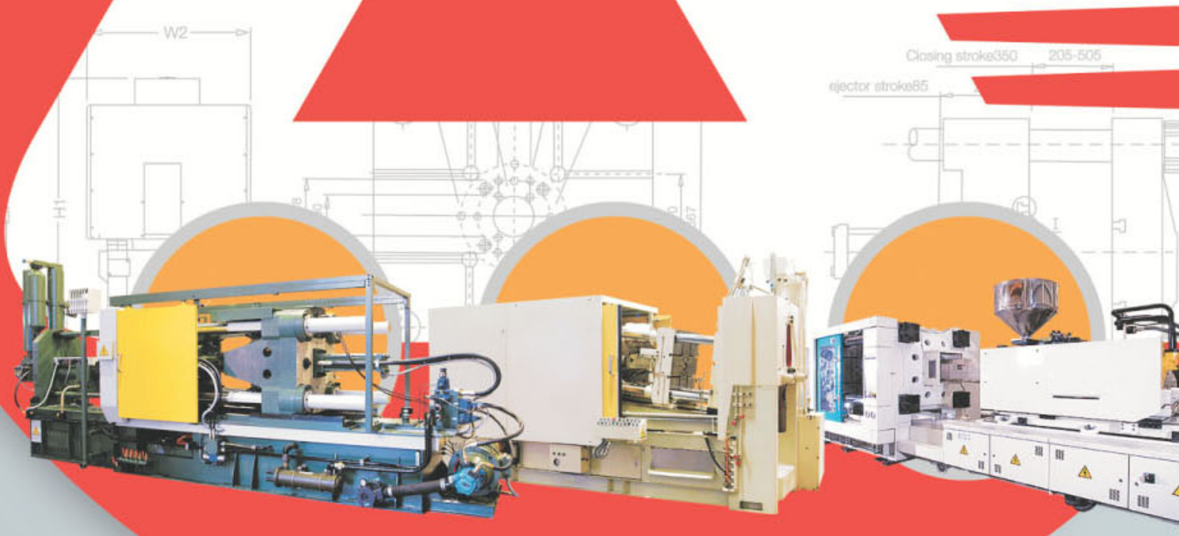
力勁科技集團有限公司

L.K. TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Placing and Public Offer



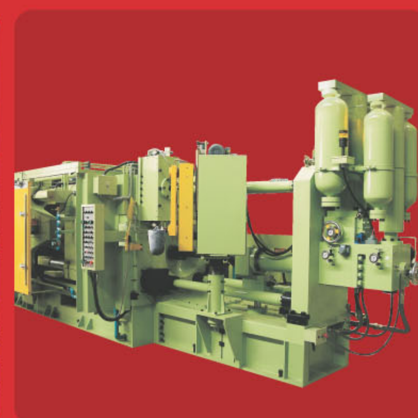
Sponsor

taifook
TAIFOOK CAPITAL LIMITED

Sole Bookrunner and Lead Manager

taifook
TAIFOOK SECURITIES COMPANY LIMITED



力劲高新技术工业园


力勁集團
力勁科技

力勁
DCC2000M
鋁合金壓鑄機

力勁集團

MV-1100
L.K.GROUP

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

力勁科技集團有限公司
L.K. Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Listing on the Main Board of The Stock Exchange of Hong Kong Limited by way of Placing and Public Offer

Number of Offer Shares under the Share Offer	:	**250,000,000 Shares (subject to the Over-allotment Option)**
Number of Placing Shares	:	**225,000,000 Shares (subject to the Over-allotment Option and re-allocation)**
Number of Public Offer Shares	:	**25,000,000 Shares (subject to re-allocation)**
Offer Price	:	**Not more than HK$1.13 per Share and expected to be not less than HK$0.91 per Share (payable in full upon application and subject to refund)**
Nominal value	:	**HK$0.10 each**
Stock code	:	**558**

Sponsor

TAIFOOK CAPITAL LIMITED

Sole Bookrunner and Lead Manager

TAIFOOK SECURITIES COMPANY LIMITED

Co-Lead Manager

UOB Kay Hian (Hong Kong) Limited

Co-Managers

China Merchants Securities (HK) Co., Ltd.
First Shanghai Securities Limited
Mega Capital (Asia) Company Limited
Polaris Capital (Asia) Limited
CIMB-GK Securities (HK) Limited
ICEA Capital Limited
Phillip Securities (HK) Limited
Sun Hung Kai International Limited

A copy of this prospectus, having attached thereto the documents specified in the paragraph "Documents delivered to the Registrar of Companies" in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between Taifook Securities, on behalf of the Underwriters, and the Company on or before 6 October 2006 or such later time as may be agreed between the parties, but in any event, no later than 6:00 p.m. (Hong Kong time) on 12 October 2006. If, for any reason, Taifook Securities, on behalf of the Underwriters, and the Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on 12 October, 2006, the Share Offer will not become unconditional and will lapse immediately. The Offer Price will be not more than HK$1.13 per Share and is expected to be not less than HK$0.91 per Share although Taifook Securities, on behalf of the Underwriters, and the Company may agree to a lower price. Taifook Securities, on behalf of the Underwriters, may, with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK$0.91 per Share to HK$1.13 per Share) at any time prior to the morning of the latest date for lodging applications under the Public Offer. In such a case, notices of the reduction in the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the latest day for lodging applications under the Public Offer, then even if the Offer Price is so reduced such application cannot be subsequently withdrawn (except in the circumstances described in "How to Apply for the Public Offer Shares").

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, the risk factors set out in the ''Risk Factors'' section.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Share Offer, Taifook Securities (on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the scheduled date on which the Shares commence trading on the Stock Exchange (such date is currently expected to be 16 October, 2006). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

29 September 2006

	(Note 1)
Latest time to lodge **PINK** application forms	4:00 p.m. on 4 October 2006
Application lists of the Public Offer open *(Note 2)*	11:45 a.m. on 5 October 2006
Latest time for lodging **WHITE** and **YELLOW** application forms	12:00 noon on 5 October 2006
Application lists of the Public Offer close *(Note 2)*	12:00 noon on 5 October 2006
Expected Price Determination Date on or before	6 October 2006
Announcement of the levels of indication of interest in the Placing, the results of the Public Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification document numbers, where appropriate) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	13 October 2006
Despatch of Share certificates on or before *(Note 3)*	13 October 2006
Despatch of refund cheques in respect of wholly or partially unsuccessful applications under the Public Offer on or before *(Note 3)*	13 October 2006
Dealings in the Shares on the Stock Exchange expected to commence on	16 October 2006

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus.

(2) If a "**black**" rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 5 October 2006, the application lists will not open and close on that day. See the paragraph headed "Effect of bad weather on the opening of the application lists of the Public Offer" in the section headed "How to apply for the Public Offer Shares" of this prospectus.

(3) Applicants who apply with **WHITE** application forms for 500,000 Public Offer Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong branch share registrar may collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 13 October 2006. Identification and authorisation documents (where applicable) acceptable to the Company's Hong Kong branch share registrar must be produced at the time of collection.

    Applicants who apply with **YELLOW** application forms for 500,000 Public Offer Shares or more under the Public Offer and have indicated in their application forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for **YELLOW** application form applicants is the same as that for **WHITE** application form applicants.

The Share certificates and/or refund cheques for applicants who apply with **PINK** application forms will be sent to the addresses indicated in their application forms on the date of dispatch by ordinary post at their own risk.

Uncollected Share certificates and refund cheques (if any) will be depatched by ordinary post and at the own risk of the applicants in the afternoon on the day as described in the paragraph headed "Collection/ posting of Share certificates/refund cheques and deposit of Share certificates into CCASS" under the section headed "How to apply for the Public Offer Shares" in this prospectus.

4. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 13 October 2006 for credit to the respective CCASS participant's stock account designated by the Placing Underwriters, the placees or their agents, as the case may be.

5. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the scheduled Listing Date (which is currently expected to be 16 October 2006) provided that (i) the Share Offer has become unconditional in all respects, and (ii) the right of termination as described in the paragraph "Grounds for termination" under the section headed "Underwriting" in this prospectus has not been exercised thereto and has lapsed.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Share Offer, Taifook Securities (on behalf of the Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the scheduled Listing Date (which is currently expected to be 16 October 2006). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

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You should rely only on the information contained in this prospectus and the related application forms to make your investment decision.

The Company has not authorised any person to provide you with information that is different from what is contained in this prospectus and the related application forms.

Any information or representation not made in this prospectus and the related application forms must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or parties involved in the Share Offer.

The contents on the website www.lktechnology.com, www.lkmachinery.com, www.lkmachinery.com.hk, www.lklw.com.cn, www.zs-lk.com, www.lkatech.com.cn and www.lknblk.com, all of which are the websites of the Group, do not form part of this prospectus.

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW OF BUSINESS

The Group is principally engaged in the design, manufacture and sale of hot chamber and cold chamber die-casting machines and plastic injection moulding machines. The products of the Group are sold mainly to manufacturers of different industries in the PRC.

The Group was established in 1985 in Hong Kong. As at the Latest Practicable Date, the Group has 7 manufacturing subsidiaries, 2 in each of Shenzhen and Ningbo and 1 in each of Shanghai, Zhongshan and Fuxin, the PRC, with a total gross floor area of approximately 129,700 sq.m. for the production and sale of die-casting and plastic injection moulding machines in the PRC. The Group's PRC subsidiaries have established sales offices and liaison points located close to the existing and potential customers of the Group in various cities of the PRC. These offices and liaison points help to extend the Group's sales network coverage and facilitate the provision of after-sales services to the customers. At the Latest Practicable Date, the Group had a total of 14 sales offices and 25 liaison points in the PRC and 1 sales office in Hong Kong. To facilitate sales in overseas markets, the Group has also established 1 overseas company as a sales office in each of Taiwan and Canada and 2 overseas companies as sales offices in the U.S.

The Group is one of the leading players in the die-casting machinery industry in the PRC with a well established brand name and sizeable operations. The Directors believe that the Group is one of the largest manufacturers of die-casting machines in the PRC. In the calender year of 2005, the Group sold approximately 1,500 die-casting machines in the PRC amounting to approximately 44% of the total number of die-casting machines sold in the PRC (based on the record compiled by the Foundry Institution of Chinese Mechanical Engineering Society). In addition, on 21 July 2006, SZ Leadwell, a major manufacturing subsidiary of the Group, was awarded "2006年中國機械500強榮譽證書" ("Machine 500 China in year 2006").

The Group offers a comprehensive range of machinery products featuring 80 different models in 15 series under three major product categories, namely hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines. Die-casting machines are used for the die-casting of non-ferrous molten metals into different types of metallic consumer and industrial products such as automotive parts and components, computer, communication and consumer products, and household electrical products. Plastic injection moulding machines are used for manufacturing plastic products such as toys, telecommunications equipment, computers and computer peripherals, consumer electronics and other household or consumer products. The Group's hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines have clamping force ranging from 8 to 400 tons, 145 to 3,000 tons and 30 to 1,300 tons respectively.

As at 31 August 2006, the Group's annual production capacity amounts to approximately 4,800 standard units of machines, being machine products of the Group with clamping force of 160 tons. Please refer to the paragraph headed "Production capacity and standard unit of machines" under the section headed "Business" for further information of standard unit of machines.

Since 2003, the Group expanded each of its manufacturing facilities situated in Shenzhen, Shanghai, Zhongshan and Ningbo. As a result, the annual production capacity of the Group increased from approximately 3,060 standard units of machines as at 1 April 2003 to its annual production capacity as at 31 August 2006 of approximately 4,800 standard units of machines, representing an increase over the said entire period of approximately 57% of annual production capacity of the Group. The Directors believe that the expansion of its manufacturing facilities can further enhance the Group's position through economy of scale and enable the Group to achieve a higher growth in sales in the market.

The Group has established a research and development centre with approximately 160 staff as at 31 August 2006, situated at the Group's PRC headquarters in Shenzhen, which is responsible for carrying out various research and development projects in accordance with expected market demands and in order to maintain the Group's competitive edge. Recent research and development projects of the Group include the projects for cold chamber die-casting machines with 4,500 tons clamping force and plastic injection moulding machines with 2,200 tons clamping force. In addition, the Group has completed the prototype of direct clamp injection moulding machines, and the prototype of all electric injection moulding machines to meet the demand for higher product efficiency and quality. The software programs developed by the Group (some of which with copyright registered) are used in its machine products. To the best knowledge of the Directors, the Group's customers are mainly manufacturers in the automotive industry, toy industry, electrical products industry and electronics industry in the PRC.

For the three years ended 31 March 2006, the Group's turnover amounted to approximately HK$602.0 million, HK$667.6 million and HK$851.5 million respectively and the Group's net profit attributable to shareholders amounted to approximately HK$113.6 million, HK$102.8 million and HK$107.6 million respectively. As at 31 August 2006, the Group had a workforce of approximately 3,500 staff.

COMPETITIVE STRENGTHS OF THE GROUP

Leading market position

The Group has grown to become one of the largest manufacturers of die-casting machines in the PRC. In the calender year of 2005, the Group sold approximately 1,500 die-casting machines in the PRC amounting to approximately 44% of the total number of die-casting machines sold in the PRC (based on the record compiled by the Foundry Institution of Chinese Mechanical Engineering Society). The Group has 7 manufacturing subsidiaries in the PRC totaling an aggregate gross floor area of approximately 129,700 sq.m. and sold approximately 3,067 machines (including both die-casting machines and plastic injection moulding machines) for the year ended 31 March 2006. These manufacturing subsidiaries are equipped with advanced machineries and CNC machines. The Group's wide-ranging products featuring 80 different models in 15 series. The Group's annual production capacity expanded by approximately 57% from 1 April 2003 to 31 August 2006. Capitalizing on its large scale of production and leading market position, the Directors expect the Group will continue to benefit from its economy of scale and the business opportunities arising from the increasing demand of die-casting machines and plastic injection moulding machines in the PRC.

Clear and focused management vision

The Board has a clear and focused management vision. In view of the relocation of the production plants of Hong Kong and overseas manufacturers to the PRC as a result of the open door policies implemented by the PRC government in the 1980s, the Group then quickly identified the prospects of the PRC becoming the manufacturing centre of various industries and consumer products such as toy, electrical and electronic products. It is the Group's established policies to gradually establish a number of manufacturing plants with a close proximity to the manufacturers of the above-mentioned products in the PRC, and to produce machines of larger size to capture the growing demand of the manufacturing industry in the PRC. The Group has established a leading position in the die-casting machinery industry. To leverage on the Group's technological expertise in designing and manufacturing machines and established sales network, the management has expanded the Group's business into plastic injection moulding machines. The plastic injection moulding machinery business, which complements the Group's die-casting machinery business, has become one of the important growing force of the Group's business.

Strong brand recognition built upon high quality products and services

The Group has adopted stringent quality control measures in compliance with ISO 9001:2000 standard and is promoting quality management system at stages of production. Besides, in order to better facilitate sales and provide strong after-sales support to its customers, the Group has, as at the Latest Practicable Date, 14 sales offices and 25 liaison points throughout the PRC where the customer service staff from the Group's manufacturing subsidiaries provide customers with training, technical advice and after sales services. The Directors believe that the Group's quality products and services enable the Group to satisfy its customers' demand for high quality products and services, thereby building up a strong brand recognition.

Strong research and development ability

Situated at the Group's PRC headquarters in Shenzhen, the Group's research and development centre, which has approximately 160 staff as at 31 August 2006, is responsible for carrying out research and development projects in accordance with the market requirements. The Directors believe that the Group's research ability enables the Group's continuous development in advanced technology and new products to meet the changing demand of the market, which in turn enables the Group to maintain a leading position in the industry. The Group has completed the prototype of direct clamp injection moulding machines and all electric injection moulding machines. The Group is undertaking projects to develop cold chamber die-casting machines with clamping force up to 4,500 tons and plastic injection moulding machines with clamping force up to 2,200 tons. In addition, the Group has been developing various new technology and application including the LK networking system (which will connect all the die-casting machines or plastic injection moulding machines of a customer and provide consolidated information to management), the real time control system (which will provide the machines with self-diagnosis system and auto control system), and semi-solid metal casting technology.

Well-established management structure

The Group has adopted a management system in which decision-making and management functions are carried out by a team of senior management staff. The decentralised management structure and a developed system for segregation of duties allow the Group to maintain balanced input of knowledge and relevant experience from management in different functional areas. In addition, the Group's management structure is formulated to avoid over reliance on any single member of the management team and may enhance smoothness and effectiveness of the operations of the Group.

FUTURE PLANS AND PROSPECTS

The Directors are optimistic about the markets for die-casting machines and plastic injection moulding machines as they expect the rapid economic growth of the PRC economy, which is the main driving force for the increasing demand for metallic casting and plastic injection moulding in the future, to continue. The Group's main goals are to strengthen its leading position in the PRC die-casting machines markets and to obtain a more vivid market presence in the international markets. The Directors consider that, given its experienced management, high quality products, well recognised brand names, expanding production capacity and extensive sales and distribution network, the Group is well positioned to capitalise on the future growth of the PRC die-casting and plastic injection moulding machinery markets.

The Group plans to achieve the above goals by:

- **Expanding production capacity** – at present, the Group has a total of 7 manufacturing subsidiaries for the production of die-casting machines and plastic injection moulding machines. Despite the expansion of manufacturing facilities during the Track Record Period, the Directors expect the demand for the Group's machinery product will increase, and the existing production capacity may not be sufficient. In view of this, the Group intended to acquire a plot of site in Shenzhen of approximately 57,000 sq.m. in area for the research and development and manufacturing of high end products such as direct clamp injection moulding machines and all electric injection moulding machines. The Directors expect that, after completion of such expansion, the Group's production capacity will be increased to approximately 5,030 standard units. Such increase is expected to take effect in September 2007. In addition, the Group has a vacant site of approximately 11,000 sq.m. held by LK Tech (Ningbo) to be developed for the expansion of its production capacity in the future when need arises. The Directors expect that, by the completion of such expansion, the Group's production capacity will be further increased to approximately 5,160 standard units. Such increase is expected to take effect in April 2008. The Directors estimate that the capital expenditure for the expansion plans of SZ Leadwell and LK Tech (Ningbo) are approximately HK$54.5 million and HK$27.5 million respectively, both of which are intended to be contributed solely from the use of proceeds and hence no capital so far has been committed for each of the above expansion plans. The Directors believe that the expansion in the Group's productivity and the strengthening of the Group's research and development capacity will help the Group achieve higher market share in the PRC and serve the customers' demand better in overseas markets.

- **Enhancing production efficiency and product quality** – though the Group has implemented a stringent quality management system to ensure that the quality standard is adhered to, the Group considers it beneficial to acquire new and sophisticated testing equipment to be used during processing procedure and assembling procedure. This testing equipment will test the accuracy and precision of the processed parts after machining, components and assembled parts to further enhance the quality control. As a result, the consistency and reliability of the overall finished products will be further improved, and will enhance the confidence of the Group's customers as the quality of products are taken to a higher standard. The utilization of more sophisticated testing equipment will also increase the production efficiency and product quality since less manual labour will be involved in the testing process.

- **Product development and enhancement** – the Group plans to increase its investment in developing new products in order to satisfy different market demand by offering a more comprehensive range of products. In respect of clamping force, the Group intends to develop new cold chamber die-casting machines and plastic injection moulding machines with a higher range of clamping force up to 4,500 tons and 2,200 tons respectively. In addition, the Group is making continuous efforts in developing 160 tons and higher force direct clamp plastic injection moulding machines and 160 tons and higher force all electric plastic injection moulding machines. Such product development can further enhance the productivity and precision of the products and achieve energy saving while being more environmental friendly.

  To enhance the Group's competitive advantages, the Group has been developing a computer-based networking system that can connect a number of die-casting machines or plastic injection moulding machines, semi-solid casting machines and real time control systems for its die-casting machines to compete with other die-casting machine manufacturers. The Group plans to provide one stop access to its client by offering a comprehensive range of products to satisfy different market demand. To strengthen its research capability, the Group will continue to collaborate with prestigious universities and technical institutions in the PRC and Hong Kong for research and development of new production technology applicable to improve the quality and functions of the Group's products.

- **Extending its sales network** – The Group has a total of 14 sales offices and 25 liaison points in the PRC. The Group intends to expand nine additional sales offices in the PRC. In addition, the Group intends to expand its overseas sales network by appointing agents in Colombia, Bangladesh, Sri Lanka, Russia, Ukraine, Romania and South Africa.

- **Enhancing horizontal and vertical integration** – the Group plans to enhance its competitiveness and enlarge its market presence by forming joint ventures with leading die-casting manufacturers. By doing so, the Group will be able to tap previously unexplored markets and to benefit from possible synergy effects. Apart from horizontal integration, the Group will also look for appropriate acquisition targets preferably those companies on the supply chain to ensure a steady supply of materials and parts at a more competitive price structure.

USE OF PROCEEDS

The Directors intend to use the net proceeds from the Share Offer to expand production capacity, to develop new products and technologies, to enhance research capabilities, to extend the sales network, to enhance vertical and horizontal integration, to repay part of the outstanding bank loans and to provide additional general working capital for the Group. Based on an Offer Price of HK$1.02 per Offer Share, being the mid-point of the stated range of the Offer Price per Share, the net proceeds from the Share Offer (assuming no Over-allotment Option is exercised), after deduction of the expenses payable by the Company, are estimated to be approximately HK$230 million. The Directors at present intend to apply the net proceeds as follows:

- approximately HK$82 million for the expansion of production capacity by building new manufacturing plants or expanding the existing manufacturing subsidiaries by setting up new phases of the production plants and related investment in new production equipment, specifically

(i) approximately HK$54.5 million for the expansion of SZ Leadwell, comprising approximately HK$17 million for the acquisition of the land of approximately 57,000 sq.m. in area (subject to grant from the Shenzhen Municipal Administration of Land Resources and Real Estate Bureau of Jianyi Building, No. 3 Zhenxing Road, Futian District, Shenzhen, PRC and the Group has not entered into any agreement for such acquisition as at the Latest Practicable Date), approximately HK$20.5 million for the construction of the production plants, and approximately HK$17 million for the investment in various production equipment such as cranes and machining centers; and

(ii) approximately HK$27.5 million for the expansion of LK Tech (Ningbo), comprising approximately HK$16 million for the construction of the phase II production plants, and approximately HK$11.5 million for the investment in various production equipment such as cranes and machining centers.

- approximately HK$34 million for the purchase of various testing equipment for production use. These testing equipment will be utilized in the Group's major operating subsidiary companies for product testing and inspection purposes.

- approximately HK$15 million for the development and commercial production of new models of machinery and related systems and for enhancement of the Group's research capabilities, specifically

(i) approximately HK$10 million for the research and development of the LK networking system, which will connect all the plastic injection moulding machines of a customer and provide consolidated information to management. The total amount comprises approximately HK$5.4 million for investment in various test equipment and related software, approximately HK$2.6 million for hiring of additional in-house research staff and fees for external consultants, and approximately HK$2 million for marketing and training activities;

(ii) approximately HK$2.9 million for the research and development of the semi-solid moulding technology; and

(iii) approximately HK$2.1 million for the research and development of the real time control system.

- approximately HK$2.6 million for the expansion of the Group's sales network in the PRC.

- approximately HK$30 million for horizontal and vertical integration, specifically

(i) approximately HK$20 million for an identified horizontal acquisition opportunity. The target, an Independent Third Party, is a European based company in die-casting machines industry. The Group has been in discussion with the target for acquiring a 19.9% equity interest (valued at Euro 2 million, or approximately HK$20 million) in the target. The discussion was in preliminary stage and no terms and conditions have been fixed as at the Latest Practicable Date. If the acquisition proceeds, the Company will comply with relevant requirements of the Listing Rules accordingly; and

(ii) approximately HK$10 million for vertical integration opportunity by acquiring equity interest in entities that are engaged in the production of raw materials for the production of the Group's products. As at the Latest Practicable Date, no target has been identified for such purpose. The Company will comply with relevant requirements of the Listing Rules should any opportunities arise.

- approximately HK$52.7 million for repayment of loans of an aggregate principal amount of approximately HK$52.7 million bearing interest of approximately 5.5% per annum which will fall due during May 2008 to October 2009. Out of the above, an aggregate principal amount of HK$30.6 million was borrowed within one year prior to the date of the listing application for the capital injection into LK Tech (Ningbo).

- the remaining balance of approximately HK$13.7 million for general working capital for the Group.

Assuming the Offer Price of HK$1.13 per Share (being the high-end of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK$27.5 million, of which the Directors intend to apply (i) approximately HK$3.8 million to repay bank loan, with annual interest rates of approximately 6.6 % per annum which will fall due during November 2006 to January. 2007, (ii) approximately HK$21.0 million to repay short term revolving bank loan, with annual interest rates of approximately 5.3% per annum, and (iii) the balance of HK$2.7 million as general working capital.

Assuming the Offer Price of HK$0.91 per Share (being the low-end of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share), the amount of net proceeds will be reduced by approximately HK$27.5 million. In such case, the Directors intend to reduce the repayment of part of the outstanding bank loan by HK$17.9 million and reduce the balance for general working capital by HK$9.6 million, while the amounts to be applied for other purposes would remain unchanged.

Should the Over-allotment Option be exercised in full, based on an Offer Price of HK$0.91 per Share, being the low-end of the stated range of the Offer Price, the Company will receive additional net proceeds from the Share Offer of approximately HK$33.27 million which the Directors intend to apply as to approximately HK$31.32 million to repay bank loan, with annual interest rates of approximately 5.3% to 5.7% per annum which will fall due during March 2009 to September 2009, and the balance of approximately HK$1.95 million as general working capital.

Should the Over-allotment Option be exercised in full, based on an Offer Price of HK$1.13 per Share, being the high-end of the stated range of the Offer Price, the Company will receive additional net proceeds from the Share Offer of approximately HK$41.32 million which the Directors intend to apply as to approximately HK$38.50 million to repay bank loan, with annual interest rates of approximately 5.3% to 5.7% per annum which will fall due during December 2008 to September 2009, and the balance of approximately HK$2.82 million as general working capital.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term investments and/or short-term deposits with banks and/or financial institutions in Hong Kong.

TRADING RECORD

The following table is a summary of the combined results of the Group during the Track Record Period, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

		Year ended 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*1*	601,974	667,588	851,519
Cost of sales		(346,599)	(423,319)	(564,407)
Gross profit		255,375	244,269	287,112
Other revenue		3,541	18,054	32,625
Distribution costs		(46,417)	(56,175)	(79,092)
Administration expenses		(89,867)	(90,484)	(107,855)
Profit from operations		122,632	115,664	132,790
Finance costs		(2,506)	(9,219)	(14,914)
Profit before taxation		120,126	106,445	117,876
Income taxes		(6,518)	(3,630)	(10,260)
Profit for the year		113,608	102,815	107,616
Profit/(loss) attributable to:				
Equity holders of the Company		113,608	102,816	107,616
Minority interests		–	(1)	–
		113,608	102,815	107,616
Dividends	*2*			
– Declared		45,000	40,000	–
– Proposed		–	–	43,000
		45,000	40,000	43,000
		HK cents	*HK cents*	*HK cents*
Earnings per share				
– basic *(HK cents)*	*3*	15.1	13.7	14.3

Notes:

1. **Turnover**

During the three years ended 31 March 2006, the turnover of the Group consists of sales of die-casting machines, plastic injection moulding machines and related accessories.

2. **Dividends**

The proposed final dividend of a subsidiary amounting to HK$43 million for the financial year ended 31 March 2006 was subsequently approved by its then shareholders and will be settled by way of setting off against the amounts due from related entities prior to the Listing Date.

3. **Earnings per share**

The calculations of basic earnings per Share are based on the net profit from ordinary activities attributable to the Shareholders for each of the Track Record Period and on the assumption that 750,000,000 Shares were deemed to have been issued, comprising 650,000,000 Shares in issue as at the date of this prospectus and 100,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described more fully in the paragraph headed "Written resolutions of the sole shareholder passed on 23 September 2006" in section 3 of appendix V to this prospectus.

STATISTICS OF THE SHARE OFFER

Range of Offer Price (per Share) .... HK$0.91 to HK$1.13

Market capitalisation ....approximately HK$910 million to HK$1,130 million

Pro forma adjusted net tangible asset value per Share *(Note 2)* .... HK$0.67 to HK$0.73

(1) Except where otherwise indicated, the statistics have been prepared on the assumption that the Over-allotment Option is not exercised and takes no account of (i) any Shares which may be issued upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme and Share Option Scheme; or (ii) any Shares which may be allotted or issued or purchased by the Company under the general mandates for the issue or repurchase of Shares granted to the Directors referred to in appendix V to this prospectus or otherwise.

(2) The pro forma adjusted net tangible asset value per Share has been arrived after making the adjustments set out under the paragraph "Unaudited pro forma financial information" in the section headed "Financial information" in this prospectus and on the basis of a total of 1,000,000,000 Shares in issue and to be issued as mentioned.

DIVIDEND POLICY

Following the Listing, Shareholders will be entitled to receive dividends declared by the Company. The Company intends to pay dividends by way of interim and final dividends. The Directors generally intend to declare and recommend dividends which would amount in total to not less than 30% of the distributable profit for the period subsequent to the Share Offer. The payment and amount of any dividends will be at the discretion of the Directors and will depend upon the Group's earnings, financial conditions, cash requirements and availability, and other factors. There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or the timing of such payment.

