash flow statements

(a) Cash generated from operations

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(16,995)	(4,497)
Interest income	(1,707)	(580)
Interest expense	3,296	5,056
Dividend income	—	(659)
Depreciation of plant and equipment	373	1,016
Loss on disposal of plant and equipment	23	87
Amortisation of website development costs	15	27
(Gain)/Loss on disposal of subsidiaries, net	(98)	63
Gain on disposal of investments, net	—	(911)
Write-back of provision for claim	(2,977)	—
Operating loss before working capital changes	(18,070)	(398)
Decrease in inventories	56,961	35,850
(Increase)/decrease in deposits for purchase of inventories	(44,128)	5,749
(Increase)/decrease in trade receivables	(798)	23,914
Decrease in prepayments, deposits and other receivables	10,788	5,876
Decrease in trade payables	(57,128)	(148,697)
Increase in other payables and accruals	37,780	14,361
Increase in receipts in advance	8,276	11,182
Translation adjustments	291	(86)
Net cash outflow generated from operations	(6,028)	(52,249)

(b) In the cash flow statement, proceeds from sales of plant and equipment comprise:

	2006	2005
	HK$'000	*HK$'000*
Net book amount *(Note 6)*	38	216
Loss on sales of plant and equipment	(23)	(87)
Proceeds from sales of plant and equipment	15	129

(c) Profit/(loss) on disposal of subsidiaries

Net assets disposed of:

	2006 *HK$'000*	2005 *HK$'000*
Plant and equipment	635	469
Long-term investment	780	—
Inventories	11,576	296
Deposits for purchase of inventories	71,515	56,186
Prepayments, deposits and other receivables	—	501
Trade receivables	4,660	3,302
Cash and cash equivalents	11,042	2,890
Accounts and bills payable	(26,974)	(14,730)
Accruals and other payables	(55,743)	(9,519)
Receipts in advance	(12,740)	(35,991)
Taxation payable	(4,653)	(311)
Net assets	98	3,093
Total consideration	98	3,030
	—	(63)
Realisation of cumulative translation adjustments	98	—
Gain/(loss) on disposal	98	(63)
Satisfied by:		
Other receivables *(i)*	98	1,536
Cash	—	1,494
	98	3,030
Analysis of cash flows:		
Purchase consideration received in cash	—	1,494
Cash and cash equivalents disposed	(11,042)	(2,890)
Receipt of prior year receivable *(i)*	1,536	—
	(9,506)	(1,396)

(i) The outstanding purchase consideration was included as other receivables and was settled subsequently.

28. Warrants

On 23rd May 2002, the Company issued approximately 312,900,000 warrants to its shareholders on the basis of one warrant for every five ordinary shares of the Company at no charge. The warrants entitle the holders to subscribe in cash for ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.10 each (subject to adjustment) and are exercisable from 18th June 2002 to 17th June 2005. During the year ended 31st March 2006, 298,000 warrants (2005: 206,000 warrants) were exercised to subscribe for 298,000 shares (2005: 206,000 shares) of the Company at a consideration of approximately HK$30,000 (2005: HK$21,000). All the outstanding warrants at 17th June 2005 were expired.

29. Share options

According to the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 (the "Old Scheme"), the Board may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive Directors, to take up options to subscribe for shares. The Old Scheme was terminated on 10th June 2002 and a new share option scheme was adopted by the Company on 10th June 2002 (the "New Scheme") to replace the Old Scheme, with all options granted under the old scheme continue to be valid and exercisable in accordance with the old terms.

Details of movement in the share options were as follows:

Name	Date of grant	Exercise price per share	Vesting period	Exercise period	Number of options Beginning of year '000	Lapsed during the year '000	Cancelled during the year '000	End of year '000
Old Scheme								
Directors:								
Mr. Andrew Yao Cho Fai	7th November 2000	HK$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	—	(5,000)	—
Mr. Desmond Fu Hay Ching	3rd July 2000	HK$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	250	—	(250)	—
	7th November 2000	HK$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	11,500	—	(11,500)	—
Employees:								
In aggregate	3rd July 2000	HK$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	12,100	(500)	(11,600)	—
In aggregate	7th November 2000	HK$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	25,900	(1,500)	(24,400)	—
					54,750	(2,000)	(52,750)	—
New Scheme								
In aggregate					—	—	—	—
					54,750	(2,000)	(52,750)	—

At the Company's special general meeting held on 14th July 2005, the Company resolved to cancel the 52,750,000 outstanding options.

30. Contingent liabilities

As at 31st March 2006, the Company had provided a corporate guarantee of approximately HK$6,600,000 (2005: HK$88,725,000) with respect to a banking facility made available to a subsidiary. As at 31st March 2006, no bank borrowings were outstanding (2005: HK$24,360,000). The Company's directors and the Group's management anticipate that no material liabilities will arise from such guarantee which arose in the ordinary course of business.

31. Banking facilities

As at 31st March 2006, the Group had a banking facility of approximately HK$6,000,000 (2005: HK$88,125,000) from a bank for loans and trade financing. As at 31st March 2006, this facility was not utilised by the Group (2005: HK$63,765,000 was utilised). This facility was secured by:

(i) pledge of the Group's bank deposits of approximately HK$3,055,000 (2005: HK$16,080,000); and

(ii) guarantee provided by the Company *(note 30)*.

32. Commitments — Operating leases

As at 31st March 2006, the Group had rental commitments of approximately HK$1,841,000 (2005: HK$1,027,000) under various operating leases extending to March 2008. Total future minimum lease payments payable is analysed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Not later than one year	937	705
Later than one year and not later than five years	904	322
	1,841	1,027

33. Related party transactions

As at 31st March 2006, the Company was owned as to approximately 46.1% by North Asia Strategic Acquisition Corp. ("NASAC"), a company incorporated in the Cayman Islands, as to approximately 21.1% by Mr. Moses Tsang Kwok Tai (a shareholder of Ajia Partners Inc., the ultimate holding company of NASAC) and his related parties, and as to approximately 11.06% by Van Shung Chong (B.V.I.) Limited (wholly owned by Van Shung Chong Holdings Limited) and its related parties. NASAC and Mr. Moses Tsang Kwok Tai acquired their interest in the Company effective from 9th August 2005.

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

33. Related party transactions

(a) The following is a summary of the significant transactions carried out with related parties:

	2006	**2005**
	HK$'000	*HK$'000*
Name of related party/Nature of transaction		
Van Shung Chong Hong Limited *(i)*		
— Purchases made by the Group	220,257	339,246
— Commission from procurement services earned by the Group	—	2,221
— Interest charged to the Group	1,154	3,380
— Administrative services fees charged to the Group	30	360
CFY Enterprises Limited *(i)*		
— Rental expense charged to the Group	13	162
— Rates, management fees and utilities charged to the Group	9	—
Ajia Partners (HK) Limited *(ii)*		
— Rental expense charged to the Group	583	—
— Administrative services fee charged to the Group	598	—
North Asia Strategic Advisors *(iii)*		
— Placement fee charged to the Group	7,800	—

Notes:

(i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned and controlled by Van Shung Chong (B.V.I.) Limited.

(ii) Ajia Partners (HK) Limited is a fellow subsidiary of North Asia Strategic Acquisition Corp. ("NASAC") and associated with Mr. Moses Tsang Kwok Tai.

(iii) North Asia Strategic Advisors ("NASA") is the holding company of NASAC.

The Group entered into an administrative services agreement with Ajia Partners (HK) Limited ("APHK"), under which APHK has agreed to provide general administrative services to the Group during the period from 9th August 2005 to 30th June 2006, at a monthly service fee of approximately HK$77,000. In addition, the Group entered into a lease agreement with APHK for leasing of office space from 9th August 2005 to 31st March 2008 at a monthly rental of approximately HK$75,000.

(b) Year end balances arising from purchases of goods or services:

	2006	2005
	HK$'000	*HK$'000*
Name of related company		
Van Shung Chong Hong Limited *(i)*	36,916	118,843

(i) The balance is unsecured, repayable within ordinary credit term and bore interest at commercial lending rates for overdue balances.

(c) Balance with subsidiaries (Company-only financial statements)

The amounts with subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

(d) During the year ended 31st March 2006, the Group disposed subsidiaries with zero net asset value (comprising total assets of approximately HK$780,000 less total liabilities of approximately HK$780,000) to Van Shung Chong (B.V.I.) Limited at a consideration of HK$8.

(e) Key management compensation:

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	3,843	2,191
Retirement benefits		
— defined contribution scheme	12	24
	3,855	2,215

34. Deferred Taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred tax assets, arising from cumulative tax losses, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Balance at beginning of year	—	4,483
Deferred taxation credit for the year	—	(4,483)
Balance at end of year	—	—

As at 31st March 2006, the Group has unrecognised deferred tax assets of approximately HK$25,200,000 (2005: HK$22,734,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authorities) which can be carried forward indefinitely.

35. Subsequent event

Subsequent to the year end, on 26th May 2006, the Company entered into a non-legally binding term sheet with Autron Corporation Limited ("Autron"), a leading assembly equipment solutions provider to the electronics manufacturing industry and listed on the Main Boards of both the Singapore and Australian Stock Exchanges, for a possible investment in its new shares and convertible bonds totaling up to approximately HK$372 million (equivalent of approximately US$48 million). As at the date of this report, due diligence on Autron is in progress but the Company has not entered into any definitive investment agreements with Autron."

3. UNAUDITED CONSOLIDATED FIRST QUARTER FINANCIAL STATEMENTS

Set out below is the unaudited first quarter results of the NAS Group for the three months ended 30th June 2006 as extracted from pages 3 to 9 of the first quarterly report of the Company. References to page numbers in this section are to the page numbers of such first quarterly report.

"Results

The followings are the unaudited consolidated results of North Asia Strategic Holdings Limited (the "Company" or "North Asia Strategic") and its subsidiaries (collectively the "Group" or "North Asia Strategic Group") for the three months ended 30th June 2006 together with the comparative unaudited figures for the corresponding period in 2005:

		For the three months ended 30th June	
		2006	**2005**
	Note	*HK$'000*	*HK$'000*
Revenue	*2*		
— Sales		66,320	97,981
— Commission		—	943
		66,320	98,924
Cost of sales		(66,390)	(96,597)
Gross (loss)/profit		(70)	2,327
Other gains — net	*3*	16,150	3,065
Selling and distribution expenses		(21)	(932)
General and administrative expenses		(9,694)	(3,059)
Operating profit		6,365	1,401
Finance costs		(200)	(1,138)
Profit before income tax		6,165	263
Income tax expense	*4*	(2)	(213)
Profit for the period, attributable to equity holders of the Company		6,163	50
Profit per share for profit attributable to the equity holders of the Company during the period			
— Basic	*5*	HK6.4 cents	HK0.3 cents
— Diluted	*5*	HK0.08 cents	N/A

Notes:

1. **Basis of preparation and accounting policies**

The unaudited condensed consolidated accounts have been prepared to comply with the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "GEM Listing Rules").

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March 2006.

The Group has not early adopted the following new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRS") that have been issued but are not effective. The Company's Directors and the Group's management anticipate that the adoption of these HKFRSs in future periods will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital disclosures (i)
HKFRS 7	Financial Instruments: Disclosures (i)

(i) Effective for annual periods beginning on or after 1st January 2007.

2. **Turnover**

Turnover represents the net invoiced value of merchandise sold after allowances for returns and discounts.

3. **Other gains — net**

	For the three months ended 30th June	
	2006	**2005**
	HK$'000	*HK$'000*
Interest income	2,917	88
Amortised interest income *(note 9)*	13,231	—
Write-back of provision for claim	—	2,977
Others	2	—
	16,150	3,065

4. **Income tax expense**

Income tax expense consisted of:

	For the three months ended 30th June	
	2006	**2005**
	HK$'000	*HK$'000*
Mainland China enterprise income tax		
— Provision	2	213

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit subject to Hong Kong profits tax during the three months ended 30th June 2006 (2005: Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2005: 15% to 33%).

5. Profit per share

The calculations of basic profit per share for the three months ended 30th June 2006 were based on the unaudited consolidated profit attributable to shareholders of approximately HK$6,163,000 (2005: HK$50,000) and on the weighted average number of approximately 95,795,000 (2005: 15,967,000 — after reflecting the consolidation of 100 shares into 1 share) shares in issue during the period.

The calculations of diluted profit per share for the three months ended 30th June 2006 were based on the unaudited consolidated profit attributable to shareholders of approximately HK$6,274,000 and on the weighted average number of approximately 7,606,675,000 ordinary shares outstanding to assume conversion of all potential dilutive shares. The Company's dilutive potential ordinary shares are convertible bonds and preference shares (2005: no diluted profit per share was presented as the outstanding share options were anti-dilutive).

	HK$'000
Profit attributable to equity holders of the Company	6,163
Adjustment for convertible bonds accrued interest expense	111
	6,274

	'000
Weighted average number of ordinary shares in issue	95,795
Adjustment for convertible bonds	127,714
Adjustment for preference shares	7,383,166
	7,606,675

6. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2006.

7. Movements in share capital and reserves

For the three months ended 30th June 2006, movements in share capital and reserves are as follows:

	Unaudited				
	Attributable to equity holders of the Company				
	Ordinary share capital	**Preference share capital**	**Other reserves**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance, 1st April 2005	159,659	—	13,818	(171,340)	2,137
Profit for the period	—	—	—	50	50
Issue of shares upon exercise of warrants	30	—	—	—	30
Balance, 30th June 2005	159,689	—	13,818	(171,290)	2,217
Loss for the period	—	—	—	(12,038)	(12,038)
Capital reorganisation	(159,529)	—	159,529	—	—
Elimination of accumulated losses	—	—	(161,644)	161,644	—
Issue of ordinary shares					
— under a subscription agreement	639	—	9,361	—	10,000
— under an open offer	159	—	2,341	—	2,500
Issue of preference shares	—	73,832	980,764	—	1,054,596
Share issue expenses					
— ordinary shares	—	—	(2,186)	—	(2,186)
— preference shares	—	—	(12,173)	—	(12,173)
Convertible bonds					
— equity component	—	—	6,388	—	6,388
Translation adjustments — net	—	—	291	—	291
Balance, 31st March 2006	958	73,832	996,489	(21,684)	1,049,595
Profit for the period	—	—	—	6,163	6,163
Translation adjustments — net	—	—	151	—	151
Balance, 30th June 2006	958	73,832	996,640	(15,521)	1,055,909

Movements in other reserves

	Share premium	Contributed surplus	Convertible bonds	Capital reserve	Cumulative translation adjustments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance, 1st April 2005 and 30th June 2005	11,099	—	—	2,700	19	13,818
Capital reorganisation	(11,099)	170,628	—	—	—	159,529
Elimination of accumulated losses	—	(161,644)	—	—	—	(161,644)
Issue of ordinary shares						
— under a subscription agreement	9,361	—	—	—	—	9,361
— under an open offer	2,341	—	—	—	—	2,341
Issue of preference shares	980,764	—	—	—	—	980,764
Share issue expenses						
— ordinary shares	(2,186)	—	—	—	—	(2,186)
— preference shares	(12,173)	—	—	—	—	(12,173)
Convertible bonds						
— equity component	—	—	6,388	—	—	6,388
Translation adjustments — net	—	—	—	—	291	291
Balance, 31st March 2006	978,107	8,984	6,388	2,700	310	996,489
Translation adjustments — net	—	—	—	—	151	151
Balance, 30th June 2006	978,107	8,984	6,388	2,700	461	996,640

8. Convertible bonds

On 8th August 2005, the Company issued convertible bonds at par value of HK$20 million.

The bonds will mature in August 2010 or can be converted into a total of approximately 127,714,000 shares at the holders' option of HK$0.1566 per share. In addition, the holders will have the right to request the Group to redeem in whole or in part the outstanding bonds on a date which is five business days after 30th November 2007.

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds. The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for a term loan offered to the Group. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity as other reserves *(Note 7)*.

The convertible bonds recognised in the balance sheet are calculated as follows:

	As at 30th June 2006 HK$'000 (Unaudited)	As at 31st March 2006 HK$'000 (Audited)
Face value of convertible bonds issued on 8th August 2005	20,000	20,000
Equity component	(6,388)	(6,388)
Liability component on initial recognition at 8th August 2005	13,612	13,612
Accrued interest expense	1,141	1,030
Liability component	14,753	14,642

The fair value of the liability component of the convertible bonds at 30th June 2006 amounted to approximately HK$14,753,000.

The fair value is calculated using cash flows discounted at a rate based on the offered term loan rate of 8% per annum.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

9. Preference shares

On 20th February 2006, the Company approved an increase in its authorised share capital by HK$300,000,000 by the creation of 30,000,000,000 preference shares of HK$0.01 each.

In February and March 2006, the Company issued a total of approximately 7,383,166,000 non-redeemable preference shares, with a par value of HK$0.01 each, at a subscription price of HK$0.1566 each through placements, for an aggregated amount of approximately HK$1,156,200,000.

The preference shares are non-redeemable and are convertible into ordinary shares in the Company at a conversion ratio of one preference share into one ordinary share. The preference shares rank pari passu with the ordinary shares with regards to dividends.

The subscription price is payable in cash by the subscribers in four equal instalments. The first was received by the Company in February and March 2006, upon completion of the subscription. The remaining three instalments are receivable approximately 12 months, 24 months and 36 months, respectively, after 28th February 2006. In the event that by the first anniversary (28th February 2007) or the second anniversary (28th February 2008), the Company is unable to utilise at least 75% of the subscription monies previously received for investments, the Company will not be entitled to receive the instalments which would otherwise be due on such anniversaries. However, even if the Company is not entitled to receive the instalments on the first and second anniversaries, the remaining unpaid balance will be receivable by the third anniversary (28th February 2009) or, if earlier, upon the conversion of the preference shares into ordinary shares.

The preference shares will be automatically converted into ordinary shares upon the listing of the converted ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited, or on the fourth anniversary (28th February 2010), whichever is earlier.

The subscription receivables recognised in the balance sheet is calculated as follows:

	As at 30th June 2006 HK$'000 (Unaudited)	As at 31st March 2006 HK$'000 (Audited)
Subscription receivables	867,153	867,153
Less: Future interest	(101,608)	(101,608)
Add: Amortised interest income *(note 3)*	13,231	—
Subscription receivables at fair value	778,776	765,545
Less: Non-current portion	(502,956)	(494,135)
Current portion	275,820	271,410

The fair values of the subscription receivables were determined upon issuance of the preference shares and calculated using a market interest rate for the banking facilities granted to the Group of 6.5% per annum.

10. Subsequent events

Subsequent to 30th June 2006, on 20th July 2006, the Company entered into a subscription agreement with Woori Bank for the placement of approximately 792,848,000 non-redeemable convertible preference shares (the "Placement") of the Company for a consideration of approximately HK$124.2 million. Details of the Placement are contained in an announcement of the Company dated 26th July 2006 and the Placement is subject to the Company's shareholders' approval.

In addition, on 2nd August 2006, Best Creation Investments Limited (the "Purchaser"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Autron Corporation Limited (the "Vendor") for the acquisition of the entire issued share capital of its wholly-owned subsidiaries, American Tec Company Limited and Autron India Private Limited (collectively the "Target Group"), for a total cash consideration of US$60.0 million (equivalent to approximately HK$465.6 million), subject to the fulfilment of certain conditions contemplated under the sale and purchase agreement. The Target Group is principally engaged in the business of trading in surface mount technology and printed circuit board assembly equipments, machinery and spare parts and the provision of related installation, training, repair and maintenance services. Details of the acquisition of the Target Group are contained in an announcement of the Company dated 11th August 2006. The acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules and is subject to its shareholders' approval."

4. FINANCIAL INFORMATION OF THE AMTEC GROUP

The acquisition by the Company of the entire issued share capital of Amtec has been completed on 3rd November 2006 and since then, Amtec has become a wholly-owned subsidiary of the Company. Details of such acquisition are set out in the circular of the Company dated 13th October 2006.

Set out below is a summary of the key financial data of the Amtec Group, which are extracted from the accountants' report as set out on page 89 and page 95 in this circular.

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Results			
Revenue	544,641	569,544	1,123,964
Gross profit	89,385	84,729	142,294
Profit before tax	21,799	9,622	31,445
Profit for the year	17,729	8,590	25,710

	As at 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Non-current assets	24,522	63,340	32,812
Current assets	413,687	473,976	492,628
Current liabilities	(297,436)	(378,345)	(462,850)
Non-current liabilities	(1,698)	(11,325)	(2,495)
Net assets	139,075	147,646	60,095

Set out below is the accountant's report on Amtec as extracted from pages 88 to 133 of the circular of the Company dated 13th October 2006. References to page numbers in this section are to the page numbers of such circular of the Company.

"ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

13th October 2006

The Directors
North Asia Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to American Tec Company Limited ("Amtec") and its subsidiaries (hereinafter collectively referred to as "Amtec Group") for each of the three years ended 30th June 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of North Asia Strategic Holdings Limited (the "Company") dated 13th October 2006 (the "Circular") in relation to the proposed acquisition of the entire issued share capital of Amtec (the "Acquisition").

Amtec was incorporated with limited liability under the Hong Kong Companies Ordinance (the "Companies Ordinance") on 7th January 1986. During the Relevant Periods, Amtec was principally engaged in the trading of electronic products, machinery and spare parts, provision of installation, training, repair and maintenance services and leasing of machinery.

The financial information of Amtec Group for the Relevant Periods is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. We have audited the financial statements of Amtec Group for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

For the purpose of this report, we have examined the audited financial statements of Amtec Group for the Relevant Periods in accordance with HKSA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of Amtec Group for the Relevant Periods, the consolidated balance sheets of Amtec Group as at 30th June 2004, 2005 and 2006 and the balance sheets of Amtec as at 30th June 2004, 2005 and 2006, together with the notes thereto (collectively the "Financial Information") as set out in this report have been prepared and are presented on the basis as set out in Section 1 below.

The preparation of the Financial Information is the responsibility of the directors of the Company who approve its issuance. The directors of the Company are responsible for the content of the Circular relating to Amtec Group in which this report is included. It is our responsibility to form an independent opinion on such information and to report our opinion to you. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our work provides a reasonable basis for our opinion.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Amtec and Amtec Group as at 30th June 2004, 2005 and 2006 and of the consolidated results and cash flows of Amtec Group for the Relevant Periods.

1. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated. The Financial Information has been prepared using accounting policies which are materially consistent with the Company.

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning or after 1st January 2005. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, Amtec Group has early adopted the following new and revised HKFRSs:

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 the 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 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Impact of issued but not yet effective HKFRSs

Amtec Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007. The revised standard will affect the disclosures about qualitative information about Amtec Group's objective, policies and processes for managing capital; quantitative data about what Amtec regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

As at the balance sheet dates, certain of the banking facilities granted to the ultimate holding company and fellow subsidiaries were guaranteed by Amtec. Amtec Group has already commenced an assessment of the impact of this revised HKFRS but is not yet in a position to state whether this revised HKFRS would have a significant impact on its results and financial position.

Except as stated above, Amtec Group expects that the adoption of the other pronouncements listed above will not have any significant impact on Amtec Group's financial statements in the period of initial application.

Basis of consolidation

The Financial Information includes the financial statements of Amtec and its subsidiaries for the Relevant Periods. Adjustments are made to bring in line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Amtec Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within Amtec Group are eliminated on consolidation.

As at the date of this report, Amtec had direct interests in the following principal subsidiaries. The particulars of which are set out below:

Name	*Note*	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to Amtec	Principal activities
深圳市澳通美亞電子科技有限公司 ("ATSZ")	*(a)*	The People's Republic of China (the "PRC")	RMB1,500,000	100 *	Trading of electronic products, machinery and spare parts and provision of repair and installation services

Name	*Notes*	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to Amtec	Principal activities
Tianjin American Tec Trading Co., Ltd.	*(b)*	The PRC	US$200,000	100	Trading of electronic products, machinery and spare parts and provision of repair and maintenance services
Autron American Technology Co., Ltd.	*(c)*	The PRC	US$200,000	100	Not yet commenced business
Ouye Meiya Science and Technology (Shenzhen) Co., Ltd. ("Ouye Meiya")**	*(d)*	The PRC	HK$5,000,000	100	Deregistered
American Tec Co. (L) BHD***	*(e)*	Malaysia	US$2,500	100	Deregistered

Notes:

(a) The statutory financial statements for the year ended 31st December 2005 were audited by Shenzhen Shenxin Certified Public Accountants, certified public accountants registered in the PRC.

(b) The statutory financial statements for the year ended 31st December 2005 were audited by Tianjin Tianrui Certified Accountants Firm Ltd., certified public accountants registered in the PRC.

(c) The statutory financial statements for the year ended 31st December 2004 and 2005 were audited by Shanghai East Asia Certified Public Accountants Co. Ltd., certified public accountants registered in the PRC.

(d) The statutory financial statements for the year ended 31st December 2004 were audited by Shenzhen Forever Certified Accountants, certified public accountants registered in the PRC.

(e) American Tec Co. (L) BHD has not yet commenced business since its incorporation. Hence, no statutory financial statements were issued.

* ATSZ was registered as a wholly sino-owned enterprise under the PRC law. Amtec Group advanced the capital fund to ATSZ whereas it is registered and legally owned by third parties — Huang Mei and Huang Pubing (collectively the "Huangs"). The Huangs are nominees for Amtec's ownership in ATSZ. Pursuant to the memorandum entered into between Amtec and the Huangs dated 26th September 2005, the Huangs agreed to surrender their rights to share the profits and voting power in ATSZ to Amtec at nil consideration. The directors consider that Amtec Group has unilateral control over the operation and management of ATSZ and legal opinion was obtained concurring with the directors. Accordingly, all assets, liabilities and the operating results of ATSZ are consolidated into the Financial Information as if it is a wholly-owned subsidiary of Amtec Group.

** Ouye Meiya was deregistered in the PRC on 5th September 2005.

*** American Tec Co. (L) BHD was deregistered in Malaysia on 14th September 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which Amtec, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which Amtec has a contractual right to exercise a dominant influence with respect to that entity's operation and financial policies.

The results of subsidiaries are included in Amtec's income statements to the extent of dividends received and receivable. Amtec's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to Amtec Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, Amtec Group; (ii) has an interest in Amtec Group that gives it significant influence over Amtec Group; or (iii) has joint control over Amtec Group;

(b) the party is a member of the key management personnel of Amtec Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	10% to 18%
Machinery	10%
Demonstration equipment	20%
Furniture and fixtures	18% to 25%
Office equipment	18% to 25%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to Amtec Group, other than legal title, are accounted for as finance leases. Where Amtec Group is the lessor, at the inception of a finance lease, the net investment in financial leases is recorded at the present value of the minimum lease payments receivable, excluding the interest element, to reflect the sale and financing thereof. The finance income of such leases is recognised in the income statement so as to provide a constant periodic rate of return on the net investment in finance leases over the lease terms. Where Amtec Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Amtec Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that Amtec Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

Amtec Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

Amtec Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- Amtec Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- Amtec Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where Amtec Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Amtec Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Amtec Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of Amtec Group's continuing involvement is the amount of the transferred asset that Amtec Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of Amtec Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging

Amtec Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of machinery and spare parts is calculated using the specific costs of purchases and average cost basis, respectively, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that Amtec Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) commission, service and management fee income, when the relevant services are rendered;

(c) finance lease and interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) rental income, on a time proportion basis over the lease terms.

Employee benefits

Pension schemes

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

Certain employees of a subsidiary of Amtec in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiary is required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for Amtec Group with respect to the Central Pension Scheme is the required contributions, which are charged to the income statement in the year to which they relate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim/special dividends are simultaneously proposed and declared, because Amtec's memorandum and articles of association grant the directors the authority to declare interim/special dividends. Consequently, interim/special dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

This Financial Information is presented in Hong Kong dollars, which is Amtec's functional and presentation currency. Each entity in Amtec Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of Amtec at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Judgements

In the process of applying Amtec Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Derecognition of financial assets — Receivables factoring arrangements

Amtec Group has entered into certain receivables purchase arrangements with financing companies on its trade and finance lease receivables. Amtec Group has determined that it retains substantially all the risks and rewards of ownership of these trade and finance lease receivables, either the risks in respect of default payments or the time value of money, which are purchased by the relevant financing companies. Accordingly, the relevant trade and finance lease receivables are not derecognised.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

3. CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of Amtec Group for the Relevant Periods, which is presented on the basis set out in Section 1 above:

		Year ended 30th June		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	*(a)*	544,641	569,544	1,123,964
Cost of sales		(455,256)	(484,815)	(981,670)
Gross profit		89,385	84,729	142,294
Other income and gains	*(a)*	1,544	8,861	3,139
Selling and distribution costs		(20,640)	(24,197)	(36,472)
Administrative expenses		(46,194)	(51,381)	(63,733)
Other operating expenses		(114)	(1,974)	(3,683)
Finance costs	*(d)*	(2,182)	(6,416)	(10,100)
PROFIT BEFORE TAX	*(c)*	21,799	9,622	31,445
Tax	*(g)*	(4,070)	(1,032)	(5,735)
PROFIT FOR THE YEAR		17,729	8,590	25,710
DIVIDEND	*(i)*	—	—	113,529

Notes:

(a) Revenue, other income and gains

Revenue, which is also Amtec Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, commission income earned from acting as a sales agent, rental income and finance lease and service income.

An analysis of revenue, other income and gains is as follows:

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Sale of goods	534,875	558,185	1,111,013
Service income	2,842	1,283	2,939
Commission income	6,892	8,292	3,292
Finance lease income	32	1,784	1,727
Gross rental income	—	—	4,993
	544,641	569,544	1,123,964
Other income			
Bank interest income	760	216	126
Sub-lease rental income	187	94	247
Management fee income	—	2,953	2,600
Others	597	197	166
	1,544	3,460	3,139
Gains			
Foreign exchange differences, net	—	2,916	—
Fair value gains on derivative instruments — transactions not qualifying as hedges, net	—	2,485	—
	—	5,401	—
	1,544	8,861	3,139

(b) Segment information

No business and geographical segment information is presented as all revenue and assets of Amtec Group are related to its trading and servicing operation of machinery in the PRC for the Relevant Periods.

(c) Profit before tax

Amtec Group's profit before tax is arrived at after charging/(crediting):

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories sold**	455,256	482,513	979,460
Depreciation	1,772	2,266	4,023
Minimum lease payments under operating leases in respect of land and buildings	2,755	2,993	3,696
Auditors' remuneration	580	595	794
Employee benefits expense (including directors' remuneration *(note 3(e))*:			
Wages and salaries	25,153	32,647	37,924
Pension scheme contributions	371	450	455
	25,524	33,097	38,379
Impairment of trade receivables*	114	1,972	3,667
Write-down of inventories to net realisable value**	—	2,302	2,210
Loss on disposal of items of property, plant and equipment*	—	2	16
Fair value losses/(gains) on derivative instruments — transactions not qualifying as hedges, net	2,727	(2,485)	702
Foreign exchange differences, net	2,163	(2,916)	1,590

* Included in "Other operating expenses" on the face of the consolidated income statements.

** Included in "Cost of sales" on the face of the consolidated income statements.

(d) Finance costs

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Interest on bank loans and overdrafts	2,169	5,856	9,359
Interest on finance leases	13	560	741
	2,182	6,416	10,100

(e) Directors' remuneration

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Fee	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	719	2,064	1,853
Pension scheme contributions	7	12	12
	726	2,076	1,865
	726	2,076	1,865

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2004				
Directors:				
Wu Man Fan	—	719	7	726
Tan Cheng Leong	—	—	—	—
Lim Boh Soon	—	—	—	—
	—	719	7	726
2005				
Directors:				
Wu Man Fan	—	2,064	12	2,076
Tan Cheng Leong	—	—	—	—
Lim Boh Soon	—	—	—	—
Lim Kheng Joo, Eric	—	—	—	—
	—	2,064	12	2,076
2006				
Directors:				
Wu Man Fan	—	1,853	12	1,865
Tan Cheng Leong	—	—	—	—
Lim Boh Soon	—	—	—	—
Lim Kheng Joo, Eric	—	—	—	—
	—	1,853	12	1,865

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

(f) Five highest paid employees

The five highest paid employees during the Relevant Periods included one director, details of whose remuneration are set out in note 3(e) above. Details of the remuneration of the remaining four non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	2,392	2,611	2,637
Pension scheme contributions	48	48	92
	2,440	2,659	2,729

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

	Number of employees		
	2004	**2005**	**2006**
Nil to HK$1,000,000	4	4	4

(g) Tax

Hong Kong profits tax has been provided at the rate of 17.5% for each of the Relevant Periods on the estimated assessable profits arising in Hong Kong.

Taxes on deemed profits in respect of representative offices operating in Mainland China have been calculated at the rates of tax prevailing in the regions in which the representative offices operate, based on existing legislation, practices and interpretations in respect thereof.

No provision for income tax has been made for Amtec Group's subsidiaries registered in the PRC and Malaysia as the subsidiaries had no assessable profits in the PRC and Malaysia during the Relevant Periods.

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amtec Group:			
Current — Hong Kong			
Charge for the year	4,280	1,209	6,643
Overprovision in prior years	—	(1,500)	(694)
Current — Elsewhere			
Charge for the year	170	283	300
Under/(over)provision in prior years	(380)	42	—
Deferred *(note 4(o))*	—	998	(514)
Tax charge for the year	4,070	1,032	5,735

A reconciliation of tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	21,799	9,622	31,445
Tax at the statutory tax rate of 17.5%	3,815	1,684	5,503
Taxes based on deemed profits of representative offices	170	283	300
Lower tax rate of regions outside Hong Kong	28	30	—
Adjustments in respect of current tax of previous periods	(380)	(1,458)	(694)
Income not subject to tax	(10)	(865)	(20)
Expenses not deductible for tax	702	747	631
Others	(255)	611	15
Tax charge at Amtec Group's effective rate	4,070	1,032	5,735

(h) Net profit from ordinary activities attributable to equity holders of the parent

The net profit from ordinary activities attributable to equity holders of the parent for the years ended 30th June 2004, 2005 and 2006 dealt with in the financial statements of Amtec was HK$9,172,000, HK$10,972,000 and HK$26,734,000, respectively.

(i) Dividend

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Special dividend — HK$1.89215 (2004 and 2005: Nil) per ordinary share	—	—	113,529

(j) Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

4. BALANCE SHEETS

The following is a summary of the consolidated balance sheets of Amtec Group and the balance sheets of Amtec as at 30th June 2004, 2005 and 2006, which is presented on the basis set out in Section 1 above:

Consolidated balance sheets of Amtec Group

			30th June	
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*(a)*	6,924	16,498	20,235
Long term portion of trade receivables	*(c)*	2,761	—	—
Long term portion of finance lease receivables	*(d)*	14,837	46,842	12,577
Total non-current assets		24,522	63,340	32,812
CURRENT ASSETS				
Inventories	*(e)*	81,440	139,447	131,090
Trade and bills receivables	*(c)*	221,134	106,953	163,842
Finance lease receivables	*(d)*	12,265	50,451	39,577
Prepayments, deposits and other receivables	*(f)*	16,680	12,020	19,748
Due from the ultimate holding company	*(g)*	32,002	58,099	—
Due from fellow subsidiaries	*(g)*	7,511	86,748	120,480
Due from a director	*(h)*	—	404	—
Pledged deposits	*(i)*	6,673	—	—
Cash and bank balances	*(i)*	35,982	19,854	17,891
Total current assets		413,687	473,976	492,628
CURRENT LIABILITIES				
Trade and bills payables	*(j)*	152,986	100,174	158,681
Other payables and accruals	*(k)*	13,991	16,193	38,360
Derivative financial instruments	*(l)*	2,727	242	944
Interest-bearing bank and other borrowings	*(m)*	83,397	207,663	257,554
Due to fellow subsidiaries	*(g)*	34,678	52,153	—
Tax payable		9,657	1,920	7,311
Total current liabilities		297,436	378,345	462,850
NET CURRENT ASSETS		116,251	95,631	29,778
TOTAL ASSETS LESS CURRENT LIABILITIES		140,773	158,971	62,590
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	*(m)*	1,698	10,327	2,011
Deferred tax liabilities	*(o)*	—	998	484
Total non-current liabilities		1,698	11,325	2,495
Net assets		139,075	147,646	60,095
EQUITY				
Issued capital	*(p)*	60,000	60,000	60,000
Reserves		79,075	87,646	95
Total equity		139,075	147,646	60,095

Balance sheets of Amtec

			30th June	
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*(a)*	6,512	14,758	18,687
Interests in subsidiaries	*(b)*	7,373	12,305	13,861
Long term portion of trade receivables	*(c)*	2,761	—	—
Long term portion of finance lease receivables	*(d)*	14,837	46,842	12,577
Total non-current assets		31,483	73,905	45,125
CURRENT ASSETS				
Inventories	*(e)*	81,316	138,344	129,687
Trade and bills receivables	*(c)*	218,911	104,188	161,611
Finance lease receivables	*(d)*	12,265	50,451	39,577
Prepayments, deposits and other receivables	*(f)*	16,138	11,232	18,338
Due from the ultimate holding company	*(g)*	32,002	58,099	—
Due from fellow subsidiaries	*(g)*	7,382	86,748	120,480
Due from a director	*(h)*	—	404	—
Pledged deposits	*(i)*	6,673	—	—
Cash and bank balances	*(i)*	31,776	14,660	12,709
Total current assets		406,463	464,126	482,402
CURRENT LIABILITIES				
Trade and bills payables	*(j)*	152,625	99,494	158,538
Other payables and accruals	*(k)*	13,988	15,057	37,336
Derivative financial instruments	*(l)*	2,727	242	944
Interest-bearing bank and other borrowings	*(m)*	83,397	207,663	257,554
Due to fellow subsidiaries	*(g)*	34,649	52,153	—
Tax payable		9,657	1,920	7,278
Total current liabilities		297,043	376,529	461,650
NET CURRENT ASSETS		109,420	87,597	20,752
TOTAL ASSETS LESS CURRENT LIABILITIES		140,903	161,502	65,877
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	*(m)*	1,698	10,327	2,011
Deferred tax liabilities	*(o)*	—	998	484
Total non-current liabilities		1,698	11,325	2,495
Net assets		139,205	150,177	63,382
EQUITY				
Issued capital	*(p)*	60,000	60,000	60,000
Retained profits		79,205	90,177	3,382
Total equity		139,205	150,177	63,382

Notes:

(a) Property, plant and equipment

Amtec Group

	Leasehold improvements	Machinery	Demonstration equipment	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st July 2003:							
Cost	1,852	—	—	990	4,235	1,307	8,384
Accumulated depreciation	(558)	—	—	(700)	(2,795)	(573)	(4,626)
Net carrying amount	1,294	—	—	290	1,440	734	3,758
At 1st July 2003, net of accumulated depreciation	1,294	—	—	290	1,440	734	3,758
Additions	245	—	2,496	150	994	1,053	4,938
Depreciation provided during the year	(267)	—	—	(154)	(834)	(517)	(1,772)
At 30th June 2004, net of accumulated depreciation	1,272	—	2,496	286	1,600	1,270	6,924
At 30th June 2004 and 1st July 2004:							
Cost	2,097	—	2,496	1,140	5,225	2,360	13,318
Accumulated depreciation	(825)	—	—	(854)	(3,625)	(1,090)	(6,394)
Net carrying amount	1,272	—	2,496	286	1,600	1,270	6,924
At 1st July 2004, net of accumulated depreciation	1,272	—	2,496	286	1,600	1,270	6,924
Additions	1,029	9,215	—	58	1,308	230	11,840
Disposals	—	—	—	—	(7)	—	(7)
Depreciation provided during the year	(275)	(232)	(176)	(125)	(807)	(651)	(2,266)
Exchange realignment	1	—	—	—	6	—	7
At 30th June 2005, net of accumulated depreciation	2,027	8,983	2,320	219	2,100	849	16,498
At 30th June 2005 and 1st July 2005:							
Cost	3,127	9,215	2,496	1,198	6,504	2,590	25,130
Accumulated depreciation	(1,100)	(232)	(176)	(979)	(4,404)	(1,741)	(8,632)
Net carrying amount	2,027	8,983	2,320	219	2,100	849	16,498
At 1st July 2005, net of accumulated depreciation	2,027	8,983	2,320	219	2,100	849	16,498
Additions	233	—	—	16	791	339	1,379
Disposals	—	—	—	—	(131)	(191)	(322)
Transfer from/(to) inventories	—	(6,133)	12,776	—	—	—	6,643
Depreciation provided during the year	(315)	(563)	(1,527)	(124)	(1,034)	(460)	(4,023)
Exchange realignment	27	—	—	—	33	—	60
At 30th June 2006, net of accumulated depreciation	1,972	2,287	13,569	111	1,759	537	20,235
At 30th June 2006:							
Cost	3,410	3,082	15,272	1,214	7,062	2,404	32,444
Accumulated depreciation	(1,438)	(795)	(1,703)	(1,103)	(5,303)	(1,867)	(12,209)
Net carrying amount	1,972	2,287	13,569	111	1,759	537	20,235

Amtec

	Leasehold improvements HK$'000	Machinery HK$'000	Demonstration equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st July 2003:							
Cost	1,240	—	—	951	3,736	1,307	7,234
Accumulated depreciation	(177)	—	—	(679)	(2,545)	(573)	(3,974)
Net carrying amount	1,063	—	—	272	1,191	734	3,260
At 1st July 2003, net of accumulated depreciation	1,063	—	—	272	1,191	734	3,260
Additions	245	—	2,496	147	845	1,053	4,786
Depreciation provided during the year	(145)	—	—	(146)	(726)	(517)	(1,534)
At 30th June 2004, net of accumulated depreciation	1,163	—	2,496	273	1,310	1,270	6,512
At 30th June 2004 and 1st July 2004:							
Cost	1,485	—	2,496	1,098	4,577	2,360	12,016
Accumulated depreciation	(322)	—	—	(825)	(3,267)	(1,090)	(5,504)
Net carrying amount	1,163	—	2,496	273	1,310	1,270	6,512
At 1st July 2004, net of accumulated depreciation	1,163	—	2,496	273	1,310	1,270	6,512
Additions	254	9,215	—	58	496	231	10,254
Disposals	—	—	—	—	(7)	—	(7)
Depreciation provided during the year	(174)	(232)	(176)	(121)	(646)	(652)	(2,001)
At 30th June 2005, net of accumulated depreciation	1,243	8,983	2,320	210	1,153	849	14,758
At 30th June 2005 and 1st July 2005:							
Cost	1,739	9,215	2,496	1,156	5,038	2,591	22,235
Accumulated depreciation	(496)	(232)	(176)	(946)	(3,885)	(1,742)	(7,477)
Net carrying amount	1,243	8,983	2,320	210	1,153	849	14,758
At 1st July 2005, net of accumulated depreciation	1,243	8,983	2,320	210	1,153	849	14,758
Additions	157	—	—	16	655	339	1,167
Disposals	—	—	—	—	(131)	(191)	(322)
Transfer from/(to) inventories	—	(6,133)	12,776	—	—	—	6,643
Depreciation provided during the year	(178)	(563)	(1,527)	(115)	(716)	(460)	(3,559)
At 30th June 2006, net of accumulated depreciation	1,222	2,287	13,569	111	961	537	18,687
At 30th June 2006:							
Cost	1,896	3,082	15,272	1,172	5,406	2,404	29,232
Accumulated depreciation	(674)	(795)	(1,703)	(1,061)	(4,445)	(1,867)	(10,545)
Net carrying amount	1,222	2,287	13,569	111	961	537	18,687

The net book value of Amtec Group's and Amtec's motor vehicles held under finance leases as at 30th June 2004, 2005 and 2006 amounted to HK$895,000, HK$776,000 and HK$263,000, respectively.

The net book value of Amtec Group's and Amtec's demonstration equipment held under finance leases as at 30th June 2006 amounted to HK$1,438,000 (2004 and 2005: Nil).

As at 30th June 2005 and 2006, machinery with net book value of HK$8,135,000 and HK$2,287,000, respectively (2004: Nil) were held by Amtec Group and Amtec under operating leases for rental income purpose.

(b) Interests in subsidiaries

		30th June	
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted investments/shares, at cost	8,137	9,520	5,942
Provision for impairment	(5,000)	(5,000)	—
	3,137	4,520	5,942
Due from subsidiaries	6,322	10,717	10,227
Due to subsidiaries	(2,086)	(2,932)	(2,308)
	7,373	12,305	13,861

All balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayments. The carrying amounts of these balances approximate to their fair values.

(c) Trade and bills receivables

	Amtec Group			Amtec		
	30th June			30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	186,677	95,904	140,930	184,454	93,139	138,699
Bills receivable	37,218	11,049	22,912	37,218	11,049	22,912
	223,895	106,953	163,842	221,672	104,188	161,611
Portion classified under current assets	(221,134)	(106,953)	(163,842)	(218,911)	(104,188)	(161,611)
Non-current portion	2,761	—	—	2,761	—	—

Amtec Group's and Amtec's trading terms with their customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. Amtec Group and Amtec seek to maintain strict control over their outstanding receivables and have a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that Amtec Group's and Amtec's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 30th June 2004, 2005 and 2006, Amtec has transferred certain bills of exchange amounting to HK$22,506,000, HK$8,240,000 and HK$6,847,000, respectively, to a bank with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK$22,506,000, HK$8,240,000 and HK$6,847,000, respectively, are accounted for as collateralised bank advances until the bills receivable are collected or Amtec Group makes good of any losses incurred by the bank because the derecognition criteria for financial assets were not met.

As at 30th June 2005 and 2006, Amtec's trade receivables of approximately HK$9,246,000 and HK$8,239,000, respectively (2004: Nil) (the "Factored Receivables") were factored to a financing company under certain receivables purchase agreements. Amtec continued to recognise the Factored Receivables in the balance sheet because, in the opinion of the directors, Amtec Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money as at the balance sheet dates. The proceeds from the Factored Receivables of HK$5,440,000 and HK$7,767,000, respectively, are accounted for as collateralised advances from a financing company until the Factored Receivables are collected or Amtec makes good of any losses incurred by the financing company.

An aged analysis of the trade and bills receivables as at the balance sheet dates, based on the invoice date and net of provisions, is as follows:

	Amtec Group			**Amtec**		
	30th June			**30th June**		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current to 90 days	146,651	82,494	124,294	145,428	79,729	122,690
91 to 180 days	21,700	13,517	22,307	20,700	13,517	22,307
181 to 270 days	37,708	2,069	2,256	37,708	2,069	2,083
271 to 365 days	3,688	3,877	1,871	3,688	3,877	1,706
Over 365 days	14,148	4,996	13,114	14,148	4,996	12,825
	223,895	106,953	163,842	221,672	104,188	161,611

(d) Finance lease receivables

Amtec Group and Amtec

Amtec Group leased certain machinery to its customers under finance lease arrangements which have remaining lease periods from 1 to 36 months and the interest rate inherent in the leases ranged from 4% to 10% per annum.

As at the balance sheet dates, the net finance lease receivables under the leases and the present values of the minimum lease payments were as follows:

	Net finance lease receivables 30th June			Present value of minimum lease payments 30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount receivable under finance lease:						
Within one year	12,932	56,837	42,024	12,265	50,451	39,577
In the second year	10,230	37,827	11,955	9,715	36,537	11,445
In the third to fifth years, inclusive	5,173	10,814	1,177	5,122	10,305	1,132
Total minimum finance lease receivables	28,335	105,478	55,156	27,102	97,293	52,154
Unearned finance income	(1,233)	(8,185)	(3,002)			
Total net finance lease receivables	27,102	97,293	52,154			
Portion classified as current assets	(12,265)	(50,451)	(39,577)			
Non-current portion	14,837	46,842	12,577			

As at 30th June 2005 and 2006, Amtec Group's and Amtec's finance lease receivables amounting to HK$9,859,000 and HK$4,869,000 were pledged to secure other borrowings of HK$9,247,000 and HK$4,241,000, respectively (2004: Nil) *(note 4(m))*.

As at 30th June 2005 and 2006, Amtec has transferred certain finance leases amounting to HK$12,781,000 and HK$8,072,000, respectively, to a financing company with recourse in exchange for cash. The proceeds from transferring the finance lease receivables of HK$12,781,000 and HK$6,070,000, respectively, are accounted for as collateralised advances from a financing company until the finance leases are collected or Amtec makes good of any losses incurred by the financing company (2004: Nil).

(e) Inventories

	Amtec Group			Amtec		
	30th June			30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Machinery	36,680	64,455	58,310	36,680	64,445	58,310
Spare parts	39,716	68,735	65,990	39,592	67,642	64,587
Consumables	5,044	6,257	6,790	5,044	6,257	6,790
	81,440	139,447	131,090	81,316	138,344	129,687

As at 30th June 2005 and 2006, the carrying value of Amtec Group's and Amtec's inventories held under finance leases amounted to approximately HK$11,499,000 and approximately HK$9,894,000, respectively (2004: Nil).

(f) Prepayments, deposits and other receivables

	Amtec Group			Amtec		
	30th June			30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	40	40	48	40	40	48
Deposits	869	1,792	12,278	869	1,003	11,135
Other receivables	15,771	10,188	7,422	15,229	10,189	7,155
	16,680	12,020	19,748	16,138	11,232	18,338

As at 30th June 2006, deposits amounted to HK$9,887,000 (2004 and 2005: Nil) were pledged to secure other loans of HK$80,973,000 *(note 4(m))*.

(g) Due from/to the ultimate holding company and fellow subsidiaries

The balances with the ultimate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(h) Due from a director

Amtec Group and Amtec

Particulars of the amount due from a director, disclosed pursuant to Section 161B of the Companies Ordinance, are as follows:

	30th June 2004 and 1st July 2004	Maximum amount outstanding during 2004/2005	30th June 2005 and 1st July 2005	Maximum amount outstanding during 2005/2006	30th June 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wu Man Fan	—	676	404	404	—

The amount due from the director was unsecured, interest-free and had been repaid on 20th September 2005.

(i) Cash and bank balances and pledged deposits

	Amtec Group	30th June		Amtec	30th June	
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total cash and bank balances	42,655	19,854	17,891	38,449	14,660	12,709
Less: Time deposits pledged for banking facilities	(6,673)	—	—	(6,673)	—	—
Cash and bank balances	35,982	19,854	17,891	31,776	14,660	12,709

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of Amtec Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances approximate to their fair values.