As at the Latest Practicable Date, dividends of approximately HK$45 million and HK$40 million were declared and paid in respect of each of the two years ended 31 March 2005 respectively, and a dividend of HK$43 million for the year ended 31 March 2006 was declared, which will be settled by way of setting off against the amounts due from related entities prior to the Listing Date. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

RISK FACTORS

The Directors consider that the business and operations of the Group are subject to a number of risk factors which can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; and (iii) risks relating to the PRC, which are summarised as follows:

Risks relating to the Group

– There is no assurance that the Group will continue to retain quality staff

– The Group's business and operations may be adversely affected due to intense competition in the PRC

– The Group's future profitability may be adversely affected due to its reliance on the PRC market

– The Group has high level of bank borrowings

– The Group has decreasing gross profit and net profit margins during the Track Record Period

– The Group has increasing accounts receivable days during the Track Record Period

– The Group has negative operating cash flow for the year ended 31 March 2006

– The Group's business and/or profitability may be adversely affected if it fails to protect intellectual property rights

– The Group's business and/or financial performance may be adversely affected due to the fluctuation of prices of raw materials and energy costs

– The Group's business may be adversely affected due to the fluctuations in prices of commodities

– There is no assurance that future dividends will be paid at a level similar to past dividends

– The Group is exposed to foreign currency risks in the context of sales, purchase and foreign currency loans

– The Group's financial position may be adversely affected due to default by customers who purchased the Group's products with loans guaranteed by the Group

– There is no assurance that the Group will continue to benefit from the preferential tax treatment

– Engaging in litigations could be expensive and causing disruption to the Group's business

– Impact of environmental laws

Risks relating to the industry

- The Group may not be able to keep up with changes in technology or market demand
- The Group's profitability may be adversely affected after the PRC's accession to the WTO

Risks relating to the PRC

- The Group may be adversely affected by political, economic and social condition in the PRC
- The Group's financial performance may be adversely affected due to austerity measures imposed by the PRC government
- The Group may be adversely affected by uncertainties regarding interpretation and enforcement of PRC laws and regulations
- The Group may be adversely affected by changes in the PRC foreign exchange regulations
- The Group may be adversely affected by fluctuation of the Renminbi

Risks relating to the Share Offer

- Liquidity of the Shares and volatility of the market price of the Offer Shares
- Possible dilution to shareholders arising from future fund raising by the Company
- Certain information and statistics contained in this prospectus are derived from various official sources and have not been independently verified
- Reliance on forward-looking statements contained in this prospectus involve risks and uncertainties

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

"Allied First"	Allied First Technologies Limited, a company incorporated in Hong Kong with limited liability on 5 June 2000 and is directly wholly-owned by Fairview Technology, which is in turn indirectly wholly-owned by Girgio
"Arays Auto"	Arays Auto USA, Inc., a company incorporated in the United States with limited liability on 30 December 2003 and is directly owned as to 40% by Mr. Liu and 30% by a brother-in-law of Mr. Liu and 30% by an Independent Third Party
"Articles"	our articles of association referred to under "Written resolutions of the sole Shareholder passed on 23 September 2006" in appendix V to this prospectus
"associates"	has the meaning ascribed thereto under the Listing Rules
"Baotou Arrays"	包頭一陽輪轂有限公司 (Baotou Arays Wheel Company Limited*), a company incorporated in the PRC with limited liability on 7 July 2004 and is directly owned as to 20% by an Independent Third Party and 80% by Key Point, which is in turn indirectly wholly-owned by Mr. Liu
"Best Truth"	Best Truth Enterprises Limited, a company incorporated in the BVI with limited liability on 10 June 2004 and is directly wholly-owned by the Company
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of shares to be made upon capitalisation of part of the share premium account of the Company referred to under the paragraph of "Written resolutions of the sole shareholder of the Company passed on 23 September 2006" in appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Cheuk Wei"	中山卓威機械有限公司 (Zhongshan Cheuk Wei Machinery Co. Ltd.*), a company incorporated in the PRC with limited liability on 28 September 2002 and was de-registered on 8 September 2004 and, prior to the de-registration, was a direct wholly-owned subsidiary of Powel Excel and an indirect wholly-owned subsidiary of the Company

* *For identification purposes only*

"chief executive"	has the meaning ascribed thereto under the Listing Rules
"City Team"	City Team Industrial Limited, a company incorporated in Hong Kong with limited liability on 1 August 1996 and is directly wholly-owned by Advance Tech Industries Limited (formerly known as L.K. Machinery (China) Limited), which is in turn directly wholly-owned by Mr. Liu
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	L.K. Technology Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands on 18 August 2004
"Connected Person"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules and, in the context of the Company, means Girgio, which in aggregate holds approximately 75% of the issued share capital of the Company immediately following completion of the Share Offer (assuming that the Over-allotment Option is not exercised) and the Capitalisation Issue
"Cyberbay"	Cyberbay Pte Ltd, a company incorporated in Singapore with limited liability on 23 September 2000 and is directly wholly-owned by the Company
"Director(s)"	the director(s) of the Company as at the date of this prospectus
"Fairview Technology"	Fairview Technology Limited, a company incorporated in the BVI with limited liability on 5 July 2000 and is directly wholly-owned by Supreme Technology, which is in turn wholly-owned by Girgio
"Full Power"	Full Power Development Limited, a company incorporated in Hong Kong with limited liability on 4 August 1994 and is directly owned as to 49% by Ms. Chong and 51% by Fullwit
"Fullwit"	Fullwit Profits Limited, a company incorporated in BVI with limited liability on 6 September 2001, whose sole beneficial owner is Ms. Chong and which holds 95% of the equity capital in Girgio in its capacity as trustee of The Liu Family Unit Trust

"Gaoyao Hongtai"	高要鴻泰精密壓鑄有限公司 (Gaoyao Hongtai Precision Die-Casting Company Limited*), a company incorporated in the PRC with limited liability on 9 December 2005 and is directly owned as to 60% by Independent Third Parties and 40% by Broad Rich Limited, which is in turn indirectly wholly-owned by Girgio
"Girgio"	Girgio Industries Limited, a company incorporated in the BVI with limited liability on 27 March 1997 and is owned as to 95% by Fullwit (as trustee of The Liu Family Unit Trust) and 5% by Mr. Liu
"Gold Millennium"	Gold Millennium Ltd., a company incorporated in the BVI with limited liability on 4 January 2000 and is a direct wholly-owned subsidiary of Best Truth and an indirect wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company becoming the holding company of its present subsidiaries, such subsidiaries or the business which have since been acquired or carried on by them
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	party(ies) independent of and not connected with the Directors, the chief executive or the Substantial Shareholders of the Company or its subsidiaries, or their respective associates or not otherwise a connected person of the Company within the meaning of the Listing Rules
"Key Point"	Key Point Limited, a company incorporated in Hong Kong with limited liability on 21 May 2004 and is directly wholly-owned by Advance Tech Industries Limited (formerly known as L.K. Machinery (China) Limited), which is in turn directly wholly-owned by Mr. Liu
"Latest Practicable Date"	22 September 2006, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the listing sub-committee of the Stock Exchange
"Listing Date"	the date of listing of the Shares on the Stock Exchange

* *For identification purpose only*

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LK (Delaware)"	L.K. Machinery Inc., a corporation incorporated in the State of Delaware, the U.S. with limited liability on 24 April 2006 and which is a direct wholly-owned subsidiary of World Force and an indirect wholly-owned subsidiary of the Company
"LK (Fuxin)"	阜新力勁北方機械有限公司 (Fuxin L.K. Northern Machinery Co. Ltd.*), a company incorporated in the PRC with limited liability on 27 December 2004 and is a direct wholly-owned subsidiary of Lucky Prosper and an indirect wholly-owned subsidiary of the Company
"LK (HK)"	L.K. Machinery Company Limited, a company incorporated in Hong Kong with limited liability on 9 July 1985 and which is a direct wholly-owned subsidiary of Best Truth and an indirect wholly-owned subsidiary of the Company
"LK (Ningbo)"	寧波力勁機械有限公司 (Ningbo L.K. Machinery Co. Ltd.*), a company incorporated in the PRC with limited liability on 19 April 2002 and which is a direct wholly-owned subsidiary of Power Excel and an indirect wholly-owned subsidiary of the Company
"LK (Shanghai)"	上海力勁機械有限公司 (Shanghai L.K. Machinery Company Limited*), a Sino-foreign co-operation company incorporated in the PRC with limited liability on 30 July 1993 and owned by Goodlink Development Limited (which is wholly-owned by Mr. Liu) and a PRC party (an Independent Third Party). Goodlink Development Limited and such PRC party contributed all the registered capital and land use right to LK (Shanghai) respectively
"LK (Shenzhen)"	力勁機械(深圳)有限公司 (L.K. Machinery (Shenzhen) Co. Ltd.*), a company incorporated in the PRC with limited liability on 5 June 1991 and is a direct wholly-owned subsidiary of LK (HK) and an indirect wholly-owned subsidiary of the Company
"LK (Shenzhen Wholesale)"	深圳市力勁機械銷售有限公司 (Shenzhen L.K. Machinery Wholesale Co. Limited*), a company incorporated in the PRC with limited liability on 19 September 2005 and is directly owned as to 99% by SZ Leadwell and as to 1% by LK (Shenzhen), and an indirect wholly-owned subsidiary of the Company
"LK (Taiwan)"	力勁機械股份有限公司 (L.K. Machinery Corp.), a company incorporated in Taiwan with limited liability on 4 November 2002 and is a direct wholly-owned subsidiary of Cyberbay and an indirect wholly-owned subsidiary of the Company

* *For identification purposes only*

"LK Tech (Ningbo)"	寧波力勁科技有限公司 (Ningbo L.K. Technology Co. Ltd.*), a company incorporated in the PRC with limited liability on 8 January 2004, and is a direct wholly-owned subsidiary of Power Excel and an indirect wholly-owned subsidiary of the Company
"LK (Zhongshan)"	中山力勁機械有限公司 (Zhongshan L.K. Machinery Co. Ltd.*), a company incorporated in the PRC with limited liability on 15 November 1994, and is a direct wholly-owned subsidiary of LK (HK) and an indirect wholly-owned subsidiary of the Company
"LK (U.S.)"	L.K. Machinery USA, Inc., a company incorporated in the U.S. with limited liability on 22 February 2002, and is a direct wholly-owned subsidiary of Cyberbay and an indirect wholly-owned subsidiary of the Company
"LKIL"	L.K. Industries Limited, an investment holding company incorporated in the BVI with limited liability on 27 March 1997 and is a wholly-owned subsidiary of Supreme Technology and the immediate holding company of Gold Millennium and LK (HK) prior to the Reorganisation. After the Reorganisation, LKIL does not form part of the Group
"Lucky Prosper"	Lucky Prosper Limited, a company incorporated in Hong Kong with limited liability on 18 October 2004 and is a direct wholly-owned subsidiary of Best Truth and an indirect wholly-owned subsidiary of the Company
"Main Board"	the Stock Exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Mr. Liu"	Mr. Liu Siong Song, the founder of the Group and an associate of the Controlling Shareholder
"Ms. Chong"	Ms. Chong Siw Yin, the chairperson of the Board, an executive Director, the wife of Mr. Liu, a holder of 0.1% of the units issued under The Liu Family Unit Trust, and together with her two children, the beneficiaries of The Liu Family Trust
"Offer Price"	the offer price per Offer Share (excluding brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.005% payable thereon)
"Offer Shares"	the Placing Shares and the Public Offer Shares
"OPP (HK)"	Oriental Pan Pacific (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 31 July 2002 and is directly owned as to approximately 66.7% by an Independent Third Party and 33.3% by Allied First, which is in turn indirectly wholly-owned by Girgio

* *For identification purposes only*

"OPP (PRC)"	泛亞歐寶金屬制造（深圳）有限公司 (Ortal Pan Pacific Metalware Manufacturing (Shenzhen) Company Limited*), a company incorporated in the PRC with limited liability on 12 March 2003 and is directly wholly-owned by OPP (HK), which is in turn indirectly owned as to approximately 33.3% by Girgio
"Over-allotment Option"	the option granted by the Company to Taifook Securities exercisable at any time prior to 4:00 p.m. on the date falling 30 days from the last day for lodging applications under the Public Offer, subject to the terms of the Underwriting Agreement, to require the Company to allot and issue the Over-allotment Shares at the Offer Price to cover over-allocations in the Placing and/or the obligations of Taifook Securities to return securities borrowed under the Stock Borrowing Agreement
"Over-allotment Shares"	up to an aggregate of 37,500,000 new Shares to be issued pursuant to the exercise of the Over-allotment Option, representing approximately 15% of the number of Shares initially available under the Share Offer
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price, details of which are set out in the section headed "Structure and conditions of the Share Offer"
"Placing Shares"	the 225,000,000 new Shares being initially offered at the Offer Price under the Placing together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option, but subject to re-allocation as described in the section headed "Structure and conditions of the Share Offer"
"Placing Underwriters"	the underwriters listed in the section headed "Underwriters – Placing Underwriters", being the underwriters of the Placing
"Power Excel"	Power Excel International Limited, a company incorporated in Hong Kong with limited liability on 27 February 2002, which is owned as to 50% by Gold Millennium and as to the remaining 50% held by Mr. Liu on trust for Gold Millennium
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally adopted on 23 September 2006, the principal terms of which are set forth under the paragraph headed "Pre-IPO Share Option Scheme" in appendix V to this prospectus
"Price Determination Agreement"	the agreement to be entered into between the Company and the Lead Manager (for itself and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price

* *For identification purpose only*

"Price Determination Date"	the date, expected to be on or before 6 October 2006, on which the Offer Price will be fixed for the purpose of the Share Offer and in any event no later than 12 October 2006 at 6:00 p.m.
"PRC" or "China"	the People's Republic of China which, for the purpose of this prospectus, excludes Hong Kong, Macau and Taiwan
"Public Offer"	the offer of the Public Offer Shares to members of the public in Hong Kong, for subscription at the Offer Price payable in full upon application, on and subject to the terms and conditions set forth in this prospectus and the related application forms
"Public Offer Shares"	the 25,000,000 new Shares being initially offered for subscription under the Public Offer, representing approximately 10% of the initial number of the Offer Shares, subject to re-allocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Underwriters"	the underwriters listed in the section headed "Underwriters – Public Offer Underwriters", being the underwriters of the Public Offer
"Quantum Machinery"	Quantum Machinery International Inc., a company incorporated in Canada with limited liability on 29 November 2000 and is a direct wholly-owned subsidiary of Cyberbay and an indirect wholly-owned subsidiary of the Company
"Quantum Precision"	Quantum Precision Machinery Inc., a company incorporated in Canada with limited liability on 20 August 1998 and dissolved on 2 December 2004
"Reorganisation"	the corporate reorganisation of the Group in preparation for the listing of the Shares as described under the paragraph headed "Corporate reorganisation" in appendix V to this prospectus
"RJ Trading"	R.J. Trading Inc., a company incorporated in Canada with limited liability on 20 August 1998 and dissolved on 2 December 2004
"SAFE"	State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SFC"	the Securities and Futures Commission in Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Shanghai Arays"	上海一陽五金制造有限公司 (Shanghai Arays Hardware Manufacturing Co. Ltd.*), a company incorporated in the PRC with limited liability on 26 December 1995 and is directly wholly-owned by Advance Tech Industries Limited (formerly L.K. Machinery (China) Limited), which is in turn directly wholly-owned by Mr. Liu
"Shanghai Atech"	上海一達機械有限公司 (Shanghai Atech Machinery Co., Ltd.*), a company incorporated in the PRC with limited liability on 26 December 1995 and is a direct wholly-owned subsidiary of LK (HK) and an indirect wholly-owned subsidiary of the Company
"Shanghai Dragon Prosper"	上海昌唯龍商貿有限公司 (Shanghai Dragon Prosper Trading Limited*) , a company incorporated in the PRC with limited liability on 18 August 2005 and is directly wholly-owned by Dragon Prosper Limited, which is in turn indirectly owned as to 70% by Girgio and 30% by an Independent Third Party
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 23 September 2006, the principal terms of which are set forth in the paragraph headed "Share Option Scheme" in appendix V to this prospectus
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Sky Treasure"	Sky Treasure Trading Limited, a company incorporated in the BVI with limited liability on 6 August 2004 and is a wholly-owned subsidiary of the Company prior to its disposal to Fairview Technology on 30 March 2006
"Stock Borrowing Agreement"	the stock borrowing agreement dated 28 September 2006 entered into between Girgio and the Lead Manager, pursuant to which the Lead Manager may borrow up to 37,500,000 Shares from Girgio to cover any over-allocation in the Placing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules

* *For identification purposes only*

"Supreme Mission"	Supreme Mission Co. Ltd., an investment holding company incorporated in the BVI with limited liability on 15 March 2000 and is wholly-owned by Supreme Technology. Supreme Mission was the immediate holding company of the Group prior to the Reorganisation. After the Reorganisation, Supreme Mission does not form part of the Group
"Supreme Technology"	Supreme Technology Limited (formerly known as L.K. Technology Holdings Limited) an investment holding company incorporated in Bermuda with limited liability on 12 July 2000 and is directly wholly-owned by Girgio. Supreme Technology was the immediate holding company of the Group prior to the Reorganisation. After the Reorganisation, Supreme Technology does not form part of the Group
"SZ Leadwell"	深圳領威科技有限公司 (Shenzhen Leadwell Technology Co. Ltd.*), a company incorporated in the PRC with limited liability on 30 November 2001 and is directly owned as to 51.7% by LK (Shenzhen) and as to 48.3% by Gold Millennium and an indirect wholly-owned subsidiary of the Company
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Taifook Capital" or "Sponsor"	Taifook Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO
"Taifook Securities" or "Lead Manager"	Taifook Securities Company Limited, a licensed corporation under the SFO to carry on types 1 (dealing in Securities), 3 (leveraged foreign exchange trading) and 4 (advising on Securities) regulated activities
"The Liu Family Trust"	the trust established by Mr. Liu on 22 February 2002 as an irrevocable discretionary trust for the benefit of initially Ms. Chong and her two children
"The Liu Family Unit Trust"	the unit trust established by Mr. Liu on 22 February 2002, pursuant to which Fullwit as trustee has issued certain units which are currently held as to 99.9% by HSBC International Trustee Limited (as trustee of The Liu Family Trust) and owned as to 0.1% by Ms. Chong
"Track Record Period(s)"	the three financial years ended 31 March 2006
"U.K."	the United Kingdom
"U.S."	the United States of America
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters

* *For identification purpose only*

"Underwriting Agreement"	the conditional underwriting and placing agreement relating to the Share Offer entered into on 28 September 2006 between, among others, the Company, the executive Directors, Girgio, Fullwit, Mr. Liu, Ms. Chong, the Sponsor, Taifook Securities and the Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"Wheelfit"	Wheelfit Investment Limited, a company incorporated in Hong Kong with limited liability on 18 October 1988 and is directly owned as to 50% by Mr. Liu and 50% by an Independent Third Party
"Windeck"	Windeck Maschinen GmbH, a company incorporated in Germany with limited liability on 30 May 2001 and is directly owned as to 45% by Independent Third Parties and 55% by Supreme Mission, which is in turn indirectly wholly-owned by Girgio
"World Force"	World Force Limited, a company incorporated in the BVI with limited liability on 18 January 2005 and is a direct wholly-owned subsidiary of the Company
"WTO"	World Trade Organisation
"Yin Fat"	Yin Fat Industrial Company Limited, a company incorporated in Hong Kong on 14 July 1997 and wholly-owned by Mr. Liu's brother and that brother's spouse
"C$"	Canadian dollars, the lawful currency of Canada
"NTD" or "NT$" or "TWD"	New Taiwan dollars, the lawful currency of Taiwan
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the U.S.
"S$"	Singapore dollars, the lawful currency of Singapore
"Yen"	Japanese yen, the lawful currency of Japan
"Euro"	Euro, the lawful currency of twelve European Union countries including Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland

The English names of the PRC entities mentioned in this prospectus are translation from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.

Unless the context requires otherwise, translation of HK$ into RMB and HK$ into US$ are made in this prospectus, for illustration purpose only, at the rate of HK$1.00 = RMB1.02 and HK$7.80 = US$1.00 respectively.

No representation is made that any amount in HK$ or RMB or US$ could have been or could be converted at the above rates or at any other rates or at all.

GLOSSARY OF TECHNICAL TERMS

"all electric injection moulding machines"	the plastic injection machines which use electric motors (servomotors) and actuators for all its action instead of using a combination of hydraulic power and electricity
"ASTM"	ASTM International, originally known as the American Society for Testing and Materials, which is one of the largest voluntary standards development organisations in the world – a commonly adopted source for technical standard for materials, products, systems and services
"automatic extractor"	an equipment for extracting die-casting materials at high temperature
"automatic ladler"	a long-handle spoon for delivering molten metal to die-casting machines
"automatic sprayer"	a device used for spraying solutions as lubricants for casting separation and ejection, and for cooling between shots
"batch production"	a production process in which a batch of one product is manufactured, after which the machine switches to produce another batch of a different product
"BSI"	British Standards Institution
"CAD"	computer-aided design, which is the designing of a product with the aid of a computer
"CAGR"	compound annual growth rate
"CAM"	computer-aided manufacturing, which is the use of computers in the manufacturing process, where the computer transmits a set of instructions to the machines dedicated to fabrication, assembly and process control
"casting"	the act of forming something into a particular form
"CE"	the certificate issued by authorised bodies like BSI to certify that a product's specification satisfy the requirements of all relevant European Directives, and indicates to governments that a product can be legally sold within the European Union and the European Free Trade Area
"clamping force"	the force required to clamp the moulds shut during the injection stage of die-casting or plastic injection moulding, so that the moulds will not be opened by the injection pressure. In this prospectus, clamping force is measured in tons

GLOSSARY OF TECHNICAL TERMS

"close loop control technology"	a type of control to operate the hydraulic systems of die-casting machines which allows a more precise control of the pressure and flow rate of hydraulic fluid compared to open loop control
"CNC"	computerised numerical control, which is a computer program containing coded alphanumeric data that automates the mechanical actions of a machine
"CNC machine"	a machine controlled by means of CNC, which could cut curves and produce three-dimensional structures easily, and dramatically reduce the number of machining steps that require human action in the past
"die"	the tooling used in a die-casting machine for imparting the shape to the casting
"DIN"	Deutsches Institut für Normung e. V., the German Institute for Standardisation, has been recognised by the German government on the national standards body and represents German interests at international and European level
"direct clamp injection moulding machines"	the plastic injection machines whose clamping unit is a hydraulic clamping unit instead of a toggle lever one, and thus allowing the clamping force to be set precisely and avoiding unwanted mould deformation
"GB"	the PRC national standards set by the Standardisation Administration of the PRC
"ISO"	the International Organisation for Standardisation, a world-wide federation of national standards bodies
"ISO 9001"	a quality management system, intended for use in any organization which designs, develops, manufactures, installs and/or services any product or provides any form of service. It provides a number of requirements which an organization needs to fulfill if it is to achieve customer satisfaction through consistent products and services which meet customer expectations.
"KWH"	kilo-watt hours
"ladle"	an insulated portable container for moving molten metal from one place to another
"lb"	pounds
"LCD"	Liquid Crystal Display
"Lloyds"	the Lloyd's Register Group, an international independent risk management organisation providing risk assessment and risk mitigation solutions and management systems certification

"NAC"	Northeast Audit Co., Ltd., an authorized body recognized by China National Accreditation Board for Certifiers (CNAB), the national accreditation body of China, to accredit the competence of bodies operating assessment and certification of management systems and products
"OEM"	original equipment manufacturer, one that manufactures products or components which are used in products sold by another company
"semi-solid"	a term to describe materials (in case of die-casting, metal) that is approximately 50% solid and 50% liquid. In case of die-casting, semi-solid metal casting will inject metal in the above mentioned status into a permanent die, instead of using fully liquid metal in conventional die-casting
"servomotor"	an electromechanical device in which an electrical input determines the position of the armature (i.e. the rotating coils) of a motor. Servomotors are used extensively in robotics and radio-controlled cars, airplanes and boats
"shot weight"	the weight of alloy material that is injected into the die, or the weight of plastic resin that is injected into the mould during the injection stage of die-casting or plastic injection moulding. Shot weight is usually measured in ounces or grams
"standard unit(s) of machine"	hot chamber die-casting machine, cold chamber die-casting machine or plastic injection moulding machine with a clamping force of 160 tons; please see the paragraph "Production capacity and standard unit of machines" in the section headed "Business" of this prospectus for further details
"%"	per cent.
"°C"	degrees Celsius
"gm"	gram(s)
"ping"	a unit of area commonly used in Taiwan, and 1 sq.m. is equivalent to approximately 0.3025 ping
"sq.m."	square metre/metres

Prospective investors of the Offer Shares should consider carefully all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

There is no assurance that the Group will continue to retain quality staff

The Group's performance and/or success is, to a significant extent, attributable to the continued services and performance of its executive Directors and senior management (together the "Management Team") (details of which please refer to the section headed "Directors, Senior Management and Staff" of this prospectus), especially their expertise and experience in the business carried on by the Group and their established relationships with customers and suppliers. The Group's performance also depends on its ability to retain and motivate the Management Team and other officers. The continued involvement of the Management Team is important to the future growth and prospects of the Group. There is, however, no assurance that the Management Team will continue to serve the Group or be actively involved in the management of the Group in the future.

The Group's business and operations may be adversely affected due to intense competition in the PRC

The major revenue of the Group is derived from its die-casting machinery business in the PRC. The Directors have broadly identified two market segments within the die-casting machinery market: (a) the imported machinery market; and (b) the local PRC machinery market.

The Directors consider that the Group's main competitors in the imported machinery market are overseas established manufacturers with more advanced technologies and longer operating history. If the Group is not able to maintain or improve its level of quality control as well as cost control or apply new production technologies, the demand for the Group's die-casting machinery products may decrease. In such circumstances, the Group's business and financial performance may be adversely affected.

The Directors consider that the main competitors in the local PRC machinery market are local PRC manufacturers. There is no assurance that the local competitors will not expand its operation size and/or acquire or develop new technologies which may be applied to manufacture machineries that may have similar quality and functions of the Group's products while the sale prices are lower than those of the Group. If such circumstances occur, the Group's market share may shrink and its financial performance may be adversely affected.

In addition, the technologies developed by the Group may be replaced by similar technologies developed by other participants in the industry. New technologies may also be developed for die-casting. In the event that the Group is not able to develop new and better technologies to compete with its competitors, the business and operations of the Group may be adversely affected.

The Group's future profitability may be adversely affected due to its reliance on the PRC market

For each of the Track Record Period, the PRC market accounted for more than 90% of the Group's turnover. The business and profitability of the Group have been materially dependent on the PRC market. In the event that there are major changes in the political or economic climate in the PRC and that such changes directly or indirectly affect the demand for the Group's products in the PRC market, the Group's future profitability may be adversely affected.

The Group has high level of bank borrowings

The Group has a high level of bank borrowings as at 31 March 2006, which amounted to approximately HK$352.9 million. The gearing ratio increased from approximately 31.0% in 2004 to approximately 74.5% in 2006. The high level of bank borrowings could require the Group to dedicate a substantial portion of its cash flow from operations to debt repayments, thereby decreasing the availability of its cash flow for business operations and limit the Group's flexibility and planning for, or reacting to, changes in its business.

The Group has decreasing gross profit and net profit margins during the Track Record Period

During the Track Record Period, the gross profit margin of the Group decreased from approximately 42.4% for the year ended 31 March 2004 to approximately 33.7% for the year ended 31 March 2006, and the net profit margin dropped from approximately 18.9% for the year ended 31 March 2004 to approximately 12.6% for the year ended 31 March 2006. For further details please refer to the sub-section headed "Management discussion and analysis of the results of the operations" under the section headed "Financial information" in this prospectus. There is no assurance that the gross profit margin and net profit margin may not be further deteriorated in the future.

The Group has increasing accounts receivable days during the Track Record Period

For each of the Track Record Period, the accounts receivable turnover days were approximately 86 days, 79 days and 106 days respectively, details of which please refer to the sub-section headed "Analysis on financial condition" under the section headed "Financial information" in this prospectus. There is no assurance that the Group will not encounter difficulty in collecting accounts receivable in the future. The amounts of impairment loss on accounts receivable as at 31 March 2004, 2005 and 2006 were approximately HK$16.0 million, HK$25.8 million and HK$32.5 million respectively. If the Group encounters difficulty in collecting its accounts receivable, the Group may be exposed to higher credit risk and as such, the financial position of the Group may be adversely affected.

The Group has negative operating cashflow for the year ended 31 March 2006

The Group recorded negative operating cashflow of approximately HK$29.2 million for the year ended 31 March 2006, which was mainly because of the increase in accounts receivable with extended credit terms and/or receivable by instalments. For further details please refer to the sub-section headed "Analysis on financial condition" under the section headed "Financial information" in this prospectus. Should the operating cashflow continue to be in negative, the Group's overall cashflow position may be adversely affected.

The Group's business and/or profitability may be adversely affected if it fails to protect intellectual property rights

The Group has completed patent registrations in the PRC and trademark registrations in Hong Kong and PRC in respect of some of its products and production technologies. Notwithstanding such patent registration, there is no assurance that other parties will not bring such claims against the Group in respect of the patents or other intellectual property rights. If any party brings such claims or the Group becomes involved in legal proceedings relating to such claims, time and efforts of the management of the Group may be spent on such proceedings and the operation and performance of the Group may be adversely affected.

In addition, even though some of the Group's products and production technologies have been granted patent registrations and copyrights, the Group may face difficulties in enforcing actions against parties suspected to have infringed the Group's patents. These difficulties include the costs and time of investigation and enforcement to be spent, and, to some extent, the reliance on PRC regulatory bodies to assist in the enforcement process. If the Group's intellectual property rights are infringed but it cannot effectively bring enforcement actions, the Group's business and/or profitability may be adversely affected.