(j) Trade and bills payables

The trade and bills payable are non-interest-bearing and are normally settled on 30-day terms.

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

	Amtec Group	30th June		Amtec	30th June	
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current to 90 days	116,156	92,437	129,502	115,795	91,757	129,359
91 to 180 days	19,665	1,314	14,312	19,665	1,314	14,312
181 to 270 days	17,066	534	12,812	17,066	534	12,812
271 to 365 days	—	143	26	—	143	26
Over 365 days	99	5,746	2,029	99	5,746	2,029
	152,986	100,174	158,681	152,625	99,494	158,538

(k) Other payables and accruals

	Amtec Group	30th June		Amtec	30th June	
	2004	2005	2006	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	5,368	11,641	20,023	5,368	10,506	19,630
Accruals	8,623	4,552	18,337	8,620	4,551	17,706
	13,991	16,193	38,360	13,988	15,057	37,336

Other payables are non-interest-bearing and have an average term of 30 days.

(l) Derivative financial instruments

Amtec Group and Amtec

	30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Forward currency contracts	2,727	242	944

The carrying amounts of forward currency contracts approximate to their fair values.

As at the balance sheet dates, Amtec Group and Amtec held the following forward currency contracts to manage their exchange rate exposures which did not meet the criteria for hedge accounting. The terms of these contracts are as follows:

	Maturity	Exchange rate
Sell		
2004		
US$2,404,000	2nd July 2004	US$/€1.2540
US$2,459,000	4th August 2004	US$/€1.2295
US$1,887,000	6th August 2004	US$/€1.2190
US$549,000	16th August 2004	US$/€1.2778
2005		
US$1,185,000	30th June 2005 — 30th August 2005	US$/¥109.70
US$935,000	10th June 2005 — 20th July 2005	US$/¥107.00
2006		
US$1,592,000	2nd August 2006	US$/¥111.34
US$2,638,000	2nd August 2006	US$/¥111.50

Changes in the fair value of non-hedging currency derivatives amounting to HK$2,727,000 and HK$702,000 were charged to the income statements during the years ended 30th June 2004 and 2006, respectively and HK$2,485,000 was credited to the income statement during the year ended 30th June 2005.

(m) Interest-bearing bank and other borrowings

Amtec Group and Amtec

	Effective interest rate	Maturity	2004	30th June 2005	2006
	(%)		*HK$'000*	*HK$'000*	*HK$'000*
Current					
Finance lease payables *(note 4(n))*	4.73 — Prime	2007	168	5,190	2,098
Bank overdrafts — secured	Prime	On demand	108	6,891	1,904
Collateralised bank advances — secured	Prime	2007	22,506	8,240	6,847
Collateralised advances from a financing company — secured	Prime	2007	—	18,221	13,837
Trust receipt loans	HIBOR+2 — Prime+5.5	2006	40,942	68,303	59,267
Bank loans — unsecured	HIBOR+2 — Prime+5.5	2006	19,673	98,600	89,430
Other loans — secured	5.1 — LIBOR+3.5	2006	—	2,218	84,171
			83,397	207,663	257,554
Non-current					
Finance lease payables *(note 4(n))*	4.73 — LIBOR+2	2007 — 2009	777	3,298	968
Bank loans — unsecured	HIBOR+2	2006	921	—	—
Other loans — secured	6.14	2008	—	7,029	1,043
			1,698	10,327	2,011
			85,095	217,990	259,565

	2004	30th June 2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Analysed into:			
Interest-bearing bank borrowings repayable:			
Within one year or on demand	83,229	182,034	157,448
In the second year	921	—	—
	84,150	182,034	157,448
Other borrowings repayable:			
Within one year	168	25,629	100,106
In the second year	263	2,308	1,866
In the third to fifth years, inclusive	514	8,019	145
	945	35,956	102,117
	85,095	217,990	259,565

Notes:

The bank overdrafts, trust receipt loans and bank loans were secured by corporate guarantees given by Autron Corporation Limited, Amtec's ultimate holding company and Amtec's fellow subsidiaries.

Apart from the above, as at 30th June 2005 and 2006, Amtec Group's and Amtec's other loans (2004: Nil) were secured by certain of Amtec Group's and Amtec's finance lease receivables *(note 4(d))* and deposits *(note 4(f))*.

Certain financial and other covenants specified in loan agreements including gearing ratio of 0.8 or lower were breached as at 30th June 2005 and 2006. Amtec Group had repaid certain respective outstanding bank borrowings subsequent to the balance sheet dates and for those bank borrowings that remained outstanding, a temporary waiver on the breach of the bank convenants were granted by the bank on not demanding full repayment as stipulated in the loan agreements. The bank borrowings that financial and other convenants were breached amounted to HK$24,899,000 and HK$28,963,000 as at 30th June 2005 and 2006, respectively.

Other interest rate information:

	30th June					
	2004		2005		2006	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Finance lease payables	945	—	880	7,608	525	2,541
Bank overdrafts — secured	—	108	—	6,891	—	1,904
Collateralised bank advances — secured	—	22,506	—	8,240	—	6,847
Collateralised advances from a financing company — secured	—	—	—	18,221	—	13,837
Trust receipt loans	—	40,942	—	68,303	—	59,267
Bank loans — unsecured	—	20,594	—	98,600	—	89,430
Other loans — secured	—	—	9,247	—	4,241	80,973

Interest-bearing bank and other borrowings denominated in foreign currencies are as follows:

	30th June								
	2004			2005			2006		
	US$'000	*JPY'000*	*EURO'000*	*US$'000*	*JPY'000*	*EURO'000*	*US$'000*	*JPY'000*	*EURO'000*
Finance lease payables	—	—	—	979	—	—	327	—	—
Collateralised bank advances — secured	555	—	1,920	—	—	—	770	—	—
Collateralised advances from a financing company — secured	—	—	—	—	—	—	1,781	—	—
Trust receipt loans	3,508	104,175	987	4,533	381,249	833	5,457	563,404	101
Bank loans — unsecured	2,641	—	—	10,981	—	—	10,599	—	720
Other loans — secured	—	—	—	—	—	—	3,243	823,641	—

The carrying amounts of Amtec Group's and Amtec's borrowings approximate to their fair values.

(n) Finance lease payables

Amtec Group leases certain of its machinery *(notes 4(a) and 4(e))* and motor vehicles *(note 4(a))*. These leases are classified as finance leases and have remaining lease periods from 2 to 42 months.

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

Amtec Group and Amtec

	Minimum lease payments 30th June			Present value of minimum lease payments 30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:						
Within one year	217	5,610	2,272	168	5,190	2,098
In the second year	295	2,314	833	263	2,308	823
In the third to fifth years, inclusive	551	997	146	514	990	145
Total minimum finance lease payments	1,063	8,921	3,251	945	8,488	3,066
Future finance charges	(118)	(433)	(185)			
Total net finance lease payables	945	8,488	3,066			
Portion classified as current liabilities *(Note 4(m))*	(168)	(5,190)	(2,098)			
Non-current portion *(Note 4(m))*	777	3,298	968			

(o) Deferred tax liabilities

Amtec Group and Amtec

	Accelerated tax depreciation	Provision for trade and finance lease receivables and inventories	Total
	HK$'000	*HK$'000*	*HK$'000*
At 30th June 2003, 30th June 2004 and 1st July 2004	—	—	—
Deferred tax charged/(credited) to the income statement during the year *(note 3(g))*	1,577	(579)	998
Gross deferred tax liabilities at 30th June 2005 and 1st July 2005	1,577	(579)	998
Deferred tax charged/(credited) to the income statement during the year *(note 3(g))*	607	(1,121)	(514)
Gross deferred tax liabilities at 30th June 2006	2,184	(1,700)	484

(p) Share capital

	30th June 2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Authorised, issued and fully paid: 60,000,000 shares of HK$1 each	60,000	60,000	60,000

5. STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the consolidated statements of changes in equity of Amtec Group and the statements of changes in equity of Amtec for the Relevant Periods, which is presented on the basis set out in Section 1 above:

Consolidated statements of changes in equity of Amtec Group

	Issued share capital	**Exchange fluctuation reserve**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 30th June 2003 and 1st July 2003	10,000	(145)	61,500	71,355
Issue of shares	50,000	—	—	50,000
Exchange realignments	—	(9)	—	(9)
Profit for the year	—	—	17,729	17,729
At 30th June 2004 and 1st July 2004	60,000	(154)*	79,229*	139,075
Exchange realignments	—	(19)	—	(19)
Profit for the year	—	—	8,590	8,590
At 30th June 2005 and 1st July 2005	60,000	(173)*	87,819*	147,646
Exchange realignments	—	268	—	268
Profit for the year	—	—	25,710	25,710
Special dividend	—	—	(113,529)	(113,529)
At 30th June 2006	60,000	95*	—*	60,095

* These reserve accounts comprise the consolidated reserve of HK$79,075,000, HK$87,646,000 and HK$95,000 as at 30th June 2004, 2005 and 2006, respectively, in the consolidated balance sheets.

Statements of changes in equity of Amtec

	Issued share capital	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
At 30th June 2003 and 1st July 2003	10,000	70,033	80,033
Issue of shares	50,000	—	50,000
Profit for the year	—	9,172	9,172
At 30th June 2004 and 1st July 2004	60,000	79,205	139,205
Profit for the year	—	10,972	10,972
At 30th June 2005 and 1st July 2005	60,000	90,177	150,177
Profit for the year	—	26,734	26,734
Special dividend	—	(113,529)	(113,529)
At 30th June 2006	60,000	3,382	63,382

6. CONSOLIDATED CASH FLOW STATEMENTS

The following is a summary of the consolidated cash flow statements of Amtec Group for the Relevant Periods, which is presented on the basis set out in Section 1 above:

		Year ended 30th June		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		21,799	9,622	31,445
Adjustments for:				
Finance costs	*3(d)*	2,182	6,416	10,100
Bank interest income	*3(a)*	(760)	(216)	(126)
Depreciation	*3(c)*	1,772	2,266	4,023
Loss on disposal of items of property, plant and equipment	*3(c)*	—	2	16
Fair value losses/(gains) on derivative instruments — transactions not qualifying as hedges, net	*3(c)*	2,727	(2,485)	702
Operating profit before working capital changes		27,720	15,605	46,160
Decrease/(increase) in inventories		(9,700)	(46,508)	1,714
Decrease/(increase) in trade and bills receivables		(41,837)	116,942	(56,889)
Decrease/(increase) in finance lease receivables		(27,101)	(70,191)	45,139
Decrease/(increase) in prepayments, deposits and other receivables		(6,078)	4,660	(7,728)
Movement in amounts with fellow subsidiaries		13,493	(61,762)	(141,000)
Decrease/(increase) in amount due from a director		(65)	(404)	404
Increase/(decrease) in trade and bills payables		44,869	(52,812)	58,507
Increase in other payables and accruals		6,106	2,202	22,167
Effect of foreign exchange rate changes, net		(9)	(26)	208

	Year ended 30th June		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Cash generated from/(used in) operations	7,398	(92,294)	(31,318)
Interest paid	(2,169)	(5,856)	(9,359)
Interest element on finance lease rental payments	(13)	(560)	(741)
Hong Kong profits tax paid	—	(7,446)	(558)
Overseas taxes paid	(170)	(325)	(300)
Net cash inflow/(outflow) from operating activities	5,046	(106,481)	(42,276)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	760	216	126
Purchases of items of property, plant and equipment	(3,885)	(11,840)	(1,379)
Proceeds from disposal of items of property, plant and equipment	—	5	306
Repayment to the ultimate holding company	(62,804)	(26,097)	(315)
Increase/(decrease) in pledged bank balances	(1,673)	6,673	—
Net cash outflow from investing activities	(67,602)	(31,043)	(1,262)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	50,000	—	—
Increase/(decrease) in trust receipts loans	22,253	27,361	(9,036)
Increase/(decrease) in collateralised advances	(11,574)	3,955	(5,777)
New bank loans	20,594	180,532	302,959
Repayment of bank loans	—	(93,279)	(236,162)
Capital element of finance lease rental payments	(108)	(3,956)	(5,422)
Net cash inflow from financing activities	81,165	114,613	46,562

		Year ended 30th June		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		18,609	(22,911)	3,024
Cash and cash equivalents at beginning of year		17,265	35,874	12,963
CASH AND CASH EQUIVALENTS AT END OF YEAR		35,874	12,963	15,987
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	*4(i)*	35,982	19,854	17,891
Bank overdrafts, secured	*4(m)*	(108)	(6,891)	(1,904)
		35,874	12,963	15,987

Major non-cash transactions:

(i) During the year ended 30th June 2004, Amtec Group and Amtec entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK$1,053,000 (2005 and 2006: Nil) *(note 4(a))*.

(ii) During the year ended 30th June 2005, Amtec Group and Amtec entered into a finance lease arrangement in respect of machinery with a total capital value at the inception of the lease of HK$11,499,000 (2004 and 2006: Nil) *(note 4(e))*.

(iii) During the year ended 30th June 2006, Amtec agreed with its ultimate holding company and fellow subsidiaries that the amount due from the ultimate holding company of HK$47,559,000 was offset against amounts due to fellow subsidiaries and this resulted in no cash flow from this transaction (2004 and 2005: Nil).

(iv) During the year ended 30th June 2006, a special dividend of HK$113,529,000 was paid by Amtec to its holding company which was offset against the amounts due from the holding company and a fellow subsidiary of HK$10,855,000 and HK$102,674,000, respectively (2004 and 2005: Nil).

7. CONTINGENT LIABILITIES

At the balance sheet dates of the Relevant Periods, contingent liabilities not provided for in the Financial Information were as follows:

Amtec Group and Amtec

		30th June	
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Guarantees given to banks in connection with facilities granted to the ultimate holding company and fellow subsidiaries	147,020	186,020	220,440
Performance bonds given to customers for due performance of the sales contracts	2,430	187	787
Bid bonds given to customers for due performance of the sales contracts	2,833	1,514	532
Payment guarantee given to a supplier for due performance of a purchase contract	5,100	—	2,032
	157,383	187,721	223,791

As at 30th June 2004, 2005 and 2006, the banking facilities granted to the ultimate holding company and fellow subsidiaries subject to guarantees given to the banks by Amtec were utilised to the extent of approximately HK$112,371,000, HK$120,573,000 and HK$117,923,000, respectively.

8. OPERATING LEASE ARRANGEMENTS

As lessor

Amtec Group and Amtec leases their machinery *(note 4(a))* under an operating lease arrangement, with a lease negotiated for a period of 12 months.

As at 30th June 2005, Amtec Group and Amtec had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK$7,557,000 (2004 and 2006: Nil).

As lessee

Amtec Group and Amtec leases certain of their office properties and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from six months to three years.

At the balance sheet dates of the Relevant Periods, Amtec Group and Amtec had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Amtec Group 30th June			Amtec 30th June		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,642	3,558	4,340	2,578	2,628	3,683
In the second to fifth years, inclusive	2,022	169	5,644	2,021	169	5,048
	4,664	3,727	9,984	4,599	2,797	8,731

9. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Financial Information, Amtec Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 30th June		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Sales of products to fellow subsidiaries	*(i)*	1,628	69,889	174,875
Purchases of products from fellow subsidiaries	*(ii)*	22,438	5,377	12,239
Management fee income from the ultimate holding company	*(iii)*	—	2,953	2,600
Management fee paid to the ultimate holding company	*(iv)*	1,606	1,864	2,146
Management fee paid to a fellow subsidiary	*(iv)*	2,261	1,325	1,259
Service income from a fellow subsidiary	*(v)*	615	—	421
Commission paid to a fellow subsidiary	*(vi)*	—	—	385
Consultancy fee paid to a related company	*(vii)*	386	—	—

Notes:

(i) Sales to fellow subsidiaries were made on a cost-plus basis.

(ii) Purchases from fellow subsidiaries were carried out according to terms similar to those offered by other suppliers.

(iii) Management fee income from the ultimate holding company was based on expenses incurred by a director during the Relevant Periods.

(iv) Management fee paid to the ultimate holding company and a fellow subsidiary was based on 5% of operational expenses incurred by the holding company and the fellow subsidiary on behalf of Amtec Group.

(v) Service income was based on daily rate of engineers incurred during the Relevant Periods.

(vi) Commission was based on 10 to 14% on sales of certain products during the Relevant Periods.

(vii) These transactions were conducted under mutually agreed terms.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Amtec Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, finance leases and cash and short term deposits. The main purpose of these financial instruments is to raise finance for Amtec Group's operations. Amtec Group has various other financial assets and liabilities such as trade receivables, trade payables and derivative financial instruments, which arise directly from its operations.

It is, and has been, throughout the Relevant Periods under review, Amtec Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Amtec Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

Amtec Group's exposure to the risk of changes in market interest rates relates primarily to Amtec Group's debt obligations with floating interest rates.

Amtec Group does not hedge interest rate fluctuations. In the opinion of the directors, Amtec Group has no significant interest rate risk due to the short maturity of Amtec Group's interest-bearing bank and other borrowings.

Foreign currency risk

Amtec Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than Amtec Group's functional currency. Amtec Group currently does not have a formal foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

Amtec Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Amtec Group mainly trades with recognised and creditworthy third parties. It is Amtec Group's policy that all customers who wish to trade on credit terms are subject to in-depth credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. In this regard, management of Amtec considers that Amtec Group's credit risk is minimal.

The credit risk of the other financial assets of Amtec Group, which mainly represent cash and bank balances and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since Amtec Group mainly trades with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

Amtec Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases.

11. SUBSEQUENT EVENTS

Subsequent to the balance sheet date on 2nd August 2006, Autron Corporation Limited, a company incorporated in Australia and listed on both the Australian Stock Exchange and the Singapore Stock Exchange, the ultimate holding company of Amtec, entered into a sales and purchase agreement with Best Creation Investments Limited, a wholly-owned subsidiary of North Asia Strategic Holdings Limited ("NAS") which is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong, to dispose of its entire equity interest in Amtec Group. The transaction is subject to NAS shareholders' approval and is expected to be completed on or about 31st October 2006.

In addition to the events detailed in note 4(m) in the Financial Information and save for the above, no significant events have been taken place subsequent to 30th June 2006.

12. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Amtec or any of its subsidiaries have been prepared in respect of any period subsequent to 30th June 2006.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong"

5. FINANCIAL INFORMATION OF AIP

The acquisition by the Company of the entire issued share capital of AIP has been completed on 3rd November 2006 and since then, AIP has become a wholly-owned subsidiary of the Company. Details of such acquisition are set out in the circular of the Company dated 13th October 2006.

Set out below is a summary of the key financial data of AIP, which are extracted from the accountants' report as set out on page 130 and page 135 in this circular.

	Period ended 30th June 2006 *HK$'000*
Results	
Revenue	1,978
Gross profit	949
Loss before tax	(1,146)
Loss for the period	(1,118)

	As at 30th June 2006 *HK$'000*
Assets and liabilities	
Non-current assets	346
Current assets	1,730
Current liabilities	(547)
Non-current liabilities	(14)
Net assets	1,515

Set out below is the accountants' report on AIP as extracted from pages 134 to 155 of the circular of the Company dated 13th October 2006. References to page numbers in this section are to the page numbers of such circular of the Company.

"ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

13th October 2006

The Directors
North Asia Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Autron India Private Limited ("AIP") for the period from 30th June 2005 (date of incorporation) to 30th June 2006 (the "Relevant Period") for inclusion in the circular of North Asia Strategic Holdings Limited (the "Company") dated 13th October 2006 (the "Circular") in relation to the proposed acquisition of the entire issued share capital of AIP (the "Acquisition").

AIP was incorporated with limited liability in India on 30th June 2005. During the Relevant Period, AIP was principally engaged in the provision of machinery installation, training, repair and maintenance services.

The financial information of AIP for the Relevant Period is prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. We have audited the financial statements of AIP for the Relevant Period in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA.

For the purpose of this report, we have examined the audited financial statements of AIP for the Relevant Period in accordance with HKSA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The income statement, the statement of changes in equity and the cash flow statement of AIP for the Relevant Period, the balance sheet of AIP as at 30th June 2006, together with the notes thereto (collectively the "Financial Information") as set out in this report have been prepared and are presented on the basis as set out in Section 1 below.

The preparation of the Financial Information is the responsibility of the directors of the Company who approve its issuance. The directors of the Company are responsible for the content of the Circular relating to AIP in which this report is included. It is our responsibility to form an independent opinion on such information and to report our opinion to you. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our work provides a reasonable basis for our opinion.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of AIP as at 30th June 2006 and of the results and cash flows of AIP for the Relevant Period.

1. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand *(HK$'000)* except when otherwise indicated. The Financial Information has been prepared using accounting policies which are materially consistent with the Company.

Impact of issued but not yet effective HKFRSs

AIP has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 8	Scope of HKFRS 2

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007. The revised standard will affect the disclosures about qualitative information about AIP's objective, policies and processes for managing capital; quantitative data about what AIP regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, AIP expects that the adoption of the other pronouncements listed above will not have any significant impact on AIP's financial statements in the period of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less cost to sale, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to AIP if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, AIP; (ii) has an interest in AIP that gives it significant influence over AIP; or (iii) has joint control over AIP;

(b) the party is a member of the key management personnel of AIP or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Office equipment	20%
Computers	100%
Furniture and fixtures	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases where substantially all the rewards and risks of ownership of assets remained with the lessor are accounted for as operating leases. Where AIP is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. AIP determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that AIP commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

AIP assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

AIP first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- AIP retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- AIP has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where AIP has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of AIP's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that AIP could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of AIP's continuing involvement is the amount of the transferred asset that AIP may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of AIP's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) Sales commission is recognised in respect of sales made on behalf of AIP's parent company in India on the basis of margins determined as per individual contracts. The margin varies based on the nature of cost and margin of profits;

(b) Installation and commissioning income is recognised by reference to the stage of completion. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable;

(c) Annual maintenance contract revenue is recognised on a straight-line basis over the period of the contract; and

(d) Technical services, maintenance and servicing revenue earned from rendering technical services and providing maintenance and servicing is recognised by reference to stage of completion. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Employee benefits

Pension schemes

AIP operates two pension schemes in relation to provident fund and gratuity.

AIP operates a defined contribution provident fund retirement benefits scheme (the "Provident Fund Scheme") in India under the Employee Provident Fund & Miscellaneous Provisions Act, 1952 ("EPFMPA") applicable to any establishment which is a factory or covered under the Act or notified by the government in which 20 or more people are employed for all employees who are eligible to participate in the Provident Fund Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Provident Fund Scheme. The assets of the Provident Fund Scheme are held separately from those of AIP in a state administered fund. AIP's employer contributions vest fully with the employees when contributed into the Provident Fund Scheme.

AIP also operates a gratuity plan for its employees which is a defined benefits pension scheme. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense in the period in which they arise.

Foreign currencies

As disclosed in Section 1 to the Financial Information, the Financial Information is presented in Hong Kong dollars, which is different from AIP's functional currency of Indian Rupees. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For the purpose of this Financial Information, translations of Indian Rupees into HK$ have been made at a rate of 1 INR to HK$0.169.

Significant accounting estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Service warranty

AIP had an obligation of service warranty on machines sold and refurbished as at 30th June 2006. The average warranty period for refurbished machinery varies from three months to one year while the average warranty period for new machinery varies from one to two years depending upon the nature of machinery and terms of the sales agreement. Service and product warranty sold on behalf of the parent company is to be borne by the parent company. Warranty obligation in respect of products sourced from other suppliers is provided on the basis of best estimates made by management.

3. INCOME STATEMENT

The following is a summary of the income statement of AIP for the Relevant Period, which is presented on the basis set out in Section 1 above:

	Notes	**Period from 30th June 2005 (date of incorporation) to 30th June 2006** *HK$'000*
REVENUE	*(a)*	1,978
Cost of service provided		(1,029)
Gross profit		949
Other income and gains		10
Administrative expenses		(2,105)
LOSS BEFORE TAX	*(c)*	(1,146)
Tax	*(f)*	28
LOSS FOR THE PERIOD		(1,118)

Notes:

(a) Revenue

Revenue, which is also AIP's turnover, represents commission income earned from sales of new and refurbished machines, service income from installation and commissioning, annual maintenance and technical services, maintenance and servicing.

An analysis of revenue is as follows:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006 *HK$'000*
Revenue	
Sales commission	1,394
Installation and commissioning	191
Annual maintenance	209
Technical services, maintenance and servicing	174
Others	10
	1,978

(b) Segment information

No business and geographical segment information is presented as all revenue and assets of AIP are related to its machinery servicing operation in India for the Relevant Period.

(c) Loss before tax

AIP's loss before tax is arrived at after charging/(crediting):

	Period from 30th June 2005 (date of incorporation) to 30th June 2006 *HK$'000*
Depreciation	96
Minimum lease payments under operating leases in respect of land and buildings	316
Auditors' remuneration	8
Employee benefits expense (including directors' remuneration *(note 3(d))*:	
Wages and salaries	1,034
Defined contribution expense	68
Defined benefit expense *(note 4(h))*	14
	1,116
Foreign exchange differences, net	(10)

(d) Directors' remuneration

Directors' remuneration for the Relevant Period, disclosed pursuant to the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006
	HK$'000
Fees	—
Other emoluments:	
Salaries, allowances and benefits in kind	145
Pension scheme contributions	13
	158
	158

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Directors:				
Lim Kheng Joo, Eric	—	—	—	—
Ong Pang Kheng, Allen	—	—	—	—
Alok Bathla	—	145	13	158
	—	145	13	158

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

(e) Five highest paid employees

The five highest paid employees during the Relevant Period included one director, details of whose remuneration are set out in note 3(d) above. Details of the remuneration of the remaining four non-director, highest paid employees during the Relevant Period are as follows:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006 *HK$'000*
Salaries, allowances and benefits in kind	351
Pension scheme contributions	32
	383

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

	Number of employees Period from 30th June 2005 (date of incorporation) to 30th June 2006
Nil to HK$1,000,000	4

(f) Tax

Taxes on profits assessable in India have been calculated at the rates of tax prevailing in India in which AIP operates, based on existing legislation, interpretations and practices in respect thereof.

	Period from 30th June 2005 (date of incorporation) to 30th June 2006 *HK$'000*
Deferred *(note 4(g))*	(28)
Tax credit for the period	(28)

A reconciliation of tax credit applicable to loss before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006
	HK$'000
Loss before tax	(1,146)
Tax at the statutory tax rate of 40%	(458)
Expenses not deductible for tax	24
Tax losses not recognised	406
Tax credit at effective rate	(28)

(g) Loss per share

No loss per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

4. BALANCE SHEET

The following is a summary of the balance sheet of AIP as at 30th June 2006, which is presented on the basis set out in Section 1 above:

	Notes	**30th June 2006** *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	*(a)*	98
Long term receivables	*(b)*	220
Deferred tax assets	*(g)*	28
Total non-current assets		346
CURRENT ASSETS		
Trade receivables	*(c)*	436
Due from the immediate holding company	*(d)*	865
Prepayments, deposits and other receivables		143
Cash and bank balances		286
Total current assets		1,730
CURRENT LIABILITIES		
Trade payables	*(e)*	105
Other payables and accruals	*(f)*	442
Total current liabilities		547
NET CURRENT ASSETS		1,183
TOTAL ASSETS LESS CURRENT LIABILITIES		1,529
NON-CURRENT LIABILITIES		
Pension liabilities	*(h)*	14
Net assets		1,515
EQUITY		
Issued capital	*(i)*	1,099
Subscription monies received		1,534
Accumulated losses		(1,118)
Total equity		1,515

Notes:

(a) Property, plant and equipment

	Office equipment *HK$'000*	Computers *HK$'000*	Furniture and fixtures *HK$'000*	Total *HK$'000*
At 30th June 2005 (date of incorporation)	—	—	—	—
Additions	67	94	33	194
Depreciation provided during the period	(19)	(73)	(4)	(96)
At 30th June 2006, net of accumulated depreciation	48	21	29	98
At 30th June 2006:				
Cost	67	94	33	194
Accumulated depreciation	(19)	(73)	(4)	(96)
Net carrying amount	48	21	29	98

(b) Long term receivables

Balance represented certain security deposits placed by AIP. The carrying amount of the long term receivables approximate to their fair value.

(c) Trade receivables

	30th June 2006 *HK$'000*
Due from third parties	436

Sales to third party customers were made on an open-account basis with credit terms ranged from 30 to 90 days and the related trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30th June 2006 *HK$'000*
Current to 90 days	405
91 to 180 days	25
181 to 270 days	6
	436

(d) Due from the immediate holding company

The amount due from the immediate holding company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the balance approximates to its fair value.

(e) Trade payables

AIP's trade payables are non-interest-bearing and are normally settled on 60-day terms.

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

	30th June 2006
	HK$'000
Current to 90 days	97
91 to 180 days	8
	105

(f) Other payables and accruals

AIP's other payables are non-interest-bearing and are normally settled on 60-day terms.

(g) Deferred tax assets

	Accelerated depreciation allowance	**Pensions provision**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 30th June 2005 (date of incorporation)	—	—	—	—
Deferred tax credited to the income statement during the period *(note 3(f))*	11	12	5	28
At 30th June 2006	11	12	5	28

AIP has tax losses of HK$1,000,000 that are available for offsetting against future taxable profits of AIP in which the losses arose, subject to certain tax rules of India in which AIP operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

(h) Pension liabilities

AIP has a defined benefits plan covering its employees. These benefits are unfunded.

The following table summarises the components of net benefit expense recognised in the income statement and amounts recognised in the balance sheet for the plan.

	Period from 30th June 2005 (date of incorporation) to 30th June 2006
	HK$'000
Net benefit expense	
Current service cost	5
Interest cost on benefit obligation	9
	14

Movements in the benefit liabilities during the period are as follows:	
At 30th June 2005	—
Defined benefit expense *(note 3(c))*	14
At 30th June 2006	14

The principal assumptions used in determining the pension obligations for AIP's plans are shown below:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006
	%
Discount rate	7.5
Future salary increases	5

(i) Share capital

	30th June 2006
	HK$'000
Authorised:	
4,400,000 ordinary shares of INR10 (equivalent to HK$1.69) each	7,436
Issued and fully paid:	
650,000 ordinary shares of INR10 (equivalent to HK$1.69) each	1,099

On 8th August 2006, AIP issued an addition of 920,000 ordinary shares of INR10 each, taking the total issued ordinary shares to 1,570,000 ordinary shares at the date of Circular.

5. STATEMENT OF CHANGES IN EQUITY

The following is a summary of the statement of changes in equity of AIP for the Relevant Period, which is presented on the basis set out in Section 1 above:

	Issued share capital	Subscription monies received	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 30th June 2005 (date of incorporation)	—	—	—	—
Issue of shares	1,099	—	—	1,099
Subscription monies received	—	1,534	—	1,534
Net loss for the period	—	—	(1,118)	(1,118)
At 30th June 2006	1,099	1,534	(1,118)	1,515

Subsequent to the balance sheet on 8th August 2006, subscription monies received of HK$1,534,000 were used for the issuance of 920,000 additional shares of INR10 each.

6. CASH FLOW STATEMENT

The following is a summary of the cash flow statement of AIP for the Relevant Period, which is presented on the basis set out in Section 1 above:

	Note	Period from 30th June 2005 (date of incorporation) to 30th June 2006
		HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax		(1,146)
Adjustment for:		
Depreciation	*3(c)*	96
Operating loss before working capital changes		(1,050)
Increase in long term receivables		(220)
Increase in trade receivables		(436)
Increase in an amount due from the immediate holding company		(865)
Increase in prepayments, deposits and other receivables		(143)
Increase in trade payables		105
Increase in other payables and accruals		442
Increase in pension liabilities		14
Net cash outflow from operating activities		(2,153)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	*4(a)*	(194)
Net cash outflow from investing activities		(194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		1,099
Subscription monies received		1,534
Net cash inflow from financing activities		2,633
NET INCREASE IN CASH AND CASH EQUIVALENTS		286
Cash and cash equivalents at beginning of period		—
CASH AND CASH EQUIVALENTS AT END OF PERIOD		286
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances		286

7. CONTINGENT LIABILITIES

AIP did not have material contingent liabilities at the balance sheet date.

8. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Financial Information, AIP had the following material transaction with a related party during the Relevant Period:

	Period from 30th June 2005 (date of incorporation) to 30th June 2006
	HK$'000
Sales commission from the immediate holding company	1,102

Note: The commission was based on 10% of the gross profit of the immediate holding company during the period.

9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

AIP's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for AIP's operations. AIP has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risk arising from AIP's financial instruments are credit risk and liquidity risk. The board reviews and agrees policies for managing these risks as summarised below.

Credit risk

AIP trades only with credit worthy third parties as vetted for credit worthiness by the parent company, AGS Pte. Ltd. In addition, receivable balances are monitored on an ongoing basis and AIP's exposure to bad debts is not significant. The credit risk of the other financial assets of AIP, which comprise cash and cash equivalents and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since AIP trades only with recognised third parties, there is no requirement for collateral.

Liquidity risk

AIP aims to mitigate its liquidity risk by managing cash generated from its operations and by applying cash collection targets and capital injections from the parent company while establishing its operations in India.

10. SUBSEQUENT EVENT

Subsequent to the balance sheet date on 2nd August 2006, Autron Corporation Limited, a company incorporated in Australia and listed on both the Australian Stock Exchange and the Singapore Stock Exchange, the ultimate holding company of AIP, entered into a sales and purchase agreement with Best Creation Investments Limited, a wholly-owned subsidiary of North Asia Strategic Holdings Limited ("NAS"), which is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong, to dispose of its entire equity interest in AIP. The transaction is subject to NAS shareholders' approval and is expected to be completed on or about 31st October 2006.

In addition to the events detailed in note 4(i) and note 5 in the Financial Information and save for the above, no significant events have taken place subsequent to 30 June 2006.

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by AIP in respect of any period subsequent to 30th June 2006.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong"

6. STATEMENT OF INDEBTEDNESS

(a) The NAS Group (other than the Amtec Group and AIP)

Borrowings

As at the close of business on 30th September 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the NAS Group had outstanding secured short-term bank borrowings and unsecured convertible bonds of approximately HK$14.8 million and HK$20.0 million respectively. The secured short-term bank borrowings were denominated in Hong Kong dollars and bore interest at rates ranging from approximately 5.4% to 6.6% per annum. The unsecured convertible bonds were denominated in Hong Kong dollars and had a zero coupon rate.

Security

The short-term bank borrowings were secured by:

(i) pledge of the NAS Group's bank deposit of approximately HK$20.1 million; and

(ii) guarantee provided by the Company for an amount of approximately HK$15.6 million.

(b) The Amtec Group and AIP

Borrowings

As 30th September 2006, the Amtec Group and AIP had outstanding borrowings of approximately HK$93.0 million comprising secured bank borrowings of approximately HK$24.2 million, other secured borrowings of approximately HK$15.3 million and unsecured bank and other borrowings of approximately HK$53.5 million.

Security

As at 30th September 2006, banking facilities to the extent of approximately HK$55.2 million of the Amtec Group and AIP were secured by finance lease receivables of HK$4.3 million, bills receivables of HK$26.9 million and trade receivables of HK$7.8 million. The carrying value of these assets pledged was approximately HK$39.0 million as at 30th September 2006.

Contingent Liabilities

As at 30th September 2006, the Amtec Group and AIP gave performance bonds and bid bonds to customers for due performance of the sales contracts amounting to approximately HK$0.9 million.

(c) Disclaimer

Save as disclosed above and apart from intra-group liabilities, at the close of business on 30th September 2006, the NAS Group, the Amtec Group and AIP did not have any loan capital issued and outstanding or agreed to be issued, other debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the NAS Group since 31st March 2006, the date to which the latest audited consolidated financial statements of the Company were made up.

8. WORKING CAPITAL

The Directors are of the opinion that taking into account the NAS Group's internal resources, the presently available banking and other facilities, the receipt by the Company of the third installment of subscription monies from the placees under the Placements and in the absence of unforeseen circumstances, the NAS Group will have sufficient working capital for a period of 12 months from the date of this circular.

9. MANAGEMENT DISCUSSIONS AND ANALYSIS

Set out below is the management discussions and analysis of the operating results and business review extracted from the respective annual reports of the Company for the three years ended 31st March 2004, 2005 and 2006:

For the year ended 31st March 2004

"Financial and Business Performance

For the year ended 31st March 2004, the iSteelAsia Group recorded a turnover of approximately HK$1,429 million, representing a 76.2% in growth by comparing the results in last year. With an exceptional impairment loss of the investment in AcrossAsia Multimedia Limited ("AAM") of approximately HK$20,414,000 by reclassifying the amount from investment revaluation reserve (already reflected in the Group's prior years' balance sheet, as such no effect to the Group's net assets value from this reclassification) to profit and loss account, the consolidated loss attributable to Shareholders for the year ended 31st March 2004 was approximately HK$25,711,000. The investment net book value of AAM shares was HK$0.187 per share which represents the market price of AAM shares as at 31st March 2004. Taking out the effect of the impairment loss, the loss from operation was approximately HK$5,297,000. For the year under review, such operating result recorded was less than satisfactory as compared to the profit attributable to shareholders of approximately HK$6,590,000 for the previous year ended 31st March 2003. Due to the outbreak of epidemics of severe acute respiratory syndrome ("SARS") in March 2003, the first few quarterly results during the year ended 31st March 2004 had been severely affected, especially the results of three months ended 30th September 2003 ("Q2") and three months ended 31st December 2003 ("Q3"). As stated in the third quarterly report, the first six months in particular, a majority of the iSteelAsia's markets (namely, Guangzhou, Tianjin and Beijing) were severely affected by the unexpected epidemics of SARS in a manner significantly worse than the management's expectation. Business activities and demands in these cities halted and dropped to near zero due to the inter-city quarantine restrictions, and in turn adversely affected the market prices and also customer demands of our steel products which increased inventory stock-up costs as customers were refrained from doing business. Fortunately, with persistent management efforts, the customers' demands and sales prices had picked up again in three months ended 31st March 2004 ("Q4") and thus, greatly improved our results in Q4. As compared to the loss of approximately HK$6,442,000 for the nine months ended 31st December 2003, the Group has successfully bucked the loss trend into a profit by capturing a profit attributable to shareholders of approximately HK$1,145,000 in Q4. During the year under review, the gross margin dropped in Q2 and rebounded in Q4 (Q1 - 2.6%, Q2 - 1.8%, Q3 - 2.6% and Q4 - 4.2%).

During the year under review, the Group had extended its sales activities by setting 2 more offices in the second tier cities such as Wuxi and Shunde (Le Chong), which enhanced the ability to grow market shares in China and further diversify the existing customer bases. However, such strategy also increased the operating cost of the Group. For the year ended 31st March 2004, total cost excluding cost of inventories sold, impairment loss of AAM shares and finance costs ("Operating Cost") was approximately HK$36,573,000, representing an increase of 11.1% as compared to that of last year. The increase was mainly due to PRC market expansion and additional selling and distribution costs incurred which were necessary to support the rapid growth in turnover. Using turnover as a base factor, Operating Cost to turnover ratio had decreased from 72.1% in early 2001 and stabilised at around 2.6%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

Financial resources and liquidity

As at 31st March 2004, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$51,426,000 (2003: HK$57,134,000). The short-term working capital bank loans amounted to approximately HK$24,570,000 (2003: HK$18,947,000) with interest rates ranging from 4.5% to 5.4% per annum (2003: 5.0% to 5.8% per annum). As at 31st March 2004, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 4.07 (2003: 4.28). The decrease in the gearing ratio was due to the decrease of short-term bank borrowings since the level of inventory has decreased. As at 31st March 2004, the iSteelAsia Group had aggregate banking facilities of approximately HK$159,155,000 (2003: HK$122,540,000) offered by several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK$69,691,000 (2003: HK$37,131,000). These facilities were secured by (a) pledged bank deposits of approximately HK$34,439,000 (2003: Nil); (b) corporate guarantees provided by iSteelAsia and/or (c) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement.

Subsequent to 31st March 2004, a foreign bank had granted the iSteelAsia Group a facility of US$7.5 million.

Cash and bank deposits

As at 31st March 2004, bank deposits of approximately HK$34,439,000 (2003: Nil) were pledged as collateral for the Group's banking facilities.

As at 31st March 2004, the iSteelAsia Group's cash and bank deposits amounted to approximately HK$89,872,000 (2003: HK$49,240,000), of which approximately HK$42,448,000 were denominated in Renminbi and deposited with the banks in the China.

Investments

Investments for the Group only comprised equity interests in Stemcor Holdings Limited ("Stemcor") and AAM.

Under a share subscription agreement with Stemcor, Stemcor has granted the iSteelAsia Group a put option under which the iSteelAsia Group may require Stemcor to repurchase all of the shares subscribed by the iSteelAsia Group for HK$23,400,000 (equivalent to US$3,000,000). The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. On 13th May 2004, the iSteelAsia Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor.

During the year ended 31st March 2004, the iSteelAsia Group had received dividend income of approximately HK$421,000 (2003: HK$311,000) from Stemcor. The return on investment was approximately 1.80% (2003: 1.33%).

In August 2001, the iSteelAsia Group acquired approximately 0.23% equity interest in AAM at a consideration of approximately HK$22,550,000 which had been satisfied in full by the issue and allotment of iSteelAsia's ordinary shares. As at 31st March 2004, the carrying value of the investment in AAM was approximately HK$2,136,000 (which is HK$0.187 per share, representing the market price as at 31st March 2004) after a deficit on revaluation of such investment of approximately HK$20,414,000. Such deficit had already been reflected in the iSteelAsia Group's net assets value and dealt with in the investment revaluation reserve of the Group's balance sheet in the prior years. As at 31st March 2004, the Group had taken a conservative approach to transfer the deficit from the investment revaluation reserve to the profit and loss account and recognised an impairment loss of the investment in AAM of approximately HK$20,414,000.

Treating it as a long-term investment, the management has and will continue to closely monitor AAM's performance. Nevertheless, from an operational side, the Directors believe that the acquisition is beneficial to forming a strategic relationship with a player of good connection in the region.

Foreign currency exposure

The foreign currency exposure of the iSteelAsia Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars and Renminbi. Therefore, with a comparatively minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the iSteelAsia Group considers the foreign currency exposure is minimal for the year under review. The iSteelAsia Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees and remuneration policies

As at 31st March 2004, the iSteelAsia Group employed 80 (2003: 83) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The iSteelAsia Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$15,232,000 (2003: HK$14,870,000)."

For the year ended 31st March 2005

"Financial and Business Performance

For the year under review, the iSteelAsia Group recorded a loss attributable to Shareholders of approximately HK$10,443,000, an approximately 59% decline from last financial year's loss figure of approximately HK$25,711,000. However, on a closer analysis of the figures, the iSteelAsia Group's performance of its core trading operations as represented by the operating loss of HK$352,000 (after excluding the gain on disposal of investments, net of approximately HK$911,000) for the year reflected a reduction in profit of approximately HK$3,646,000 as compared to the similar figure of approximately HK$3,294,000 (after excluding the impairment loss of an investment of approximately HK$20,414,000) for the previous year ended 31st March 2004. This weakening of operational profitability was mainly due to the continued challenging operating environment caused by the volatility in the steel prices and the selective austerity measures implemented by the PRC Central government during the financial year. Under such circumstances, the management proactively implemented efforts in consolidating the Group's limited financial resources to focus more on the selected higher margin steel products and selected geographic areas that could have brought greater returns. During the year under review, the Group has consolidated the coverage of the Beijing and Tianjin markets with its Shanghai office through the exiting of the two local offices there. The result of these efforts could be evidenced from the fact that, despite the decrease in turnover, the gross margin for the year increased 33% to approximately 3.6% by comparing the previous year's gross margin of 2.7%. On the investment front, the Group has also divested various investments including the receiving of the initial invested capital from its investment in Stemcor Holdings Limited ("Stemcor"), and also divested its investment in AcrossAsia Limited (formerly known as AcrossAsia Multimedia Limited), and reallocating these capitals for its core operations. At the same time, in light of the poor market condition and the risks so associated with, the management of the iSteelAsia Group has also taken a prudent review on the carrying value of its assets and the operations and made necessary provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute amounting to approximately HK$9,889,000. Such provisions have been made on a conservative scenario basis.

In the meantime, the management of the Group successfully made its efforts in optimising resources for the economy of scale to achieve business growth over the year. It was mainly done through decreasing total cost excluding cost of inventories sold and finance costs ("Operating Cost") from approximately HK$36,573,000 in last year to approximately HK$32,633,000 this year, representing a decrease of about 11% over the same period. Although turnover decreased, interest expense from the year amounts to approximately HK$5,056,000 representing approximately 0.59% of the turnover, while interest expense represented only 0.55% of the turnover for the previous financial year due to an increasing interest rate.

Financial resources and liquidity

As at 31st March 2005, the iSteelAsia Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$24,360,000 (2004: HK$51,426,000). The short-term working capital bank loans amounted to approximately HK$21,735,000 (2004: HK$24,570,000) with interest rates ranging from 5.5% to 5.6% per annum (2004: 4.5% to 5.4% per annum). As at 31st March 2005, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 11.40 (2004: 4.07). The alarmingly large jump (180%) in the gearing ratio reflects the Group has significantly increased its leverage during the year under review. Although short-term bank borrowings has decreased resulting from a decrease in the Group's inventory level, it is still not sufficient to compensate for the Group's decrease in its equity value. The decrease in equity value caused by the Group's losses over the years, coupled with the macro sentiment of an increasingly risky profile for the volatile steel sector has prompted a tightening of banking resources available to the Group. As at 31st March 2005, the iSteelAsia Group had aggregated banking facilities of approximately HK$88,125,000 (2004: HK$159,155,000) derived mainly from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$63,765,000 (2004: HK$69,691,000). These facilities were secured by (a) corporate guarantees provided by iSteelAsia and/or (b) the iSteelAsia Group's inventories held under trust receipts bank loan arrangement and pledged bank deposits.

In addition to the above said banking facilities, the Group also relies substantively from its largest Shareholder — Van Shung Chong Holdings Limited ("VSC") (Stock code: 1001) together with its subsidiaries ("the VSC Group") by leveraging off the VSC Group's aggregate purchasing power. Using the VSC Group as a supplier to the Group, the Company is able to enjoy much more favorable terms from the steel mills. As of the financial year end of 2004/05, the Group had outstanding balance due to the VSC Group in excess of HK$118,000,000 (2003/04: in excess of HK$205,000,000).

Cash and cash equivalents

As at 31st March 2005, bank deposits of approximately HK$16,080,000 (2004: HK$34,439,000) were pledged as collateral for the Group's banking facilities.

As at 31st March 2005, the iSteelAsia Group's cash and bank deposits amounted to approximately HK$29,343,000 (2004: HK$89,872,000), of which approximately HK$11,701,000 was denominated in Renminbi and deposited with the banks in China.

Investments

During the year, investments comprised equity interests in Stemcor.

Under a share subscription agreement with Stemcor, Stemcor has granted the iSteelAsia Group a put option under which the iSteelAsia Group may require Stemcor to repurchase all of the shares subscribed by the iSteelAsia Group for HK$23,400,000 (equivalent to US$3,000,000). The put option will be exercisable by the iSteelAsia Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April 2002, whichever is earlier, and no later than 31st October 2002 according to the Put Option Agreement. The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. At 13th May 2004, the iSteelAsia Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor. Subsequently, the promissory note was realised at the maturity date on 1st March 2005.

During the year ended 31st March 2005, the iSteelAsia Group had received dividend income of approximately HK$659,000 (2004: HK$421,000) from Stemcor. The return on investment was approximately 2.82% (2004: 1.80%).

Foreign currency exposure

The foreign currency exposure of the iSteelAsia Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars, mainly depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars and Renminbi. Therefore, with a comparatively minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the iSteelAsia Group considers the foreign currency exposure is minimal for the year under review. The iSteelAsia Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees and remuneration policies

As at 31st March 2005, the iSteelAsia Group employed 42 (2004: 80) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The iSteelAsia Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$9,416,000 (2004: HK$15,232,000)."

For the year ended 31st March 2006

"Financial and Business Performance

For the year ended 31st March 2006, the Group recorded a turnover of approximately HK$360 million, representing a 58.1% decrease from that in last financial year. There were two major reasons for the decrease. Firstly, the PRC Central Government continued to deploy a package of macro-entrenchment policies during the financial year to limit excessive investments in several overheated industries, including the steel, real estate development sector, aluminum, automobile and cement industries, which in turn hampered the growth in demand for steel usage. Secondly, the PRC Ministry of Finance and the State Administration of Taxation abolished the export tax rebate of steel semi-finished materials on 1st April 2005 and adjusted the export tax rebate of 20 steel products from 13% to 11%. This had restrained the export of interrelated semi-finished steel and steel products and intensified the domestic competition. Since supply exceeded demand in PRC for some popular steel products, the steel prices dropped significantly from first quarter to third quarter and only started picking up from fourth quarter in the current year, resulting in drop in turnover and a reduction in gross profit margin from 3.6% in last financial year to 1.6% in current financial year.

For the year under review, the Group recorded a loss attributable to shareholders of approximately HK$11,988,000, an approximately 14.8% increase from last financial year's loss figure of approximately HK$10,443,000. This was mainly attributable to additional general and administrative expenses and interest expenses totaling approximately HK$16.2 million and HK$1 million incurred by Group after the change of the controlling shareholders on 9th August 2005 in the current financial year. Discounting the effect of these additional general and administrative expenses and interest expenses, the Group achieved an operating profit of approximately HK$1.1 million and profit of approximately HK$3.8 million from its principal activities of steel trading and procurement services in the current financial year, as compared to an operating loss of approximately HK$352,000 (after excluding the gain on disposal of investments, net of approximately HK$911,000) and net loss of approximately HK$10,443,000 in last financial year. The profit of approximately HK$3.8 million generated from the core steel trading operation in current financial year was mainly due to the write-back of overprovided taxation of approximately HK$5 million resulting mainly from the divestment of certain subsidiaries. Discounting the effect of this write-back of over-provided taxation, the Group recorded a net loss of approximately HK$1,177,000 from its principal activities of steel trading and procurement services, an approximately 89% decline from last financial year's net loss of approximately HK$10,443,000.