The Group's business and/or financial performance may be adversely affected due to the fluctuation of prices of raw materials and energy costs

The major raw materials required in the production of the Group is steel. Steel is purchased from domestic suppliers under short-term contracts. For the three years ended 31 March 2006, the average cost of purchases of steel was approximately RMB3,685 (equivalent to approximately HK$3,613) per ton, RMB4,742 (equivalent to approximately HK$4,649) per ton and RMB3,829 (equivalent to approximately HK$3,754) respectively. For the three years ended 31 March 2006, the average cost of purchases of cast was approximately RMB5,242 (or approximately HK$5,140) per ton, RMB5,900 (or approximately HK$5,785) per ton, and RMB5,800 (or approximately HK$5,687) per ton respectively. If the unit cost of steel and cast continues to fluctuate and any increasing costs cannot be passed on to the Group's customers, the Group's business and/or financial performance may be adversely affected.

Electricity is one of the main energy sources used for production processing by the Group. There have been press reports stating that the PRC generally suffers shortages of electricity supply. For the three years ended 31 March 2006, the average cost of electricity supply from local electricity bureau was approximately HK$0.74 per KWH, approximately HK$0.73 per KWH and approximately HK$0.63 per KWH respectively. There is no assurance that the average cost of electricity will not increase in the future. If any material interruption of the Group's operations occurs due to suspension or shortage of electricity, or if the average electricity tariff increases and such increased tariffs cannot be passed on to the Group's customers, the Group's business and/or financial performance may be adversely affected.

The Group's business may be adversely affected due to the fluctuations in prices of commodities

The Group's customers include manufacturers of automotive, toy, home appliances, and electrical and electronic products. Commodities such as petrol, iron (and steel), zinc, aluminium, magnesium and plastic resins may be consumed as raw materials by such manufacturers in their manufacturing processes. As the prices of commodities are affected by international market and are highly volatile, any fluctuations of their cost will affect the cost of manufacturing of the Group's customers. The prices of these commodities have been rising in recent years. In order to pass on the increase in costs of raw materials to their customers, the Group's manufacturing customers will normally increase the price of their final products, and this may cause a fall in demands for the final products. As an indirect result, the demand for the Group's machineries may be reduced and the Group's business may be adversely affected if the Group is unable to secure orders from customers in volume and margins matching those of its existing customers at the present level.

There is no assurance that future dividends will be paid at a level similar to past dividends

The dividends of HK$45 million and HK$40 million were declared and paid and the dividends of HK$43 million were declared respectively for the Track Record Period representing approximately 39.6%, 38.9% and 40.0% respectively of the net profit attributable to shareholders for the corresponding period. The dividends of HK$43 million will be settled by way of setting off against the amounts due from related entities before the Listing Date. Whilst the Company intends to declare and pay dividends in the future, the amount of dividends to be declared will be subject to full discretion of the Directors, taking into consideration the amount of earnings, financial position, future expansion plan and other relevant factors. There is no assurance that future dividends will be paid at a level similar to past dividends and potential investors should be aware that past dividend payment trend should not be used as a reference or basis to determine the level of dividends that may be declared by the Company in the future.

The Group is exposed to foreign currency risks in the context of sales, purchase and foreign currency loans

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, had been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar and the RMB is permitted to fluctuate within a narrow and managed band against a basket of unspecified foreign currencies. On the same day, the value of the RMB appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. For the Track Record Period, approximately 68%, 74% and 79% of the Group's turnover were denominated in RMB, while approximately 9%, 19% and 13% of the Group's purchases were denominated in U.S. dollars or other foreign currencies. For the Track Record Period, approximately 77%, 52% and 53% of the Group's loans were denominated in RMB, while 23%, 48% and 47% were denominated in HK dollars or other foreign currencies. If there is substantial appreciation of RMB against U.S. dollars or other foreign currencies, the Group's profitability may become subject to greater exchange rate risk, which can be beneficial or unfavourable to the Group. Moreover, upon listing of the Shares on the Stock Exchange, the Group's accounts will continue to be denominated in Hong Kong dollars. If there are substantial fluctuations in the exchange rate of RMB against Hong Kong dollars, the profitability of the Group, the value of its assets and its ability to pay dividends in Hong Kong dollars may be adversely affected. In addition, stronger RMB may give incentives for the Group's customers to source die-casting machines or plastic-injection moulding machines by way of import, which may lower the level of demands for the Group's products.

The Group's financial position may be adversely affected due to default by customers who purchased the Group's products with loans guaranteed by the Group

Certain subsidiaries of the Group have provided buy back guarantees to banks or other finance companies for granting loans to some of the Group's customers to purchase its products. For the three financial years ended 31 March 2006, the total amount of such loans utilised by these customers amounted to approximately HK$7.8 million, HK$9.5 million and HK$11.8 million respectively.

If any customer fails to fulfill its principal repayment or interest payment or other obligations under the loan arrangement, the creditor may seek remedies against the relevant Group member. The relevant Group member, after performing its payment obligations as a guarantor under such circumstances, may take re-possession of the machineries. The Group's cashflow position, however, may be adversely affected.

There is no assurance that the Group will continue to benefit from the preferential tax treatment

Under the applicable PRC tax laws and regulations and subject to certain conditions being fulfilled, a foreign investment enterprise engaged in manufacturing business for a term of at least 10 years is exempted from enterprise income tax for the first two profit-making years, and is entitled to a 50% relief from the applicable enterprise income tax rate for the following 3 years. In certain circumstances, the tax holidays may be further extended. Currently, the PRC subsidiaries of the Company are enjoying such preferential tax treatment under the relevant income tax laws of the PRC. For details of such preferential tax treatment, please refer to the sub-section headed "Taxation" under the section headed "Financial information" in this prospectus. In the event that the preferential tax rates cease to apply to such subsidiaries, the Group's profitability, which is computed on an after-tax basis, may be adversely affected.

Engaging in litigations could be expensive and causing disruption to the Group's business

As at the Latest Practicable Date, the Group was subject to some 14 proceedings, mainly involving contractual and personal injury claims. If all the 14 outstanding litigations are subsequently awarded against the Group, the aggregate amount of damages payable by the Group (exclusive of legal costs incurred by the Group and (where applicable) incurred by the other litigants but payable by the Group) are estimated to be approximately HK$5,500,000.

As mentioned in note 28(b)(ii) of the accountants' report set out in appendix I of this prospectus, a litigation has been made against a member of the Group by an individual in relation to the compensation for injury in a traffic accident happened in December 2005 where the subject car was owned by that Group member. The court ordered damages of approximately HK$1,531,000 to be paid to the Plaintiff, of which approximately HK$329,000 has been paid by the relevant Group member. No provision for the damages that might eventually be payable by the subsidiary has been made in the financial statements. The appeal is still pending hearing as at the Latest Practicable Date. If the appeal is awarded against the relevant Group member, the full amount of the damages and the relevant legal costs may have to be borne and paid by the Group.

The Group may be subject to further legal proceedings and claims from time to time in the ordinary course of its business. The Directors are of the view that engaging in litigations may be expensive and time consuming, and may result in monetary and reputation losses as well as disrupting the Group's business.

Impact of environmental laws

The Group's operations in the PRC are subject to, among other laws and regulations, those relating to environmental protection. For details of the relevant laws and regulations, please refer to the sub-section headed "Environmental protection" under the section headed "Business" in this prospectus. Compliance with these laws and regulations may lead to delays in the planning and/or completion of the Group's expansion plans that involve the construction of new facilities in the PRC.

The Group's inability to comply with such regulatory requirements may result in its failure to obtain the necessary certificates, permits and licences required under the applicable PRC laws to conduct its operations and in pollution of the surrounding environment by the construction work and business operation undertaken by the Group causing claims for damages by affected persons and demands for cleanups and compensation by the appropriate PRC authorities.

There may be changes to the laws, regulations and/or guidelines introduced by relevant PRC authorities in relation to the environmental standards in the PRC. There is no assurance that the Group is able to abide by any new or amended laws, regulations and/or guidelines in the future. If the Group fails to comply with any new or amended laws relating to environmental standards in the PRC, its operations may be adversely affected. It is also possible that the Group could become liable for personal injury or property damage claims arising from its failure to comply with environmental laws in the course of its operations. If environmental claims or violations do arise, the Group could be required to conduct costly investigations or cleanups and, in severe cases, temporarily or permanently close off affected factories. Environmental concerns could also attract adverse media coverage, which could affect the sales, profitability, operations and goodwill of the Group.

As advised by the Group, it currently does not have any plans to address potential future risks on environmental protection.

RISKS RELATING TO THE INDUSTRY

The Group may not be able to keep up with changes in technology or market demand

The manufacturing industry is generally subject to changes in technology, tightening of legislation and the introduction of new standards and recommended best practices. Hence, manufacturers have to introduce new products and models more frequently in order to maintain their competitiveness in the market and to keep abreast with applicable legislation. Market demands for die-casting machines and/or plastic injection moulding machines may also vary accordingly. It is difficult to predict the effect of emerging and future market changes on the demand for and/or competitiveness of the Group's business. There is no assurance that the technology currently deployed by the Group will not become obsolete or subject to any competition from new technology in the future.

The Group's profitability may be adversely affected after the PRC's accession to the WTO

The current tariff rate for import of cold-chamber die-casting machines is 12%. In accordance with the accession agreement entered into by the PRC for joining the WTO, the PRC is obliged to reduce the average tariff rates for industrial products to 9.2% in 2008. These reductions, if materialised, are likely to result in increased competition from overseas manufacturers of products similar to those manufactured by the Group. Accordingly, the Group's profitability may be adversely affected after the PRC's accession to the WTO.

RISKS RELATING TO THE PRC

The Group may be adversely affected by political, economic and social condition in the PRC

The PRC market accounted for over approximately 90% of the Group's turnover during the Track Record Period. Accordingly, the Directors believe that the general economic, political, legal and social conditions prevailing in the PRC directly and indirectly affect the Group's financial performance and operations.

Before its adoption of reform and open-door policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC government has been reforming China's economic system and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasised autonomous enterprises and the utilisation of market mechanisms. The Group cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, results of operations or financial condition.

In addition, the economy of PRC differs from the economies of most developed countries in many respects, including level of government involvement, level of development, growth rate, level of capital reinvestment, control of capital reinvestment, control of foreign exchange, and allocation of resources.

The Group's financial performance may be adversely affected due to austerity measures imposed by the PRC government

The PRC government has since late 2003 been implementing austerity measures to cool down the high growth economy of the PRC. These measures may indirectly affect the demand for the Group's die-casting machines and plastic injection moulding machines. In addition, domestic banks have been tightening bank credits, which may cause liquidity problems for smaller to medium sized manufacturers of industrial products. As a result, some of the manufacturers of industrial products may postpone or cancel their machine replacement or production expansion plans. The lowering of demands may adversely affect the Group's financial performance.

The Group may be adversely affected by uncertainties regarding interpretation and enforcement of PRC laws and regulations

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and trade. As these laws, regulations and legal requirements are relatively new, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. These uncertainties could limit the legal protection or recourse available to the Group.

The Group may be adversely affected by changes in the PRC foreign exchange regulations

RMB currently is not a freely convertible currency. The Group generates and receives most of its revenue in RMB. A portion of the Group's RMB revenue must be converted into other currencies to meet the Group's foreign currency obligations of the Group, including interest payment and principal repayment of foreign currency loans and payment of any dividends which may be declared in the future on the Shares.

Under the existing foreign exchange regulations in the PRC, the Group may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from SAFE by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign currency transactions. The PRC government has stated publicly that it intends to make the RMB freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect the Group's ability to obtain foreign currency through debt financing or to obtain foreign currency for capital expenditures. If due to these limitations on foreign exchange the Group cannot obtain the required foreign currency in a timely manner, its business, financial condition and results of operations could be adversely affected.

The Group may be adversely affected by fluctuation of the Renminbi

The value of the RMB is subject to changes in the PRC government's policies and depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable, and the RMB has appreciated slightly against the U.S. dollar. However, given the economic instability and currency fluctuations in the whole world in recent years, there is no assurance that the value of the RMB will continue to remain stable against the U.S. dollar or any other foreign currency. Any material fluctuation of the RMB may affect the results of the Group's operations or the value of any dividends payable on the Shares in foreign currency since the Group receives most of its revenue and expresses its profits in RMB which may be beneficial or unfavourable to the Group.

RISKS RELATING TO THE SHARE OFFER

Liquidity of the Shares and volatility of the market price of the Offer Shares

Prior to the Share Offer, there was no public market for the Shares. The Offer Price may differ significantly from the market price for the Shares following the Share Offer. There is no assurance that an active trading market for the Shares will develop, or if it does develop, that it will be sustained following the Share Offer, or that the market price of the Shares will not decline following the Share Offer.

The price and trading volume of the Shares may be highly volatile. Factors such as variations in the Group's revenues, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions could cause the market price of the Shares to change substantially.

Possible dilution to shareholders arising from future fund raising by the Company

The Group may need to raise additional funds in future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to its then existing shareholders, the percentage ownership of the shareholders may be reduced and shareholders may experience subsequent dilution.

Certain information and statistics contained in this prospectus are derived from various official sources and have not been independently verified

Facts, statistics and other information contained in this prospectus relating to the PRC, the PRC's economy and the relevant industries compiled from various publicly available government official sources are generally believed to be reliable. However, the quality and accuracy of such official source materials cannot be guaranteed. Neither the Group nor the Underwriters have verified the accuracy of the information contained in such official sources. The Group makes no representation as to the accuracy of such information derived from government official sources, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection and compilation methods, discrepancies between published information and market or industry practice or other problems, the government official statistics set out herein may not be comparable, in terms of different periods, to statistics produced for other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Nonetheless, the Directors have taken reasonable care in reproducing in this prospectus such facts and statistics from their respective government official sources. Accordingly, such information and statistics derived from government official sources as contained herein may not be accurate and should not be unduly relied upon.

Reliance on forward-looking statements contained in this prospectus involve risks and uncertainties

This prospectus contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "continue", "expect", "estimate", "may", "ought to", "should", "will" or similar words. Those statements include, among other things, the discussion of the Group's growth strategy and expectations concerning the Group's future operations, profitability, liquidity and capital resources. These statements are forward-looking and reflect the Group's current expectations. Investors of the Shares are cautioned that reliance on any forward-looking statement involve risks and uncertainties and that, although the Group believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions also could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Group that its plans and objectives will be achieved.

STOCK BORROWING ARRANGEMENT

The Company and Girgio have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules, which restricts the disposal of the Shares by the Controlling Shareholder, commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholder is made in this prospectus and ending on the date which is 6 months from the Listing Date, in order to allow Girgio to enter into and perform its obligations under the Stock Borrowing Agreement on the conditions that:

(a) the stock borrowing arrangement with Girgio may only be effected by the Lead Manager for settlement of over-allocations in connection with the Placing;

(b) the aggregate maximum number of Shares which may be borrowed from Girgio must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;

(c) the same number of Shares borrowed must be returned to Girgio or its nominee(s), as the case may be, not later than three business days following the earlier of (i) the day on which the Over-allotment Option is exercised in full or (ii) the last day on which the Over-allotment Option may be exercisable;

(d) any stock borrowing arrangement will be effected in accordance with all applicable laws and regulatory requirements; and

(e) no fee, interest or other benefit will be made to Girgio by the Lead Manager under the stock borrowing arrangement.

PROPERTY INTERESTS

The Group has leased 39 property interests in the PRC from Independent Third Parties. In valuing the property interests in relation to these leased properties, the Company has applied (a) to the SFC for an exemption under section 342A of the Companies Ordinance from strict compliance with sub-paragraph (2) of Paragraph 34 of the Third Schedule to the Companies Ordinance ("Paragraph 34(2)") as required under section 342(1) of the Companies Ordinance; and (b) to the Stock Exchange for a waiver from strict compliance with the requirements of (i) Rule 5.01, Rule 5.06(1) and Rule 5.06(2) of the Listing Rules ("Rule 5.01", "Rule 5.06(1) and Rule 5.06(2)" respectively); and (ii) Paragraph 3(a) of the Practice Note 16 of the Listing Rules ("PN16 Paragraph 3(a)").

Under Paragraph 34(2) and Rule 5.01, the Company is required to include in this prospectus in relation to the proposed listing a valuation report with respect to the Group's interests in land and buildings. Each of Paragraph 34(2) and Rule 5.06(1) of the Listing Rules requires certain particulars to be included in the valuation report in respect of each property. Rule 5.06(2) requires disclosure of details of rentals of such property as where the property is not in the process of being developed. Under PN16 Paragraph 3(a), the Company is also required to set out full valuation reports in respect of properties legally and beneficially owned by the Company in this prospectus.

Sallmanns (Far East) Limited ("Sallmanns"), the independent property valuer engaged by the Company, has estimated that a full valuation report (the "Full Report") of all property interests of the Group prepared in full compliance with Paragraph 34(2), Rule 5.01, Rule 5.06(1), Rule 5.06(2), and PN 16 Paragraph 3(a) will consist of over 50 pages of the English text and the same number of pages of Chinese text of this prospectus.

The Group is principally engaged in the design, manufacture and sale of die-casting machines and plastic injection moulding machines. It has 13 property interests in Hong Kong and the PRC. The Group also has 1 property interest in Canada, 1 property interest in the U.S. and 3 property interests in Taiwan respectively. The Group has property interests in 39 properties rented and occupied by the Group in the PRC, comprising 14 sales offices and 25 liaison points leased from Independent Third Parties and which are dispersed in various cities in the PRC, all of which have no commercial value. The 14 sales offices and 25 liaison points have been established to facilitate and carry out sales activities by helping to extend the Group's sales network coverage and to provide after sales service to its customers. They are located at major PRC cities within close proximity of the potential and/or existing customers to facilitate sales and to ensure that the customer service staff from the Group's manufacturing subsidiaries can provide training, technical advice and after sales services to customers effectively. It is estimated that the inclusion of a Full Report with valuation certificates of every such rental property will take up about 50 pages in this prospectus (the inclusion of a 50 page valuation report in this prospectus would seem out of proportion considering that this prospectus only consists of approximately 360 pages). Given the volume of information regarding the Group's rental property interests is likely to be of little interest or distracting to the potential investors, the Directors believe that the inclusion of individual valuation certificate of each such rental property in the PRC with no commercial value in this prospectus would be unduly burdensome in the circumstances.

Instead of setting out full details of each rented property, the Company proposes to present only summary information of all property interests rented and occupied by the Group in the PRC by way of a list of such property interests categorized into 7 groups on the basis of each group providing after sales services to customers for a subsidiary of the Group as disclosed in summary form, while all other property interests will be set out in full compliance with Paragraph 34(2), Rule 5.01, Rule 5.06(1), Rule 5.06(2) and PN16 Paragraph 3(a) in this prospectus.

A statement that the Full Report including the full text of the letter, summary of valuations and valuation certificates relating to the properties of the Group prepared by Sallmanns will be made available for public inspection has been included in this prospectus (see page III-1 of this prospectus).

The SFC has granted an exemption under section 342A of the Companies Ordinance and the Stock Exchange has granted a waiver from the strict compliance with Rule 5.01, Rules 5.06(1), Rule 5.06(2) and PN 16 Paragraph 3(a), subject to the following conditions:

(a) the Full Report in full compliance with all the requirements under Paragraph 34 will be made available for public inspection in accordance with the section headed "Documents available for inspection" in appendix VI to this prospectus;

(b) the valuation report of the Company's interests in the other land and buildings in full compliance with all the requirements under Paragraph 34, be included in this prospectus in the same form and manner as set out in appendix III to this prospectus;

(c) the summary valuation report with valuation certificates of the 39 properties rented and occupied by the Group in the PRC, prepared on the basis of the Full Report, will be included in this prospectus in the same form and manner as set out in appendix III to this prospectus; and

(d) this prospectus must set out particulars of the exemption.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Exchange Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

– the information contained in this prospectus is accurate and complete in all material respects and not misleading;

– there are no other facts or matters the omission of which would make any statement in this prospectus misleading; and

– all opinions expressed in this prospectus have been arrived at after due and careful consideration and enquiry and are founded on bases and assumptions that are fair and reasonable.

The Share Offer is made solely on the basis of the information contained and the representations made in this prospectus and the related application forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the related application forms, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other persons or parties involved in the Share Offer.

OFFER SHARES ARE FULLY UNDERWRITTEN

The Share Offer comprises the Placing and the Public Offer. A total of 250,000,000 Shares will initially be made available under the Share Offer, of which 225,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be placed with professional, institutional and other investors anticipated to have a sizeable demand for the Placing Shares at the Offer Price under the Placing. The remaining 25,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered to the public in Hong Kong for subscription at the Offer Price under the Public Offer, payable in full on application. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation and, in respect of the Placing, the Over-allotment Option. Details of the structure of the Share Offer are described in the section headed "Structure and conditions of the Share Offer" in this prospectus.

This prospectus is published in connection with the Share Offer and, together with the relevant application forms, sets out the terms and conditions of the Share Offer.

The Share Offer is sponsored by the Sponsor and managed by the Lead Manager. The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters subject to the Offer Price being fixed pursuant to the Price Determination Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

Determination of the Offer Price

The Offer Shares are being offered at the Offer Price which will be determined by the Lead Manager (for and on behalf of the Underwriters) and the Company on or before the Price Determination Date.

If the Lead Manager (for and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by the Price Determination Date, the Share Offer will not become unconditional and will lapse.

SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and the related application forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the related application forms and the offering of the Offer Shares in certain jurisdictions is restricted by law. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Offer Shares under the Share Offer may be offered for subscription to: (i) members of the public in Hong Kong; and (ii) any other person in Hong Kong. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Hong Kong.

U.S.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or under any state securities laws in the U.S. and may not be offered, sold, pledged or transferred within the U.S., except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside the U.S. in an offshore transaction in compliance with Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the U.S. or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Share Offer or the accuracy or adequacy of this prospectus or the prospectuses relating to the Share Offer. Any representation to the contrary is a criminal offence in the U.S.

U.K.

This prospectus has not been approved by an authorised person in the U.K. and has not been registered with the Registrar of Companies in the U.K.. The Offer Shares may not be offered or sold in the U.K. except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Financial Services Act 1986 as amended by Public Offers of Securities Regulations 1995. In addition, this prospectus is being distributed only to and is directed at (i) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Articles 49(1) of the Order (all such persons together being referred to as "relevant persons"). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Offer Shares will be engaged in only with, relevant persons. Any person who is not a relevant person must not act or rely on this prospectus or any of its contents.

Singapore

This prospectus has not been registered with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares, may not be circulated or distributed, nor the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Shares are subscribed or purchased under Section 274 of the SFA by an institutional investor, such Shares shall not be sold within a period of six months from the date of the initial acquisition to any person other than an institutional investor under Section 274 of the SFA, or to a relevant person, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA.

Taiwan

This prospectus has not been and will not be registered as a prospectus with the Securities and Futures Commission of Taiwan under the Securities and Exchange Law and Regulations Governing the Offering and Issuance of Securities by Foreign Securities Issuers of Taiwan and the Company has not been and will not be registered under the Company Law of Taiwan and related laws and regulations of Taiwan. Accordingly, none of the Offer Shares may be offered for subscription, purchase or sold, directly or indirectly, to the public in Taiwan.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly or offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Cayman Islands

No offer of the Offer Shares may be made to members of the public in the Cayman Islands.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offering of the Offer Shares described in this prospectus.

APPLICATION FOR THE LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the granting of the approval for the listing of, and permission to deal in, the Shares in issue, Shares to be issued to the Company's existing shareholders pursuant to the Capitalisation Issue, Shares to be issued pursuant to the Share Offer, and any Shares to be issued upon the exercise of the Over-allotment Option or of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, on the Main Board.

No part of the equity or debt securities of the Company is listed or dealt in on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on any other stock exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares to be issued upon exercise of the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme will be registered on the Company's branch register of members to be maintained by Computershare Hong Kong Investor Services Limited in Hong Kong. The Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

The Company, the Directors, the Sponsor, the Underwriters, any of their respective directors, agents or professional advisers or any other person involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date on which the Listing commences or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on Main Board of the Stock Exchange are expected to commence on 16 October 2006. Shares will be traded in board lots of 2,500 Shares each.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Ms. CHONG Siw Yin (張俏英女士) *(Chairperson)*	House K Lakeview Garden 21 Yau On Street Shatin New Territories Hong Kong	Chinese
Mr. CAO Yang (曹陽先生) *(Chief executive officer)*	Unit 1103 Shuang Yu Block Lu Feng Cui Yuan Luohu District Shenzhen The PRC	Chinese
Mr. LIU Zhao Ming (劉兆明先生)	Units 20B and C Block A3 Wei Lan Hai An Hou Hai Avenue Nanshan District Shenzhen The PRC	Chinese
Mr. CHUNG Yuk Ming (鍾玉明先生)	46E, Block 8 East Point City Tseung Kwan O Kowloon Hong Kong	Chinese
Independent non-executive Directors		
Dr. LOW Seow Chay (劉紹濟博士)	56 Chu Lin Road Republic of Singapore 669950	Singaporean
Dr. Hon. LUI Ming Wah, SBS, JP (呂明華博士)	Flat B, 16th Floor Skylodge 1 Dynasty Heights 8 Yin Ping Road Kowloon Hong Kong	Chinese
Mr. TSANG Yiu Keung, Paul (曾耀強先生)	C1607, Villa Lotto 18 Broadwood Road Hong Kong	Chinese
Mr. CHAN Wah Tip, Michael (陳華疊先生)	Flat C, 10th Floor Block 1 Elegant Terrace 36 Conduit Road Mid-Levels Hong Kong	Chinese

Mr. LIU Chee Ming (劉志敏先生)	House A5 Sherwood Bluff 10 Bluff Path The Peak, Hong Kong	Singaporean

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	Taifook Capital Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Sole Bookrunner and Lead Manager	Taifook Securities Company Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Co-lead manager	UOB Kay Hian (Hong Kong) Limited 15/F, Aon China Building 29 Queen's Road Central Hong Kong
Co-managers	China Merchants Securities (HK) Co., Ltd. 48/F., One Exchange Square 8 Connaught Place, Central Hong Kong
	CIMB-GK Securities (HK) Limited 25/F., Central Tower 28 Queen's Road Central Hong Kong
	First Shanghai Securities Limited 19/F., Wing On House 71 Des Voeux Road Central Hong Kong
	ICEA Capital Limited 26/F., ICBC Tower 3 Garden Road, Central Hong Kong
	Mega Capital (Asia) Company Limited Room 3406, 34/F., Edinburgh Tower The Landmark, 15 Queen's Road Central Hong Kong
	Phillip Securities (HK) Limited 11-12/F, United Centre 95 Queensway Hong Kong
	Polaris Capital (Asia) Limited Unit 6503-06, The Center 99 Queen's Road Central Hong Kong

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
P. C. Woo & Co.
12th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
The PRC

As to the Cayman Islands law:
Conyers Dill & Pearman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

As to Singaporean law:
Lee & Lee
168 Robinson Road
#25-01 Capital Tower
Singapore 068912

As to the U.S. law:
Dorsey & Whitney LLP
Suite 1500, 50 South Sixth Street
Minneapolis, Minnesota 55402 – 1498
U.S.A.

As to Canada law:
Teresa Lo
Suite 305
505 Highway 7 East
Thornhill
Ontario
L3T 7T1 Canada

As to Taiwan law:
Lee and Li
Room 1, 9th Floor
211, Chung Cheng
4th Road, Chien Chin District
Kaohsiung
Taiwan, R.O.C.