Under such difficult environment, the management had put substantial efforts in resources re-alignment to steel products that yield a higher return, resulting in some unnecessary administrative costs being eliminated and they had imposed strict control over spending in selling expenses. The result of these efforts could be evidenced from the facts that, despite the decrease in turnover, the ratio of selling and distribution expenses to turnover and general and administrative expenses to turnover decreased from 0.87% and 2.9% respectively in last financial year to 0.6% and 1.7% respectively in current financial year.

During the year, the Group relied substantially on one of its shareholders — Van Shung Chong Holdings Limited ("VSC") (Stock Code: 1001) together with its subsidiaries ("the VSC Group") on the supply of steel products for trading by leveraging off the VSC Group's aggregate purchasing power. All previously approved continuing connected transactions with the VSC Group under this context were expired on 31st March 2006 and the Group has ceased sourcing steel products from the VSC Group for trading since then because the Group has started to focus on trading of higher margin stainless steel products supplied by independent third party suppliers subsequent to 31st March 2006.

Liquidity and Financial Resources

As at 31st March 2006, NAS Group had bank and cash balance of approximately HK$295,902,000 (2005: HK$29,343,000), of which approximately HK$3,055,000 (2005: HK$16,080,000) was pledged to secure a trade financing facility of HK$6,000,000 (2005: HK$88,125,000) granted by a bank to a subsidiary for trust receipt loans. This banking facility was also secured by a corporate guarantee provided by NAS. For the Group's cash and bank balance of HK$295,902,000 as at 31st March 2006, approximately HK$174,000 was denominated in Renminbi and deposited with the banks in China.

As at 31st March 2006, NAS Group had convertible bonds of approximately HK$14,642,000 from the Ajia Parties (2005: Nil) and no bank borrowings (2005: HK$24,360,000). The gearing ratio (sum of bank borrowings and convertible bonds divided by shareholders' equity) of the Group was 0.01 as at 31st March 2006, as compared to 11.4 as at 31st March 2005.

In addition to the above banking facility, the Group also relied substantively on the VSC Group during the current financing year to enjoy more favorable terms from the steel mills. As at 31st March 2006, the Group had outstanding balance due to the VSC Group of approximately HK$36,916,000 (2005: HK$118,843,000). VSC Group has granted to the Group a normal credit period.

Significant Investments Held and Material Acquisition and Disposals of Investments and Subsidiaries

As at 31st March 2006, the Group had no significant investments. There were no material acquisitions or disposals of investments and subsidiaries during the year.

Foreign Currency Exposure

The NAS Group's businesses were primarily transacted in Hong Kong dollars, United States ("US") dollars and Renminbi ("RMB"). The Group's cash and bank deposits, including pledged bank deposit, were mainly denominated in Hong Kong dollar. The foreign currency exposure of the Group is mainly driven by its business operations. Sales receipts were collected in Renminbi and United States dollars. On the other hand, the steel products purchases were mainly denominated in United States dollars and Renminbi. With a comparatively immaterial fluctuation in exchange rates between United States dollars with Renminbi, the Group considers the foreign currency exposure was minimal for the year under review. The NAS Group will continue to monitor closely the exchange rate between US dollar and RMB and will make necessary hedging arrangements to mitigate the risk arising from foreign currency fluctuation in the future.

Contingent Liabilities

As at 31st March 2006, the Group provided a corporate guarantee of HK$6,600,000 to a bank in respect of a banking facility granted to a subsidiary (2005: HK$88,725,000).

Number of Employees, Remuneration Policies and Share Option Scheme

As at 31st March 2006, the NAS Group employed 11 (2005: 42) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. Remuneration policies are reviewed annually by the management and remuneration packages are structured to take into account the comparable level of the market. The Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$6,139,000 (2005: HK$9,416,000).

On 10th June 2002, the Company adopted an employee share option scheme (the "New Scheme") under which the Company's Board of Directors may at its discretion offer stock option to any employee/agent/consultant or representative, including any executive or non-executive director, of any member of the Group or any other person who satisfies the selection criteria as set out in the New Scheme. The principal purposes of the New Scheme are to provide incentives to participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre employees and attract human resources that are valuable to the Group. The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date (i.e. 10th June 2002). No options have been granted by the Company pursuant to the New Scheme up to the date of this announcement. The New Scheme was adopted to replace the previous old scheme, of which 52,750,000 options granted were cancelled by the shareholders of the Company at its special general meeting held on 14th July 2005."

10. OUTLOOK OF THE NAS GROUP

In light of the continued volatility of the depressed steel price and the continuous deployment of austerity program implemented to the PRC steel market, the NAS Group has started to focus on the trading of higher margin stainless steel subsequent to the financial year ended 31st March 2006. The NAS Group will continue to manage the steel trading operation with a very cautious approach and assess critically the continuous contribution of the steel trading operation to the NAS Group. With a view to improving the cost efficiency and effectiveness and further utilising the expertise and resources of the NAS Group's trading business, the NAS Group has been actively exploring opportunities to expand the products being traded. The NAS Group has started to trade electronics equipments subsequent to the financial year ended 31st March 2006 and is considering trading other products such as natural resources-related materials to reduce its reliance on steel trading.

As previously reported, the Company has successfully completed the Placements in February, March and September 2006, raising a total of approximately HK$1,266.9 million (net of expenses) from 20 institutional and professional investors for future expansion and diversification plans. The Placements are expected to be beneficial to the NAS Group in the long run, as they substantially enhanced the financial position of the Company, coupled with the opportunity to leverage on the capability and expertise of a very seasoned and well connected group of international professional investors who are, in the view of the Company, important business partners for future development.

On 3rd November 2006, the NAS Group successfully completed the acquisition of the entire issued capital of Amtec and AIP, which are engaged in the business of trading in SMT and PCB assembly equipments, machinery and spare parts and the provision of related installation, training, repair and maintenance services. It is expected that Amtec and AIP are well positioned to capture the growth momentum and increasing demand for quality manufacturing equipment in the next few years both in the PRC and India and their prospects would be further improved by the value enhancement by the NAS Group.

The NAS Group will continue to explore sizable investment opportunities in the acquisition of strategic, possibly controlling stakes in profitable companies in North Asia with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications businesses, with a view to bringing greater return to the Shareholders. The proposed Subscription as detailed in this circular is in line with the diversification strategy of the Company as described above.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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Hong Kong

10th November 2006

The Directors
North Asia Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Coland Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December 2005 and the six months ended 30th June 2006 (the "Relevant Periods") for inclusion in the circular of North Asia Strategic Holdings Limited ("NAS") dated 10th November 2006 in connection with the proposed subscription by NAS of 100,000,000 convertible preferred shares of HK$0.10 each in the share capital of the Company (the "Circular").

The Company was incorporated in Bermuda on 19th March 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. On 20th September 2005, the Company entered into arrangement with Rising Trend International Limited ("Rising Trend"), the then holding company of the Group, whereby the Company acquired the entired issued share capital of Rising Trend from its then shareholders, namely Mr. Wong Chun ("Mr. Wong") and Ms. Tung Ching ("Ms. Tung"), at a consideration of HK$91,366,000 satisfied by the issue of 119,200,000 shares and 29,800,000 shares of HK$0.10 each in the Company to Mr. Wong and Ms. Tung respectively. Upon the completion of this transaction (the "Group Reorganisation"), the Company became the ultimate holding company of the Group.

At the date of this report, the particulars of the Company's subsidiaries, all of which are indirectly wholly-owned by the Company, except for Rising Trend which is directly held by the Company, are as follows:

Name of subsidiary	Place and date of incorporation or registration/ operations	Paid up issued/ registered capital	Principal activities
Aronne Holdings Corp. ("Aronne")*	British Virgin Islands ("BVI") 12th January 2000	US$10	Inactive
Coland Holdings Company Limited ("Coland Holdings")*	Hong Kong 24th October 1996	HK$5,000,000	Sourcing of raw fishmeal and crude fish oil, investment holding, property holding
Coland Management Limited ("Coland Management")*	Hong Kong 24th November 2003	HK$10	Inactive
Coland Shipping Limited ("Coland Shipping")*	Hong Kong 30th April 2003	HK$10	Provision of shipping agency services
Fujian Coland Enterprises Co., Ltd. ("Fujian Coland Enterprises")** 福建高龍實業有限公司	People's Republic of China ("PRC") 3rd May 1995	RMB50,000,000	Processing raw fishmeal, refining crude fish oil, trading of processed fishmeal and refined fish oil, property holding, investment holding
Fuzhou Economic Technical Development Zone Coland Feeds Co., Ltd. ("Fuzhou Coland Feeds")*** 福州開發區高龍飼料有限公司	PRC 14th March 2001	US$1,500,000	Manufacture and sales of aquatic feeds
Fujian Coland Logistics Co., Ltd. ("Fujian Coland Logistics")** 福建高龍物流有限公司	PRC 22nd August 2002	RMB40,000,000	Sales and supply of raw fishmeal, property investment holding, investment holding

Name of subsidiary	Place and date of incorporation or registration/ operations	Paid up issued/ registered capital	Principal activities
Fuzhou Free Trade Zone Coland Bioengineering Co., Ltd. ("Fuzhou Coland Bioengineering") *** 福州保稅區高龍生物工程有限公司	PRC 25th January 2005	US$1,000,000	Manufacture and sales of fish oil
Ocean Resource Macao Commercial Offshore Limited (formerly known as Coland Macao Commercial Offshore Limited)*	Macao 25th August 2003	MOP$500,000	Sourcing of raw fishmeal and crude fish oil, property holding
Rising Trend*	BVI 21st January 2003	US$6,290	Investment holding

* *Limited liability company*
** *Foreign owned enterprise*
*** *Sino-foreign equity joint venture*

No audited financial statements have been prepared for the Company since its date of incorporation as the Company has not carried on any business other than the Group Reorganisation. In addition, no audited financial statements of Aronne and Rising Trend have been prepared as there are no statutory audit requirements in the countries of their incorporation. We have, however, reviewed all relevant transactions of these companies for the Relevant Periods.

The statutory financial statements of Ocean Resource Macao Commercial Offshore Limited for each of the three years ended 31st December 2005 were prepared in accordance with accounting principles generally accepted in Hong Kong and were audited by Deloitte Touche Tohmatsu, Macao.

We have acted as auditors of other companies now comprising the Group during the Relevant Periods except for the financial statements of the following companies, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of company	Financial year/period	Auditor
Fujian Coland Enterprises	Each of the three years ended 31st December 2005	福州閔都有限責任會計師事務所 Fuzhou Mingdu Certified Public Accountants Limited ("Fuzhou Mingdu")
Fuzhou Coland Feeds	Each of the three years ended 31st December 2005	Fuzhou Mingdu
Fujian Coland Logistics	Each of the three years ended 31st December 2005	Fuzhou Mingdu
Fuzhou Coland Bioengineering	Period from 25th January 2005 to 31st December 2005	Fuzhou Mingdu

For the purpose of this report, we have audited, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the consolidated financial statements of the Company for the Relevant Periods which are prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited consolidated financial statements of the Company (the "Underlying Financial Statements") for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements and is presented on the basis set out in note 2 below.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of NAS are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31st December 2003, 2004 and 2005 and 30th June 2006 and of the Group's results and cash flows for the Relevant Periods.

The comparative consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the six months ended 30th June 2005 together with the notes thereon have been extracted from the Group's consolidated financial information for the same period (the "30th June 2005 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30th June 2005 Financial Information in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. Our review consisted principally of making enquiries of the Group's management and applying analytical procedures to the 30th June 2005 Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30th June 2005 Financial Information.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30th June 2005 Financial Information.

A. FINANCIAL INFORMATION

Consolidated Income Statements

		Year ended 31st December			Six months ended 30th June	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Turnover		823,096	989,165	1,224,299	537,206	471,853
Cost of sales		(756,534)	(885,462)	(1,109,246)	(488,828)	(390,232)
Gross profit		66,562	103,703	115,053	48,378	81,621
Other income	*8*	9,415	3,548	10,262	1,110	4,332
Distribution costs		(11,224)	(20,897)	(25,928)	(10,820)	(13,923)
Administrative expenses		(24,464)	(28,902)	(35,743)	(15,018)	(19,113)
Finance costs	*9*	(10,739)	(10,426)	(20,259)	(8,939)	(11,656)
Profit before taxation	*11*	29,550	47,026	43,385	14,711	41,261
Taxation	*12*	(5,036)	(6,558)	(6,054)	(2,036)	(10,259)
Profit for the year/period		24,514	40,468	37,331	12,675	31,002
Dividends	*13*	3,100	4,169	34,360	8,000	14,914
Earnings per share — basic	*14*	HK$0.16	HK$0.27	HK$0.25	HK$0.08	HK$0.21

Consolidated Balance Sheets

		As at 31st December			As at 30th June
		2003	**2004**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*15*	33,508	35,588	36,351	45,503
Investment properties	*16*	4,148	4,029	4,017	3,993
Prepaid lease payments	*17*	11,963	25,368	25,056	24,854
		49,619	64,985	65,424	74,350
CURRENT ASSETS					
Inventories	*19*	230,303	263,304	310,702	220,475
Trade and bills receivables	*20*	70,588	112,350	185,747	93,485
Other receivables and prepayments	*20*	13,910	20,087	17,656	16,538
Amounts due from directors	*21*	15,780	25,342	—	—
Pledged bank deposits		28,360	40,533	81,571	144,467
Bank balances and cash		28,420	19,593	15,898	19,808
		387,361	481,209	611,574	494,773
CURRENT LIABILITIES					
Trade and bills payables	*22*	150,308	137,935	191,577	101,990
Other payables and accruals	*22*	13,701	45,837	16,978	25,386
Taxation payable		9,271	12,838	16,297	24,488
Dividend payable		530	659	—	—
Bank and other borrowings — due within one year	*23*	173,813	217,699	315,404	263,327
		347,623	414,968	540,256	415,191
NET CURRENT ASSETS		39,738	66,241	71,318	79,582
TOTAL ASSETS LESS CURRENT LIABILITIES		89,357	131,226	136,742	153,932
NON-CURRENT LIABILITY					
Bank and other borrowings — due after one year	*23*	4,674	10,244	9,825	9,593
		84,683	120,982	126,917	144,339
CAPITAL AND RESERVES					
Share capital	*24*	149	149	15,000	15,000
Reserves		84,534	120,833	111,917	129,339
		84,683	120,982	126,917	144,339

Balance Sheets

		As at 31st December			As at 30th June
		2003	**2004**	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSET					
Investments in subsidiaries	*18*	—	—	91,366	91,366
CURRENT ASSETS					
Other receivables and prepayments	*20*	78	78	78	113
Amounts due from directors	*21*	100	100	—	—
Amount due from a subsidiary	*18*	—	—	24,060	24,060
		178	178	24,138	24,173
CURRENT LIABILITIES					
Other payables and accruals	*22*	1,427	3,567	780	1,062
Amount due to a subsidiary	*18*	4,085	5,703	11,959	28,156
		5,512	9,270	12,739	29,218
NET CURRENT (LIABILITIES) ASSETS		(5,334)	(9,092)	11,399	(5,045)
		(5,334)	(9,092)	102,765	86,321
CAPITAL AND RESERVES					
Share capital	*24*	100	100	15,000	15,000
Reserves	*25*	(5,434)	(9,192)	87,765	71,321
		(5,334)	(9,092)	102,765	86,321

Consolidated Statements of Changes in Equity

	Share capital *HK$'000*	Special reserve *HK$'000* *(Note a)*	Translation reserve *HK$'000*	Statutory reserve *HK$'000* *(Note b)*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1st January 2003	5,000	—	(445)	3,752	54,862	63,169
Profit for the year and total income recognised for the year	—	—	—	—	24,514	24,514
Dividends *(Note 13)*	—	—	—	—	(3,100)	(3,100)
Transfer	—	—	—	3,583	(3,583)	—
Elimination on Rising Trend's restructuring *(Note c)*	(5,000)	4,951	—	—	—	(49)
Share issued by Rising Trend on its restructuring	49	—	—	—	—	49
Shares issued by the Company on its incorporation	100	—	—	—	—	100
At 31st December 2003	149	4,951	(445)	7,335	72,693	84,683
Profit for the year and total income recognised for the year	—	—	—	—	40,468	40,468
Dividends *(Note 13)*	—	—	—	—	(4,169)	(4,169)
Transfer	—	—	—	3,597	(3,597)	—
At 31st December 2004	149	4,951	(445)	10,932	105,395	120,982
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	—	—	2,660	304	—	2,964
Profit for the year	—	—	—	—	37,331	37,331
Total income recognised for the year	—	—	2,660	304	37,331	40,295
Elimination on the Group Reorganisation	(49)	(14,851)	—	—	—	(14,900)
Shares issued by the Company	14,900	—	—	—	—	14,900
Dividends *(Note 13)*	—	—	—	—	(34,360)	(34,360)
Transfer	—	—	—	1,549	(1,549)	—
At 31st December 2005	15,000	(9,900)	2,215	12,785	106,817	126,917
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	—	—	1,212	122	—	1,334
Profit for the period	—	—	—	—	31,002	31,002
Total income recognised for the period	—	—	1,212	122	31,002	32,336
Dividends *(Note 13)*	—	—	—	—	(14,914)	(14,914)
Transfer	—	—	—	472	(472)	—
At 30th June 2006	15,000	(9,900)	3,427	13,379	122,433	144,339

	Share capital HK$'000	Special reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Statutory reserve HK$'000 *(Note b)*	Accumulated profits HK$'000	Total HK$'000
Unaudited						
At 1st January 2005	149	4,951	(445)	10,932	105,395	120,982
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	—	—	(14)	—	—	(14)
Profit for the period	—	—	—	—	12,675	12,675
Total income recognised for the period	—	—	(14)	—	12,675	12,661
Dividends *(Note 13)*	—	—	—	—	(8,000)	(8,000)
Transfer	—	—	—	921	(921)	—
At 30th June 2005	149	4,951	(459)	11,853	109,149	125,643

Notes:

(a) The special reserve represents the difference between the nominal value of the share capital issued by Rising Trend and the Company in exchange for nominal value of the share capital of subsidiaries acquired pursuant to their respective restructuring.

(b) Pursuant to the relevant People's Republic of China (the "PRC") regulations applicable to the PRC subsidiaries, the subsidiaries have to provide for PRC statutory reserves before declaring dividend to the shareholders on the basis determined and approved by the board of directors. In normal circumstances, the PRC statutory reserve shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation.

(c) Rising Trend, a limited company incorporated on 21st January 2003 in the British Virgin Islands, allotted and issued 8 shares and 2 shares of US$1.00 each at par to Mr. Wong and Ms. Tung respectively on 30th April 2003. On 31st December, 2003, Rising Trend entered into a restructuring exercise ("Rising Trend's Restructuring") with Coland Holdings and various companies held by Mr. Wong and Ms. Tung whereby:

   (i) Rising Trend acquired the entire issued share capital of Coland Holdings from its shareholders, namely Mr. Wong and Ms. Tung, at a consideration of HK$4,875,000 satisfied by the issue of 5,000 shares and 1,250 shares in Rising Trend to Mr. Wong and Ms. Tung respectively; and

   (ii) Rising Trend acquired the entire issued share capital of Coland Shipping, Coland Management and Aronne from its shareholders, namely Mr. Wong and Ms. Tung, at consideration of HK$78, HK$78 and US$10 respectively satisfied by the issue of a total of 24 shares and 6 shares in Rising Trend to Mr. Wong and Ms. Tung respectively.

Consolidated Cash Flow Statements

	Year ended 31st December			Six months ended 30th June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	29,550	47,026	43,385	14,711	41,261
Adjustments for:					
Interest income	(400)	(481)	(431)	(264)	(1,410)
Finance costs	10,739	10,426	20,259	8,939	11,656
Depreciation of property, plant and equipment	3,233	3,617	4,138	1,996	2,105
Depreciation of investment properties	90	119	122	60	62
Amortisation of prepaid lease payments	293	438	626	310	313
(Reversal) recognition of allowance for inventories	(486)	(175)	582	(138)	(231)
Allowance for bad and doubtful debts	426	1,805	1,181	51	2,933
Loss on disposal of property, plant and equipment	—	4	2	2	—
Operating cash flows before movements in working capital	43,445	62,779	69,864	25,667	56,689
(Increase) decrease in inventories	(74,390)	(32,826)	(43,083)	(70,596)	93,235
(Increase) decrease in trade and bills receivables	(32,695)	(43,567)	(72,334)	(117,580)	90,338
(Increase) decrease in other receivables and prepayments	(5,131)	(5,851)	2,732	(8,056)	1,188
Increase (decrease) in trade and bills payables	41,351	(12,373)	50,961	70,289	(91,093)
Increase (decrease) in other payables and accruals	6,911	32,136	(29,161)	(7,089)	8,287
Cash (used in) from operations	(20,509)	298	(21,021)	(107,365)	158,644
Hong Kong Profits Tax paid	(460)	(807)	(464)	(158)	(134)
PRC Enterprise Income Tax paid	(184)	(2,184)	(2,467)	(2,022)	(2,090)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(21,153)	(2,693)	(23,952)	(109,545)	156,420

	Year ended 31st December			Six months ended 30th June	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
INVESTING ACTIVITIES					
Repayment from (advanced to) directors	40,979	(9,562)	(304)	(421)	—
Interest received	400	481	431	264	1,410
(Increase) decrease in pledged bank deposits	(8,290)	(12,173)	(39,934)	12,878	(63,673)
Purchase of property, plant and equipment	(4,861)	(5,701)	(4,036)	(2,024)	(10,948)
Purchase of investment properties	(4,238)	—	—	—	—
Increase in prepaid lease payments	—	(14,169)	—	—	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES	23,990	(41,124)	(43,843)	10,697	(73,211)
FINANCING ACTIVITIES					
New bank and other borrowings raised	338,897	439,206	788,900	419,443	414,296
Proceeds from issue of shares	100	—	—	—	—
Repayments of bank and other borrowings	(316,342)	(389,750)	(695,459)	(309,783)	(466,888)
Interest paid	(10,739)	(10,426)	(20,259)	(8,939)	(11,656)
Dividends paid	(2,570)	(4,040)	(8,659)	(3,233)	(14,914)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	9,346	34,990	64,523	97,488	(79,162)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,183	(8,827)	(3,272)	(1,360)	4,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	16,237	28,420	19,593	19,593	15,898
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	—	—	(423)	(14)	(137)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, representing bank balances and cash	28,420	19,593	15,898	18,219	19,808

Notes to the Financial Information

1. General Information

The Company acts as an investment holding company. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Room 2812, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

The functional currency of the Company is Renminbi. However, the Financial Information are presented in Hong Kong dollars so as to be in line with the presentation currency of NAS.

2. Basis of Preparation of Financial Information

For the preparation of the Financial Information, the Group applied Accounting Guideline 5 "Merger Accounting under Common Control Combination" issued by the HKICPA.

The consolidated income statements and consolidated cash flow statements include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/registration, where this is a shorter period. The consolidated balance sheets of the Group at 31st December 2003, 2004 and 2005 and 30th June 2006 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence and in accordance with the respective equity interests in the individual companies attributable to the existing shareholders as at the respective dates.

All significant intra-group transactions and balances have been eliminated on consolidation.

3. Early Adoption of New and Revised Hong Kong Financial Reporting Standards

In 2004 and 2005, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("INTs") (hereinafter collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005 and accounting periods beginning on or after 1st December 2005 or 1st January 2006 respectively. For the purposes of preparing and presenting Financial Information for the Relevant Periods, the Group has early adopted all these new and revised HKFRSs for the Relevant Periods.

In 2005 and 2006, the HKICPA has also issued the following new standards, interpretations or amendments that are not yet effective. The Group has considered these new standards, interpretation or amendments but does not expect that they will have a material impact on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) — INT 8	Scope of HKFRS 2[3]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[5]

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

4. Significant Accounting Policies

The Financial Information has been prepared on the historical cost basis, and in accordance with the following accounting policies which conform with HKFRSs. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Financial Information has been prepared using accounting policies which are materially consistent with that used by NAS. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

Inter-company transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation and unrealised loss are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amount receivable for goods provided in the normal course of business, net of discounts.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipments, other than construction-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction-in-progress is stated at cost. It is not depreciated until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction-in-progress, over their estimated useful lives using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year/period in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year/period in which the item is derecognised.

Prepaid lease payments

The payments made on the acquisition of interest in land are accounted for as an operating lease and are carried at cost and amortised on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents 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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, amounts due from directors/a subsidiary, pledged bank deposits, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and bills payables, other payables, amount due to a subsidiary, and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of individual entities, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as profit or loss in the period in which the foreign operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rental payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Research and development expenditure

Expenditure on research and development is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Borrowing costs

Borrowing costs are recognised as expense in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefit scheme are charged as expenses as they fall due.

5. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the Financial Information are disclosed below:

Estimated impairment on trade receivables

The management regularly reviews the recoverability of trade receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounting using the original effective interest rate and its carrying value.