Legal adviser to the Sponsor and the Underwriters	*As to Hong Kong law:* Chiu & Partners 41st Floor, Jardine House 1 Connaught Place Hong Kong
Auditors and reporting accountants	BDO McCabe Lo Limited *Certified Public Accountants* 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Property valuers	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Compliance adviser	Taifook Capital Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Receiving banker of the Public Offer	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
Principal place of business in Hong Kong	Unit A, 8th Floor Mai Wah Industrial Building 1-7 Wah Sing Street Kwai Chung New Territories Hong Kong
Company secretary	Mr. Lai Hau Yin *CPA (HK), CPA (Australia)*
Qualified accountant	Mr. Lai Hau Yin *CPA (HK), CPA (Australia)*
Audit Committee	Mr. Tsang Yiu Keung, Paul Dr. Hon. Lui Ming Wah, *SBS, JP* Mr. Chan Wah Tip, Michael
Nomination Committee	Mr. Chan Wah Tip, Michael Dr. Low Seow Chay Mr. Liu Chee Ming
Remuneration Committee	Mr. Liu Chee Ming Dr. Hon. Lui Ming Wah, *SBS, JP* Mr. Tsang Yiu Keung, Paul
Authorised representatives	Ms. Chong Siw Yin House K, Lakeview Garden 21 Yau On Street, Shatin New Territories Hong Kong Mr. Chung Yuk Ming 46E, Block 8 East Point City, Tseung Kwan O Kowloon Hong Kong
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands

CORPORATE INFORMATION

Hong Kong branch share registrar and transfer office

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

In the PRC:

Bank of China
Shenzhen Branch Longhua Sub-branch
No. 442, Ren Ming Road
Longhua Town, Baoan District
Shenzhen
The PRC

China Construction Bank
Shanghai Dongkai Sub-branch
81 Rongle Dong Road, Song Jiang
Shanghai
The PRC

Industrial and Commercial Bank of China
Shenzhen Longhua Sub-branch
ICBC Building, North Remin Road
Longhua Town, Baoan District
Shenzhen
The PRC

China Merchants Bank
Shenzhen Buji Sub-branch
First Floor, 2nd Tongjian Building
Buji Longgang
Shenzhen
The PRC

Shenzhen Development Bank Ltd.
Shenzhen Longhua Sub-Branch
First Floor, Heping Building
Renmin Mid-Road
Longhua Town
Shenzhen
The PRC

DBS Bank (Hong Kong) Limited
Units 1209-18
Miramar Tower
132-134 Nathan Road
Tsimshatsui
Kowloon
Hong Kong

Mizuho Corporate Bank, Ltd
17th Floor, Two Pacific Place
88 Queensway
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Public Bank (Hong Kong) Limited
Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Building Mongkok
673 Nathan Road
Mong Kok
Kowloon
Hong Kong

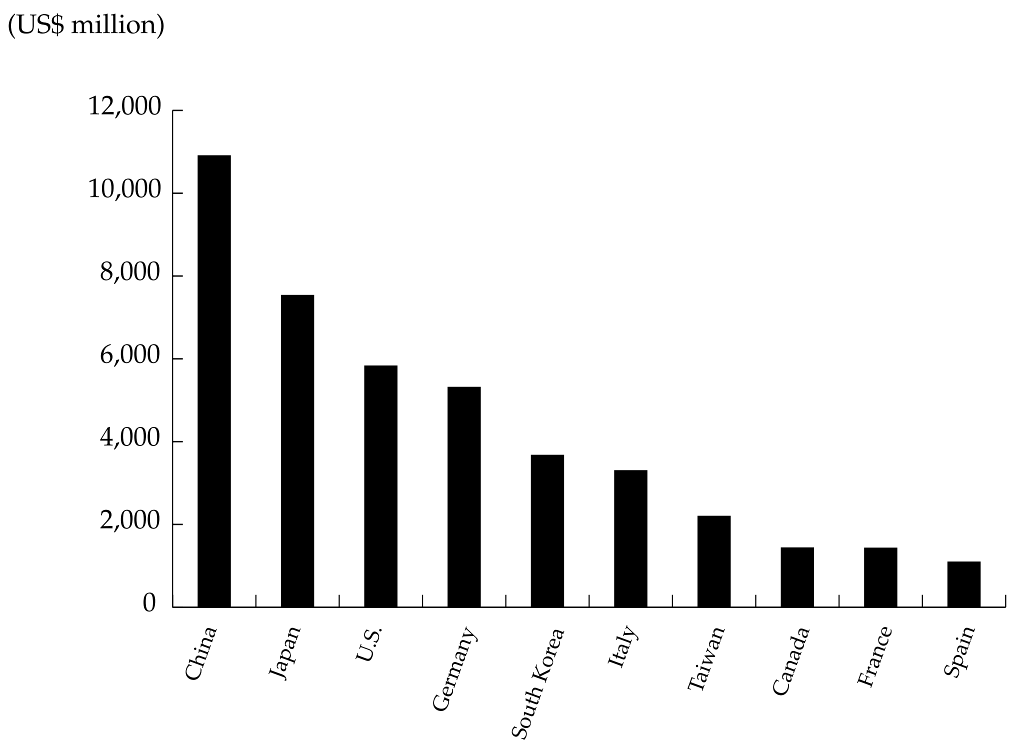
The Bank of Tokyo-Mitsubishi UFJ, Ltd
8/F, AIG Tower
1 Connaught Road
Central
Hong Kong

In this "Industry overview" section, information regarding the PRC or the relevant industries has been recited or extracted from certain articles, reports or publications which are generally and/ or publicly available. The authors and compilers of such articles, reports and publications are Independent Third Parties, and their preparations were not commissioned nor funded by the Group.

THE GLOBAL MACHINE TOOLS INDUSTRY

China's economy has been experiencing high growth in the past decade. China's manufacturing sector has been a vibrant sector. According to the *World Machine tool Output & Consumption Survey* published by Gardner Publication Inc.[1], China's consumption for the machine tools has ranked the largest in the world since 2002. In 2005, China's consumption for machine tools was estimated at US$10.9 billion (equivalent to approximately HK$85.0 billion), accounting for at least 21% of the world consumption. China's consumption for machine tools is about US$3.4 billion (equivalent to approximately HK$26.5 billion), or approximately 45%, larger than that of Japan, the second largest consumption market for machine tools.

The 10 largest machine tools consuming countries in 2005



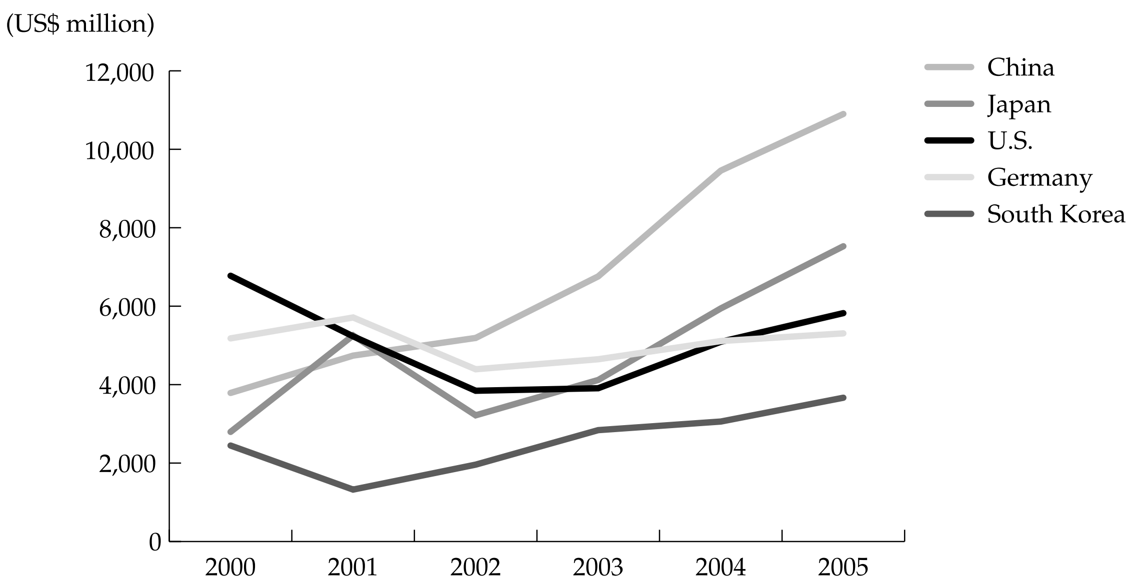
Source: Gardner Publications, Inc.

1. Gardner Publications, Inc., according to the information available from its own website, is a publisher which focused on publishing magazines and creating web sites for industrial markets. Since 1928, Gardner Publications, Inc has been a publisher for manufacturing in North America. Gardner Publications, Inc was founded in 1928 in Cincinnati, Ohio, the U.S., with the introduction of Modern Machine Shop (MMS) magazine – the Metalworking and Machine Tool publication in North America.

   The annual reports of world machine-tool production, trade, and consumption were started in 1965. Subsequently, Gardner Publications, Inc. began annual preparation of the surveys for its publications.

Notwithstanding its size and market position, China's consumption of machine tools has also been growing at a fast pace compared to other industrial countries, such as Japan, U.S., Germany and South Korea. Among the five largest machine tools consuming countries in 2005, China is the only one which has not experienced any market downturn since 2000. The CAGR of China's machine tools market between 2000 and 2005 is approximately 23.5%, outpacing Japan's approximately 21.9%. The CAGRs of the other three top 5 markets in 2005, namely the U.S., Germany and South Korea, were approximately -3.0%, 0.5% and 8.4% respectively. Furthermore, the world market is becoming more concentrated, where only a few countries (including China) have taken up a substantial portion of the market for machine tools.

Historical growth of the five largest machine tools markets in 2005

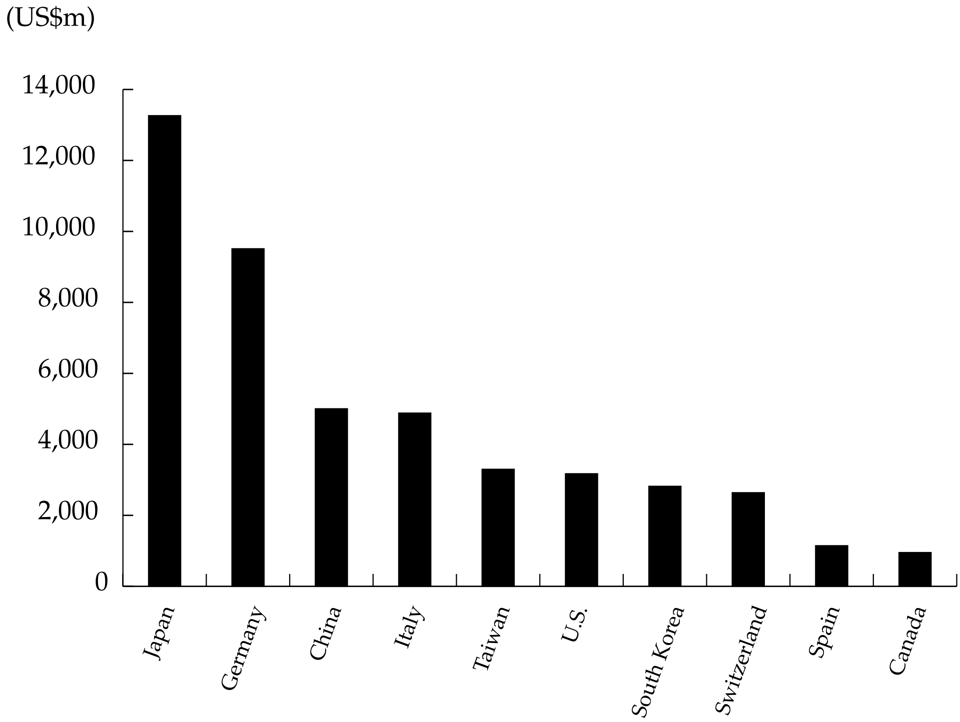


Source: Gardner Publications, Inc.

According to the *World Machine-tool Output & Consumption Survey* published by Gardner Publication Inc., China is the third largest machine tools producing country in the world in 2005, with US$5.0 billion (equivalent to approximately HK$39.0 billion) in size or representing approximately 10% of the world market. The proportion of machines between cutting and forming types account for approximately 74% and 26% of the world market of such machines respectively. In China, the said two types account for approximately 78% and 22% respectively, which is similar to the world's average.

China's machine tools production industry has been growing faster than those of the world's average and other market leaders. Between 2000 and 2005, the CAGR of China's machine tools production is approximately 17.9%, outpacing the world's 7.3%. China's growth rate is also higher than Japan's 8.4% and Germany's 6.4%.

The 10 largest machine tools producing countries in 2005



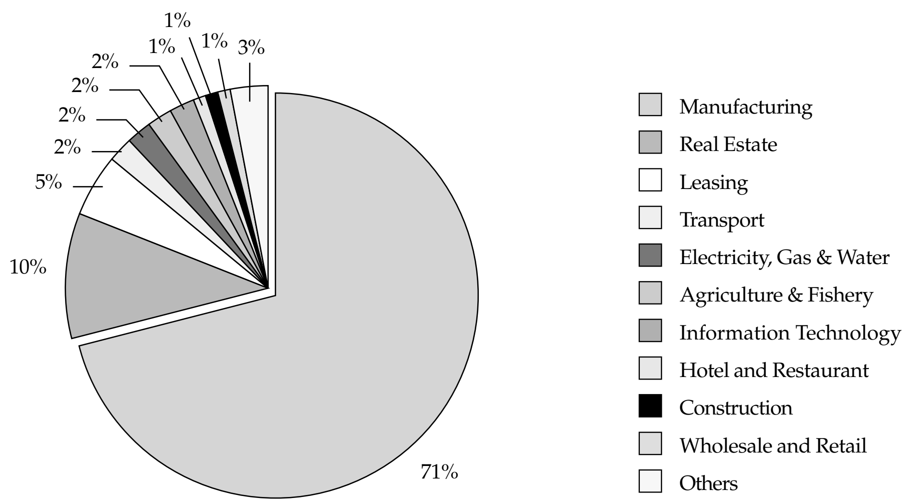
Source: Gardner Publications, Inc.

China's high growth machine tools market was studied in the report *China Machine Tools Market*, published by KPMG[1] in February 2004. The report pointed out that China's market would continue to grow, fueled by a large influx of foreign investment. Due to the upgrading of the key sectors in China, demand for numerical controlled machine tools had been increasing. China's machine producers were rapidly closing the technology gap and improving quality and performance to stay competitive in the future market.

1. According to the information available from the website of KPMG, KPMG is a global network of professional firms providing audit, tax and advisory services. As at 31 July 2006, KPMG operates in over 140 countries and has over 6,700 partners, 76,000 client service professionals, and 21,000 administration and support staff working in member firms around the world.

According to the *China Statistical Yearbook 2005*, an annual statistical publication of National Bureau of Statistics of China, the manufacturing sector is the largest sector which attracted approximately 71% of total foreign direct investment in 2004.

Foreign direct investment breakdown by sector in 2004



Source: China Statistical Yearbook 2005. (Table 18-17)

According to the report *2005 Machine Tool Exporters Guide to China*, published by the Department of Commerce of the U.S., the strong growth of China's manufacturing sector over the past decade has underpinned the country's market for sophisticated machine tools. Some of the leading sectors which brought machine tool demands include automotive, aviation/aerospace, shipbuilding and information technology related manufacturing.

CHINA – "THE WORLD'S FACTORY"

China is sometimes called "the world's factory", because of its strength in the manufacturing sector. The report *The World's Factory: China Enters The 21st Century*, published by Deloitte Research[1] in 2003, concluded that China would continue to increase its share of the international export market not just on the basis of low costs, but because it was becoming a world-class location to produce a wide range of goods.

1. Deloitte Research is a division of Deloitte Touche Tohmatsu ("Deloitte"). According to the information available from the website of Deloitte as at 31 December 2005, Deloitte is an organization of more than 70 member firms with 120,000 people. With professionals at work in nearly 150 countries, the member firms of Deloitte deliver audit, tax, consulting and financial advisory services worldwide.

Statistics show that the manufacturing sector in China has been accelerating in the recent years. CAGRs of the production of major goods as set out in the table below during the five years between 1999 and 2004 is generally higher than that of the years between 1994 and 1999. Major products that rely on die-casting components such as vehicles, sedans, mobile phone, and micro-computer all experienced burgeoning growth in recent years.

China's production of major manufactured products (1994-2004)

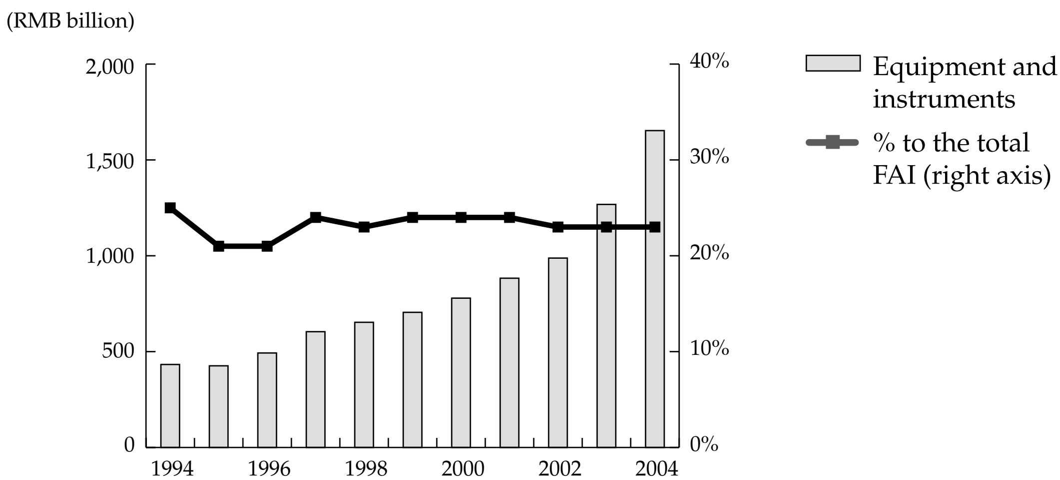
('000 units)	**Refrigerator**	**Air-conditioner**	**Washing Machine**	**Colour TV Set**	**Plastics**	**Motor Vehicle**	**Sedan**	**Mobile phone**	**Micro-computer**
1994	7,681	3,934	10,942	16,892	4,014	1,367	269		246
1995	9,185	6,826	9,484	20,577	5,169	1,453	337		836
1996	9,797	7,862	10,747	25,376	5,769	1,475	383		1,388
1997	10,444	9,740	12,545	27,113	6,858	1,583	486		2,066
1998	10,600	11,569	12,073	34,970	6,926	1,630	507		2,914
1999	12,100	13,376	13,422	42,620	8,711	1,832	571		4,050
2000	12,790	18,267	14,430	39,360	10,875	2,070	607	52,480	6,720
2001	13,513	23,336	13,416	40,937	12,887	2,342	704	80,320	8,777
2002	15,989	31,351	15,958	51,550	14,557	3,251	1,092	121,460	14,635
2003	22,426	48,209	19,645	65,414	16,521	4,444	2,020	182,310	32,167
2004	30,334	66,462	23,489	73,288	17,910	5,074	2,314	233,450	45,124
CAGR '94-'99	10%	28%	4%	20%	17%	6%	16%	N/A	75%
CAGR '99-'04†	20%	38%	12%	11%	16%	23%	32%	45%	62%

† *The CAGR for mobile phone production is measured for the period between 2000 and 2004.*

Source: China Statistical Yearbook 2005. (Table 14-19)

The expansion of the manufacturing sector is also reflected by the fixed assets investment (FAI) deployed in the purchase of equipment and instruments, which amounted to RMB1,653 billion (equivalent to approximately HK$1,620.6 billion) in 2004, with CAGR of 14% between 1994 and 2004. The contribution to the overall fixed assets investment in the PRC is between 21-25% during 1994 and 2004, and maintains at approximately 23% between 2002 and 2004. Nevertheless, the fixed assets investment in equipment and instruments has accelerated during the recent years, as the CAGR between 1999 and 2004 is 19%, which is higher than that of 10% between 1994 and 1999.

Fixed asset investment in equipment and instruments



Source: China Statistical Yearbook 2005. (Table 6-2)

According to KPMG's report *China Machine Tools Market*, published in February 2004, the growth drivers of the machine tools market include the demands from domestic manufacturers who consider using better machine tools as a means to improve their product quality, after PRC's accession to the WTO. Moreover, foreign manufacturers which set up production facilities in the PRC are also demanding for higher quality machines than those used by local Chinese manufacturers in order to maintain the same level of quality for products they produce in PRC as elsewhere.

Based on the *World Machine-tools Output & Consumption Survey* published by Gardner Publication Inc., the value of imported machine tools to the PRC accounted for approximately 61%, 62% and 61% of the total consumption of the country in 2005, 2004 and 2003 respectively. KPMG's report indicated that the numerical controlled metal cutting and metal forming machines are the major import items.

COMPETITION IN THE PRC'S MACHINE TOOLS MARKET

Competition in the machine tool market in the PRC is intensifying as the country integrates with the world economy. Domestic manufacturers become more sophisticated in choosing their machine tools. In KPMG's report, competitions are in several aspects: performance, after-sales service, quality and price. Manufacturers at the user-end have an increasing demand for higher performance machines. After-sales service is important and gradually becoming a basic requirement provided in the market. Quality is also an important factor in acquiring orders from new customers. Pressure on pricing is increasing especially towards the low-end markets as this segment of the market becomes saturated.

In the PRC, state-owned and private domestic companies together accounted for approximately 78% and 80% of the total number of companies in metal cutting and metal forming sectors respectively in 2002. Most of these companies are small and relatively inefficient. These companies were formed historically during the centralized planned economy and are now burdened with excessive labour, outdated production facilities and technologies. As PRC further develops towards market economy, many local companies find it increasingly hard to compete for market share and resources to invest in new technologies. Most have to compete in the low-end market with little or no differentiation.

In order to stay competitive, domestic companies are becoming more active in new product development by forming joint venture and cooperative ventures with foreign manufacturers for acquiring new technologies. With upgraded technology, leading Chinese machine tool manufacturers have started to gain market share in the middle-end machine segment which was traditionally dominated by imports from Taiwan and Korea.

The low-end machine tools refer to the manual and low grade numerically controlled machines. These machines are typically used in small machine shops and processing factories. The low-end segment is dominated by China domestic machine tools companies. The middle-end machine tools refer to machines that are capable of volume production in highly automated environment. These machines are typically used in large scale production by small to large industrial companies. The middle-end market segment is predominantly served by foreign companies, and increasingly by leading Chinese companies. The high-end machine tools refer to the machines that meet the highest level of specification in terms of speed, precision, quality and automation. These machines are typically used for production of precision parts in the automotive, aerospace, military, medical equipment and electronic products. The high-end market segment is dominated by foreign machine tool companies from Germany, Japan, the U.S., Switzerland, France and Italy.

Since the PRC's accession to WTO, the entry barrier of the machine tools making industry has been lowered generally, and the development of the industry has been accelerated. Furthermore, State-own enterprise reform encourages the private sector to play a more important role in the industry.

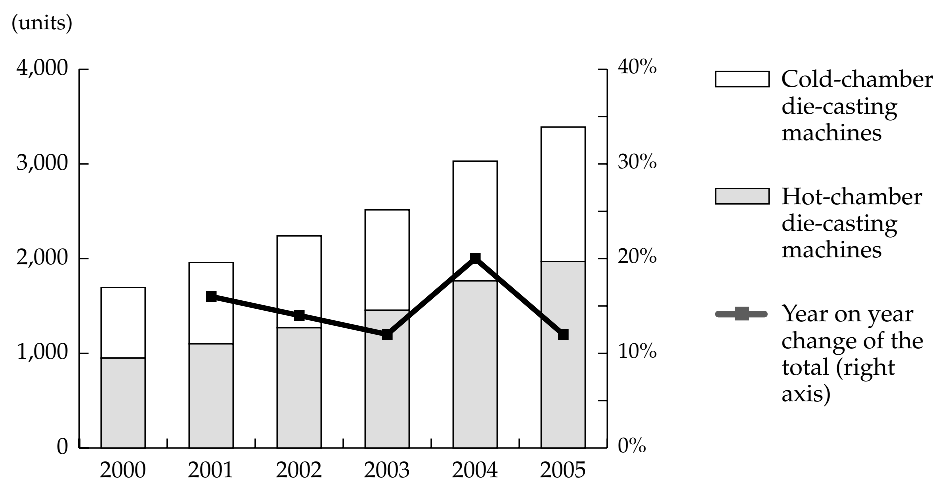
DIE-CASTING MACHINERY INDUSTRY IN THE PRC

The PRC's die-casting machinery industry has grown rapidly during the past few years because of a generally large demand for metal parts, which has increased in line with the economic growth. Die-casting machines are used for producing metal parts of defined and different shapes by forcing molten metal under high pressure into the steel moulds. There are various composite raw materials that may be used in die-casting, such as aluminium, zinc, magnesium and copper. Die-casting machines are widely used in the automotive industry, the construction industry, and the electrical appliances industry as the machines can produce die-cast parts in a variety of size, shape, and thickness with strong and durable qualities. The products made of castings vary from general household consumer products to heavy manufacturing industry products, including automobile engines and transmission parts, and more detailed and complicated components for computer and medical devices.

In tandem with the growth of its manufacturing sector, the PRC commands a vibrant market of die-casting machines, which achieved double-digit growth in unit sales annually between 2000 and 2005. During the period, the annual growth rates of die-casting machine unit sales in China are between approximately 12% and 20%, according to Foundry Institution of Chinese Mechanical Engineering Society. The total die-casting machine sales grew from 1,695 units in 2000 to 3,390 in 2005, representing a CAGR of approximately 15% during the period. In 2005, the total die-casting machines sales in terms of machine units recorded an annual growth of approximately 12%.

According to the above society, in 2005, the total die-casting machines sale is comprised of 1,970 hot chamber die-casting machines and 1,420 cold chamber die-casting machines. Hot chamber die-casting machines are used for low melting point metal alloys such as zinc, lead and magnesium that allow the use of gooseneck. Cold chamber die-casting machines are used for metal alloys with relatively high melting points such as aluminium, brass and magnesium. These two types of die-casting machines represent approximately 58% and 42% respectively of the total number of die-casting machine units sold in 2005, both of which represent approximately 12% annual growth. The CAGRs of the unit sales of the hot chamber die-casting machines and cold chamber die-casting machines in China between 2000 and 2005 were approximately 16% and 14% respectively.

The PRC's die-casting machine unit sales



Source: Foundry Institution of Chinese Mechanical Engineering Society (中國機械工程學會鑄造分會)[1].

1. Foundry Institution of Chinese Mechanical Engineering Society (中國機械工程學會鑄造分會) ("FICMES"), according to the information available from its own website, was founded in 1962 and is the largest national academic society in foundry field in China. FICMES is responsible for the national academic exchange and economic trade in foundry and die-casting field, and acts as the bridge linking research institutes, colleges, design units and enterprises. FICMES is the sub-division of the Chinese Mechanical Engineering Society, which was chartered as a legal person at the Ministry of Civil Affairs of the People's Republic of China.

According to the *China Markets Yearbook 2005*[1], whose data are exclusively provided by the National Bureau of Statistics, the major manufacturers of metal founding machines in 2003 and their products are as follows.

Manufacturer	City	Province	Major products
1	Dalian	Liaoning	Iron casting equipment
2	Shanghai	Shanghai	Cold chamber die-casting machines
3	Qingdao	Shandong	Foundry machinery
4	Weifang	Shandong	Forging and pressing equipment
5	Dezhou	Shandong	Casting materials
6	Yantai	Shandong	Casting materials
7	Zhengzhou	Henan	Hydraulic press machines
8	Qingdao	Shandong	Foundry machinery
9	Shanghai	Shanghai	Numerical controlled machine tools
10	Xuzhou	Jiangsu	Machine

Source: China Markets Yearbook 2005.

According to the *China Markets Yearbook 2005* [1], whose data are exclusively provided by the National Bureau of Statistics, the major manufacturers of plastic processing equipment in 2003 and their product ranges are as follows.

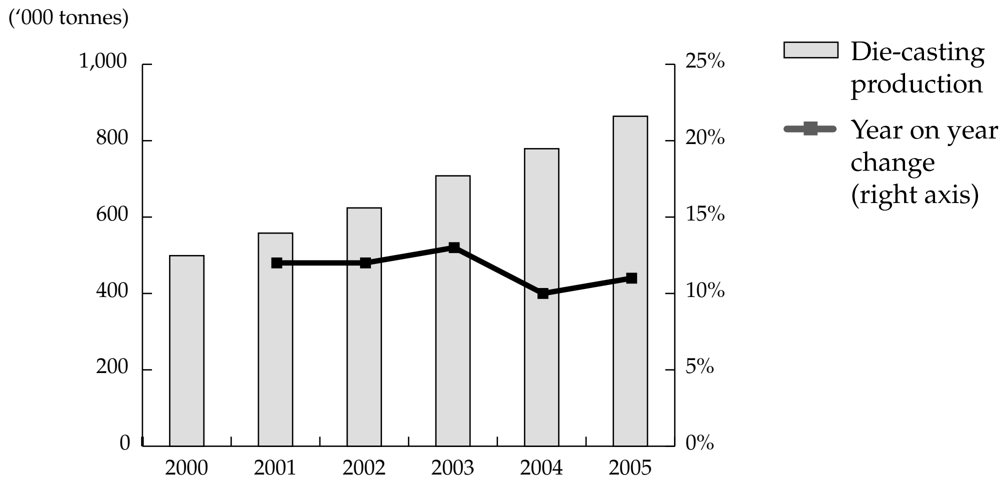
Manufacturer	City	Province	Major products
1	Ningbo	Zhejiang	Plastic Processing Machinery
2	Foshan	Guangdong	Plastic Injection Moulding Machine
3	Shanghai	Shanghai	Plastic Machinery
4	Dongguan	Guangdong	Plastic Injection Moulding Machine
5	Ningbo	Zhejiang	Plastic Injection Moulding Machine
6	Yantai	Shandong	Gear
7	Nanjing	Jiangsu	Chemical Industrial Machinery
8	Ningbo	Zhejiang	Plastic Injection Moulding Machine
9	Ningbo	Zhejiang	Plastic Injection Moulding Machine
10	Hangzhou	Zhejiang	Plastic Injection Moulding Machine

Source: China Markets Yearbook 2005.

1. China Markets Yearbook 2005, published by Foreign Languages Press in 2005, contains data which are exclusively provided by the National Bureau of Statistics of China. It has been an annual collection on the statistics of all the major industry markets in the PRC since 1997.

According to an article published in *Die-casting World Report*[1], the die-casting production volume in China reached 864,200 tonnes in 2005, with an annual growth of 11% compared to the previous year. For the period between 2000 and 2005, the CAGR of the die-casting production volume is approximately 12%. The rapid growth of the automotive industry, metallic toy industry, and the electrical appliances, electronics and computers industry are considered to provide driving force for the sustained development of the die-casting industry.

Die-casting production in China



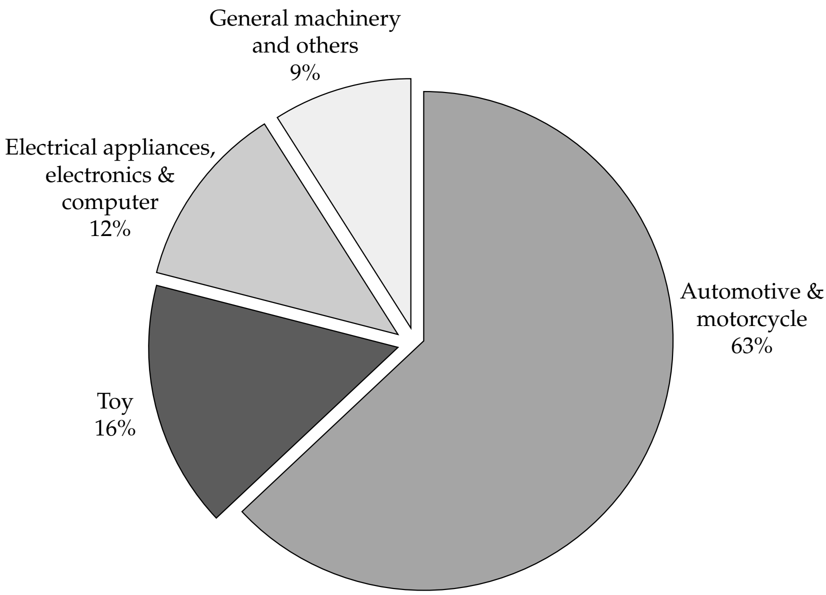
Source: 宋才飛(Song Cai-fei), "中國壓鑄業發展的特徵與規律" (Characteristics and patterns of the development of die-casting industry in the PRC) in *Die-casting World Report*, the first edition of 2006.