Allowance for inventories

The management reviews the net realisable values and/or age of inventories and makes allowance for obsolete and slow moving inventory items identified with reference to existing market environment, the sales performance in previous years and estimated market value, i.e. the estimated selling price, less estimated costs of selling. A specific allowance for inventories is made if the estimated market value of the inventories is lower than its carrying value.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments including trade and bills receivables, other receivables, amounts due from directors, amount due from (to) a subsidiary, trade and bills payables, other payables, bank and other borrowings, and bank balances. The risks associate with and the policies on how to mitigate these risks are set out below:

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessing of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

The credit risk on bank deposits and balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and financial liabilities. Interest bearing financial assets are mainly balances with banks and other institutions which are all short term in nature. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Interest-bearing financial liabilities are mainly floating-rate bank borrowings. Currently, the Group does not have a hedging policy. However, management monitors interest rate exposure and will consider hedging significant loans should the need arise.

Currency risk

Certain trade and other receivables and trade and other payables of the Group are denominated in foreign currencies. The Group's foreign exchange exposures arise mainly from the exchange rate movements of United States dollars. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

7. Business and Geographical Segment

Turnover represents the amounts received and receivable for goods sold exclusive of value added taxes, less returns and allowances, to outsiders customers during the Relevant Periods.

During the Relevant Periods, the principal activities of the Group include processing and sales of fishmeal, refining and sales of fish oil, and manufacturing and sales of aquatic feeds, which are closely related to each other, in the PRC. Moreover, the Group's turnover was derived from the PRC and the Group's assets are substantially located in the PRC. Accordingly, no analysis of business and geographical segment is presented.

8. Other Income

	Year ended 31st December			Six months ended 30th June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Rental income	465	260	300	145	136
Less: outgoings	(58)	(59)	(92)	(46)	(25)
	407	201	208	99	111
Insurance claim	7,940	2,418	1,626	651	479
Interest income	400	481	431	264	1,410
Exchange gain	—	186	7,948	96	2,294
Others	668	262	49	—	38
	9,415	3,548	10,262	1,110	4,332

9. Finance Costs

	Year ended 31st December			Six months ended 30th June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interest on:					
Bank and other borrowings wholly repayable within five years	10,610	10,244	19,895	8,784	11,348
Bank and other borrowings not wholly repayable within five years	129	182	364	155	308
	10,739	10,426	20,259	8,939	11,656

10. Directors' and Employees' Remuneration

Details of directors' remuneration paid by the Group to the directors of the Company during the Relevant Periods are as follows:

Year ended 31st December 2003

	Mr. Wong Chun*	Ms. Tung Ching*	Ms. Tung Li Mei*	Ms. Xu Luodan**	Mr. Wong Yen Siang**	Mr. Kwan Hon Kay**	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' fee	—	—	—	—	—	—	—
Other emoluments							
Salaries and other benefits	728	189	283	—	—	—	1,200
Retirement benefit scheme contributions	12	9	10	—	—	—	31
Total	740	198	293	—	—	—	1,231

Year ended 31st December 2004

	Mr. Wong Chun*	Ms. Tung Ching*	Ms. Tung Li Mei*	Ms. Xu Luodan**	Mr. Wong Yen Siang**	Mr. Kwan Hon Kay**	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' fee	—	—	—	—	—	—	—
Other emoluments							
Salaries and other benefits	966	344	298	—	—	—	1,608
Retirement benefit scheme contributions	12	11	12	—	—	—	35
Total	978	355	310	—	—	—	1,643

Year ended 31st December 2005

	Mr. Wong Chun*	Ms. Tung Ching*	Ms. Tung Li Mei*	Ms. Xu Luodan**	Mr. Wong Yen Siang**	Mr. Kwan Hon Kay**	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' fee	—	—	—	—	—	—	—
Other emoluments							
Salaries and other benefits	1,639	428	343	—	—	—	2,410
Retirement benefit scheme contributions	12	12	12	—	—	—	36
Total	1,651	440	355	—	—	—	2,446

Six months ended 30th June 2005 (unaudited)

	Mr. Wong Chun*	Ms. Tung Ching*	Ms. Tung Li Mei*	Ms. Xu Luodan**	Mr. Wong Yen Siang**	Mr. Kwan Hon Kay**	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' fee	—	—	—	—	—	—	—
Other emoluments							
Salaries and other benefits	873	195	159	—	—	—	1,227
Retirement benefit scheme contributions	6	6	6	—	—	—	18
Total	879	201	165	—	—	—	1,245

Six months ended 30th June 2006

	Mr. Wong Chun*	Ms. Tung Ching*	Ms. Tung Li Mei*	Ms. Xu Luodan**	Mr. Wong Yen Siang**	Mr. Kwan Hon Kay**	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors' fee	—	—	—	—	—	—	—
Other emoluments							
Salaries and other benefits	776	210	170	—	66	66	1,288
Retirement benefit scheme contributions	6	6	6	—	—	—	18
Total	782	216	176	—	66	66	1,306

* Being executive directors of the Group

** Being independent non-executive directors of the Group

During the three years ended 31st December 2003, 2004 and 2005 and six months ended 30th June 2005 and 2006, Coland Holdings provided rent-free accommodation to Mr. Wong and Ms. Tung at the estimated rateable value of approximately nil, HK$33,000, HK$296,000, HK$222,000 and nil respectively.

Of the five highest paid individuals in the Group for the Relevant Periods, three were directors of the Company whose remuneration are set out above. The emoluments of the remaining two individuals are as follows:

	Year ended 31st December			Six months ended 30th June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Employees:					
Salaries and other benefits	830	1,017	1,260	476	579
Retirement benefit scheme contributions	19	24	22	12	12
	849	1,041	1,282	488	591

During the Relevant Periods, the emoluments of each of the above employees was under HK$1,000,000 per annum.

During the Relevant Periods, no remuneration has been paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

11. Profit Before Taxation

	Year ended 31st December			**Six months ended 30th June**	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit before taxation has been arrived at after charging (crediting):					
Directors' remuneration *(Note 10)*	1,231	1,643	2,446	1,245	1,306
Other staff costs	7,078	10,620	13,262	7,024	7,492
Retirement benefits scheme contributions, excluding directors	340	501	657	300	451
Total staff costs	8,649	12,764	16,365	8,569	9,249
Auditors' remuneration	820	910	1,250	625	1,000
Cost of inventories recognised	757,020	885,637	1,108,664	488,966	390,463
Depreciation of property, plant and equipment	3,233	3,617	4,138	1,996	2,105
Depreciation of investment properties	90	119	122	60	62
Amortisation of prepaid lease payments	293	438	626	310	313
Allowance for bad and doubtful debts	426	1,805	1,181	51	2,933
(Reversal) recognition of allowance for inventories	(486)	(175)	582	(138)	(231)
Loss on disposal of property, plant and equipment	—	4	2	2	—
Research and development costs expensed	113	137	91	15	62
Exchange loss (gain)	53	(186)	(7,948)	(96)	(2,294)

12. Taxation

	Year ended 31st December			Six months ended 30th June	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
The charge comprises:					
Hong Kong Profits Tax					
Current year	631	857	272	465	—
PRC Enterprise Income Tax					
Current year	4,405	5,701	5,782	1,571	10,259
	5,036	6,558	6,054	2,036	10,259

(a) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the Relevant Periods.

(b) PRC Enterprise Income Tax

PRC Enterprise Income Tax is calculated at the prevailing tax rate.

Fujian Coland Enterprises and Fuzhou Coland Feeds are entitled to exemption from PRC Foreign Enterprise Income Tax for two years from their first profit-making year, followed by a 50% relief for the three years thereafter. The PRC Foreign Enterprise Income Tax rate applicable to Fujian Coland Enterprises and Fuzhou Coland Feeds is 15% and the reduced rate is 7.5%.

Fujian Coland Enterprises' first profit-making year is the year of 1997. Accordingly, the tax relief period has expired in 2001 and the PRC Enterprise Income Tax has been provided for at a tax rate of 15% during the financial years ended 31st December 2003, 2004 and 2005 and the six months ended 30th June 2006.

Fuzhou Coland Feeds's first profit-making year is the year of 2002. Accordingly, no provision for the PRC Enterprise Income Tax has been made for after taking account of this tax exemption during the financial year ended 31st December 2003. Fuzhou Coland Feeds is subject to a reduced tax rate of 7.5% for the financial years ended 31st December 2004 and 2005 and the six months ended 30th June 2006.

The PRC Domestic Enterprises Income Tax applicable to Fujian Coland Logistics Co., Ltd is 30%.

The tax expense for the Relevant Periods can be reconciled to the profit before taxation per the consolidated income statements as follows:

	Year ended 31st December			Six months ended 30th June	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit before taxation	29,550	47,026	43,385	14,711	41,261
Tax at the domestic income tax rate of 15%	4,433	7,054	6,508	2,207	6,189
Tax effect of expenses not deductible for tax purpose	3,099	444	268	12	500
Tax effect of income not taxable for tax purpose	(115)	(33)	(8)	(2)	(18)
Effect of tax exemption/concession granted to a PRC subsidiary	(2,208)	(865)	(1,123)	(366)	(67)
Effect of different tax rate of a subsidiary operating in other jurisdiction	(175)	(43)	400	179	2,886
Tax effect of unrecognised tax losses	2	1	9	6	769
Tax expense for the year/period	5,036	6,558	6,054	2,036	10,259

There was no significant unprovided deferred taxation as at 31st December 2003, 2004, 2005 and 30th June 2006.

13. Dividends

	Year ended 31st December			Six months ended 30th June	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Coland Holdings	3,100	—	—	—	—
Rising Trend	—	4,169	8,000	8,000	—
The Company	—	—	26,360	—	14,914

During the year ended 31st December 2003 and 2004, Coland Holdings and Rising Trend paid dividends of HK$3,100,000 and HK$4,169,000 to their then shareholders respectively.

During the six months ended 30th June 2005, Rising Trend declared interim dividend for 2005 of HK$8,000,000 to its then shareholders.

During the year ended 31st December 2005 and six months ended 30th June 2006, the Company paid dividends of HK$26,360,000 and HK$14,914,000 respectively.

14. Earnings Per Share

The calculation of the basic earnings per share for the Relevant Periods is based on the profit attributable to equity holders of the Company for the Relevant Periods and on 150,000,000 shares in issue during the Relevant Periods on the assumption that the Group Reorganisation has been effective on 1st January 2003.

No diluted earnings per share have been presented as the Company does not have any dilutive potential ordinary shares throughout the Relevant Periods.

15. Property, Plant and Equipment

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
COST							
At 1st January 2003	16,234	—	18,909	2,355	2,821	—	40,319
Additions	2,376	—	422	519	147	1,397	4,861
Transfer	—	—	1,278	—	—	(1,278)	—
At 31st December 2003	18,610	—	20,609	2,874	2,968	119	45,180
Additions	2,763	211	458	906	1,306	57	5,701
Transfer	—	—	119	—	—	(119)	—
Disposals	—	—	—	(44)	—	—	(44)
At 31st December 2004	21,373	211	21,186	3,736	4,274	57	50,837
Exchange realignment	486	2	577	91	117	1	1,274
Additions	576	174	177	779	477	1,853	4,036
Disposals	—	—	—	(17)	—	—	(17)
At 31st December 2005	22,435	387	21,940	4,589	4,868	1,911	56,130
Exchange realignment	179	1	209	39	46	18	492
Additions	137	—	74	101	232	10,404	10,948
At 30th June 2006	22,751	388	22,223	4,729	5,146	12,333	67,570
DEPRECIATION							
At 1 January 2003	2,171	—	3,943	1,056	1,269	—	8,439
Provided for the year	721	—	1,691	390	431	—	3,233
At 31st December 2003	2,892	—	5,634	1,446	1,700	—	11,672
Provided for the year	826	7	1,936	442	406	—	3,617
Eliminated on disposals	—	—	—	(40)	—	—	(40)
At 31st December 2004	3,718	7	7,570	1,848	2,106	—	15,249
Exchange realignment	98	—	207	44	58	—	407
Provided for the year	951	88	1,814	780	505	—	4,138
Eliminated on disposals	—	—	—	(15)	—	—	(15)
At 31st December 2005	4,767	95	9,591	2,657	2,669	—	19,779
Exchange realignment	43	—	91	23	26	—	183
Provided for the period	462	53	1,033	310	247	—	2,105
At 30th June 2006	5,272	148	10,715	2,990	2,942	—	22,067
CARRYING AMOUNTS							
At 31st December 2003	15,718	—	14,975	1,428	1,268	119	33,508
At 31st December 2004	17,655	204	13,616	1,888	2,168	57	35,588
At 31st December 2005	17,668	292	12,349	1,932	2,199	1,911	36,351
At 30th June 2006	17,479	240	11,508	1,739	2,204	12,333	45,503

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of lease, or 2.5%
Leasehold improvement	Over the shorter of the term of lease, or 33.3%
Plant and machinery	10%
Furniture, fixtures and equipment	20% — 33.3%
Motor vehicles	20%

16. Investment Properties

	The Group
	HK$'000
COST	
At 1st January 2003	—
Additions	4,238
At 31st December 2003 and 2004	4,238
Exchange realignment	116
At 31st December 2005	4,354
Exchange realignment	41
At 30th June 2006	4,395
DEPRECIATION	
At 1st January 2003	—
Provided for the year	90
At 31st December 2003	90
Provided for the year	119
At 31st December 2004	209
Exchange realignment	6
Provided for the year	122
At 31st December 2005	337
Exchange realignment	3
Provided for the period	62
At 30th June 2006	402
CARRYING AMOUNTS	
At 31st December 2003	4,148
At 31st December 2004	4,029
At 31st December 2005	4,017
At 30th June 2006	3,993

The fair value of the Group's investment properties at 31st December 2003, 2004, 2005 and 30th June 2006 are HK$5,190,000, which have been arrived at on the basis of the valuation carried out at those dates by Messrs. Savills Valuation and Professional Services Limited, an independent firm of professional valuers, by reference to market evidence of transaction prices for similar properties.

The Group's investment properties are situated in the PRC under long-term land use right. All of the Group's investment properties are held for rental purposes under operating leases.

17. Prepaid Lease Payments

	The Group			
				As at
	As at 31st December			30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The prepaid lease payments comprise:				
Leasehold land in Hong Kong held under:				
Long lease	5,873	5,722	5,570	5,494
Medium-term lease	—	7,902	7,702	7,604
	5,873	13,624	13,272	13,098
Leasehold land in Macao held under medium-term lease	—	560	546	539
Land use right in the PRC held under medium-term lease	6,383	11,803	11,864	11,845
	12,256	25,987	25,682	25,482
Analysed for reporting purposes as:				
Non-current asset	11,963	25,368	25,056	24,854
Current asset (included in other receivables and prepayments)	293	619	626	628
	12,256	25,987	25,682	25,482

18. Investments in Subsidiaries/Amount Due from (to) a Subsidiary

	The Company			
				As at
	As at 31st December			30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	—	—	91,366	91,366
Amount due from a subsidiary	—	—	24,060	24,060
Amount due to a subsidiary	4,085	5,703	11,959	28,156

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

19. Inventories

	The Group			
				As at
	As at 31st December			**30th June**
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	162,223	160,173	91,096	148,813
Work in progress	2,502	3,761	4,091	6,502
Finished goods	65,578	99,370	215,515	65,160
	230,303	263,304	310,702	220,475

20. Trade and Bill Receivables/Other Receivables and Prepayments

The Group's policy is to allow an average credit period of 90 days to its customers. Aged analysis of trade and bill receivables at the respective balance sheet dates are as follows:

	The Group			
				As at
	As at 31st December			**30th June**
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 90 days *(Note)*	61,802	85,793	143,959	65,839
91 — 180 days	8,355	18,191	32,285	16,188
181 — 270 days	107	5,176	3,374	5,819
271 — 365 days	324	1,325	1,966	2,630
Over 365 days	—	1,865	4,163	3,009
	70,588	112,350	185,747	93,485

Note: At 30th June 2006, included in above are bills discounted to certain banks with recourse for provision of additional financing to the Group's operation by import and export companies in the PRC amounting to approximately HK$23,231,000 (2005: HK$77,617,000, 2004: HK$31,038,000 and 2003: HK$955,000).

The fair value of the Group's trade and bill receivables and other receivables at the respective balance sheet dates approximates to the corresponding carrying amount.

21. Amounts Due from Directors

Particulars of the amounts due from directors disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

The Group

	As at 31st December			As at 30th June	Maximum amount outstanding during the year/period			
Name of director	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Wong	15,760	25,322	—	—	56,739	25,322	25,322	—
Ms. Tung	20	20	—	—	20	20	20	—
	15,780	25,342	—	—				

The Company

	As at 31st December			As at 30th June	Maximum amount outstanding during the year/period			
Name of director	2003	2004	2005	2006	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Wong	80	80	—	—	80	80	80	—
Ms. Tung	20	20	—	—	20	20	20	—
	100	100	—	—				

The amounts were due from Mr. Wong and Ms. Tung and were unsecured, non-interest bearing and repayable on demand. Amounts were fully settled through interim dividend payment during the year ended 31st December 2005.

22. Trade and Bills Payables/Other Payables and Accruals

Aged analysis of trade and bills payables at the respective balance sheet dates are as follows:

The Group

	As at 31st December			As at 30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 90 days	149,461	132,256	151,861	98,521
91 — 180 days	239	5,562	39,441	3,360
181 — 270 days	—	78	235	83
271 — 365 days	3	—	—	—
Over 365 days	605	39	40	26
	150,308	137,935	191,577	101,990

The fair value of the Group's trade and bills payable and other payables at the respective balance sheet dates approximates to the corresponding carrying amount.

23. Bank and Other Borrowings

	The Group			
	As at 31st December			As at 30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	101,176	128,990	199,510	188,318
Trust receipt loans	65,611	98,953	125,719	84,602
Other loans	11,700	—	—	—
Total	178,487	227,943	325,229	272,920
Secured	165,832	196,905	247,612	249,689
Unsecured	12,655	31,038	77,617	23,231
	178,487	227,943	325,229	272,920
The maturity profile of the bank and other borrowings is as follows:				
On demand or within one year	173,813	217,699	315,404	263,327
In the second year	315	581	492	497
In the third to fifth year inclusive	994	1,829	1,644	1,671
After five years	3,365	7,834	7,689	7,425
	178,487	227,943	325,229	272,920
Less: Amounts due for settlement within one year shown under current liabilities	(173,813)	(217,699)	(315,404)	(263,327)
Amounts due for settlement after one year	4,674	10,244	9,825	9,593

The average effective interest rates on the Group's variable-rate bank loans are as follows:

	Year ended 31st December			Six months ended 30th June
	2003	2004	2005	2006
Bank loans	5.46%	5.36%	5.62%	6.58%

The Group's bank loans that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK$ equivalent of United States dollars
	HK$'000
At 31st December 2003	102,366
At 31st December 2004	145,090
At 31st December 2005	256,646
At 30th June 2006	184,645

The directors consider that the carrying amounts of the bank and other borrowings at the respective balance sheet dates approximate their fair values based on the then prevailing borrowing rates available for loans with similar terms and maturities.

Details of the securities for the above bank and other borrowings are set out in note 28.

24. Share Capital

The Group

For the purpose of this report, the balance of share capital as at the respective balance sheet dates represents the aggregate amount of the share capital of the Company and its subsidiaries as follows:

	As at 31st December			**As at 30th June**
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Company	100	100	15,000	15,000
Rising Trend	49	49	—	—
	149	149	15,000	15,000

The Company

	Number of shares	**Value**
		HK$'000
Issued and fully paid:		
Ordinary share of HK$0.1 each		
On incorporation *(Note a)* and at 31st December 2003 and 2004	1,000,000	100
Issue of shares *(Note b)*	149,000,000	14,900
At 31st December 2005 and at 30th June 2006	150,000,000	15,000

Notes:

(a) The Company was incorporated on 19th March 2003 with initial authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. On 11th April 2003, 800,000 shares and 200,000 shares of HK$0.1 each were allotted and issued at par to Mr. Wong and Ms. Tung respectively.

(b) Pursuant to the Group Reorganisation, the Company issued 149,000,000 shares of HK$0.1 each, credited as fully paid at par, to Mr. Wong and Ms. Tung in exchange for shares in Rising Trend.

25. Reserves

The Company

	Contributed surplus	Accumulated (losses) profits	Total
	HK$'000	*HK$'000*	*HK$'000*
At date of incorporation	—	—	—
Loss for the year	—	(5,434)	(5,434)
At 31st December 2003	—	(5,434)	(5,434)
Loss for the year	—	(3,758)	(3,758)
At 31st December 2004	—	(9,192)	(9,192)
Arising from the Group Reorganisation	76,466	—	76,466
Profit for the year	—	20,491	20,491
At 31st December 2005	76,466	11,299	87,765
Loss for the period	—	(16,444)	(16,444)
At 30th June 2006	76,466	(5,145)	71,321

The contributed surplus represents the difference between the nominal value of the share capital issued by the Company and the book value of the underlying net assets of the subsidiaries at the date on which they were acquired.

26. Operating Lease Commitments

The Group as lessee

Minimum lease payments paid under operating leases during the Relevant Periods:

	Year ended 31st December			Six months ended 30th June	
	2003	2004	2005	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Office premises, factories and warehouses	631	581	861	359	499

At the respective balance sheet dates, the Group had outstanding commitments payable under non-cancellable operating leases which fall due as follows:

	As at 31st December			As at 30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	591	554	673	674
In the second to fifth years inclusive	1,968	1,952	2,054	2,078
After five years	8,275	7,342	7,072	6,893
	10,834	9,848	9,799	9,645

Operating lease payments represent rental payable by the Group for its office premises, factories and warehouses. Leases are negotiated and rentals are fixed for a range of two to twenty years.

The Group as lessor

Property rental income earned on investment properties held by the Group was HK$465,000, HK$260,000 and HK$300,000, HK$145,000 and HK$136,000 during the three years ended 31st December 2003, 2004 and 2005 and the six months ended 30th June 2005 and 2006, respectively. The properties are expected to generate rental yields of 5.2 per cent on an ongoing basis. All of the property units have committed tenants for the next three years.

At the respective balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31st December			As at 30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	171	179	239	150
In the second to fifth years inclusive	2	146	48	—
	173	325	287	150

The Company did not have any significant operating lease commitments at 31st December 2003, 2004, 2005 and 30th June 2006.

27. Capital Commitments

	The Group			
	As at 31st December			As at 30th June
	2003	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of construction of warehouse:				
— authorised but not contracted for	—	11,385	4,925	4,074
— contracted for but not provided in the financial statements	—	21	16,950	9,462
	—	11,406	21,875	13,536

The Company did not have any significant capital commitments at 31st December 2003, 2004, 2005 and 30th June 2006.

28. Pledge of Assets

The Group has pledged the following assets for the general banking facilities granted by the banks to the Group and the carrying value of the assets are as follows:

	As at 31st December			As at 30th June
	2003	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank deposits	28,360	40,533	81,571	144,467
Buildings	7,746	14,538	14,574	14,417
Inventories	—	34,538	9,665	97,093
Investment properties	—	4,029	4,017	—
Prepaid lease payments	—	19,864	25,136	24,943
Machinery	745	—	—	—
	36,851	113,502	134,963	280,920

The Company did not have any significant pledge of assets at 31st December 2003, 2004, 2005 and 30th June 2006.

29. Retirement Benefit Scheme

Effective from 1st December 2001, the Group has participated in Mandatory Provident Fund Scheme ("MPF Scheme") for all its eligible employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly salaries of the employees of the Group's subsidiaries operating in the PRC. The Group has no other obligations under the state pension schemes in the PRC other than the contribution payments.

The total amount contributed by the Group to the above-mentioned schemes are approximately HK$371,000, HK$536,000, HK$693,000, HK$318,000 and HK$469,000 for the three years ended 31st December 2003, 2004, 2005 and the six months ended 30th June 2005 and 2006 respectively.

30. Related Party Disclosures

During the Relevant Periods, the Group entered into the following transactions with related parties who are not members of the Group:

Name of the related party	Nature of transaction	Year ended 31st December 2003	2004	2005	Six months ended 30th June 2005	2006
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
廣東格藍飼料有限公司 (formerly known as 廣東高龍飼料有限公司)	Sales of goods	95	—	—	—	—
Hubei Gelan Feed Co., Ltd. 湖北格藍飼料有限公司 (formerly known as 湖北南大高龍飼料有限公司)	Sales of goods	659	—	—	—	—
成都格藍飼料有限公司 (formerly known as 成都高龍飼料有限公司)	Sales of goods	427	—	—	—	—
武漢福龍飼料有限公司 (formerly known as武漢高龍飼料有限公司)	Sales of goods	612	—	—	—	—

The director, Mr. Wong held beneficial interests in all of the above companies, had disposed of his entire interests during the fiscal year of 2003.

Throughout the Relevant Periods, Mr. Wong and Ms Tung, the directors of the Group, have given personal guarantees and pledged their properties to banks to secure general banking facilities granted to the Group.

Details of balances with directors as at each of the balance sheet dates are set out in the consolidated balance sheet and in note 21.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries have been issued subsequent to 30th June 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

I. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The unaudited pro forma balance sheet of the Enlarged Group has been prepared to illustrate the effect of the Subscription on the assets and liabilities of the NAS Group based on:

(1) the unaudited pro forma balance sheet of the NAS Group as enlarged by the Amtec Group and AIP as set out in Appendix IV of the circular of the Company dated 13th October 2006 regarding the acquisition of the entire issued share capital of Amtec and AIP; and

(2) the audited consolidated balance sheet of the Target Group as at 30th June 2006, as set out in Appendix II to this circular.