1 宋才飛(Song Cai-fei), "中國壓鑄業發展的特徵與規律" (Characteristics and patterns of the development of die-casting industry in the PRC) in *Die-casting World Report*, the first edition of 2006

According to the information available from the website of the Foundry Institution of Chinese Mechanical Engineering Society (中國機械工程學會鑄造分會), *Die-casting World Report* is a bi-monthly magazine published by this society and distributed free-of-charge to the members of the Chinese Mechanical Engineering Society, the die-casting industry participants, suppliers, related research and development units, the colleges and universities throughout the PRC.

In 2005, production of automotive and motorcycle components reached 542,700 tonnes, representing approximately 63% of the total die-casting production volume in terms of weight. Production of metallic toys was 138,200 tonnes, representing approximately 16% of the total die-casting production volume, while that of electrical appliances, electronics and computers were 101,900 tonnes, representing 12% of the total die-casting production volume.

Die-cast article production breakdown by applications



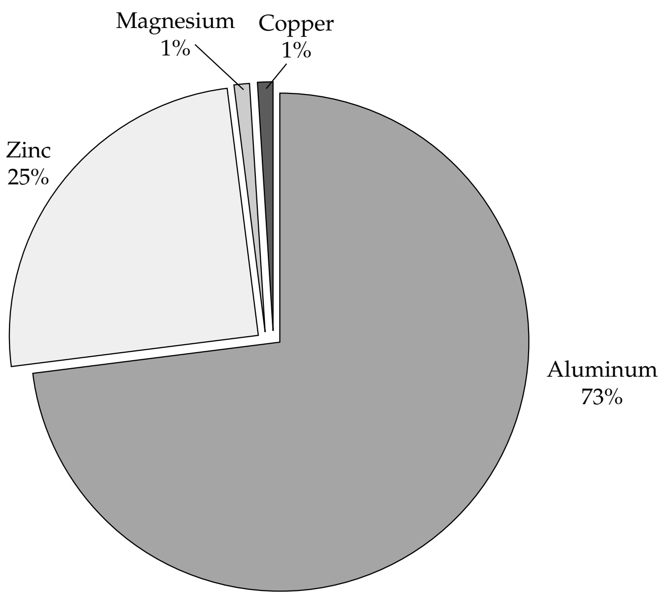
Source: 宋才飛(Song Cai-fei), "中國壓鑄業發展的特徵與規律" (Characteristics and patterns of the development of the die-casting industry in the PRC) *Die-casting World Report*, the first edition of 2006.

According to the *Die-Casting Fact Sheet* published by North American Die-Casting Association[1], each of the metal alloys available for die-casting offers specific advantage for the completed part. Aluminium alloys are lightweight and possess high dimensional stability for complex shapes and thin walls. They have good corrosion resistance, high thermal and electrical conductivity, as well as strength at high temperatures. Zinc is the alloy easiest to cast. It offers high durability, and high impact strength. Zinc is also economical for small parts. It has a low melting point and may extend die life. Alloys produced from magnesium are the easiest to be machined; magnesium alloy has an appropriate strength-to-weight ratio and is the lightest alloy for die casting generally. Copper alloys possess high hardness, and high corrosion resistance. It offers good wear resistance and dimensional stability, with strength approaching that of steel parts.

1. According to the information available from the website of North American Die-Casting Association, the organization is the sole voice of the die-casting industry, representing more than 3,100 individual and nearly 290 corporate members in the United States, Canada and Mexico. The organization was formed in 1989 in a merger of the American Die-Casting Institute (founded in 1928) and the Society of Die-Casting Engineers (founded in 1957).

In 2005, aluminium accounted for approximately 73% of the die-casting production volume in terms of weight in China, which was equivalent to a production volume of 630,690 tonnes. The production volume of zinc was 218,500 tonnes, representing approximately 25% of the total die-casting production in China. The production volumes of magnesium and copper were 8,960 tonnes and 6,050 tonnes respectively, both representing approximately 1% of the total die-casting production in China.

Die-casting article production volume breakdown by metals



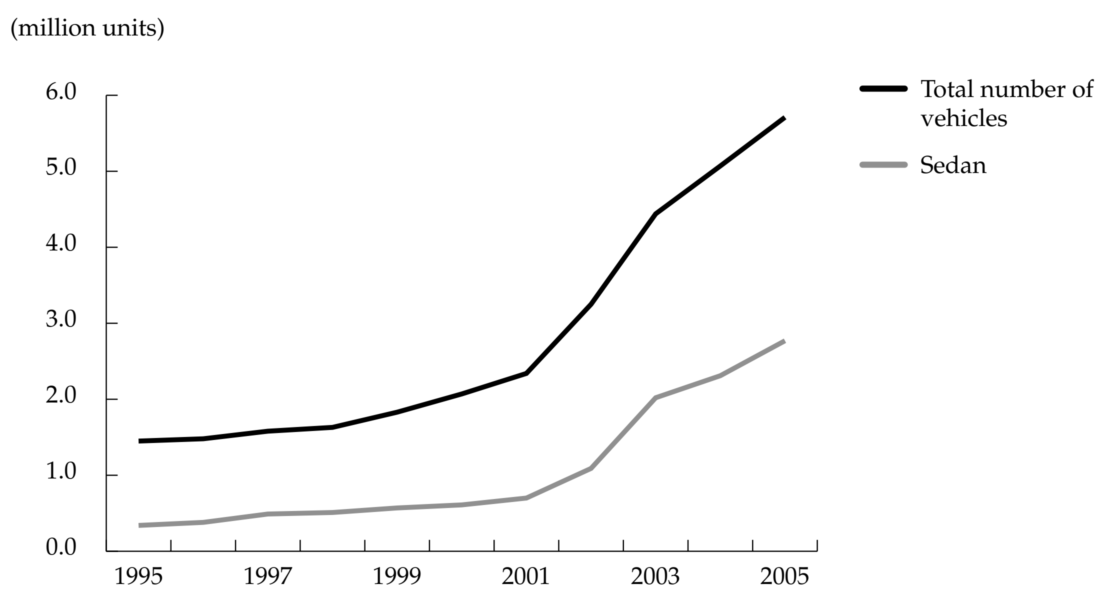
Source: 宋才飛(Song Cai-fei), "中國壓鑄業發展的特徵與規律" (Characteristics and patterns of the development of the die-casting industry in the PRC), *Die-casting World Report*, the first edition of 2006.

The potential on the demand of automotive parts

The automotive industry is a major industry which has heavy demands for die-casting products. As indicated in the previous sections, die-casting products for automotive and motorcycle components represent approximately 63% of the total die-casting production in China in 2005 by weight. The automotive industry achieved burgeoning growth over the past few years. The total number of vehicles produced in China was approximately 5.7 million in 2005, rising at a rate of approximately 13% as compared to the previous year. For the five years between 2000 and 2005, the CAGR of the vehicles produced is approximately 22%, which is higher than the CAGR of approximately 7% between 1995 and 2000.

The growth of sedan production in China is also rapid. In 2005, 2.8 million sedans were produced in China, rising by approximately 24% as compared to the previous year. The growth accelerated from the CAGR of approximately 12% between 1995 and 2000 to the CAGR of approximately 35% for the period between 2000 and 2005. Furthermore, according to the *U.S. Die-Casting Industry Fact Sheet* published by North American Die-Casting Association, aluminium and magnesium die-castings are at the forefront of efforts to introduce lighter weight components to help increase fuel efficiency. The prognosis for aluminium and magnesium casting applications in future vehicles continues to be promising.

Production growth of the automotive industry in China



Source: China Statistical Yearbook 2005 (Table 14-19), China Association of Automobile Manufacturers.

PLASTIC INJECTION MOULDING MACHINERY INDUSTRY IN CHINA

Plastic injection moulding machines are used for converting plastics from raw material form into articles of use. The machines melt, reshape, and cool plastic parts into different shapes with different quality and design. Injection moulded components are typically used in telecommunication equipment, computers and computer peripherals, consumer electronics, toys, household products and construction materials.

According to an article published in 中國塑料(*China Plastics*[2]), plastics are major components of home appliances and other electrical and electronic appliances. For example, the weight percentage of plastic in refrigerators and vacuum cleaners are approximately 40% and 60% respectively.

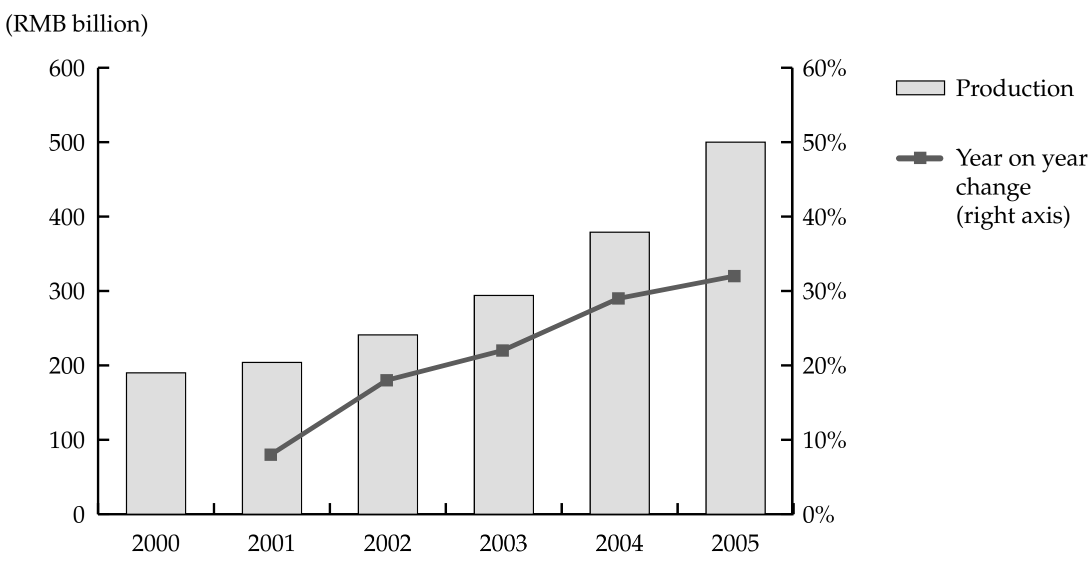
Weight percentage of plastics in home appliances and other electrical and electronic appliances

Type	**%**
Television set	25
Refrigerator	40
Air conditioner	11
Machine washer	36
Desktop PC	23
Vacuum cleaner	60

Source: 廖正品(Liao Zheng-pin), "中國塑料工業(2005)" (China Plastics Industry (2005)) in *China Plastics* (中國塑料), No. 4, April 2006.

China's plastic production value increased from approximately RMB190 billion (equivalent to approximately HK$186.3 billion) in 2000 to approximately RMB500 billion (equivalent to approximately HK$490.2 billion) in 2005, representing a CAGR of approximately 21%. The annual growth of the production value has been increasing since 2000. The growth accelerates from an annual growth rate of approximately 8% in 2001 to approximately 32% in 2005 and such growth in production value is supported both by the increases in production volume and the average price per production volume.

China plastic production by value†



† *Survey includes all state-owned enterprises and the private enterprise with annual sales over RMB5 million designated size.*

Source: 廖正品(Liao Zheng-pin), "中國塑料工業(2005)" (China Plastics Industry (2005)) in China Plastics (中國塑料), No. 4, April 2006.

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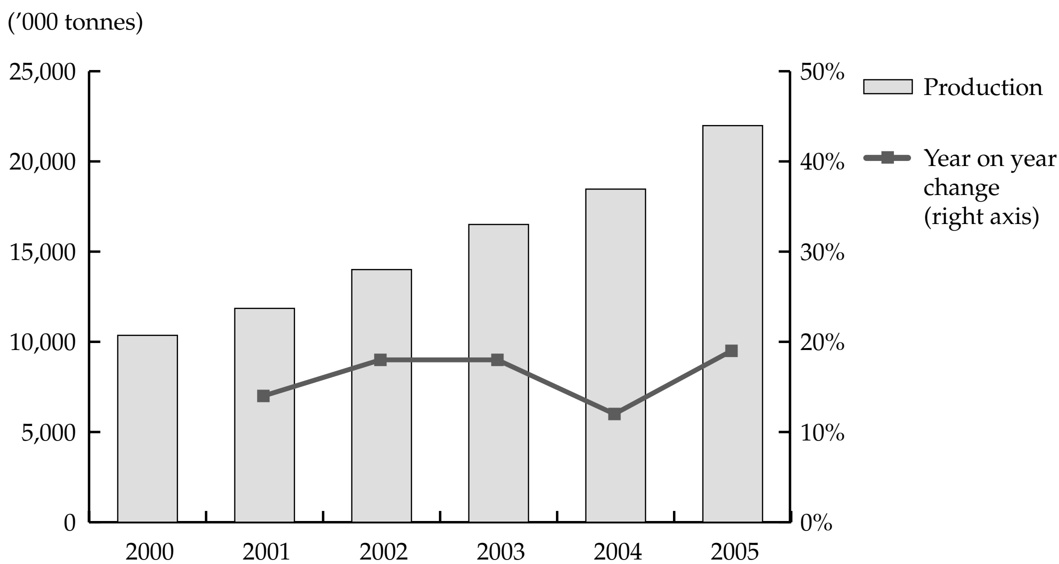
2 廖正品(Liao Zheng-pin), "中國塑料工業(2005)" in *China Plastics* (*中國塑料*), No. 4, April 2006.

The plastic production value grows faster than the production volume over the past five years. The plastic production volume in China increased from approximately 10,358,000 tonnes in 2000 to approximately 21,986,000 tonnes in 2005, representing CAGR of approximately 16%. The growth rate in production volume has been steady, which ranges between approximately 12% and 19%. In 2005, the annual growth rate of China's plastic production volume was approximately 19%. The double-digit production volume growth is in line with the strong growth in the manufacturing sector in China after its accession to the WTO. The difference between the average growth rates of the production value and production volume implies that the average price per production volume has been increasing over the relevant period. The average price per production volume was approximately RMB18,340 (equivalent to approximately HK$17,980) per tonne in 2000. It varied slightly between 2000 and 2003. However, the average price increased from approximately RMB17,790 (equivalent to approximately HK$17,450) per tonne in 2003 by 16% to approximately RMB20,547 (equivalent to approximately HK$20,150) per tonne in 2004 and by further 11% to approximately RMB22,733 (equivalent to approximately HK$22,290) per tonne in 2005. The Directors believe that the rise in average price since 2003 was related to the increase of oil price over the relevant period which raised the cost of production and affected the average sales price per production volume.

China plastic production by volume†



† *Survey includes all state-owned enterprises and the private enterprise with annual sales over RMB5 million designated size.*

Source: 廖正品(Liao Zheng-pin), "中國塑料工業(2005)" (China Plastic Industry (2005)) in *China Plastics* (中國塑料), No. 4, April 2006.

REGULATIONS IN RELATION TO THE INDUSTRIES

As advised by the legal adviser of the Company as to the PRC law, except for the business license, there are no special and/or additional approvals, permissions or any other qualifications required under PRC laws and regulations in relation to the design, manufacture and sale of die-casting and plastic injection moulding machines. According to the Catalogue for the Guidance of Foreign Investment Industries (adopted by the State Council on 29 December 1997 and promulgated by the State Development Planning Commission, the State Economy and Trade Commission, the Ministry of Foreign Trade and Economic Cooperation on 31 December 1997 and the latest Catalogue for the Guidance of Foreign Investment Industries and its Attachment, which were adopted by National Development and Reform Commission (國家發展和改革委員會) and Ministry of Commerce (商務部) on 30 November 2004 外商投資產業指導目錄（2004修訂）(Guidance Index for foreign Investment in industries (Revised 2004)), effective date: 1 January 2005, the business that the Group operates in the PRC is Permitted Foreign Investment Projects.

According to regulations governing die-casting machines manufacturing in the PRC, manufacturers of die-casting machines are required to obtain certificates issued by authorised bodies like BSI and Lloyds to certify that a product's specification satisfies the standards laid down by the respective authorised bodies. For example, CE is the certificate issued by accreditation bodies (such as BSI or Lloyds) which is a recognition of the products having met the standard requirement.

OVERVIEW OF BUSINESS

The Group is principally engaged in the design, manufacture and sale of hot chamber and cold chamber die-casting machines and plastic injection moulding machines. The products of the Group are sold mainly to manufacturers of different industries in the PRC.

The Group was established in 1985 in Hong Kong. As at the Latest Practicable Date, the Group has 7 manufacturing subsidiaries, 2 in each of Shenzhen and Ningbo and 1 in each of Shanghai, Zhongshan and Fuxin, the PRC, with a total gross floor area of approximately 129,700 sq.m. for the production and sale of die-casting and plastic injection moulding machines in the PRC. The Group's PRC subsidiaries have established sales offices and liaison points located close to the existing and potential customers of the Group in various cities of the PRC. These offices and liaison points help to extend the Group's sales network coverage and facilitate the provision of after-sales services to the customers. At the Latest Practicable Date, the Group had a total of 14 sales offices and 25 liaison points in the PRC and 1 sales office in Hong Kong. To facilitate sales in overseas markets, the Group has also established 1 overseas company as a sales office in each of Taiwan and Canada and 2 overseas companies as sales offices in the U.S.

The Group is one of the leading players in the die-casting machinery industry in the PRC with a well established brand name and sizeable operations. The Directors believe that the Group is one of the largest manufacturers of die-casting machines in the PRC. In the calender year of 2005, the Group sold approximately 1,500 die-casting machines amounting to approximately 44% of the total number of die-casting machines sold in the PRC (based on the record compiled by the Foundry Institution of Chinese Mechanical Engineering Society). In addition, on 21 July 2006, SZ Leadwell, a major manufacturing subsidiary of the Group, was awarded "2006年中國機械500強榮譽證書" ("Machine 500 China in year 2006").

The Group offers a comprehensive range of machinery products featuring 80 different models in 15 series under three major product categories, namely hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines. Die-casting machines are used for the die-casting of non-ferrous molten metals into different types of metallic consumer and industrial products such as automotive parts and components, computer, communication and consumer products, and household electrical products. Plastic injection moulding machines are used for manufacturing plastic products such as toys, telecommunications equipment, computers and computer peripherals, consumer electronics and other household or consumer products. The Group's hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines have clamping force ranging from 8 to 400 tons, 145 to 3,000 tons and 30 to 1,300 tons respectively.

As at 31 August 2006, the Group's annual production capacity amounts to approximately 4,800 standard units of machines, being machine products of the Group with clamping force of 160 tons. Please refer to the paragraph headed "Production capacity and standard unit of machines" in this section for further information of standard unit of machines.

Since 2003, the Group expanded each of its manufacturing facilities situated in Shenzhen, Shanghai, Zhongshan and Ningbo. As a result, the annual production capacity of the Group increased from approximately 3,060 standard units of machines as at 1 April 2003 to its annual production capacity as at 31 August 2006 of 4,800 standard units of machines, representing an increase over the said entire period of approximately 57% of annual production capacity of the Group. The Directors believe that the expansion of its manufacturing facilities can further enhance the Group's position through economy of scale and enable the Group to achieve a higher growth in sales in the market.

The Group has established a research and development centre with approximately 160 staff as at 31 August 2006 situated at the Group's PRC headquarters in Shenzhen, which is responsible for carrying out various research and development projects in accordance with expected market demands and in order to maintain the Group's competitive edge. Recent research and development projects of the Group include the projects for cold chamber die-casting machines with 4,500 tons clamping force and plastic injection moulding machines with 2,200 tons clamping force. In addition, the Group has completed the prototype of direct clamp injection moulding machines, and the prototype of all electric injection moulding machines to meet the demand for higher product efficiency and quality. The software programs developed by the Group (some of which with copyright registered) are used in its machine products. To the best knowledge of the Directors, the Group's customers are mainly manufacturers in the automotive industry, toy industry, electrical products industry and electronics industry in the PRC.

For the three years ended 31 March 2006, the Group's turnover amounted to approximately HK$602.0 million, HK$667.6 million and HK$851.5 million respectively and the Group's net profit attributable to shareholders amounted to approximately HK$113.6 million, HK$102.8 million and HK$107.6 million respectively. As at 31 August 2006, the Group had a workforce of approximately 3,500 staff.

COMPETITIVE STRENGTHS OF THE GROUP

The Directors believe that the achievements of the Group are mainly attributable to the following competitive strengths:

Leading market position

The Group has grown to become one of the largest manufacturers of die-casting machines in the PRC. In the calender year of 2005, the Group sold approximately 1,500 die-casting machines in the PRC amounting to approximately 44% of the total quantity of die-casting machines sold in the PRC (based on the record compiled by the Foundry Institution of Chinese Mechanical Engineering Society). The Group has 7 manufacturing subsidiaries in the PRC totaling an aggregate gross floor area of approximately 129,700 sq.m. and sold approximately 3,067 machines produced by the Group (including both die-casting machines and plastic injection moulding machines) for the year ended 31 March 2006. These manufacturing subsidiaries are equipped with advanced machineries and CNC machines. The Group's wide-ranging products featuring 80 different models in 15 series. The Group's annual production capacity expanded by approximately 57% from 1 April 2003 to 31 August 2006. Capitalizing on its large scale of production and leading market position, the Directors expect the Group will continue to benefit from its economy of scale and the business opportunities arising from the increasing demand of die-casting machines and plastic injection moulding machines in the PRC.

Clear and focused management vision

The Board has a clear and focused management vision. In view of the relocation of the production plants of Hong Kong and overseas manufacturers to the PRC as a result of the open door policies implemented by the PRC government in the 1980s, the Group then quickly identified the prospects of the PRC becoming the manufacturing centre of various industries and consumer products such as toy, electrical and electronic products. It is the Group's established policies to gradually establish a number of manufacturing plants with a close proximity to the manufacturers of the above-mentioned products in the PRC, and to produce machines of larger size to capture the growing demand of the manufacturing industry in the PRC. The Group has gradually established a leading position in the die-casting machinery industry. To leverage on the Group's technological expertise in designing and manufacturing machines and established sales network, the management has expanded the Group's business into plastic injection moulding machines. The plastic injection moulding machinery business, which complements the Group's die-casting machinery business, has become an important driving force of the Group's business.

Strong brand recognition built upon high quality products and services

The Group has adopted stringent quality control measures in compliance with ISO 9001:2000 standard and is promoting quality management system at stages of production. Besides, in order to better facilitate sales and provide strong after-sales support to its customers, the Group has, as at the Latest Practicable Date, 14 sales offices and 25 liaison points throughout the PRC where the customer service staff from the Group's manufacturing subsidiaries provide customers with training, technical advice and after sales services. The Directors believe that the Group's quality products and services enable the Group to satisfy its customers' demand for high quality products and services, thereby building up strong customer brand recognition.

Strong research and development ability

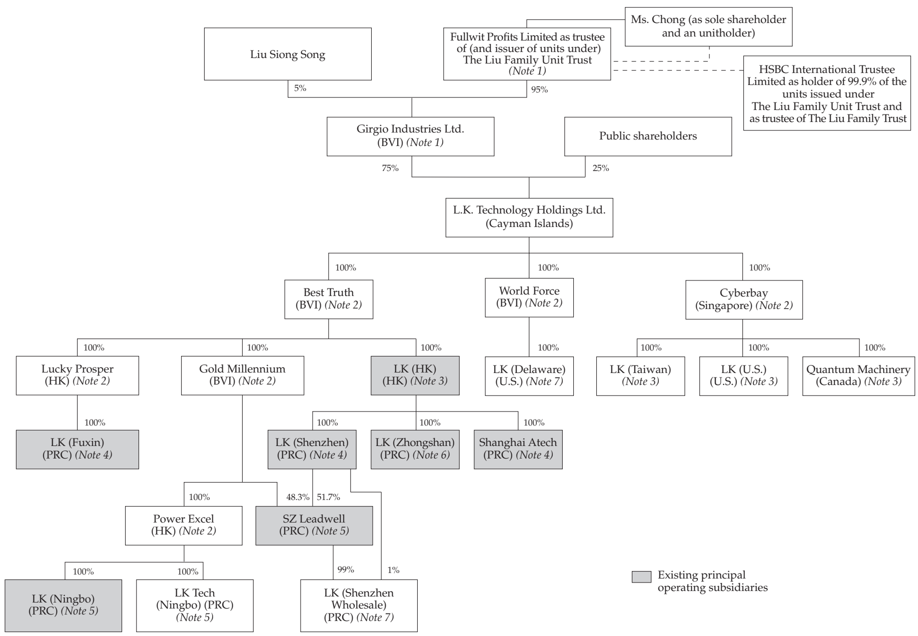
Situated at the Group's PRC headquarters in Shenzhen, the Group's research and development centre, which has approximately 160 staff as at 31 August 2006, is responsible for carrying out various research and development projects in accordance with the market requirements. The Directors believe that the Group's research ability enables the Group's continuous development in advanced technology and new products to meet the changing demand of the market, which in turn enables the Group to maintain a leading position in the industry. The Group has completed the prototype of direct clamp injection moulding machines and all electric injection moulding machines. The Group is undertaking projects to develop cold chamber die-casting machines with clamping force up to 4,500 tons and plastic injection moulding machines with clamping force up to 2,200 tons. In addition, the Group has been developing various new technology and application including the LK networking system (which will connect all the die-casting machines or plastic injection moulding machines of a customer and provide consolidated information to management), the real time control system (which will provide the machines with self-diagnosis system and auto control system), and semi-solid metal casting technology.

Well-established management structure

The Group has adopted a management system in which decision-making and management functions are carried out by a team of senior management staff. The decentralised management structure and a developed system for segregation of duties allow the Group to maintain balanced input of knowledge and relevant experience from management in different functional areas. In addition, the Group's management structure is formulated to avoid over reliance on any single member of the management team and may enhance smoothness and effectiveness of the operations of the Group.

SHAREHOLDING AND GROUP STRUCTURE

The following chart sets out the shareholding structure and place of incorporation of the members of the Group immediately following completion of the Share Offer (without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option):



Notes:

1. Girgio is an investment holding company incorporated in the BVI on 27 March 1997. During the period from 1 April 2003 to 2 May 2003, Girgio was wholly-owned by Mr. Liu. On 3 May 2003, Mr. Liu transferred 95% equity interest in Girgio held by him to Fullwit Profits Limited (as a trustee of The Liu Family Unit Trust). Since 3 May 2003, the equity interest of Girgio has been held as to 95% by Fullwit Profits Limited in its capacity as trustee of The Liu Family Unit Trust and owned as to 5% by Mr. Liu in his personal interest. Fullwit Profits Limited is wholly-owned by Ms. Chong.

   The Liu Family Unit Trust was established by Mr. Liu, as settlor on 22 February 2002, of which the units in issue are owned as to 99.9% by HSBC International Trustee Limited as trustee of The Liu Family Trust and as to 0.1% by Ms. Chong in her personal interest. The Liu Family Unit Trust is not a discretionary trust.

   The Liu Family Trust was established by Mr. Liu, as settlor on 22 February 2002 as an irrevocable discretionary trust, of which the beneficiaries thereto, are Ms. Chong and the children of Mr. Liu and Ms. Chong. HSBC International Trustee Limited as trustee of The Liu Family Trust owns 99.9% of the units issued under The Liu Family Unit Trust and Ms. Chong owns 0.1%, and therefore they have an aggregate indirect attributable interest of approximately 71.18% and 0.07% respectively in the issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised). Under the relevant trust deed, HSBC International Trustee Limited is generally subject to fiduciary duties in accordance with law.

   Clause 12 of the Unit Trust Deed ("Unit Trust Deed") of The Liu Family Unit Trust provides that HSBC International Trustee Limited as unitholder will be entitled to receive income and, upon termination of The Liu Family Unit Trust, to receive distributions in accordance with the Unit Trust Deed. However, HSBC International Trustee Limited as unitholder shall not have beneficial or other interest in any particular asset or part of the trust property, nor any right to exercise any of the rights, power or privileges in respect of any of the property forming part of the trust property, nor any right to require the transfer to him of any of the assets or property which from time to time constitute that trust property, nor any right to interfere with or to question the exercise or non-exercise by Fullwit as trustee in accordance with this trust of its rights and power in dealing with that trust property or any part thereof. Hence, save for being an unitholder of the units in issue and trustee of The Liu Family Trust, HSBC International Trustee Limited is neither a shareholder of the Company, Girgio nor Fullwit, and therefore does not have any direct interest in or control over the Company. HSBC International Trustee Limited as unitholder only has an economic interest under The Liu Family Unit Trust in the form of entitlement to receive income and distributions as set out in The Liu Family Unit Trust. In addition, HSBC International Trustee Limited as unitholder is not entitled to claim any interest in any of the particular asset or property held by Fullwit as trustee of The Liu Family Unit Trust. In this respect, HSBC International Trustee Limited as unitholder does not have any beneficial interest in the trust property, nor any right to exercise any of the rights, powers or privileges in respect of any of the trust property, to require the transfer to it of any of the trust property, to interfere with or to question the exercise or non-exercise by Fullwit as trustee of The Liu Family Unit Trust in accordance with the Unit Trust Deed of Fullwit's rights and powers in dealing with the trust property. As such, HSBC International Trustee Limited as unitholder does not have any control or influence over Fullwit as trustee of The Liu Family Unit Trust nor, for that matter, over Ms. Chong as sole shareholder of Fullwit and Girgio as the controlling shareholder of the Company. HSBC International Trustee Limited is therefore not capable of directing Girgio to acquire or dispose of any of the Shares nor Fullwit to acquire or dispose of any of its shares in Girgio nor Ms. Chong to acquire or dispose of any of her shares in Fullwit. HSBC International Trustee Limited as unitholder will have the right to monitor the performance of Fullwit to the effect that HSBC International Trustee Limited can compel Fullwit as trustee to administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed. Such right of HSBC International Trustee Limited as unitholder to ensure that Fullwit as trustee acts in observance of the terms of the Unit Trust Deed is basically a monitoring function and by no means empowers HSBC International Trustee Limited as unitholder to interfere or influence the exercise by Fullwit of its rights and powers in accordance with the wishes of HSBC International Trustee Limited. HSBC International Trustee Limited as unitholder may only exercise such right when Fullwit as trustee does not administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed.