As the unaudited pro forma balance sheet is prepared for illustrative purpose assuming the Subscription had been completed as at the balance sheet date on 31st March 2006, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up or at any future dates.

	The NAS Group as enlarged by the Amtec Group and AIP as at 31st March 2006	40% of the Target Group as at 30th June 2006	Pro forma combined	Pro forma adjustment *Note (1)*	Pro forma adjustment *Note (2)*	Pro forma adjustment *Note (3)*	Pro forma adjustment *Note (4)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets								
Property, plant and equipment	20,811	18,201	39,012	–	–	–	–	39,012
Investment in a jointly controlled entity	–	–	–	143,333	2,822	–	(146,155)	–
Goodwill	407,990	–	407,990	–	–	–	31,086	439,076
Website development costs	6	–	6	–	–	–	–	6
Subscription receivables, non-current portion	494,135	–	494,135	–	–	–	–	494,135
Long term portion of finance lease receivables	12,577	–	12,577	–	–	–	–	12,577
Long term receivables	220	–	220	–	–	–	–	220
Deferred tax assets	28	–	28	–	–	–	–	28
Investment properties	–	1,597	1,597	–	–	–	–	1,597
Prepaid lease payments	–	9,942	9,942	–	–	–	–	9,942
Total non-current assets	935,767	29,740	965,507	143,333	2,822	–	(115,069)	996,593

	The NAS Group as enlarged by the Amtec Group and AIP as at 31st March 2006	40% of the Target Group as at 30th June 2006	Pro forma combined	Pro forma adjustment *Note (1)*	Pro forma adjustment *Note (2)*	Pro forma adjustment *Note (3)*	Pro forma adjustment *Note (4)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets								
Inventories	207,824	88,190	296,014	—	—	—	—	296,014
Trade and bills receivables	127,761	37,394	165,155	—	—	—	—	165,155
Prepayments, deposits and other receivables	36,636	6,615	43,251	—	—	—	—	43,251
Consideration receivables	—	—	—	—	—	28,666	(28,666)	—
Finance lease receivables	39,577	—	39,577	—	—	—	—	39,577
Due from the immediate holding company	865	—	865	—	—	—	—	865
Due from fellow subsidiaries	120,480	—	120,480	—	—	—	—	120,480
Pledged bank deposits	3,055	57,787	60,842	—	—	—	—	60,842
Cash and cash equivalents	134,475	7,923	142,398	(71,667)	(2,822)	28,667	—	96,576
Total current assets	670,673	197,909	868,582	(71,667)	(2,822)	57,333	(28,666)	822,760
Current liabilities								
Trade and bills payables	195,702	40,796	236,498	—	—	—	—	236,498
Accruals and other payables	45,347	10,154	55,501	71,666	—	—	(28,666)	98,501
Receipts in advance	792	—	792	—	—	—	—	792
Derivative financial instruments	944	—	944	—	—	—	—	944
Current income tax liabilities	8,011	9,795	17,806	—	—	—	—	17,806
Bank and other borrowings — due within one year	257,554	105,331	362,885	—	—	—	—	362,885
Amount due to Autron	13,703	—	13,703	—	—	—	—	13,703
Total current liabilities	522,053	166,076	688,129	71,666	—	—	(28,666)	731,129
Net current assets	148,620	31,833	180,453	(143,333)	(2,822)	57,333	—	91,631
Total assets less current liabilities	1,084,387	61,573	1,145,960	—	—	57,333	(115,069)	1,088,224

	The NAS Group as enlarged by the Amtec Group and AIP as at 31st March 2006	40% of the Target Group as at 30th June 2006	Pro forma combined	Pro forma adjustment *Note (1)*	Pro forma adjustment *Note (2)*	Pro forma adjustment *Note (3)*	Pro forma adjustment *Note (4)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities								
Convertible bonds	14,642	—	14,642	—	—	—	—	14,642
Pension liabilities	14	—	14	—	—	—	—	14
Deferred tax liabilities	484	—	484	—	—	—	—	484
Bank and other borrowings								
— due after one year	2,011	3,837	5,848	—	—	—	—	5,848
Total non-current liabilities	17,151	3,837	20,988	—	—	—	—	20,988
Net assets	1,067,236	57,736	1,124,972	—	—	57,333	(115,069)	1,067,236
Equity								
Capital and reserves attributable to equity holders of the Company								
Share capital	74,790	6,000	80,790	—	—	4,000	(10,000)	74,790
Reserves	992,446	51,736	1,044,182	—	—	53,333	(105,069)	992,446
Shareholders' equity	1,067,236	57,736	1,124,972	—	—	57,333	(115,069)	1,067,236

II. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma income statement of the Enlarged Group has been prepared to illustrate the effect of the Subscription on the income and expenses of the NAS Group based on:

(1) the unaudited pro forma income statement of the NAS Group for the year ended 31st March 2006 as enlarged by the Amtec Group and AIP as set out in Appendix IV of the circular of the Company dated 13th October 2006 regarding the acquisition of the entire issued share capital of Amtec and AIP; and

(2) the audited consolidated income statement of the Target Group for the year ended 31st December 2005, as set out in Appendix II to this circular.

As the unaudited pro forma income statement is prepared for illustrative purpose assuming the Subscription had been completed on lst April 2005, it may not give a true picture of the results of the Enlarged Group for the financial period in respect of which it is made up or for any future financial periods.

	The NAS Group as enlarged by the Amtec Group and AIP for the year ended 31st March 2006	40% of the Target Group for the year ended 31st December 2005	Pro forma combined	Pro forma adjustment	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,485,890	489,720	1,975,610	—	1,975,610
Cost of sales and services provided	(1,336,853)	(443,698)	(1,780,551)	—	(1,780,551)
Gross profit	149,037	46,022	195,059	—	195,059
Other income and gains	25,841	4,105	29,946	—	29,946
Selling and distribution expenses	(38,652)	(10,371)	(49,023)	—	(49,023)
General and administrative expenses	(88,202)	(14,297)	(102,499)	—	(102,499)
Other operating expenses	(3,683)	—	(3,683)	—	(3,683)
Finance costs	(13,396)	(8,104)	(21,500)	—	(21,500)
Profit before income tax	30,945	17,355	48,300	—	48,300
Income tax expense	(700)	(2,422)	(3,122)	—	(3,122)
Profit for the year, attributable to equity holders of the Company	30,245	14,933	45,178	—	45,178
Dividends	113,529	13,744	127,273	—	127,273

III. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma cash flow statement of the Enlarged Group has been prepared to illustrate the effect of the Subscription on the cash flows of the NAS Group based on:

(1) the unaudited pro forma cash flow statement of the NAS Group for the year ended 31st March 2006 as enlarged by the Amtec Group and AIP as set out in Appendix IV of the circular of the Company dated 13th October 2006 regarding the acquisition of the entire issued share capital of Amtec and AIP; and

(2) the audited consolidated cash flow statement of the Target Group for the year ended 31st December 2005, as set out in Appendix II of the circular.

As the unaudited pro forma cash flow statement is prepared for illustrative purpose assuming the Subscription had been completed on 1st April 2005, it may not give a true picture of the cash flows of the Enlarged Group for the financial period in respect of which it is made up or for any future financial periods.

	The NAS Group as enlarged by the Amtec Group and AIP for the year ended 31st March 2006	40% of the Target Group for the year ended 31st December 2005	Pro forma combined	Pro forma adjustment *Note (5)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities					
Profit before tax	30,945	17,355	48,300	—	48,300
Interest income	(1,833)	(172)	(2,005)	—	(2,005)
Interest expenses	13,396	8,104	21,500	—	21,500
Depreciation of property, plant and equipment	4,492	1,655	6,147	—	6,147
Depreciation of investment properties	—	49	49	—	49
Loss on disposal of property, plant and equipment	39	1	40	—	40
Amortisation of prepaid lease payments	—	250	250	—	250
Amortisation of website development costs	15	—	15	—	15
Amortisation of interest income in relation to subscription monies	(17,641)	—	(17,641)	—	(17,641)
Gain on disposal of subsidiaries, net	(98)	—	(98)	—	(98)
Write-back of provision for claim	(2,977)	—	(2,977)	—	(2,977)
Fair value losses on derivative instruments — transactions not qualifying as hedges, net	702	—	702	—	702
Allowance for inventories	—	233	233	—	233
Allowance for bad and doubtful debts	—	472	472	—	472

	The NAS Group as enlarged by the Amtec Group and AIP for the year ended 31st March 2006	40% of the Target Group for the year ended 31st December 2005	Pro forma combined	Pro forma adjustment *Note (5)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating profit before working capital changes	27,040	27,947	54,987	—	54,987
Decrease (increase) in inventories	8,340	(17,233)	(8,893)	—	(8,893)
Increase in deposits for purchase of inventories	(44,128)	—	(44,128)	—	(44,128)
Increase in trade and bills receivables	(21,491)	(28,934)	(50,425)	—	(50,425)
Decrease in prepayments, deposits and other receivables	2,917	1,093	4,010	—	4,010
Increase in trade and bills payables	1,484	20,384	21,868	—	21,868
Increase (decrease) in accruals and other payables	60,389	(11,664)	48,725	—	48,725
Increase in pension liabilities	14	—	14	—	14
Increase in long term receivables	(220)	—	(220)	—	(220)
Increase in receipts in advance	8,276	—	8,276	—	8,276
Decrease in finance lease receivables	45,139	—	45,139	—	45,139
Increase in amount due from the immediate holding company	(865)	—	(865)	—	(865)
Movement in amounts with fellow subsidiaries	(141,000)	—	(141,000)	—	(141,000)
Decrease in amount due from a director	404	—	404	—	404
Increase in amount due to Autron	13,703	—	13,703	—	13,703
Translation adjustments	499	—	499	—	499
Cash used in operations	(39,499)	(8,407)	(47,906)	—	(47,906)
Hong Kong profits tax paid	(558)	(186)	(744)	—	(744)
Overseas taxes paid	(300)	—	(300)	—	(300)
Mainland China enterprise income tax refunded (paid)	172	(987)	(815)	—	(815)
Interest paid	(11,625)	(8,104)	(19,729)	—	(19,729)
Interest element on finance lease rental payments	(741)	—	(741)	—	(741)
Net cash used in operating activities	(52,551)	(17,684)	(70,235)	—	(70,235)

	The NAS Group as enlarged by the Amtec Group and AIP for the year ended 31st March 2006	40% of the Target Group for the year ended 31st December 2005	Pro forma combined	Pro forma adjustment *Note (5)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from investing activities					
Purchase of subsidiaries (net of cash and cash equivalents acquired)	(452,637)	—	(452,637)	—	(452,637)
Investment in a jointly controlled entity (net of cash and cash equivalents acquired)	—	—	—	(37,985)	(37,985)
Cash disposed of by sale of subsidiaries, net of proceeds of sales	(9,506)	—	(9,506)	—	(9,506)
Additions of property, plant and equipment	(1,686)	(1,614)	(3,300)	—	(3,300)
Advance to directors	—	(122)	(122)	—	(122)
Proceeds from sales of property, plant and equipment	321	—	321	—	321
Interest received	1,126	172	1,298	—	1,298
Decrease (increase) in pledged bank deposits	13,025	(15,974)	(2,949)	—	(2,949)
Repayments to the ultimate holding company	(315)	—	(315)	—	(315)
Net cash used in investing activities	(449,672)	(17,538)	(467,210)	(37,985)	(505,195)
Cash flows from financing activities					
Issue of ordinary shares	13,629	—	13,629	—	13,629
Issue of convertible bonds	20,000	—	20,000	—	20,000
Issue of preference shares	578,101	—	578,101	—	578,101
Share issue expenses	(13,935)	—	(13,935)	—	(13,935)
Subscription monies received	1,534	—	1,534	—	1,534
New bank loans	302,959	315,560	618,519	—	618,519
Repayment of bank loans	(260,522)	(278,184)	(538,706)	—	(538,706)
Decrease in trust receipt loans	(9,036)	—	(9,036)	—	(9,036)
Decrease in collateralised advances	(5,777)	—	(5,777)	—	(5,777)
Capital element of finance lease rental payments	(5,422)	—	(5,422)	—	(5,422)
Dividends paid	—	(3,464)	(3,464)	—	(3,464)
Net cash generated from financing activities	621,531	33,912	655,443	—	655,443

	The NAS Group as enlarged by the Amtec Group and AIP for the year ended 31st March 2006	40% of the Target Group for the year ended 31st December 2005	Pro forma combined	Pro forma adjustment *Note (5)*	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net increase (decrease) in cash and cash equivalents	119,308	(1,310)	117,998	(37,985)	80,013
Cash and cash equivalents at the beginning of the year	13,263	7,837	21,100	(7,837)	13,263
Effect of foreign exchange rate changes	—	(169)	(169)	—	(169)
Cash and cash equivalents at end of the year	132,571	6,358	138,929	(45,822)	93,107

Notes to the unaudited pro forma financial information:

1. The adjustment represents the aggregate consideration for the Subscription payable by the NAS Group of approximately HK$143,333,000, of which approximately HK$71,667,000 is to be satisfied by cash on date of the completion of Subscription and the remaining balance of approximately HK$71,666,000 is to be settled in one or more payments as may be required by the Target Group to finance the business plan as set out in the Agreement. Upon the Subscription, the NAS Group will obtain 40% equity interest in the enlarged total issued Target Shares and the Target Group will become its jointly controlled entity. The NAS Group's interest in the jointly controlled entity will be accounted for using proportionate consolidation.

2. The adjustment represents the estimated direct legal and professional costs related to the Subscription of approximately HK$2,822,000.

3. The adjustment represents proportionate consolidation of the NAS Group's 40% share of the increase in monies received and receivable, preferred share capital and share premium of the Target Group upon the completion of Subscription. The effects are summarised as follows:

		40% thereon
	HK$'000	*HK$'000*
Effect on equity:		
Share capital — Target Preferred Shares	10,000	4,000
Reserves — Share premium	133,333	53,333
	143,333	57,333
Effect on assets:		
Cash and cash equivalents	71,667	28,667
Consideration receivables	71,666	28,666
	143,333	57,333

4. The adjustments comprise:

   (a) elimination of share capital and pre-acquisition reserves of the Target Group of approximately HK$10,000,000 (enlarged by the issuance of Target Preferred Shares) and HK$105,069,000 (enlarged by the share premium arising from the issuance of Target Preferred Shares), respectively, as if the Subscription was completed on 31st March 2006;

   (b) recognition of goodwill of approximately HK$31,086,000 arising upon the Subscription, calculated based on the cost of investment in the Target Group of approximately HK$146,155,000 (representing the aggregate consideration for the Subscription and the direct legal and professional costs mentioned in notes 1 and 2 above) and with reference to 40% of the net asset value of the Target Group (enlarged by the issuance of Target Preferred Shares) of approximately HK$115,069,000 (note 4(a) above) as at 30th June 2006; and

   (c) the elimination of the NAS Group's 40% share of the Subscription monies receivable by the Target Group against the amount payable by the NAS Group of approximately HK$28,666,000 (i.e. 40% of HK$71,666,000).

5. The net cash outflow arising from the Subscription has been arrived at based on (i) the cash injection by the NAS Group to the Target Group of approximately HK$71,667,000 less 40% of this balance which would be consolidated proportionately, net of (ii) 40% of the cash and cash equivalents of the Target Group of approximately HK$7,837,000 as at 1st January 2005 and the payment of direct legal and professional costs of approximately HK$2,822,000 as mentioned in note 2 above.

IV. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information as set out in this appendix.

Deloitte.
德勤

Accountants' Report on Unaudited Pro Forma Financial Information

To The Directors of North Asia Strategic Holdings Limited

We report on the unaudited pro forma financial information of North Asia Strategic Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "NAS Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the NAS Group's proposed subscription of 100,000,000 convertible preferred shares of Coland Group Limited (the "Subscription") might have affected the financial information presented, for inclusion in Appendix III of the circular dated 10th November 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix III to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM 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 those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 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 unaudited 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 unaudited 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 NAS Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose 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 future and may not be indicative of:

- the financial position of the NAS Group as at 31st March 2006 or any future date; or
- the results and cash flows of the NAS Group for the period ended 31st March 2006 or any future period.

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 NAS Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
10th November 2006

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Göran Sture Malm, Chairman, aged 59, joined the Company in August 2005. Mr. Malm is the Chairman of Boathouse Limited, an investment company and Project HOPE Hong Kong Foundation, a US originated charity. He also serves as a director of various companies in China, Hong Kong, Japan, Korea, Singapore and Sweden, including Samsung Electronics in Korea. Prior to joining Boathouse Limited in 2000, Mr. Malm was the President of Dell Asia Pacific, Senior Vice President of Dell Computer Corporation, Senior Vice President of General Electric (GE) Company, President of General Electric Asia Pacific, President and Chief Executive Officer of GE Medical Systems Asia Ltd. and Vice President of General Electric (GE) Company. Mr. Malm holds a Bachelor degree in Economics and Business Administration from the Gothenburg School of Business, Economics and Law in Sweden. For 2005-2006, Mr. Malm was assigned as Visiting Professor in Applied Management at the same Business School. Mr. Malm is a member of the nomination committee of the Company.

Mr. Henry Cho Kim, Deputy Chairman, aged 41, joined the Company in August 2005. Mr. Cho is a Co-founder and Managing Partner of the Ajia Partners Group. He focuses primarily on investor/partner relations and activities for the real estate and special situations groups of the Ajia Partners Group. Prior to founding the API and companies controlled by it ("Ajia Partners Group"), he was a Principal at Bank of America, N.A. Prior to Bank of America, N.A., Mr. Cho was with HSBC Markets (Asia) Limited in Hong Kong. He received his Bachelor degree in Economics and International Relations from Brown University and a Master of Business Administration degree from the Wharton School, University of Pennsylvania.

Mr. Savio Chow Sing Nam, Chief Executive Officer, aged 50, joined the Company in August 2005. Mr. Chow is the Lead Partner for the special situations group of Ajia Partners Group. Prior to joining the Ajia Partners Group, Mr. Chow served as a Consultant at E.M. Warburg Pincus & Co. Asia Ltd. He has had about 20 years experience in the

Information Technology industry both in the US and Asia Pacific. He was the Managing Director of Yahoo! Inc. responsible for Asia. Prior to joining Yahoo, Mr. Chow held various senior management positions at Netscape Communications Corporation, Lotus Development Corporation and International Business Machines Corporation. He holds a Master of Science degree in Engineering and a Master of Business Administration degree from the University of California, Berkeley. Mr. Chow is a member of the remuneration committee and the compliance officer of the Company.

Mr. Andrew Yao Cho Fai, aged 41, has been with the Company since the formal establishment of the trading operation in April 1997. He graduated from the University of California, Berkeley and Harvard Graduate School of Business. Mr. Yao has extensive experience in the steel trading business and is the Chairman and Chief Executive Officer of VSC. Mr. Yao is also an independent non-executive director of Grand Investment International Limited and Kader Holdings Company Limited which are companies listed on the Main Board of the Stock Exchange. He serves as a committee member of Federation of Hong Kong Industries. He also sits on the Shanghai People's Political Consultative Conference, acts as First Vice Chairman of the Hong Kong United Youth Association Limited, Deputy Chairman of the Shanghai Youths Federation and the China Young Entrepreneurs' Association, Director of the Shanghai Fudan University and court member of the University of Hong Kong.

Independent Non-executive Directors

Mr. Philip Ma King Huen, aged 50, joined the Company in March 2000. Mr. Ma is the Group Managing Director of The Sincere Company Limited, a listed company on the Main Board of the Stock Exchange. Mr. Ma was the Chairman of the Hong Kong Retail Management Association from 1996-2000 and is very active in community service. He holds a Master degree in Business Administration from McMaster University. Mr. Ma is a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. Kenny Tam King Ching, aged 57, joined the Company in September 2004. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Ethics Committee, Insolvency Practitioners Committee, Professional Risk Management Committee and Small and Medium Practitioners Committee in the Hong Kong Institute of Certified Public Accountants. He is also a Past President of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of six companies listed on the Main Board of the Stock Exchange, namely, CCT Telecom Holdings Limited, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Swank International Manufacturing Company Limited and VSC. Mr. Tam is a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. Edgar Kwan Chi Ping, aged 57, joined the Company in August 2005. Mr. Kwan, a Civil Engineer, has over 30 years of local and international experience in engineering, construction and project management. He is an Executive Director and Chief Operating Officer of Paul Y. Engineering Group Limited, a company listed on the Main Board of the Stock Exchange. He holds both Bachelor and Master degrees in Civil Engineering from the University of Hong Kong and a Master degree in Business Administration from the Chinese University of Hong Kong. His major public services include acting as the Chairman of the Construction Industry Training Authority, Vice President of the Hong Kong Construction Association, and a member of a number of public bodies including the Independent Police Complaints Council, the Broadcasting Authority Complaints Committee, the Engineers Registration Board and the Appeal Tribunal (Building). Mr. Kwan is a member of the audit committee and remuneration committee of the Company.

Senior Management

Ms. Grace Luk Pui Yin, Chief Financial Officer, aged 41, joined the Company in August 2005. Ms. Luk was the Director and Financial Controller of Kleinwort Benson China Management Limited, the Investment Manager of the London-listed China Investment & Development Fund. This Fund invested in 12 joint ventures with substantial manufacturing operations in China and completed divestment of its portfolio before 2003. She was also Vice President of Dresdner Kleinwort Capital, the private equity arm of Dresdner Bank. She has over 8 years of private equity experience in the Greater China region. Prior to joining Kleinwort Benson, Ms. Luk was department head of the category financial management department at Colgate-Palmolive and was an auditor at Arthur Andersen in Hong Kong. She received her Bachelor degree in Business Administration from the Chinese University of Hong Kong. She is a Fellow of the UK Association of Chartered Certified Accountants, an Associate of both the UK Chartered Institute of Management Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Luk is the qualified accountant of the Company.

The business address of the Directors and senior management is 78th Floor, The Center, 99 Queen's Road Central, Hong Kong.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

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 and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors, were as follows:

Long positions in the shares and underlying shares[(a)] of the Company

(a) The underlying Shares referred to in note 2 arise as a result of the conversion rights attaching to the Preference Shares issued under the Placements. The Preference Shares shall be automatically converted into Shares, credited as fully paid, at the conversion ratio of one Preference Share for one Share in accordance with the terms of the Preference Shares.

(b) The approximate percentage of shareholdings set out below is based on 95,794,716 Shares in issue as at the Latest Practicable Date, not on the total number of issued Shares upon full conversion of the Preference Shares and the Convertible Bonds.

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [(b)]	*Note*
Mr. Yao	Interest of controlled corporation	10,592,098	—	10,592,098	11.06%	*1*
Mr. Cho	Interest of controlled corporation	—	99,106,003	99,106,003	103.46%	2

Notes:

1. These interests represented:

   (i) a deemed interest in 1,598,113 Shares owned by Huge Top. Mr. Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued share capital of Huge Top. Mr. Yao owns the entire issued share capital of Perfect Capital and is one of the two directors of Huge Top. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares held by Huge Top;

   (ii) a deemed interest in 6,336,309 Shares owned by VSC BVI, a wholly-owned subsidiary of VSC. Huge Top owns approximately 47.05% of the issued share capital of VSC. Mr. Yao is one of the two directors of VSC BVI. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares held by VSC BVI. These Shares are the same 6,336,309 Shares referred to in note 23 under (b) below;

(iii) a deemed interest in 1,633,676 Shares owned by TN. VSC BVI owns 54% of the issued share capital of TN and Mr. Yao owns 10% of the issued share capital of TN. Mr. Yao is one of the two directors of TN. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares held by TN. These Shares were the same 1,633,676 Shares referred to in note 23 under (b) below; and

(iv) an interest in 1,024,000 Shares owned by Right Action Offshore Inc. ("Right Action"). Mr. Yao owns the entire issued share capital of Right Action and is also the sole director of that company.

2. These underlying Shares were held by Timeless, a company controlled by Mr. Cho through Kenthomas Company Limited. Accordingly, Mr. Cho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Timeless which was interested in 99,106,003 underlying Shares. These underlying Shares were the same underlying Shares referred to in note 18 under (b) below.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the shares and debentures of the Company and 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 and short positions which they were deemed or taken 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 Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange.

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company whose interests were disclosed above) had interests or short positions in the shares and/or underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the NAS Group together with particulars of any options in respect of such capital:

Long positions in the shares and underlying shares[c] of the Company

(c) The underlying Shares referred to in the following table (other than those referred to in notes 1 and 4 below) arise as a result of the conversion rights attaching to the Preference Shares issued under the Placements. The Preference Shares shall be automatically converted into Shares, credited as fully paid, at the conversion ratio of one Preference Share for one Share in accordance with the terms of the Preference Shares. Those underlying Shares referred to in notes 1 and 4 below arise as a result of the conversion of the Convertible Bonds.

(d) The approximate percentage of shareholdings set out below is based on 95,794,716 Shares in issue as at the Latest Practicable Date, not on the total number of issued Shares upon full conversion of the Preference Shares and the Convertible Bonds.

Substantial Shareholders (interests related to Shareholders)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [d]	Note
Mr. Tsang	Beneficial owner	19,693,486	39,386,973	59,080,459	61.68%	*1*
	Interest of controlled corporation	509,400	—	509,400	0.53%	*2*
	Interest of a discretionary trust	—	148,659,004	148,659,004	155.18%	*3*
				208,248,863	217.39%	
NASAC	Beneficial owner	44,163,474	88,326,947	132,490,421	138.31%	*4*
NASA	Interest of controlled corporation	44,163,474	88,326,947	132,490,421	138.31%	*4 & 5*
API	Interest of controlled corporation	44,163,474	88,326,947	132,490,421	138.31%	*4 to 6*

Substantial Shareholders (interests related to preference shareholders)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [d]	Note
The Goldman Sachs Group, Inc. ("Goldman")	Interest of controlled corporation	—	2,477,650,064	2,477,650,064	2,586.42%	*7*
ABN AMRO Asset Management Holding N.V.	Beneficial owner	—	1,238,825,032	1,238,825,032	1,293.21%	
Woori Bank ("Woori")	Beneficial owner	—	792,848,020	792,848,020	827.65%	*8*
Woori Finance Holdings Co., Ltd.	Interest of controlled corporation	—	792,848,020	792,848,020	827.65%	*8*
United Overseas Bank Limited	Beneficial owner	—	743,295,019	743,295,019	775.92%	
Oikos Asia Fund ("Oikos")	Beneficial owner	—	495,530,013	495,530,013	517.28%	*9*
Tiger International Management Inc. ("Tiger")	Beneficial owner	—	297,318,008	297,318,008	310.37%	*10*
Mr. Chen Jong-Tai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	*10*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [d]	*Note*
Ms. Chen Wu, Feng-Tsai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	*10*
Banca Monte Dei Paschi Di Siena Spa	Beneficial owner	—	247,765,006	247,765,006	258.64%	
Grand Loyal (China) Limited ("Grand Loyal")	Nominee	—	247,765,006	247,765,006	258.64%	*11*
Mr. Ho Yiu Wing	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	*11*
Grand Partners Group Limited ("Grand Partner")	Nominee	—	247,765,006	247,765,006	258.64%	*12*
Mr. William Doo Wai Hoi	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	*12*
Fubon Bank (Hong Kong) Limited	Beneficial owner	—	199,233,717	199,233,717	207.98%	
Chevalier International Holdings Limited ("Chevalier")	Beneficial owner	—	198,212,005	198,212,005	206.91%	*13*
Mr. Chow Yei Ching	Interest of controlled corporation	—	198,212,005	198,212,005	206.91%	*13*
Ms. Miyakawa Michiko	Family interest	—	198,212,005	198,212,005	206.91%	*13*
AICV	Beneficial owner	—	148,659,004	148,659,004	155.18%	*14*
Asia Internet Capital Management LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*14*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [(d)]	*Note*
EC.com Inc.	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*14*
Smart Channel Investments Inc.	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*14*
MKT Holdings (Cayman Islands) LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*14*
HSBC International Trustee Limited	Trustee	—	148,659,004	148,659,004	155.18%	*14*
Gentfull Investment Limited ("Gentfull")	Beneficial owner	—	148,659,004	148,659,004	155.18%	*15*
Ms. Vivien Chen Wai Wai	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*15*
Doutdes S.P.A. ("Doutdes")	Beneficial owner	—	148,659,004	148,659,004	155.18%	*16*
UFI Filters SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*16*
GGG SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	*16*
G.G.G. S.A.	Beneficial owner	—	99,106,003	99,106,003	103.46%	*17*
Mr. Giorgio Girondi	Interest of controlled corporation	—	247,765,007	247,765,007	258.64%	*16 & 17*
Timeless	Beneficial owner	—	99,106,003	99,106,003	103.46%	*18*
Kenthomas Company Limited	Nominee	—	99,106,003	99,106,003	103.46%	*18*
KKR Group Investments II LLC ("KKR")	Beneficial owner	—	89,080,460	89,080,460	92.99%	*19*
Mr. George Rosenberg Roberts	Interest of controlled corporation	—	89,080,460	89,080,460	92.99%	*19*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [d]	*Note*
Mr. Henry Roberts Kravis	Interest of controlled corporation	—	89,080,460	89,080,460	92.99%	*19*
Glint Delta II NV ("Glint")	Nominee	—	78,544,061	78,544,061	81.99%	*20*
Mr. Fentener Van Vlissingen Harold ("Mr. Van Vlissingen")	Beneficial owner	—	78,544,061	78,544,061	81.99%	*20*
Rawlco Capital Ltd. ("Rawlco")	Beneficial owner	—	49,553,001	49,553,001	51.73%	*21*
Mr. Gordon Stanley Rawlinson	Interests of controlled corporation	—	49,553,001	49,553,001	51.73%	*21*
UBS España, S.A. ("UBS")	Nominee	—	128,441,377	128,441,377	134.08%	*22*
Ms. Angeles González Garcia	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	*22*
Mr. Jorge Garcia Gonzalez	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	*22*
Sphirantes	Nominee	—	49,553,001	49,553,001	51.73%	*22*
Mr. Cesar Molinas Sanz	Beneficial owner	—	17,343,550	17,343,550	18.10%	*22*
Kobrither, S.A.	Nominee	—	14,865,900	14,865,900	15.52%	*22*
Mr. Antonio Del Cano Barbón	Interest of controlled corporation	—	14,865,900	14,865,900	15.52%	*22*
Mr. Ramón Suarez Beltrán	Beneficial owner	—	9,910,600	9,910,600	10.35%	*22*
Mr. Ricardo Sanz Ferrer	Beneficial owner	—	9,910,600	9,910,600	10.35%	*22*
Mr. Miguel Orúe-Echeverria	Beneficial owner	—	9,910,600	9,910,600	10.35%	*22*
Other persons (interests related to preference shareholders)						
Arcosilo, S.L.	Nominee	—	7,432,950	7,432,950	7.76%	*22*
Mr. Blanca Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	*22*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings [d]	Note
Mr. Fernando Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	*22*
Mr. Richardo de Ponga Bianco	Beneficial owner	—	5,946,360	5,946,360	6.21%	*22*
Other persons (interests related to Shareholders)						
VSC BVI	Beneficial owner	6,336,309	—	6,336,309	6.61%	*23*
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	*23*
				7,969,985	8.32%	
VSC	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				7,969,985	8.32%	*23 & 24*
Huge Top	Beneficial owner	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				9,568,098	9.99%	*23 to 25*
Perfect Capital	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				9,568,098	9.99%	*23 to 25*
Ms. Miriam Yao Che Li ("Ms. Yao")	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				9,568,098	9.99%	*23 to 26*

Notes:

1. Mr. Tsang was directly interested in 19,693,486 Shares and a further 39,386,973 underlying Shares which may fall to be issued if the Convertible Bonds are converted at the initial conversion price of HK$0.1566.

2. These 509,400 Shares were directly held by Oboe Development Trading Limited, which was wholly owned by Mr. Tsang.

3. Mr. Tsang was deemed to be interested in 148,659,004 underlying Shares by virtue of his being a founder of a discretionary trust, the trustee of which was HSBC International Trustee Limited ("HSBC Trustee"). HSBC Trustee, through its controlling interests in Asia Internet Capital Management LLC which acted as the investment manager of AICV, was deemed to be interested in 148,659,004 underlying Shares. These 148,659,004 underlying Shares are the same underlying Shares referred to in note 14 below.

   Mr. Tsang was therefore deemed, under the SFO, to be interested in an aggregate of 208,248,863 Shares.

4. NASAC was directly interested in 44,163,474 Shares and a further 88,326,947 underlying Shares which may fall to be issued if the Convertible Bonds are converted at an initial conversion price of HK$0.1566. Accordingly, NASAC was deemed to be interested in a total of 132,490,421 Shares.

5. NASA held the single voting participating share of NASAC and was therefore deemed to be interested in 132,490,421 Shares.

6. API wholly owned all the Shares in NASA, which in turn held the single voting participating share of NASAC. API was therefore deemed to be interested in 132,490,421 Shares.

7. These underlying Shares were held by Goldman Sachs (Asia) Finance, a company controlled by The Goldman Sachs (Asia) Finance Holdings L.L.C.. The Goldman Sachs Group, Inc. was deemed to have interests in these underlying Shares through its direct subsidiary, The Goldman Sachs Global Holdings L.L.C., and its indirect subsidiary, The Goldman Sachs & Co., which was in turn the controlling company of The Goldman Sachs (Asia) Finance Holdings L.L.C.. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying Shares by virtue of their respective corporate interests in Goldman Sachs (Asia) Finance.

8. These underlying Shares were held by Woori, a company controlled by Woori Finance Holdings Co., Ltd..

9. These underlying Shares were held by Oikos, a company controlled by Walkers SPV Limited.

10. These underlying Shares were held by Tiger, a company controlled by Mr. Chen Jong-Tai and Ms. Chen Wu, Feng-Tsai. Accordingly, both were taken to be interested in these underlying Shares under the SFO by virtue of their interests in Tiger.

11. These underlying Shares were held by Grand Loyal, a company controlled by Mr. Ho Yiu Wing. Accordingly, Mr. Ho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Grand Loyal.

12. These underlying Shares were held by Grand Partners, a company controlled by Mr. William Doo Wai Hoi. Accordingly, Mr. Doo was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Grand Partners.

13. These underlying Shares were held by Chevalier, a company 52.5% controlled by Mr. Chow Yei Ching and Ms. Miyakawa Michiko. Accordingly, both were taken to be interested in these underlying Shares under the SFO by virtue of their interests in Chevalier.

14. These underlying Shares were held by AICV which was managed by Asia Internet Capital Management LLC, a company 99% controlled by EC.com Inc.. HSBC International Trustee Limited was deemed to have interests in these underlying Shares through its direct wholly-owned subsidiary MKT Holdings (Cayman Islands) LLC and its indirect wholly-owned subsidiary Smart Channel Investments Inc.. Smart Channel Investments Inc. had 48.66% controlling interests in EC.com Inc.. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying Shares by virtue of their respective corporate interests in AICV. These underlying Shares are the same underlying Shares referred to in note 3 above.

15. These underlying Shares were held by Gentfull, a company 100% controlled by Ms. Vivien Chen Wai Wai. Accordingly, Ms. Chen was taken to be interested in these underlying Shares under the SFO by virtue of her interests in Gentfull.

16. These underlying Shares were held by Doutdes, a company 83.98% controlled by UFI Filters SPA which was in turn controlled by GGG SPA, a company controlled by Mr. Giorgio Girondi. Accordingly, all these parties were taken to be interested in these underlying Shares under the SFO by virtue of their corporate interests in Doutdes.

17. These underlying Shares were held by G.G.G. S.A., a company 100% controlled by Mr. Giorgio Girondi. Accordingly, Mr. Girondi was taken to be interested in these underlying Shares under the SFO by virtue of his interests in G.G.G. S.A.

18. These underlying Shares were held by Timeless, a company controlled by Mr. Cho through Kenthomas Company Limited. Accordingly, Mr. Cho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Timeless. These underlying Shares are the same underlying Shares referred to in note 2 under (a) above.

19. These underlying Shares were held by KKR, a company controlled by Messrs. George Rosenberg Roberts and Henry Roberts Kravis. Accordingly, all these parties were taken to be interested in these underlying Shares under the SFO by virtue of their interests in KKR.

20. These underlying Shares were held by Glint, a company 99% controlled by Mr. Van Vlissingen. Accordingly, Mr. Van Vlissingen was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Glint.

21. These underlying Shares were held by Rawlco, a company controlled by Mr. Gordon Stanley Rawlinson. Accordingly, he was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Rawlco.

22. These underlying Shares were held by UBS. Of these underlying Shares, 49,553,001 underlying Shares were held by Sphirantes, a company controlled by Ms. Angeles González Garcia and Mr. Jorge Garcia González; 17,343,500 underlying Shares were held by Mr. Cesar Molinas Sanz; 14,865,900 underlying Shares were held by Kobrither, S.A., a company controlled by Mr. Antonio Del Cano Barbón; each of Messrs. Ramón Suarez Beltrán, Ricardo Sanz Ferrer and Miguel Orúe-Echeverria held 9,910,600 underlying Shares; 7,432,950 underlying Shares were held by Arcosilo, S.L., a company controlled by Messrs. Blanca Rueda Sabater and Fernando Rueda Sabater; and 5,946,360 underlying Shares were held by Mr. Richardo de Ponga Bianco.

23. VSC BVI owned 54% of the share capital of TN and was deemed to be interested in the 1,633,676 Shares held by TN. VSC BVI directly owned 6,336,309 Shares. VSC BVI was therefore directly and indirectly interested in an aggregate of 7,969,985 Shares.

24. VSC owned the entire issued share capital of VSC BVI, VSC was therefore deemed to be interested in an aggregate of 7,969,985 Shares.

25. Perfect Capital owned approximately 42.86% of the issued share capital of Huge Top. Huge Top was beneficially interested in approximately 47.05% of the issued share capital of VSC; Perfect Capital and Huge Top were therefore deemed to be interested in 1,633,676 Shares held by TN and 6,336,309 Shares held by VSC BVI. Huge Top also directly owned 1,598,113 Shares. Huge Top was therefore directly and indirectly interested in an aggregate of 9,568,098 Shares, and Perfect Capital was indirectly interested in the same aggregate interests.

26. Ms. Yao is one of the two directors for TN and Huge Top while the remaining director of these two companies is Mr. Yao who is the brother of Ms. Yao. Ms. Yao was therefore through Huge Top indirectly interested in an aggregate of 9,568,098 Shares.

Save as disclosed above, the Directors and the chief executive of the Company were not aware of any person (other than the Directors or chief executive of the Company the interests of which were disclosed above) who had an interest or short position in the 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 as at the Latest Practicable Date.

4. LITIGATION

On 22nd January 2005, Amtec entered into an agreement ("Purchase Agreement") with a customer ("Customer") located in Changzhou, the PRC, for the purchase by the Customer from Amtec of two Fuji assembly production lines ("Production Lines"). Under the Purchase Agreement, the consideration for the Production Lines shall be paid in instalments and before the consideration for the Production Lines are paid in full, Amtec shall retain the title to the Production Lines. It is further provided in the Purchase Agreement that should there be defaults in payment by the Customer for three consecutive months, Amtec shall be entitled to, among others, recover the Production Lines.

In May 2006, the Customer ceased production and had defaulted in payment for more than three consecutive months, with a total outstanding amount of approximately US$1.8 million (equivalent to approximately HK$14.0 million) due to Amtec at that time. On 6th July 2006, Amtec applied to the China International Economic and Trade Arbitration Commission ("CIETAC") for, among others, the recovery of the Production Lines. On 25th August 2006, Amtec applied to the Intermediate People's Court of Changzhou (the "Court"), the PRC, for the preservation of the Customer's assets amounting to RMB3.0 million and it was ordered by the Court that such assets shall be preserved and shall not be disposed of without the court's approval. According to Amtec, the amount of the assets under preservation relates solely to the Production Lines. The hearing of the arbitration at CIETAC was held on 2nd November 2006 and the result of which was still outstanding as at the Latest Practicable Date.

In relation to the above claim, a provision of approximately HK$1.5 million was made against such an amount due from the Customer in the audited accounts of the Amtec Group as at 30th June 2006 in order to bring the value of the amount owing from the Customer, which amounted to approximately HK$12.5 million (net of provision), to the net realisable value of the Production Lines.

As at the Latest Practicable Date, save as disclosed above, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the NAS Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the NAS Group within the two years preceding the Latest Practicable Date and are or may be material:

1. the subscription agreement (the "Ajia Parties Subscription Agreement") dated 19th May 2005 entered into among the Ajia Parties, the Company and Huge Top in relation to the subscription of 63,856,960 Shares and the Convertible Bonds, details of which are set out in the circular of the Company dated 20th June 2005;

2. the deed of indemnity (the "Deed") dated 19th May 2005 made amongst Huge Top, Mr. Yao, the Company and the Ajia Parties in conjunction with the Ajia Parties Subscription Agreement;

3. the underwriting agreement dated 19th May 2005 between the Company and VSC BVI relating to the underwriting of Shares pursuant to the open offer detailed in the prospectus of the Company dated 21st July 2005;

4. the sales and purchase agreement dated 26th August 2005 entered into among the Company, Ace Level Investments Limited and Mr. Lam Kam Chuen relating to the sales and purchase of 70% of the entire issued share capital of Best Quality Limited, details of which are set out in the circular of the Company dated 23rd September 2005;

5. the nineteen subscription agreements (with addendum where applicable) entered into among the Company and nineteen institutional and professional investors including AICV and Timeless during the period from September 2005 to January 2006 in relation to the placement of an aggregate of 7,383,166,793 Preference Shares by the Company to the investors, details of which are set out in the circular of the Company dated 24th January 2006, and announcements of the Company dated 6th and 13th March 2006 and 3rd April 2006;

6. the services agreement (the "Services Agreement") dated 26th September 2005 (as amended and restated on 30th December 2005) entered into between the Company and NASA;

7. each of the side letters and/or agreements entered into between the Company and the four placees of Preference Shares who are nominated by the Ajia Parties and invested at least US$10 million each in the Preference Shares in relation to their respective additional rights;

8. the agreements dated 20th February 2006 and 4th September 2006 entered into among the Ajia Parties and the Company pursuant to which the Ajia Parties agree to waive any requirement to adjust the conversion price of the Convertible Bonds arising from the placements of Preference Shares to institutional and professional investors completed in February and March 2006 and to Woori Bank in September 2006 respectively;

9. the subscription agreements dated 20th July 2006 between the Company and Woori Bank in relation to the placement of 792,848,020 Preference Shares to Woori Bank, details of which are set out in the circular of the Company dated 17th August 2006;

10. the sales and purchase agreement dated 2nd August 2006 (as supplemented and amended by an agreement dated 5th October 2006) entered into among the Company, Best Creation Investments Limited ("Best Creation") and Autron in relation to the acquisition of the entire issued share capital of Amtec and AIP by Best Creation, details of which are set out in the circular of the Company dated 13th October 2006;

11. the facility agreement dated 14th August 2006 (as supplemented by a subsequent agreement dated 13th September 2006) and the deed of charge dated 14th September 2006 entered into by Autron, Amtec, other subsidiaries of Autron named therein and ABN AMRO Bank N.V. ("ABN") in relation to the term loan facility of US$45.0 million granted by ABN to Autron, for which the entire share capital of Amtec was pledged by Autron to ABN as security. The security was released upon the full repayment of the said facility when the NAS Group completed the acquisition of the entire issued share capital of Amtec and AIP on 3rd November 2006; and

12. the Agreement.

6. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the NAS Group which does not expire or is not determinable by the NAS Group within one year without payment of compensation (other than statutory compensation). Also, their remuneration and benefit in kind receivable will not be directly varied in consequence of any acquisition by the NAS Group.

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Mr. Yao holds approximately 11.9% direct and 42.9% indirect interests in the issued share capital of Huge Top. Pursuant to the Deed, Huge Top has given certain indemnities and undertaking in favour of the Company regarding the maintenance of the consolidated net asset value of the group of companies engaging in the steel trading business of the NAS Group at a level equal to or exceeding HK$5.0 million after completion of the Ajia Parties Subscription Agreement. Details of the Deed have been set out in the announcement of the Company dated 19th May 2005 and the circular of the Company dated 20th June 2005 in relation to the Ajia Parties Subscription Agreement as described in the section headed "Material contracts" above.

NASA, a party to the Services Agreement as described in the section headed "Material contracts" above, is a subsidiary of API. Mr. Cho and Mr. Chow (both are executive Directors of the Company) each holds less than 20.0% and 10.0% equity interest in API respectively.

Save for the Deed and the Services Agreement as described in the section headed "Material contracts" above, and the subscription agreement entered into between the Company and Timeless on 26th September 2005 in relation to the subscription by Timeless of 99,106,003 Preference Shares in which Mr. Cho is interested, there was no contract or arrangement entered into by any member of the NAS Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the NAS Group.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the NAS Group since 31st March 2006, the date to which the latest published audited consolidated financial statements of the NAS Group were made up.

8. COMPETING INTERESTS

Mr. Yao is an executive Director and also the chairman and chief executive officer of VSC. According to the 2006 annual report of VSC, Huge Top held 173,424,000 shares (approximately 47.1%) in VSC as at 31st March 2006 and Mr. Yao is one of the two directors of Huge Top. Mr. Yao directly held approximately 11.9% and indirectly held approximately 42.9% of the issued share capital of Huge Top. Mr. Yao also has personal interests in 1,614,000 shares (approximately 0.4%) in VSC as at 31st March 2006. VSC is also engaged in steel trading business. The Directors believe that there is a risk that such business may compete with those of the NAS Group. However, the Directors are also of the view that the invaluable experience of Mr. Yao in the steel industry will complement the development of the NAS Group's business.

Save for aforesaid, none of the Directors, management Shareholders, substantial Shareholders and their respective associates compete or may compete with the business of the NAS Group, or have or may have any other conflicts of interest with the NAS Group pursuant to the GEM Listing Rules.

9. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The duties of the Audit Committee include reviewing the Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The Audit Committee comprises three independent non-executive Directors, namely Mr. Philip Ma King Huen, Mr. Kenny Tam King Ching and Mr. Edgar Kwan Chi Ping. The biographies of members of the Audit Committee are set out in the paragraph headed "Directors and Senior Management" in this appendix.

10. CONSENT

Deloitte Touche Tohmatsu has given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters and reports and/or references to its name, in the form and context in which they respectively appear.

11. QUALIFICATION

The following is the qualification of the expert who has been named in this circular or has given its opinion, letters, reports or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the NAS Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the NAS Group, nor did it have any interest, direct or indirect, in any assets which had, since 31st March 2006 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by or leased to any member of the NAS Group, or were proposed to be acquired or disposed of by or leased to any member of the NAS Group.

12. PROCEDURES FOR DEMANDING A POLL BY THE SHAREHOLDERS

Pursuant to bye-law 66 of the Bye-laws of the Company, at any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Stock Exchange or (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:

(a) by the chairman of such meeting; or

(b) 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

(c) 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 representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) 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; or

(e) if required by the rules of the Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

13. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its head office and principal place of business in Hong Kong is at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong.

(b) The compliance officer of the Company is Mr. Chow whose qualification is detailed under the section headed "Directors and senior management" in this appendix.

(c) The qualified accountant of the Company is Ms. Grace Luk Pui Yin whose qualification is detailed under the section headed "Directors and senior management" in this appendix.

(d) The company secretary of the Company is Ms. Lam Yee Fan. She has over 10 years of company secretarial experience in listed companies in Hong Kong. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(e) The principal share register and transfer office of the Company in Bermuda is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda.

(f) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(g) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including 29th November 2006:

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the annual reports of the Company for each of the two years ended 31st March 2005 and 2006 and the quarterly report for the three months ended 30th June 2006;

(c) the accountants' reports on the Amtec Group and AIP, the texts of which are set out in the circular of the Company dated 13th October 2006 and reproduced in Appendix I to this circular;

(d) the accountants' reports on the Target Group, the text of which is set out in Appendix II to this circular;

(e) the letter issued by Deloitte Touche Tohmatsu in connection with the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the consent letter referred to under the paragraph headed "Consent" in this appendix;

(g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(h) the final draft of the Shareholders' Agreement; and

(i) a copy of each circular issued by the Company pursuant to the requirements set out in Chapters 19 and/or 20 of the GEM Listing Rules which has been issued since the date of the latest published audited accounts of the Company.

NOTICE OF THE SPECIAL GENERAL MEETING

North Asia Strategic Holdings Limited
北亞策略控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 8080)

NOTICE IS HEREBY GIVEN that a special general meeting of North Asia Strategic Holdings Limited (the "Company") will be held at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong at 10:00 a.m. on Wednesday, 29th November 2006 for the purpose of considering and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

"**THAT:**

(A) the conditional subscription agreement (the "Subscription Agreement") dated 16th October 2006 and entered into among Good Tactics Limited ("Good Tactics"), Coland Group Limited ("Coland"), the two existing shareholders of Coland and the Company for the subscription of a total of 100,000,000 convertible preferred shares of HK$0.10 each in the share capital of Coland by Good Tactics at an aggregate subscription price of HK$143,333,333 (equivalent to approximately HK$1.43 per preferred share) (copy of the Subscription Agreement has been produced to this meeting and marked "A" and initialed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder, including without limitation the entering into and the performance of the shareholders' agreement upon completion of the Subscription Agreement, be and are hereby approved, confirmed and ratified; and

(B) the directors of the Company be and are hereby authorized to do all things and acts and sign all documents which they may in their absolute discretion consider necessary, desirable or expedient in connection with the Subscription Agreement and the transactions contemplated thereunder, including without limitation the entering into and the performance of the shareholders' agreement upon completion of the Subscription Agreement."

By Order of the Board
North Asia Strategic Holdings Limited
Savio Chow Sing Nam
Executive Director and Chief Executive Officer

Hong Kong, 10th November 2006

* *For identification purpose only*

NOTICE OF THE SPECIAL GENERAL MEETING

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
78th Floor
The Center
99 Queen's Road Central
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or, if he holds two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, this form of proxy, together with the relevant power of attorney or other authority (if any) under which it is signed (or a certified true copy thereof) must be deposited at the Company's branch share register, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting, as the case may be.

3. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting or any adjournment thereof and, in such event, the authority of the proxy shall be deemed to be revoked.

4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto. If more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.