Clause 13 of the Unit Trust Deed provides that the trust property shall be managed by Fullwit as trustee of The Liu Family Unit Trust for the benefit of HSBC International Trustee Limited and Ms. Chong as unitholders with full and complete power of management. Girgio, being beneficial owner of 750,000,000 Shares is entitled to 75% of the voting power of the Company.

Mr. Liu does not have any right, power, control or influence over The Liu Family Unit Trust, The Liu Family Trust, their respective trustees and protectors (if appointed) and unitholders (as the case may be) under the respective deeds creating The Liu Family Unit Trust and The Liu Family Trust.

Mr. Liu has confirmed that up to the Latest Practicable Date, he did not give or execute any letters of wish or related documents in respect of both or either of The Liu Family Unit Trust or The Liu Family Trust.

2. Principal business activities: Investment holding.

3. Principal business activities: Sale of die-casting machines and plastic injection moulding machines.

4. Principal business activities: Manufacture and sale of die-casting machines.

5. Principal business activities: Manufacture and sale of die-casting machines and plastic injection moulding machines.

6. Principal business activities: Manufacture and sale of plastic injection moulding machines.

7. Not yet commenced operations.

HISTORY AND DEVELOPMENT

Corporate development

The history of the Group, which was founded by Mr. Liu, can be traced back to 1985 when the Group established its first operating vehicle, LK (HK), in Hong Kong with an issued share capital of HK$700,000. LK (HK) commenced its operation in the production of die-casting machines at premises in Tsuen Wan, Hong Kong.

In the 1980s, many Hong Kong manufacturers started to shift their production bases and market focus to the PRC. In view of the growing market potential for die-casting machines and lower production costs in the PRC, the Group established its first manufacturing plant in the PRC, LK (Shenzhen), in the Shenzhen Special Economic Zone in June 1991 for the production of the Group's machine products.

In August 1994, with the expansion of its business, the Group moved its operation in Hong Kong to Kwai Chung, Hong Kong.

On 13 September 1994, the Group entered into a joint venture with Zhongzhan Mingsheng Industrial Co., Ltd. (a company which Mr. Liu Zhao Ming, an executive Director, was then interested in) to establish LK (Zhongshan) in Zhongzhan with a registered capital then of US$1.50 million (equivalent to approximately HK$11.7 million). LK (Zhongshan) is currently principally engaged in the manufacture and sale of plastic injection moulding machines. The manufacturing entity was situated at the plot of land acquired by LK (Zhongshan) in Zhongshan. In 1995, LK (Zhongshan) increased its registered capital to US$1.88 million (equivalent to approximately HK$14.7 million). LK (Zhongshan) was required to pay up the registered capital before June 1996 under the applicable rules and regulations. However, the registered capital was only fully paid up in May 1998. As advised by the legal adviser to the Company as to the PRC laws, such late capital injection and/or late capital verification would not affect the legal status of LK (Zhongshan), and would not have any material adverse impact on its management or financial position.

On 26 December 1995, another manufacturing entity, Shanghai Atech was incorporated in the PRC with a registered capital of US$2.5 million (equivalent to approximately HK$19.5 million). It is principally engaged in the manufacture and sales of die-casting machines. Shanghai Atech was required to pay up the registered capital in December 1996 under the applicable rules and regulations. However, the registered capital was fully paid up in April 1998. As advised by the legal adviser to the Company as to the PRC laws, such late capital injection and/or late capital verification would not affect the legal status of Shanghai Atech, and would not have any material adverse impact on its management or financial position.

In 1997, production also began at the Group's factory in Zhongshan. LK (Zhongshan) is principally engaged in the plastic injection moulding machines.

In 1997, LK (HK) received the first international certificate of quality recognition for the Group: the ISO 9001 accreditation from the BSI for the design, manufacture and customer services of die-casting machines and plastic injection moulding machines.

In 1998, LK (HK) acquired the remaining 25% interest in the registered capital of LK (Zhongshan) from Zhongshan Mingsheng Industrial Co., Ltd for a consideration of US$475,000 (equivalent to approximately HK$3,705,000) which was determined having regard to the actual capital injection by Zhongshan Mingsheng Industrial Co., Ltd. in LK (Zhongshan). As a result, LK (Zhongshan) became a wholly-owned subsidiary of LK (HK). In the same year, LK (Shenzhen) was recognised as a high and new technology enterprise in Shenzhen by the Shenzhen Science and Technology Bureau.

In August 1998, RJ Trading and Quantum Precision were both incorporated under the laws of Canada. The principal business of RJ Trading was to import die-casting machineries which were manufactured primarily in Taiwan and subsequently sell to Quantum Precision on an exclusive basis. Subsequently, Quantum Precision sold such machineries sourced from RJ Trading to its customers in North America accordingly. In 2000, LK(HK) expanded its business in North America by incorporating Quantum Machinery in Canada. After the incorporation of Quantum Machinery, most of the businesses of RJ Trading and Quantum Precision were being conducted through Quantum Machinery instead. As a result, RJ Trading and Quantum Precision gradually had no more business activities and became inactive. In the interest of Quantum Machinery as a whole, RJ Trading and Quantum Precision were dissolved voluntarily in 2004. Quantum Machinery is currently acting as the sales and marketing vehicle of the Group's machines in Canada.

In July 2000, LK (Shenzhen) was recognised as advanced technology enterprise by the Shenzhen Economic Development Bureau.

In November 2001, the Group established another manufacturing entity in Shenzhen, SZ Leadwell, to cope with the increasing demand for the Group's machines. The initial registered capital of SZ Leadwell was RMB29 million (equivalent to approximately HK$28.4 million) and was required by the applicable rules and regulations to be fully paid up by November 2003. The registered capital was fully paid up within the prescribed timeframe. The manufacturing plant for SZ Leadwell is situated on a plot of land owned by LK (Shenzhen). Apart from manufacturing and sales of the Group's machines, SZ Leadwell is also responsible for the overall production planning of the Group's manufacturing subsidiaries, and serves as the regional headquarters of the research and development teams of other manufacturing subsidiaries in the PRC to coordinate the development of all the Group's products.

In April 2002, the Group established LK (Ningbo) to further facilitate the sales services provided to the customers in the eastern part of the PRC. The registered capital of LK (Ningbo) of USD380,000 was fully paid up within the timeframe required by the applicable rules and regulations. On 20 December 2002, the ceremony of the completion of construction for the factory of SZ Leadwell and the press conference for the results of the major and important special scientific and technological projects in the research, application and industrialisation of magnesium alloy of the National Tenth Five Year Plan (「十五」國家科技攻關計劃重大項目"鎂合金開發應用及產業化"成果新聞發佈會") were held in SZ Leadwell. The project of development of magnesium alloy die-casting machine with a clamping force of 2,000 tons, which was primarily researched and developed by the Group with certain technical assistance from Tsinghua University, was sponsored by the relevant government bodies.

In addition, in 2002, LK (Taiwan) and LK (U.S.) were incorporated in Taiwan and the U.S. respectively, and are currently used for the promotion of the Group's machinery products to relevant overseas markets.

In 2002, Shanghai Atech was recognised as a foreign-funded advanced technology enterprise by the Shanghai Foreign Economic Trade Commission and Shanghai Foreign Investment Commission.

In 2002, Cheuk Wai was established with a view to manage the new factory planned to be constructed near the site of LK (Zhongshan). Subsequently, the Group decided that the planned new factory should be managed by LK (Zhongshan). Accordingly, Cheuk Wai did not commence operation and has not received any capital contribution from the Group since its establishment. The Group has applied for deregistration of Cheuk Wai which was approved by the relevant authority in 2004.

In January 2004, to further expand the production capacity of the Group, LK Tech (Ningbo) was incorporated in the PRC. LK Tech (Ningbo) acquired a plot of land of approximately 58,600 sq.m. for the construction of a new manufacturing plant in Ningbo. In addition, the Group has also expanded its production facilities in its existing manufacturing subsidiaries in Shenzhen, Shanghai and Zhongshan, which resulted in an increase in the Group's annual production capacity of approximately 57% from 1 April 2003 to 31 August 2006.

In December 2004, the Group established LK (Fuxin) to hold the assets that it acquired from Fuxin Northern Die-Casting Machine Limited Company (阜新北方壓鑄機有限責任公司), a state-owned die-casting machinery manufacturer in Fuxin, Liaoning Province, the PRC which was an Independent Third Party. The consideration amounted to approximately RMB46.5 million (equivalent to approximately HK$45.6 million), which was determined by reference to the fair value of the acquired net assets of the business as at 31 October 2004 as set out in the asset valuation report dated 17 December 2004 prepared by an independent valuer (namely, Fuxin Tianheng Certified Public Accountants Co., Ltd). The acquisition was made in order to further expand the production capacity of the Group and serve customers in the Northern part of China. Accordingly, the transactions contemplated under the acquisition was completed and the requisite governmental approvals and requirements were obtained and complied with respectively.

LK (Shenzhen Wholesale) was established on 19 September 2005. It has not commenced operations as at the Latest Practicable Date. The first installment of registered capital of LK (Shenzhen Wholesale) in the amount of RMB5,000,000 (equivalent to approximately HK$4,902,000) was paid up within the timeframe required by the applicable rules and regulations. The remaining balance in the amount of RMB5,000,000 (equivalent to approximately HK$4,902,000) is due only in September 2007. Its permitted scope of business includes the sale of and the provision of maintenance services for die-casting machines, plastic injection moulding machines, CNC machine and other related equipment and systems.

In early 2006, the Group started to negotiate for a possible acquisition from the local land bureau of a plot of site in Shenzhen of approximately 57,000 sq.m. in area for the construction of new factory and staff quarter. In addition, the Group has an undeveloped site of approximately 11,000 sq.m. held by LK Tech (Ningbo) for the expansion of production capacity in the future when needs arise.

On 30 March 2006, the Company disposed of its holding of 1 share in Sky Treasure at par value of US$1 to Fairview Technology with reference to the net liabilities position of Sky Treasure and its subsidiaries because the trading business nature of Sky Treasure and its subsidiaries does not fit into the core business of the Group and it has been loss making for the period from 1 April 2005 to 30 March 2006. Fairview Technology is a wholly-owned subsidiary of Supreme Technology, which is in turn a wholly-owned subsidiary of Girgio. Prior to the Reorganisation, Supreme Technology was the holding company of LKIL, World Force, Fairview Technology and Supreme Mission. Following the Reorganisation, Supreme Technology remains the holding company of LKIL, Fairview Technology and Supreme Mission, all of which are not members of the Group.

Details of the Reorganisation are set out under the paragraph of "Corporate reorganisation" in appendix V to this prospectus.

The diminishing role of Mr. Liu in the Group

Mr. Liu is the founder and the former chairman of the Group. In the early years following the establishment of the Group in 1985, Mr. Liu was involved significantly in the Group's management and business development. However, as the Group has grown continuously in terms of size and geographical presence in the PRC and overseas in the past 20 years, Mr. Liu began to delegate management duties to other senior management of the Group and ceased to participate in daily management of the Group. A team of senior management has been set up gradually to manage the Group's operations since mid 1990's. As set out in the section headed "Directors, senior management and staff", three of the four existing executive Directors, five general managers of the Group's PRC subsidiaries, the sale controller of LK(HK) and the engineering manager of the Group joined the Group in the period from the end of 1980's to the late 1990's. Accordingly, Mr. Liu's importance in the management and operations of the Group diminished gradually. During the Track Record Period, Mr. Liu's participation in the management of the Group was mainly related to strategy planning and in general did not participate in the daily operation and management of the Group. Mr. Liu ceased to participate in strategic planning from September 2004.

In 2002, according to a ruling of the Shanghai First Intermediate People's Court 上海市第一中級人民法院 (the "PRC Court"), 上海力勁機械有限公司(Shanghai L.K. Machinery Co., Ltd ("LK Shanghai"), a private company of Mr. Liu engaged principally in the business of manufacture and trading of steel materials, was convicted for not paying the prescribed import duties in full amount in respect of its import of mould steel shipments into the PRC. The conviction was based on the PRC Court's findings that from 1994 to 1998, LK Shanghai, in reporting to Shanghai Customs Department, lowered the cost of the mould steel shipments purchased and imported by it from an overseas supplier in order to reduce the import duties payable. LK Shanghai was then fined for RMB5 million (equivalent to approximately HK$4.9 million). Based on the findings of the PRC Court, the then deputy general manager of LK Shanghai ("DGM") was found to be primarily responsible for planning, organizing and implementing the above arrangement and therefore was sentenced to imprisonment. In December 2002, Mr. Liu was detained by the Shanghai authorities in relation to the tax evasion incident of LK Shanghai and was taken into custody by the authorities in the following nine-month period. In September 2003, Mr. Liu was given a suspended sentence. Mr. Liu's sentence was based on the Court's findings that it was the DGM, who acted as the principal, proposing and carrying out the arrangement, whereas Mr. Liu was considered as an accomplice because he did not oppose to the DGM's carrying out such tax evasion arrangement.

As explained above, in the period from December 2002 to September 2003, Mr. Liu was detained in the PRC. For such reason, during such period, he was absent from the management and operations of the Group. Following his return to Hong Kong in September 2003, Mr. Liu's participation in the Group's management was mainly limited to area of strategic planning. As mentioned above, as the Group had grown continuously, Mr. Liu delegated the management duties to a team of senior management and ceased participation in the daily management of the Group. The normal business activities and the daily operations of the Group, which were then carried out by a team of senior management, were not interrupted by Mr. Liu's absence. In September 2004, Mr. Liu formally resigned from all of the management positions he held in the Group. Ms. Chong, the chairperson of the Board and an executive Director, is the spouse of Mr. Liu. Ms. Chong confirmed that she is not accustomed to take instructions from Mr. Liu on the daily operation of the Group. In addition, Mr. Liu Zhao Ming, an executive Director and the nephew of Mr. Liu, confirmed that he is not accustomed to take instructions from Mr. Liu on the daily operation of the Group.

Since the establishment of the Group, the Group had been beneficially owned by Mr. Liu until May 2003 when Mr. Liu transferred 95% equity interest in Girgio held by him to Fullwit Profits Limited (as a trustee of The Liu Family Unit Trust). Since May 2003, the equity interest of Girgio is owned as to 95% by Fullwit Profits Limited in its capacity as trustee of The Liu Family Unit Trust and as to the remaining 5% by Mr. Liu under his personal interest.

Business development

Products

All die-casting machines and plastic injection moulding machines of the Group are developed by itself. When the Group first commenced manufacturing of die-casting machines in 1985, it was solely engaged in the production of hot chamber die-casting machines.

In 1991, with the establishment of the manufacturing plant in LK (Shenzhen), the Group commenced production and development of different series and models of the Group's machine products in the PRC.

In 2002, the research, application and industrialisation of magnesium alloy were included in the agenda of the National Tenth Five Year Plan of the PRC (國家第十個五年計劃) in relation to scientific research, and the Group has been appointed to undertake the research of magnesium alloy die-casting machines. In the same year, production for the magnesium alloy die-casting machine with a clamping force of 2,000 tons developed by the Group was completed. A press conference was held by the Ministry of Science and Technology for releasing the results of such project which was one of the National Tenth Five Years Plan's critical and important scientific and technological projects (攻關計劃重大項目).

With a view to offering a comprehensive range of products to customers, the Group has commenced selling automatic extractors, ladlers and sprayers since late 2004 and early 2005. They are peripheral products that can be used along with die-casting machines or plastic injection moulding machines. The Group has also sold CNC machines to customers since August 2005. CNC machining is a computer controlled machine which cuts material away from a blank or an existing part. CNC machining is more precise than manual machining. It can produce parts with complex geometries and allows for complicated machining to be done repetitively and each finished product will be identical. The Group's CNC machines are sold to customers who could use such CNC machines for the milling of products to various complex shapes after completion of die-casting process.

The products of the Group have obtained various awards and recognition throughout years of operation. The details of the awards are set out under the paragraph of "Awards and Recognition" in this section.

Research and development

The Group has engaged in product development since its establishment in 1985. Initially, the research and development work was mainly performed on the Group's hot chamber die-casting machines, and was carried out by LK (HK).

In 1991, LK (Shenzhen) was established and commenced the development on the product series of cold chamber die-casting machines and plastic injection moulding machines. At that time, the maximum clamping force of die-casting machines and plastic injection moulding machines was relatively low.

In 2000, the Group invested RMB10 million (equivalent to approximately HK$9.8 million) to jointly set up a research centre with Tsinghua University in Shenzhen, the PRC. The focus of the centre included the research of magnesium alloy and semi-solid die-casting. It was also responsible for the research of scientific and technological projects of the National Tenth Five Year Plan.

In 2001, the Group had a total of over 85 staff responsible for the research and development of the Group's machine products. The research areas included hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines.

In 2002, the clamping force of the Group's die-casting machines and plastic injection moulding machines could reach a maximum of 2,000 tons and 650 tons respectively.

In 2003, LK (Shenzhen) was recognsied as a Technology Centre of Shenzhen Enterprise (深圳市企業技術中心) jointly by the Economic and Trade Bureau, Finance Bureau, Local Tax Bureau of the Shenzhen city as well as the National Tax Bureau of the Shenzhen City.

In view of the research capabilities of the Group, the Group was admitted to participate in various research and development subsidy schemes sponsored by local and central governments. Such subsidies amounted to approximately HK$3,413,000, HK$2,877,000 and HK$3,394,000 for each of the three years ended 31 March 2006. The Group mainly utilised the government subsidies as follows:

For the financial year ended 31 March	**Purpose**
2004	– research and development of devices of magnesium alloy die-casting machine under the National Tenth Five Year Plan – purchase of inspection equipment – development of automated devices and accessories of magnesium alloy die-casting machine
2005	– purchase of inspection equipment
2006	– development of automated devices and accessories of magnesium alloy die-casting machine – improvement on the Group's technology

Set out below are some of the major new products developed in the business development of the Group:

– DC100C of "Avis" series hot chamber die-casting machine (developed in August 2004)

– DCC280M of "Impress-M" series cold chamber die-casting machine for magnesium alloy (developed in January 2005)

– PT850C of "Effecta" series plastic injection moulding machine (developed in July 2005)

– Automatic ladler (a long-handled spoon for delivering molten metal to die-casting machines) (developed in April 2005)

– Automatic extractor (for extracting die-casting materials at high temperature) (developed in October 2004)

As at 31 August 2006, the Group had a total of approximately 260 staff engaging in research and development in the PRC. The Group assigns teams of research and development staff to research on cold chamber die-casting machines, hot chamber die-casting machines and plastic injection moulding machines. The Group has developed more than 80 different models of products in 15 series and under the 3 broad categories of cold chamber die-casting machines, hot chamber die-casting machines and plastic injection moulding machines. In July 2004, the Group produced a cold-chamber die-casting machine with a clamping force of 3,000 tons. The present focus of the Group is on the development of the Group's die-casting machines and plastic injection moulding machines with a clamping force of up to 4,500 tons and 2,200 tons respectively.

The Group incurred approximately HK$5.7 million, HK$10.2 million and HK$13.4 million research and development expenses (before government grants) for the three years ending 31 March 2006.

Sales and after sales service networks

Before the establishment of the PRC manufacturing subsidiaries, the sales and distribution of the Group were initially conducted through LK (HK). After the establishment of the PRC manufacturing subsidiaries in 1991, the sales and distribution of the products of the Group in the PRC were performed within the PRC.

In addition to the various factories, each manufacturing subsidiary of the Group has established sales office or liaison points in different parts of the PRC to seek business opportunities and perform after-sales services including repair and maintenance for its customers. Currently, the Group's local sales network comprises a total of 14 sales offices and 25 liaison points in the PRC and 1 sales office in Hong Kong.

With the development of the Group's domestic sales and after-sales service networks, the Group also began to build up its international sales and after-sales network by establishing various overseas subsidiaries to facilitate sales. In 2000, the Group established its first overseas sales and marketing subsidiary outside Hong Kong and the PRC, namely Quantum Machinery in Canada. At present, the Group has 4 overseas subsidiaries including LK (Taiwan), LK (U.S.), Quantum Machinery and LK (Delaware).

Set out below is a summary of the Group's local and international sales and after-sales service networks:

	As at 31 March					
	2004		2005		2006	
	Sales personnel	After sales personnel	Sales personnel	After sales personnel	Sales personnel	After sales personnel
LK (HK)	16	18	15	14	11	19
SZ Leadwell	31	55	73	93	109	140
LK (Shenzhen)	–	–	–	–	14	10
LK (Zhongshan)	36	44	62	50	86	77
Shanghai Atech	75	40	85	62	128	70
LK (Ningbo)	31	25	40	43	27	10
LK Tech (Ningbo)	–	–	–	–	34	55
LK Fuxin	–	–	17	20	9	20
LK (Taiwan)	2	1	4	1	5	6
LK (U.S.)	1	1	1	1	1	1
Quantum Machinery	2	2	2	2	2	2
Total	194	186	299	286	426	410

The Group has also built up its overseas distribution network. The Directors believe it is an effective way to serve the overseas customers of the Group in places where the Group does not have any sales offices. As at the Latest Practicable Date, the Group has 22 distributors around the world to promote and sell the products of the Group, of which six distributors are for North and South America, three for Australia, five for Middle East, six for Asia and two for Europe. For details of the distributors and agency arrangement please refer to the paragraph headed "Sales" in this section.

PRODUCTS

The Group mainly manufactures two categories of products, namely, die-casting machines and plastic injection moulding machines.

Die-casting machines

Die-casting machines are commonly used for the die-casting of non-ferrous molten metals, such as zinc, copper, lead, aluminium, magnesium into casings, components and parts of different types of consumer and industrial products such as:

- Engine and engine parts for motorcars, motorcycles
- Computer, communication and consumer electronics – notebooks, mobile phones, digital cameras
- Household electrical products – washing machine, refrigerators, electric fans, vacuum cleaner
- Furniture and lavatory products – watertaps, shower heads, paper towel holder
- Toys – metal toy cars, metal toy robots
- Electric hardware tools – drills, saws, cutting machines
- Illuminating/lighting products – headlights, street lamps

There are two main types of die-casting machines, namely, hot chamber and cold chamber, both of which are the principal products of the Group.

Hot chamber die-casting machines

Hot chamber die-casting machines are used for low melting point metal alloys such as zinc, lead and magnesium that do not readily erode metal pots, cylinders and plungers. The hot chamber die-casting machines produced by the Group are mainly used in the die-casting of zinc alloy. There are 4 different series of hot chamber die-casting machines of the Group with clamping force ranging from 8 tons to 400 tons. They can produce metal parts with shot weights ranging from 0.17 kg to 7.2 kg. A key component for the injection mechanism of a hot chamber machine is called the gooseneck, which is immersed in the molten metal bath of a furnace. The furnace is attached to the machine by the gooseneck. As the injection cylinder plunger rises, a port in the injection cylinder opens, allowing molten metal to fill the cylinder. As the plunger moves downward, it seals the port and forces molten metal through the gooseneck and nozzle into the die cavity. After the metal has solidified in the die cavity, the plunger is withdrawn, the die opens and the casting is ejected. In general, the hot chamber die-casting machines are used for manufacturing smaller products such as the casings of mobile phones.

Cold chamber die-casting machines

Cold chamber die-casting machines are used for metal alloys with relatively high melting points such as aluminium, brass and magnesium. The Group's cold chamber die-casting machines have five different series with clamping force ranging from 145 tons to 3,000 tons and shot weights from 0.7 kg to 62 kg with optional peripheral equipment such as automatic sprayer unit and casting extractor. Unlike the hot chamber die-casting machine, the furnace of the cold chamber die-casting machine is not integrated into the machine body, and the molten metal is poured into a "cold chamber", or cylindrical sleeve, manually by a hand ladle or by an automatic ladler. A hydraulically operated plunger seals the cold chamber port and forces metal into the locked die at high pressures. In general, the cold chamber die-casting machines are used for manufacturing larger products such as parts and components of motorcars.

Plastic injection moulding machines

Plastic injection moulding machines are generally used for manufacturing plastic products such as toys, telecommunications equipment, computers and computer peripherals, consumer electronics and other household or consumer products, or their respective casings, parts or components. At present, the Group produces two major series of plastic injection moulding machines, namely Potenza series and Effecta series with clamping force ranging from 30 tons to 1,300 tons and shot weights of 38 gm to 5,955 gm.

The Potenza series are designed for general industrial use, such as the manufacturing of toys, electronic, electrical and household products.

The Effecta series plastic injection moulding machines are more advanced products that are able to achieve energy saving and higher precision and equipped with safety accessories. The Group has been accredited with certificate for its plastic injection moulding machines such that the Group could affix the CE marking on its plastic injection moulding machines. The letters "CE" on a product are the manufacturer's claim that the product meets the requirements of all relevant European Directives, and indicates to governments that the product can be legally sold within the European Union and the European Free Trade Area. The Directors believe that the Effecta series plastic injection moulding machines conform with the European Union standards and that they have been sold to overseas markets.

Other products

The Group's policy is to provide a one stop access to clients by offering a wide range of die-casting machines, plastic injection moulding machines and related products. These include automatic ladlers, automatic sprayers and automatic extractors, that can be used along with the Group's die-casting machines and plastic injection moulding machines.

SALES

The base of the Group's business is in the PRC, with more than 90% of the Group's turnover being derived therein. Apart from placing strong emphasis on the quality of the products, the Directors also view the provision of quality services to customers as a competitive edge of the Group. In this regard, the Group has established extensive sales and distribution network, including direct sales conducted through its main offices or sales offices or liaison points and sales through the Group's distributors, to serve the customers of the Group.

The Group has established a number of sales offices and liaison points in the PRC to carry out sales activities and provide after-sales services to its customers. These sales offices and liaison points are selected to be located at major PRC cities within close proximity of the potential and/or existing customers to ensure services being delivered to customers effectively. As at the Latest Practicable Date, the Group had a total of 14 local sales offices and 25 liaison points throughout the PRC and 1 sales office in Hong Kong. The following map shows the locations of the Group's sales offices and liaison points in the PRC:

Depending on the location of customers and the nature of the products being manufactured, the sales operations are in general managed by major operating subsidiaries of the Group, each of which is responsible for the sales management of the assigned regions. In order to promote the Group's sales, the Group has implemented certain incentive measures for its sales and marketing staff. They are mainly composed of two parts, (i) commission based on the total sales procured by the individual staff; and (ii) bonus based on the sales above the target sales set by the headquarter.

In relation to the Group's pricing policy, it is primarily handled by the Group's marketing department. Such guideline has to be approved by the Group's chief executive officer. Regarding the product prices as set out in the guideline, the management will consider factors such as market condition and the need to increase the market share of the Group. In general, product prices are reviewed by the management annually. In addition, range of discounts generally allowed for different products are also included in the guideline. The determination of the discounts is usually based on factors such as demand and market sentiment of the relevant product, customer relationship and competitiveness.

The Group has also set up 4 overseas subsidiaries in Taiwan, Canada and U.S., and selected a total of 22 distributors located in different countries in the world such as Greece, Brazil, Mexico, India, Thailand, Turkey and Australia to facilitate the sales of the Group's machines in the overseas markets. The Directors believe that the distributorship arrangement is an effective way to serve the customers in places where the Group does not have any representative office.

In general, the Group provides a common price list for all overseas agents, but different discounts may be offered to different agents on a case by case basis, with reference to, among others, trading volume and years as business partner. The overseas agents are entitled to a commission. The Group will also prescribe the minimum annual purchase requirements to overseas agents. Such requirements may differ on a case by case basis with reference to industrial and market situations in different countries.

To protect the Group's interests and to avoid competition, overseas agents/ distributors are prohibited from selling directly or indirectly to companies outside their respective defined territories, and from selling products that are similar to or competing with the Group's products, unless prior written consents from the Group have been obtained.

In general, these distribution agreements entered into between the Group and the overseas agents have a term of ranging from one to three years and are automatically renewable unless terminated by the Group in the event of a breach of any terms in the agreement or by either party three months' written notice.

MARKETING

The Group undertakes various forms of promotional campaigns or activities to promote brand name recognition and product awareness amongst its potential customers. These activities include the following:

- Participating in well-recognised exhibitions, such as The Third Shantou International Rubber Expo (第三屆汕頭國際塑料博覽會) in 2005 and The Eighth China International Foundry Industry Exhibition (第八屆中國國際鑄造、鍛造及工業爐展覽會) in 2006;

- Making advertisements in industry magazines to promote the Group's die-casting machines and plastic injection moulding machines, such as "Foundry" ("鑄造"), "Plastics Manufacture" ("塑料製造") and "Foundry Technology" ("鑄造技術") ;

- Web marketing. The Group has utilised the internet as a media to promote its products, technology and brand, in which the Group has entered into agreements with various operators of search engines to provide linkage to the Group's website.

The Directors believe that all these marketing activities are of importance for brand building and the business growth of the Group. During the Track Record Period, the marketing expenses of the Group were approximately HK$4.1 million, HK$2.7 million and HK$4.6 million respectively. Annual budget for marketing activities will be prepared by the Group at the beginning of each financial year and will be given to the PRC subsidiaries and overseas subsidiaries for implementation. The Group will consider factors such as the marketing strategies of the Group, the target customers, the market trend and the availability of fund before approving the budgets. Once the budgets are approved, respective subsidiaries will implement the marketing activities according to the schedule throughout that financial year. The heads of marketing team of each subsidiary will closely monitor the progress of each marketing activity. Moreover, the requisition for marketing expenditure and the supporting documents of the marketing expenses incurred are required to be reviewed and approved by the general manager of the subsidiary concerned. Furthermore, the senior management of the Group will review the financial statements of the respective subsidiaries monthly to ensure the marketing expenses are adequately incurred. Management meetings will also be held to discuss the progress of the marketing activities from time to time.

CUSTOMERS

The customers of the Group are mainly manufacturers from the industries including automotive, construction materials, home appliances, toy, electrical and electronic products and computer, communication and consumer products industries. The Directors believe that the Group's ability to maintain good relationships with its customers is beneficial for the Group to maintain its leading position in the industry. The Group strives to establish and maintain good relationships with its customers through developing major clients from among the main manufacturers of various focus industries and providing total solutions to clients through quality sales services and after-sales services.

During the Track Record Period, the Group provided buy back guarantees to banks/ financial companies for its customers, which are all Independent Third Parties (save for Gaoyao Hongtai), for purchasing its products. This kind of arrangement as the Directors understand is quite common in the industry of the Group. The terms of those guarantees may vary taking into account the terms of loans granted by the banks/financial companies to the relevant customers. The criteria for granting the buy back guarantees for all of its customers (including connected persons) are the same. Pursuant to the terms of guarantees in general, the Group has an obligation to settle the portion which the customers default to repay, but the Group has the right to take possession of the products, which are pledged to the banks for the credit facilities, from the respective customers. For each of the Track Record Period, the outstanding amounts of these loans provided by the banks/ financial institution for the Group's customers to purchase its products were approximately HK$7,823,000, HK$9,452,000 and HK$11,808,000. As at 31 August 2006, the customers settled a total of approximately HK$5,142,000 and therefore, as at 31 August 2006, the amounts of buy back guarantees provided by the Group as at 31 March 2006 to the banks/ financial institution for its customers to purchase its products amounted to approximately HK$6,666,000.

During the year ended 31 March 2006, the Group entered into a buy back guarantee agreement with a financial institution in respect of a credit facility of approximately HK$11,538,000 granted to Gaoyao Hongtai (a connected person to the Company) to purchase the Group's products. As at 31 March 2006, Gaoyao Hongtai did not utilise the credit facilities. In July 2006, Gaoyao Hongtai fully utilised the credit facilities of approximately HK$11,538,000. As the repayment was on schedule and risk of default in payment was remote, the Directors consider no provision for the guarantee is required to be recognised in the financial statements. This guarantee was released on 21 September 2006.

Development of major customers from prosperous or high-growth industries

The Directors believe that obtaining orders from major manufacturers in prosperous or high-growth industry is beneficial to the promotion of the Group's products. For example, in the automotive industry, the Group's customers, which are Independent Third Parties, include China First Automobile Group Import & Export Corporation, ChangAn Automobile (Group) Corporation, and Shanghai Meridian Magnesium Products Company Limited. In the toy industry, the Group's clients, which are Independent Third Parties, include Mattel Diecast China, and the subsidiaries of RBI Holdings Ltd. and Early Light International (Holdings) Ltd. respectively.

Provision of total solutions through sales services and after-sales services

The Directors believe that the Group's reputation is built upon its ability to achieve customer satisfaction through the provision of total solutions to clients represented by quality sales services and after-sales services.

As at 31 August 2006, the Group had a total of approximately 435 sales and marketing staff as well as approximately 438 customer services staff, who are responsible for providing sales and after-sales services for the Group.

Sales services

The Group recognises that the key to sustaining the growth for its business is to understand and meet the needs of the customers. For such reason, before executing sales, the sales staff perform an assessment on generally the customers' needs and demands. Such understanding enables the products designed by the Group to meet the requirements of the customers, and help to ensure a ready market for the Group's products. At the same time, the Group also acts as a total solutions provider as far as it could and it will take steps to meet all of its customers' needs in addition to the provision of the Group's products. For instance, if the customer requires automatic ladlers of other manufacturers for its machines, the Group will assist the customer in sourcing such equipment from other suppliers. If the client requires factory planning and backup of production data, the Group will strive to design and provide total solutions that are tailor made for the client's requirements.

After-sales services

The Group provides training for its customers in areas such as operation, usage, troubleshooting, maintenance, and safety issues relating to the products sold. Such training could help them to better understand the Group's products and minimise the possibility of misuse and malfunctions of the products, thus reducing the necessity of providing repair services, and in turn lowering the repair costs.

The Group generally gives a warranty for its products of a term of 1 year to its customers. During the warranty period, its staff will visit its customers regularly and provide training on safety, operation and maintenance during the regular visits to ensure smooth functioning of the machine products. When there are malfunctions of the machine products experienced by the customers, its staff will help its customers to solve the problems promptly, and where necessary, to carry out on-the-spot repair work at the customer's premises. Based on the experience of the Group, there were no material expenses incurred to fulfill its obligations during the warranty period which normally lasts for one year. As such, no provision was made by the Group in respect of repair and maintenance during the warranty period for each of the three years ended 31 March 2006. Expenses in connection with repair and maintenance incurred by the Group under such warranty are recognised when the relevant warranty services are rendered by the Group. With the provision of these after-sales services, the Directors believe that customer satisfaction and loyalty have been built up.

During the Track Record Period, the percentage of turnover attributable to the Group's five largest customers was approximately 8.9%, 7.1% and 8.1% respectively. Gaoyao Hongtai, one of the Group's five largest customers for the year ended 31 March 2006, is indirectly owned as to 40% by Girgio, the Controlling Shareholder. Save for this, none of the Directors, their respective associates or, so far as the Directors are aware, shareholders who will own more than 5% of the issued capital of the Company immediately following the completion of the Share Offer have any interest in any of the five largest customers of the Group for the Track Record Period.

Most of the payment to the Group for the settlement of sales is in RMB. The payment term offered by the Group to its customers is decided on a case-by-case basis. The Group normally charges a 20% deposit of the total sales amount upon placing an order by the customer with the remaining balance payable upon delivery or satisfactory examination of the machines, the testing time of which could take up to a few months. The Group generally considers factors such as financial information, credit ratings, credit history and sales amount of the customer in determining the credit term. For some customers, a credit term with repayment period up to 6 months may be granted for settlement of the remaining balances. For certain customers, the Group also accepts settlement of the remaining balances payable by installments which normally range from 6 months to 12 months.

CREDIT CONTROL

The Group adopts a prudent approach in selecting its customers in order to minimise its credit risk. All new customer accounts with credit term are reviewed by the finance department in areas including financial information, credit ratings, credit history, and sales amount for the purpose of making an assessment of the payment term (as detailed in the aforesaid paragraph).

The Group has implemented a credit policy with an aim to maintain the accounts receivable at a lower level. The analysis of accounts receivable will be reviewed by the Group's senior management on a monthly basis. Impairment loss will be recognised when the recoverability of the outstanding debts is uncertain after taking into account the aging of the debts, the likelihood of collection and comparing the difference between the carrying amount and the fair value of accounts receivable.

CERTIFICATES, PERMITS AND LICENSES

The legal adviser of the Group as to the PRC laws has confirmed that the Group has obtained all necessary certificates, permits and licenses for operating its current business in the PRC and there is no other restrictions imposed by the relevant regulatory authorises.

The following table sets out in details regarding certificates obtained by each of the principal operating subsidiaries of the Group:

Name of principal operating subsidiary	Authorised body granting the certificate	Type of certificates	Time of first certificate obtained	Time of expiry of the certificate
LK (HK)	BSI	Quality Management system	August 1997	No expiry date
SZ Leadwell	BSI	Quality Management system	August 1997	No expiry date
LK (Shenzhen)	BSI	Quality Management system	August 1997	No expiry date
LK (Zhongshan)	BSI	Quality Management system	July 1998	No expiry date
Shanghai Atech	BSI	Quality Management system	December 2000	No expiry date
LK (Fuxin)	NAC	Quality Management system	November 2005	November 2008
LK (Ningbo) *(Note)*	–		–	–

Note: LK (Ningbo) has recently commenced the manufacture of machines and therefore, it is the Group's intention for LK (Ningbo) to apply for the ISO 9001 certificate in due course.

PRODUCTION

As at the Latest Practicable Date, the Group operated a total of 7 manufacturing subsidiaries in the PRC, with 2 plants located in each of Shenzhen and Ningbo and 1 plant in each of Shanghai, Zhongshan and Fuxin respectively. Each of the manufacturing subsidiary is operated independently in its designated geographical area by different management team headed by a general manager. Each manufacturing subsidiary has its own administration department, an accounting department, a production department, a sales department, a customer service department and a purchase department to carry out its daily operation. As at 31 August 2006, the production departments of the Group's manufacturing subsidiaries have approximately 1,240 workers. The following table sets out brief details of each of the manufacturing subsidiaries as at 31 August 2006:

Manufacturing subsidiaries	Time of construction/ acquisition	Time of commencing production	Approx. site area (sq.m.)	Approx. gross floor area (sq.m.)	Major products	Approx. number of workers of the production department
SZ Leadwell	November 2001	December 2002	N.A.	50,100	• Hot and cold chamber die-casting machines • Plastic injection moulding machines	752
LK (Shenzhen)	early 1992	late 1992	56,300	3,100	• Hot chamber die-casting machines	24
Shanghai Atech	1997	February 1999	23,600	17,300	• Cold chamber die-casting machines	91
LK (Zhongshan)	January 1997	August 1997	21,200	14,900	• Plastic injection moulding machines	151
LK (Ningbo)	mid 2002	August 2002	N.A.	3,700	• Hot and cold chamber die-casting machines • Plastic injection moulding machines	7
LK Tech (Ningbo)	December 2004	June 2006	58,600	24,700 *(Note)*	• Hot and cold chamber die-casting machines • Plastic injection moulding machines	80
LK (Fuxin)	December 2004	January 2005	81,500	15,900	• Cold chamber die-casting machines	139
Total				129,700		1,244

Note: The figure of 24,700 sq.m. does not take into account of the gross floor area of approximately 3,700 sq.m. licensed by LK Tech (Ningbo) to LK (Ningbo) for the latter's occupation.

Despite each of the Groups' manufacturing subsidiaries is operated independently in its designated geographical area by different management teams, the senior management of the Group will closely monitor the operation of each manufacturing subsidiary. Regular management meetings will be held between the heads of the manufacturing subsidiaries and the Group's senior management to discuss about the operating performance of respective subsidiaries.

The production plan is centrally formulated, coordinated and monitored by the Group's production management department located at the Group's PRC headquarters in SZ Leadwell to ensue efficiency and uniformity. The Group's production management department will consider factors such as availability of resources of each manufacturing subsidiary, location of customers and cost of transportation, and then will assign different works to different manufacturing subsidiaries in order to achieve production efficiency and cost minimization. As the production plan is centrally formulated by the Group' production management department, the products manufactured by the Group conforms to the standard and quality requirements prescribed by the customers. Please also refer to the details of the Group's quality control procedures as set out under the paragraph of "Quality Control" in this section.

Despite the expansion of manufacturing facilities in Shenzhen, Shanghai, Zhongshan and Ningbo since 2003 and the establishment of LK (Fuxin) in December 2004, the Directors consider that it is in the interest of the Company to further expand its production capacity in order to benefit from the expected increasing demand for the Group's machinery products. In view of this, the Group intended to acquire from the local land bureau a plot of site in Shenzhen of approximately 57,000 sq.m. in site area for the research and development and manufacturing of high end products such as direct clamp injection moulding machines and all electric injection moulding machines. The Directors expect that, by the completion of such expansion, the Group's production capacity will be increased to 5,030 standard units. Such increase is expected to take effect from September 2007. In addition, the Group has a vacant site of approximately 11,000 sq.m. held by LK Tech (Ningbo) to be developed for the expansion of its production capacity when need arises. The Directors expect that, on completion of such expansion, the Group's production capacity will further be increased to 5,160 standard units. Such increase is expected to take effect from April 2008. The Directors believe that the expansion in the Group's product on capacity and the strengthening of the Group's research and development capability will help the Group to achieve higher market share in the PRC and accelerate its penetration in overseas markets. Such expansion will be financed by the proceeds of the Listing.

Equipment

The Group is equipped with advanced machineries and equipment for the production of its products including CNC machine, cranes and drilling machines, with related CAD or CAM software. Certain equipment currently used by the Group is purchased from overseas suppliers in Japan. For each of the three years ended 31 March 2006, an aggregate of approximately HK$8.6 million, HK$43.8 million, HK$30.6 million were spent on the purchase of machineries and equipment respectively.

Production plan

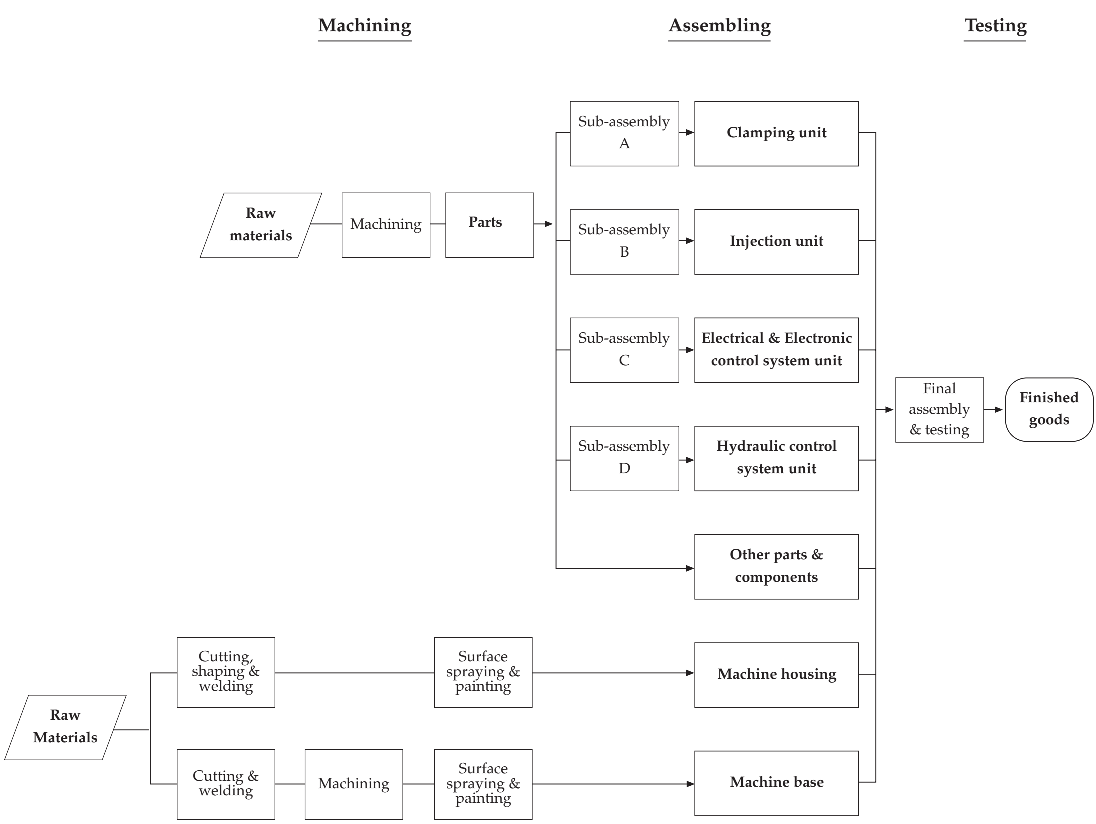
The production plan of the Group is centrally formulated by the production management department located at the Group's PRC headquarters in SZ Leadwell. The Group's production management department gathers and coordinates all the customer order information from and at each of the Group's 7 manufacturing subsidiaries located in Shenzhen, Zhongshan, Ningbo, Shanghai and Fuxin. The Group formulates a 6-months production plan for all the factories in advance. This production plan is subject to adjustments based on the actual market demand. After the production plan is formulated, it is then distributed to the relevant plants for production. For example, the orders received for plastic injection moulding machines are assigned to LK (Zhongshan)'s factory for production. Each manufacturing subsidiary will then formulate its own detailed monthly production plan accordingly.

Production processes

In general, the Group adopts the batch production method. Batch production is a production process in which a batch of one product, for example, a batch of hot chamber die-casting machines with clamping force of 130 tons, is manufactured, after which the equipment is switched to produce another batch of a different product, for example, a batch of hot chamber die-casting machines with clamping force of 160 tons. This could help improve the efficiency of the production processes and to maximise the production capacity of equipment.

The Group also adopts a specialisation approach in its production processes where every worker is responsible for a specific part of the production process. Through repeated performance of the same task, the staff could be equipped with skills to handle that particular part of the production process more smoothly. Such specialisation could help to improve the efficiency of the workflow.

The following chart shows broadly the general production processes of the Group's die-casting and plastic injection moulding machines:



The production of the Group's products mainly involve three major steps, namely machining, assembling and testing.

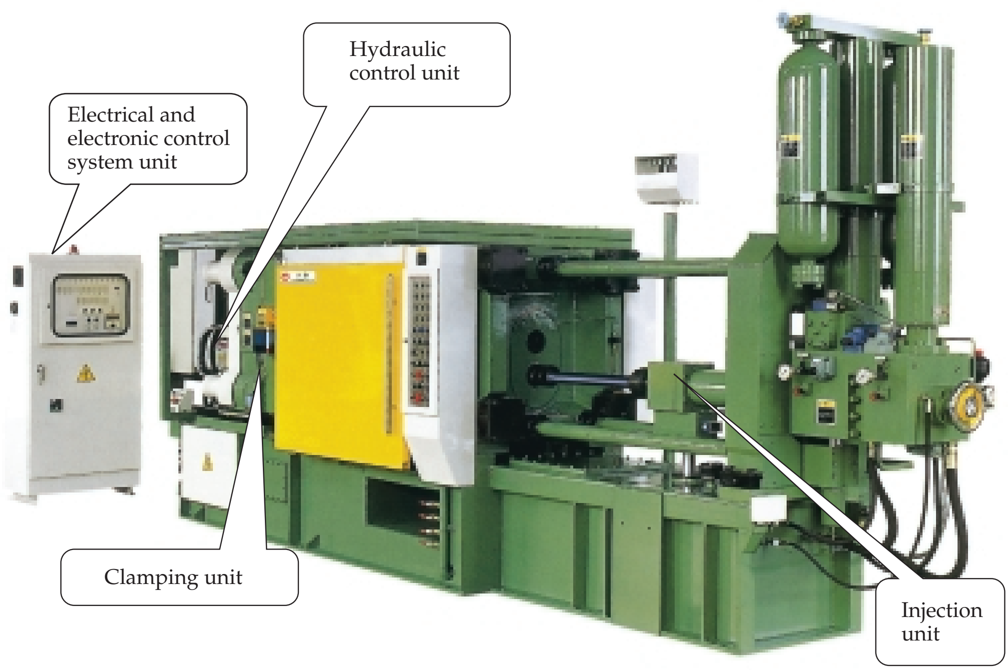
Machining

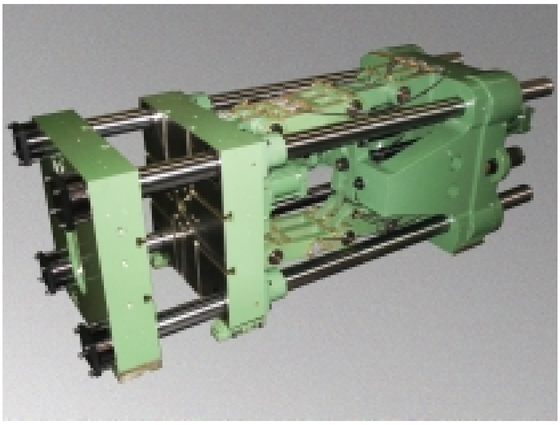
Raw materials for the machine parts are mainly cast and steel. With the use of CNC machine together with the appropriate surface treatment, and heat treatment techniques, raw materials are processed into machine parts. The machining process includes, among others, drilling, lathe, polishing and milling of platens, toggles and base. For the machine base, it is made up of steel structured parts and is formed after undergoing the processes of welding of steel plates and steel bars, machining, surface spraying and painting. Raw materials for the machine frame are mainly thin steel plates, which are shaped after being cut with numerical control equipment and hydraulic stamped equipment, and will undergo the treatment of surface spraying and painting. These processed parts and components will then be passed on for assembly.

Assembling

Components, such as motors, hydraulic valves and electronic components, are assembled together with the parts produced by the Group at various assembly lines as different system units. Following that, the semi-assembled system units, including clamping unit, injection unit, electrical and electronic control system unit and hydraulic control system unit, are assembled together to form the machine at the final assembly stage.

Set out below is a typical die-casting machine showing the major operating units.



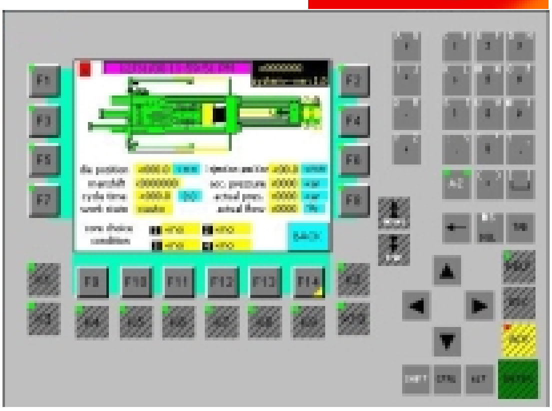


Clamping unit

The clamping unit is used to provide clamping force to hold the die or mould during injection process. The acceleration of the force is usually driven by a hydraulic cylinder or servomotor through a toggle mechanism which acts as a magnifying device.

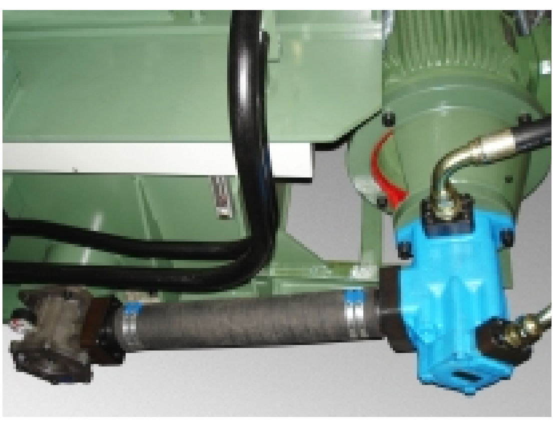
Injection unit

The injection unit of a die-casting machine or plastic injection moulding machine is the device used to push the materials into the mould. It is usually driven by hydraulic power. Accumulators are used to increase the speed of injection in case of die-casting machine.



Electrical and electronic control system unit

The electrical and electronic control system of a die-casting machine or plastic injection moulding machine is the instruction system for the control of the machine. It usually consists of a processor, input/output device and a human interface device. The operator enters the required parameters through the human interface device (a LCD or digital switch and buttons). After that, the processor will follow the pre-set program to provide corresponding instructions to the machines.



Hydraulic control system unit

Hydraulic control system unit provides moving force for the machine. It receives the command from the electrical and electronic control system of the machine, and provides hydraulic power to the actuators of the machine. The hydraulic control system consists of a hydraulic pump, hydraulic control valves and hydraulic actuators. The hydraulic pressure and flow are under monitor by the electrical and electronic control system unit for the control of force and speed in a more precise manner.

In the final stage, different system units, components and machine base are integrated together. The assembled machines are then subject to the quality and function tests.

Testing

The Group conducts testing for its stages of operation, the details of which are set out under the paragraph of “Quality Control” in this section. In particular, the assembled machines are all subject to the final examination check to ensure (i) proper assembly of parts and system units; (ii) proper painting of the machine’s body; (iii) proper fitting of the safety doors and guards; and (iv) proper working of emergency stop system. The Directors believe that the in-house testing standard adopted by the Group is set in accordance with the PRC national standard GB and other national standards such as the German DIN and the American ASTM. The machines are also tested according to the specific requirements of the customers. In addition, the Group’s machines are subject to functionality tests and durability tests prior to packing and shipment.

Production capacity and standard unit of machines

In the production process, every part of the machine product requires certain working hours of machining process, such as drilling, lathing and milling. Most of the manufacturing and processing machineries and equipment at each of the Group's production plants are capable of manufacturing hot chamber die-casting machines, cold chamber die-casting machines and plastic injection moulding machines. In addition, some of these machining processes are similar to each other and the related machining equipment may be used interchangeably. However, some of these machining processes are relatively unique such that the machining processes could only be done by certain machining equipment, or that they are supplemented by the Group's labour force. The required machining hours vary depending on the clamping force of the machine products. For example, the production of machine products with clamping force of 80 tons and 280 tons require approximately 406 and 891 working hours of machining respectively. Given that the production of every machine product occupies certain working hours of the machining equipment such as CNC machine, drilling machines, the primary factor that limits the production capacity of the Group is the capacity of the Group's machining equipment. The capacity of the machining equipment can be calculated based on the total number of machining equipment (or those equipment carrying out similar functions) of the Group and on the assumption that their available maximum daily working hours is 24 hours a day for a 360-day year and that there will be no major overhaul.

As the Group produces a range of machine products with different clamping force ranging from 8 to 3,000 tons, it would be more meaningful to have a standard unit of machine (assuming all machine products are the same model) to calculate the production capacity of the Group. During the Track Record Periods, the machine products with clamping force ranging from 120 tons to 350 tons accounted for approximately 50% of the total number of machine products sold by the Group. In addition, the machine products with clamping force of 160 tons were the top seller within this product range. The management therefore considers it appropriate to use the machine product with clamping force of 160 tons as a standard unit of machine for the purpose of presenting the production capacity of the Group.

As at 1 April 2003, 2004 and 2005 (the beginning date of each of the financial year during the Track Record Period), the annual production capacity of the Group is approximately 3,060, 3,560 and 4,260 standard units of machines respectively. In other words, based on the total maximum working hours available (i.e. assuming 24 working hours a day) from the Group's machining equipment, the Group can produce approximately 3,060, 3,560 and 4,260 units of machine products respectively with clamping force of 160 tons annually. Such increase in the production capacity is mainly due to the Group's expansion of its production capacity by setting up new manufacturing facilities and acquiring more production equipment. As a result, the annual production capacity of the Group increased from approximately 3,060 standard units of machine as at 1 April 2003 to approximately 4,800 standard units of machine as at 31 August 2006.

For each of the three years ended 31 March 2006, on the basis of the machine products warehoused, the Group produced a total of about 2,015, 2,395, and 3,037 machine products in various models respectively. By converting the different models of machine product into standard units of machines, the Group produced a total of 2,763, 3,280, and 4,081 standard units of machines for each of the three years ended 31 March 2006 respectively. On such basis, for the three years ended 31 March 2006, the Group's average utilization rates based on standard units of machines were approximately 90%, 92% and 96% respectively.

MAJOR PRODUCTION TECHNOLOGIES

The Directors consider that the success of the Group, to a significant extent, is attributable to the advanced production technologies developed by the Group. The details of the Group's research and development ability are set out in the paragraph headed "Research and development" in this section. The Group has applied for and/or granted more than 30 patent registrations and copyrights in the PRC for its design and software to minimize unauthorised use and application by its competitors. The details are set out in the paragraph headed "Intellectual Property Rights" in appendix V to this prospectus. There are two patents under application as at the Latest Practicable Date and the expected dates of completion of the relevant registrations are November 2006 and October 2007 respectively. According the legal adviser to the Group as to PRC laws, there is no legal impediment for the Group to complete the registration for the patent registrations that the Group has applied for.

The design of a machine is important to the function and the quality of the machines manufactured. The Group's machines are designed on a modular concept with a combination of mechanical components, hydraulic control system and electrical and electronic control system. Depending on customers' requirement, the modular design could also allow the Group to customise the machines using modular component parts in accordance with the different requirements of the markets and customers. The Directors believe that it is one of the strengths of the Group to produce machines which can meet the requirements of different customers and at a competitive cost.

In addition to the abovementioned modular design, the major production technologies applied for the production of the Group's machines can be further explained by the following three parts:

- Mechanical units: Most of the mechanical parts and components are processed internally by the Group to ensure higher degree of processing precision.

- Hydraulic control system: In accordance with the different applications and requirements of different machine models, the Group designs different combinations of hydraulic components, including hydraulic valves, hydraulic pump and pressure sensors. The functions of the Group's products are also enhanced by the application of close loop control technology for more precise control of the pressure and flow rate of the hydraulic fluid supplied to the injection cylinder.

- Electrical and electronic control system: For its die-casting machines, the Group has internally developed software programs, which are loaded into the controller of the machines. The program prescribes the functioning of the machines and provides the operators with more user friendly control, multi-function ability, automatic adjustment and self-diagnosis function. The software of each machine can be upgraded from time to time to improve the machine control system and performance.

RAW MATERIALS AND SUPPLIERS

Raw materials of the Group mainly consist of cast and steel, hydraulic components and electrical and electronic parts.

Set out below is a summary of their respective proportion in the Group's bills of materials for each of the three years ended 31 March 2006:

Raw Material	For the year ended 31 March		
	2004	2005	2006
Cast and steel	46.9%	51.7%	52.3%
Hydraulic components	40.3%	37.3%	37.2%
Electrical and electronic parts	12.8%	11.0%	10.5%
	100.0%	100.0%	100.0%

The steel and casts used by the Group are purchased in the PRC. Other raw materials such as suction filter and metal conduit are purchased from overseas suppliers in Japan and Italy.

Set out below is a summary of the Group's purchase of raw materials in different currencies for the three years ended 31 March 2006:

Currency	For the year ended 31 March					
	2004		2005		2006	
	(HKD Equivalent '000)	*Percentage*	*(HKD Equivalent '000)*	*Percentage*	*(HKD Equivalent '000)*	*Percentage*
USD	13,145	4%	28,227	7%	16,532	4%
Euro	8,460	2%	8,368	2%	8,429	2%
JPY	8,446	3%	37,904	9%	34,392	7%
Switzerland Francs	–	0%	32	0%	–	0%
HK$	81,321	26%	100,001	25%	100,598	22%
RMB	206,579	65%	227,968	57%	292,850	65%
	317,951	100%	402,500	100%	452,801	100%

In order to ensure a good supply of quality raw materials, the suppliers are normally selected based on factors such as quality control, production environment and ability to deal with problems. In general, the sourcing for imported materials for all the manufacturing subsidiaries are centrally performed by the Group's Hong Kong office, LK (HK), while each of the manufacturing subsidiaries is responsible for its own sourcing of raw materials from suppliers in the PRC.

The Group maintains a stock level with sufficient buffer of its raw materials for up to six months for production. Each manufacturing subsidiary of the Group monitors its stock level of raw materials with reference to its detailed monthly production plan and actual production capacity.

Payment for overseas purchases is mainly made in US$, Euro and Japanese Yen, while payment for local purchases in the PRC is mainly made in RMB. For each of the three years ended 31 March 2006, the percentage attributable to the Group's largest five suppliers was 25.0%, 25.8%, and 22.0% respectively.

None of the Directors, their respective associates or, so far as the Directors are aware, shareholders who will own more than 5% of the issued share capital of the Company immediately following the completion of the Share Offer had any interest in any of the five largest suppliers of the Group for each of the three years ended 31 March 2006. All the suppliers of the Group are Independent Third Parties.

SUBCONTRACTING

During the Track Record Periods, the Group's production volume reached its production capacity occasionally, and subcontracted to external manufacturers a portion of the processing of certain non-crucial parts and components used in the assembling of the Group's machine products. Such subcontracting mainly relates to the preliminary processing of cast, and the basic chemical and thermal treatment and electroplating of certain assembling parts and components. The total amount of the subcontracting amounted to approximately HK$9.9 million, HK$19.8 million and HK$18.9 million for the three years ended 31 March 2006. The basis of determining the subcontracting fees is generally by reference to the volume of work, material costs, labour costs and/or time spent, which as the Directors believe is in line with market price. All the subcontractors are Independent Third Parties.

QUALITY CONTROL

The Group has designed and implemented a stringent quality management system to ensure each operating stage, namely sourcing, manufacturing, delivery and after-sales services, is regularised and performed up to the Group's quality standards. The principal quality control tests conducted by the Group throughout its operations are as follows:

- Raw materials and components quality control test
- Processing procedure quality control test
- Assembling procedure quality control test
- Finished product quality control test

In order to ensure the products manufactured by the Group conform to the standards and quality prescribed by the relevant customers, the regulatory authorities or the laws of the relevant countries, inspection or testing is performed at stages of the production process where the quality control team conducts sample checking on parts and full checking on components and finished products. Neither of the parts, components nor finished products will be transferred to next production process for further processing or delivered to customers (as the case may be) until the relevant parts, components or finished products are tested to have fully complied with the applicable standards and specifications.

As at 31 August 2006, the Group employed approximately 190 staff for quality control and assurance. In order to ensure every step is performed up to the prescribed quality standards, the Group provides extensive internal training to its employees. The Group formulates training program for the staff of various departments to upgrade their skills and technical knowledge on regular basis. For example, the customer service staff undergo formal in-house training to equip themselves with the skills to handle technical inquiries and provide technical support to the customers. All these trainings could help to ensure quality products and services provided by the Group. Besides, the quality control department of each factory also maintains detailed statistical records so as to evaluate the performance of the production run. Early identification of problems could lead to cost savings and reductions in defects.

The Group's efforts in its quality management and assurance are recognised in accordance with the international or overseas quality control standard. Throughout the years, the Group received numerous international certifications or accreditations such as ISO 9001. Brief details of the Group's awards and recognitions are set out under the paragraph of "Awards and recognition" in this section.

RESEARCH AND DEVELOPMENT

The Directors believe that, in order to remain competitive in the market and to meet evolving demand of the customers, it is important for the Group to keep abreast of the industry technology trends and to develop new products with new designs. In order to protect the proprietary rights of its products and production technologies, the Group has applied for and obtained approvals for a total of 26 patent registrations in the PRC for its developed products and/or production technologies. The details of the Group's patents are set out in the paragraph headed "Intellectual property rights" in appendix V to this prospectus.

As at 31 August 2006, the Group had 267 engineers, technicians and staff among the Group's research and development departments performing research and development work for the Group's products and technologies. Out of these 267 staff, approximately 100 held bachelor or higher degree while the remaining held diplomas or had higher secondary education.

The Group's research and development activities are based in the Group's PRC headquarters in SZ Leadwell where the Group established a research and development centre in 2002. The research and development centre consists of (i) 3 development teams, each being responsible for the design and/or development of die-casting machines, plastic injection moulding machines, and customised machines respectively; (ii) the standardisation office that is responsible for quality management to design products in conformity with certain national and international standard; and (iii) the testing centre that is responsible for devising testing criteria for its machines. The staff composition of the research and development centre as at 31 August 2006 is summarized as follows:

Function	**Number of staff**
Development team for die-casting machines	92
Development team for plastic injection moulding machines	28
Development team for customised machines	8
Standardisation office	5
Testing centre	7
Supporting information technology team	9
Other supporting staff	10
Total	159

The critical components of a die-casting or a plastic injection moulding machine (including the injection system unit, the hydraulic control system unit and the electrical and electronic control system unit) are all designed and developed by the Group internally. The details of the developed technology in relation to these systems are set out under the paragraph headed "Major production technologies" in this section. The research and development team utilises CAD and CAM technology in the development of design of new products and/or upgrades with reference to the market demand. With the help of computers, the research and development team can efficiently refine and improve the design and functions of the products through computer simulations. The new products are designed to meet the requirements of stronger clamping force and higher energy saving.

The research and development team of the Group keeps abreast of the market and product development trends by maintaining close contacts with customers and the marketing and sales team of the Group, attending trade fairs, and reviewing industry journals. After identifying a potential research and development project, the responsible research team member would submit a formal proposal of the research and development project setting out the reasons and feasibility of the project. The proposal will then be evaluated by the research team leader, the responsible officer of the relevant department and the chief engineer of the Group before it is officially approved.

In December 2003, LK (Shenzhen) was granted the award for the Technology Centre of Shenzhen Enterprise (深圳市企業技術中心), which was jointly granted by the Economic and Trade Bureau, Finance Bureau, Local Tax Bureau of the Shenzhen city as well as the National Tax Bureau of the Shenzhen City. This achievement shows the recognition of the research and development ability of LK (Shenzhen) in terms of, among other factors, the level of investment contributed towards research and development, and the size and education level of the research and development staff.

At present, the Group's research and development centre has approved the following future plans for development:

- The production of cold chamber die-casting machines with 4,500 tons clamping force and plastic injection moulding machines with 2,200 tons clamping force.
- The production of magnesium alloy die-casting machines to go in line with the government's development plan as laid down in the National Tenth Five Year Plan.
- The production of direct clamp injection moulding machines to cater for increasing demand for machines with higher precision and efficiency.
- The production of more energy efficient and pollution-controlled all electric injection moulding machines.
- The development of the technology of semi-solid moulding process and real-time control system, which controls the injection pressure and other parameters such as speed and volume in a more precise manner that can be automatically adjusted according to real time changes.
- The development of LK Networking System, which remotely monitors and controls all the working machines in the plant, downloads or uploads parameters from or to each machine, manages moulds, orders and production.

STRATEGIC ALLIANCES

In addition to its internal research and development ability, the Group has also collaborated with institutions and renowned universities in the PRC. The following table sets out a summary of some of the cooperation made between the Group and its partners:

Project No.	Name of collaborating partners	Development project	Subsidiary entering into the cooperation	Nature	Term	Fund invested *(RMB)*	Funds to be invested *(RMB)*
A	浙江大學 (Zhejiang University) (PRC)	Simulation and optimisation design of electric fluid control systems of die-casting machines	SZ Leadwell	Develop the simulation model of electric fluid control systems of die-casting machines, and accurately forecast the results of the optimised system	May 2005 to May 2007	72,000	108,000
B	浙江大學 (Zhejiang University) (PRC)	Research on real time control system of die-casting machines	SZ Leadwell	Research on the speed and pressure during the die-casting injection so as to attain the closed loop control	February 2004 to February 2007	100,000	Nil
C	清華大學（機械工程系） (Mechanical Engineering Department of Tsinghua University) (PRC)	Analysis and advancement of large magnesium alloy die-casting machines' crucial components	LK (Shenzhen)	Analysis on the design, density and heat avoidance functions of crucial components of die-casting machines and to implement improvement measures	January 2004 to December 2006	150,000	300,000
D	清華大學（機械工程系） (Mechanical Engineering Department of Tsinghua University) (PRC)	Enhancement in the functions and lengthening the life-span of zinc alloy die-casting injection point	LK (Shenzhen)	Research on the reasons causing the malfunction of injection point and the respective solutions	March 2003 to June 2004	300,000	Nil
E	清華大學（機械工程系） (Mechanical Engineering Department of Tsinghua University) (PRC)	Research on and develop aluminium alloy semi-solid die-casting equipment and technology	SZ Leadwell	Research and develop aluminium alloy semi-solid die-casting equipment and technology	November 2005 to October 2006	400,000	400,000

Project No.	Name of collaborating partners	Development project	Subsidiary entering into the cooperation	Nature	Term	Fund invested *(RMB)*	Funds to be invested *(RMB)*
F	清華大學 （機械工程系） (Mechanical Engineering Department of Tsinghua University) (PRC)	Jointly developing a high and new technology research center for die-casting industry	SZ Leadwell	Research on magnesium alloy die-casting machines	May 2003 to May 2006 (expecting to extend further)	1,300,000	20,000
G	Hong Kong Productivity Council (Hong Kong)	Consultancy service for know-how transfer of brass die-casting	LK (HK)	Receiving consultancy services for the "Know-How Transfer of Brass Diecasting" project	May 2003 to August 2004	HK$841,888	Nil

Through these collaborations, the Directors believe that the Group's ability in product development can be strengthened, and in turn the continual growth of the business of the Group can be facilitated.

The source of funding for the research products includes internal source of funds from the Group and external source of funds such as national government subsidies, local government subsidies and designated funds from the universities.

For projects A and B, both parties thereto are entitled to utilize the patents while the Group is entitled to utilize the technology know-how and the rights to transfer. For projects D and E, the intellectual property rights will be jointly owned by the parties thereto, and the Group is entitled to utilize such intellectual property rights. For project F, the parties thereto will enter into separate agreement in relation to the ownership of the intellectual property rights. For Project G, the consultancy service agreement did not contain provision in respect of intellectual property rights. Furthermore, neither the information regarding the ownership of the rights to new products developed, production and patents nor the arrangement regarding profit sharing between the contracted parties were included in the said contract.

For projects A and B, the earnings arising from the transfer of any technology know-how will be evenly shared by the parties thereto. For project F, the Group is currently negotiating with Tsinghua University for the extension of the cooperation agreement. For project E, the Group will share the economic benefit arising from such research with Tsinghua University.

All of the above research projects are subject to confidentiality terms. The Group confirmed that as at the Latest Practicable Date, these research projects have not yet borne any results.

Furthermore, the Company has identified a horizontal acquisition opportunity. The target, an Independent Third Party, is a European based company in die-casting machines industry. The Group has been in discussion with the target for a 19.9% interest (valued at Euro 2 million, or approximately HK$20 million) in the target. The discussion was in preliminary stage and no terms and conditions have been fixed as at the Latest Practicable Date.

AWARDS AND RECOGNITION

The Group has obtained various awards and recognition for the development and/or improvement of technology in the production of its products. In addition, the Group's products have received certain awards and recognition for their quality and reputation in the PRC and Hong Kong. Below is a highlight of the major awards in respect of the business nature, certain technologies and products of the Company.

Corporate awards

Awards/Honours	Awarding Authority	Subsidiary being awarded	Year of Award
全國質量,服務誠信示範企業 (National Quality, Service Sincerity and Creditability Model Enterprise)	中國質量驗証協會 (The PRC's Quality Inspection Association)	SZ Leadwell	June 2003
外商投資先進技術企業 (Enterprise with Foreign Investment & Advanced Technique)	深圳市經濟貿易局 (Shenzhen Economic Trade Bureau)	SZ Leadwell	August 2003
Technology Centre of Shenzhen Enterprise	Shenzhen Economic and Trade Bureau, Finance Bureau, Local Tax Bureau, National Tax Bureau	LK (Shenzhen)	December 2003
2003年全國外商投資雙優企業 (2003 National Foreign Investment Double Merit Enterprise)	上海市外國投資工作委員會 (Shanghai Foreign Investment Commission) 上海市對外經濟貿易委員會 (Shanghai Foreign Economic Relations and Trade Commission) 上海市外商投資企業協會 (Shanghai Association of Enterprises with Foreign Investment)	Shanghai Atech	2004
高新技術企業認定証書 (High and New Technology Enterprise)	深圳市科技和信息局 (Shenzhen Science Technology and Information Bureau)	SZ Leadwell	June 2004
2002-2003年度松江區科技進步一等獎 (2002-2003 First Class Award for the Improvement in Science in Songjiang District)	上海市松江區人民政府 (Government of Shanghai Songjiang District of the PRC)	Shanghai Atech	June 2004

Awards/Honours	Awarding Authority	Subsidiary being awarded	Year of Award
上海市松江區免檢企業証書 (Certificate of Enterprise Waiving Inspection Requirement in Songjiang District in Shanghai)	上海市松江區人民政府 (The People's Government of Songjiang District in Shanghai)	Shanghai Atech	July 2003
生大杯第二屆上海科技企業創新獎 (The Second Sheng Da Bei Shanghai Technology Enterprise Innovation Award)	上海科技企業創新獎評審委員會 (Shanghai Technology Enterprise Innovation Award Appraisal Committee) 上海市科技企業聯合會 (Shanghai Technology Enterprise Union)	Shanghai Atech	July 2004
市級企業技術中心 (Municipal Enterprise Technology Centre)	中山市人民政府 (The People's Government of Zhongshan)	LK (Zhongshan)	October 2004
中國優秀民營科技企業 (Merit Public-owned Technology Enterprise of China)	中華全國工商業聯合會 (National Industry and Commerce Union) 中國民營科技實業家協會 (China Public-owned Scientists and Merchants Association)	Shanghai Atech	October 2004
2003年全國外商投資雙優企業 (2003 National Foreign Investment Enterprise with Double Merit)	深圳外商投資企業協會 (Shenzhen Association of Foreign Investment Enterprise) 中國外商投資企業協會 (China Association of Foreign Investment Enterprise)	SZ Leadwell	2004
2004年度全國外商投資雙優企業 (2004 National Award for Foreign-Funded Enterprises with Double Merit)	中國外商投資企業協會 (China Association of Foreign Investment Enterprises)	LK (Zhongshan)	2005
重點高新技術企業 (Focused High and New Technology Enterprise)	科學技術部火炬高技術產業開發中心 (Ministry of Science and Technology Science Torch High Technology Industry Development Centre)	LK (Zhongshan)	May 2005
ISO 9001:2000	NAC	LK (Fuxin)	November 2005

Awards/Honours	Awarding Authority	Subsidiary being awarded	Year of Award
2004年全國外商投資雙優企業 (2004 National Award to Foreign-Funded Enterprises for Excellent Economic and Export Performance)	深圳市外商投資企業協會 (Shenzhen Association of Enterprises with Foreign Investment) 中國外商投資企業協會 (China Association of Foreign Investment Enterprises)	LK (Shenzhen)	2005
中山市裝備製造業重點企業 (Equipment Manufacturing Focused Enterprise of Zhongshan)	中山市人民政府 (The People's Government of Zhongshan)	LK (Zhongshan)	December 2005
廣東省著名商標 (Guangdong Famous Trademark)	廣東省工商行政管理局 (Guangdong Industry and Commerce Bureau)	LK (Shenzhen)	January 2006
Certificate Award for the Best Brand Enterprise	Hong Kong Productivity Council	LK (HK)	May 2006
Machine 500 China in year 2006	中國機械工業企業管理協會 (China Machinery Enterprise Management Association) 世界企業實驗室 (World Enterprise Laboratory) 機械工業經濟管理研究院 (Research Institute of Machinery Industry Economic & Management) 世界經理人周刊 (World Executive Network Weekly) 國家機械網 (machine.icxo.com)	SZ Leadwell	July 2006

Product Awards

Awards/Honours	Products/Technology	Awarding Authority	Subsidiary being awarded	Year of Awards
2001年度國家重點新產品 (2001 National Focused New Product)	DCC630M magnesium alloy die-casting machine	中華人民共和國國家經濟貿易委員會 (The PRC's State Economic and Trade Commission)	LK (Shenzhen)	May 2001
2001年度國家重點新產品 (2001 National Focused New Product)	DC160M magnesium alloy die-casting machine	中華人民共和國國家經濟貿易委員會 (The PRC's State Economic and Trade Commission)	LK (Shenzhen)	May 2001
國家級火炬計劃項目證書 (National Level Torch Planning Project Certificate)	Magnesium alloy die-casting machine	科學技術部火炬高技術產業開發中心 (Science & Technology Ministry Torch High Technology Industry Development Centre)	LK (Shenzhen)	September 2001
2002年廣東省優秀新產品三等獎 (Third Class Award of New and Good-quality Product in Guangdong Province in 2002)	PT130 plastic injection moulding machine	廣東省經濟貿易委員會 (Guangdong Economic Trade Commission) 廣東省優秀新產品評審委員會 (Committee for judging new projects with top quality)	LK (Zhongshan)	2002
「鎂合金應用及產業化項目」列入國家十五計劃 ("The use and production of magnesium alloy" is categaorised as an Item of the National Tenth Five Year Plan of the PRC)	Magnesium alloy die-casting machine	中國人民共和國科學技術部 (Science Technology Ministry of the PRC)	LK (Shenzhen)	2002
上海市高新技術成果轉化項目百佳 (Shanghai High and New Technology Result Converted Special Case)	DCC280, DCC400 and DCC800 cold chamber die-casting machine	上海市高新技術成果轉化服務中心 (Shanghai High and New Technology Results Conversion Service Centre)	Shanghai Atech	2003
國家級火炬計劃項目證書 (National Level Torch Planning Project Certificate)	PT130 plastic injection moulding machine	科學技術部火炬高技術產業開發中心 (Science Technology Department Torch High Technology Industry Development Centre)	LK (Zhongshan)	April 2003
科學技術成果鑒定證書 (Science Technology Result Verification Certificate)	PT 650H plastic injection moulding machine	Zhongshan Science Technology Bureau	LK (Zhongshan) SZ Leadwell	November 2003

Awards/Honours	Products/Technology	Awarding Authority	Subsidiary being awarded	Year of Awards
深圳市科學技術進步獎一等獎 (Shenzhen Science Technology Improvement Award First Class Award)	DCC630M magnesium alloy cold chamber die-casting machine	深圳市人民政府 (The People's Government of Shenzhen City)	LK (Shenzhen)	December 2003
廣東省科學技術二等獎 (Guangdong Science and Technology Second Class Award)	DCC630M magnesium alloy cold chamber die-casting machines	廣東省人民政府 (The People's Government of Guangdong Province of the PRC)	LK (Shenzhen)	May 2004
中山市科學技術進步一等獎 (First Class Award for Technology Improvement in Zhongshan City)	PT650H plastic injection moulding machine	中山市人民政府 (The People's Government of Zhongshan City of the PRC)	SZ Leadwell	June 2004
國家重點新產品 (National Focused New Product)	DCC 280, DCC 400, DCC 800 cold chamber die-casting machines	中華人民共和國科學技術部 (Science and Technology Bureau of the People's Republic of China) 中華人民共和國商務部 (Commerce Bureau of the People's Republic of China) 國家質量監督檢驗檢疫總局 (National Quality Supervision and Inspection Bureau) 國家環境保護總局 (National Environmental Protection Bureau)	Shanghai Atech	July 2004
上海名牌產品 (Branded Products of Shanghai)	LK branded cold chamber die-casting machines	上海市名牌產品推薦委員會 (Shanghai Branded Products Recommendation Committee)	Shanghai Atech	December 2004
廣東省名牌產品 (Branded Products of Guangdong)	LK branded die-casting machines	廣東省質量技術監督局 (Guandong Quality and Technology Supervision Bureau)	LK (Shenzhen)	September 2005
廣東省名牌產品 (Branded Products of Guangdong)	LK branded plastic injection moulding machines	廣東省質量技術監督局 (Guangdong Quality and Technology Supervision Bureau)	LK (Zhongshan)	September 2005
Award in Assembling Standard Enhancement	Research and Application of Magnesium Alloy Hot and Cold Chamber Specialised Die-Casting Machines	Magnesium Division of Non-Ferrous Metals Industry Association of the PRC	SZ Leadwell	October 2005
2005年國家免檢產品和廣東省名牌產品 (2005 Exempted Product from State Inspection and Branded Products of Guangdong)	LK branded plastic injection moulding machine	中山市東升鎮人民政府經濟貿易辦公室 (Economic Trade Office of the People's Government of Dongsheng, Zhongshan)	LK (Zhongshan)	March 2006

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group has applied for a total of eight trademarks, seven of which applications have been approved (of which as to five in the PRC and as to two in Hong Kong) and one under application. The Group principally uses the trademark of for the promotion and sales of its products. The Group has also in the PRC registered 34 patents and software copyrights and applied for 2 patents for its products, which are mainly related to the modular design and software applied on the Group's products. The details of all the trademarks and patents are set out in the paragraph headed "Intellectual property rights" in appendix V to this prospectus.

To safeguard its intellectual property rights, the Group requires its technician staff to enter into a confidentiality agreement with the Group agreeing not to disclose any information of the Group for a considerable period of time after leaving the Group. The Directors confirm that up to the Latest Practicable Date, they have not received any complaint or objection or claim from any third party which alleges that the Group has infringed its intellectual property rights in Hong Kong, the PRC, the U.S., Singapore, Taiwan or Canada.

INSURANCE

The Group has obtained insurance coverage mainly in relation to public and product liability, business interruption, property damage or loss, on certain fixed assets including die-casting and plastic injection moulding machineries, furniture, accessories, inventories as well as motor vehicles, and for employment including, among other things, medical and work-related injuries. The Group has also obtained insurance coverage on two properties located in Hong Kong. The Directors are of the view that the Group's insurance coverage is sufficient to carry on its business and daily operations in compliance with the respective laws and regulations applicable thereto.

ENVIRONMENTAL PROTECTION

The Group has implemented various environmental protection measures to control wastes and sewages released by the Group's factories including (i) engaging professional environmental protection specialists to evaluate the potential impacts of the pollution to the environment before construction or expansion of the production facilities and designing environmental-friendly facilities during construction stage; (ii) installing facilities, such as solar energy heating system, sewage treatment facilities and noise controlling; and (iii) inspection of the Group's waste/sewage treatment facilities and qualities of the sewage emissions by the relevant PRC authorities. During each of the three years ended 31 March 2006, the main projects undertaken by the Group in relation to the above-mentioned environmental protection measures amounting to approximately RMB34,000 (equivalent to approximately HK$33,000), RMB490,000 (equivalent to approximately HK$480,000) and RMB1,390,000 (equivalent to approximately HK$1,363,000) respectively. According to the legal adviser of the Group as to PRC laws, the Group has obtained all necessary certificates, permits and licences in relation to the applicable national and municipal environmental protection laws and regulations in the PRC.

As advised by the Company's legal adviser as to PRC law, the Group's operations in the PRC are subject to, among others, the following environmental laws and regulations, (i) 中華人民共和國環境保護法 (Environmental Protection Law of the PRC); (ii) 中華人民共和國環境影響評價法 (Law of the PRC on Appraising Environment Impacts); (iii) 國務院關於環境保護若干問題的決定(國發[1996]31號 (Rulings on Certain Issues of Environmental Protection of the State Council (Guo Fa [1996] No. 31)); and (iv) 關於加大污水處理費的徵收力度建立城市污水排放和集中處理良性運行機制的通知 (Notice on enforceability of increasing sewage handling fee to establish centralized sewage system and concentrate on operational mechanism).

On the basis of the legal opinion of the legal adviser to the Company as to PRC laws, the Directors confirm that the Group has complied fully with the applicable environmental protection laws and regulations, and has not committed any breach of the relevant PRC environmental protection laws and regulations during the Track Record Period.

As further advised by the Company's legal adviser as to PRC law, the Group's expansion in terms of erecting new production facilities requires it to adopt and implement environmental measures which comply with regulations such as (i) 建設項目環境保護管理條例 (Regulations Concerning Environmental Protection of Building Projects); (ii) 建設項目竣工環境保護驗收管理辦法 (Means Concerning the Examination of Environmental Protection Upon Completion of Constructions); and (iii) 建設項目環境保護分類管理目錄 (Directory of Classified Management on Environmental Protection of Building Projects) in order to comply with the relevant regulatory requirements for environmental protection. Under the 建設項目環境保護管理條例 (Regulations Concerning Environmental Protection of Building Projects), the Group is required to obtain approvals and permits to commence construction by preparing an environmental impact assessment report, and upon completion of the construction, to obtain certificate of inspection of completed construction from the appropriate PRC authorities.

The Company currently does not have any plans to address potential future risks on environmental protection because its operation will not cause material pollution to the environment and the potential future risks of serious environmental pollution therefrom will not be significant.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, the Group was subject to some 14 legal proceedings, mainly involved contractual and personal injury claims. The Directors consider that, save for the 2 proceedings disclosed in note 28(b) of the accountant's report set out in appendix I to this prospectus, the other proceedings are of minor nature, and do not have any material adverse effect on the business or financial position of the Group. If all the 14 outstanding litigations are subsequently awarded against the Group, the aggregate amount of damages payable by the Group (exclusive of legal costs incurred by the Group and (where applicable) incurred by the other litigants but payable by the Group) is estimated to a sum not exceeding HK$5,500,000.

As mentioned in note 28(b)(ii) of the accountants' report set out in appendix I to this prospectus, a litigation has been made against a member of the Group by an individual in relation to the compensation for injury in a traffic accident happened in December 2005 where the subject car was owned by that Group member. The court ordered damages of approximately HK$1,531,000 to be paid to the Plaintiff, of which approximately HK$329,000 has been paid by the relevant Group member. The Directors, after taking legal advice, consider that the relevant Group member should have a reasonable chance of success in appealing against the judgement and such member filed an appeal on 22 May 2006. No provision for the damages that might eventually be payable by the subsidiary has been made in the financial statements. The appeal is still pending hearing as at the Latest Practicable Date. If the appeal is awarded against the relevant Group member, the full amount of the damages and the relevant legal costs may have to be borne and paid by the Group.

COMPETITION

Die-casting machines

Die-casting machinery business is the major revenue source of the Group. At present, the Group is one of the leading players in the die-casting machinery industry in the PRC. In the calender year of 2005, the Group sold approximately 1,500 die-casting machines amounting to approximately 44% of the total quantity of die-casting machines sold in the PRC. The Directors have broadly identified two market segments within the PRC die-casting machinery market to have an assessment of the competitiveness of the Group:

- Imported machinery market: The main competitors are overseas machinery companies such as the manufacturers in Switzerland, Italy, Japan and Germany.

- Local PRC machinery market: The main competitors are local machinery manufacturing companies and a few Hong Kong manufacturers.

For the imported machinery market, although the competitors are mainly overseas established manufacturers with more advanced technologies and longer operating history in die-casting machines manufacturing, the Directors believe the Group has a pricing and service advantage over these overseas manufacturers. With years of experience and technical knowhow built up by the Group, plus its better control of production costs through the use of batch production, the Directors believe that the Group produces machine products that are of comparable quality to those top tier overseas manufacturers, at a cost which could be much lower than that incurred by the overseas manufacturers. The overseas manufacturers in general have a comparatively higher production cost and may bear custom duties of 12% for importation of their products into the PRC. Apart from the advantage of lower production costs by batch production, repair and maintenance service is also a concern of the customers since machines must be regularly repaired and maintained due to their prolonged operations in high temperature environment. In this regard, the Group can offer good after-sales as well as repair and maintenance services to its customers promptly with its extensive service network throughout the PRC, which could be an advantage of the Group over its overseas competitors as they may have difficulty in providing promptly repair services for the machines that have been imported into the PRC and in cost efficient manner.

For the local PRC machinery market, the main competitors are the local manufacturers of relatively larger production scale. With the continual expansion of the Group's facilities and the research and development ability of the Group, the production capacities of the Group was greatly increased to meet the demand for larger quantities and sizes of the machines in the local machinery segment. Together with the quality of its products and services, the Directors believe that the Group has competitive edges and opportunities in taking up more market share in the local machinery market segment.

With over 20 years of operating history in the die-casting machinery industry, the Directors believe that the Group has built up a relatively solid foundation in terms of its operation size, production capacity, technologies, expertise, quality control and service provisions. As a result, the Directors believe that the Group can secure a good competitive position in the die-casting machinery market.

Plastic injection moulding machines

As for its plastic injection moulding machinery business, despite the fact that the Group is a relatively new entrant in this industry, the Directors believe that with the strengths of the Group including its design, quality products and services, as well as expertise in technologies, there are still opportunities for the Group to continue to expand into this segment.

Similar to the market segment classification of die-casting machines, the Directors have broadly identified two market segments for the PRC plastic injection moulding machinery market to assess the competitiveness of the Group:

- Imported machinery market: The main competitors are overseas manufacturing companies such as the manufacturers in German and Japan

- Local machinery market: The main competitors are PRC local machinery manufacturing companies and a number of Hong Kong and Taiwan based manufacturing companies

For the imported machinery market, the Directors believe that the main competitors are overseas manufacturing companies such as those in German and Japan. Imported machines are mainly those products with larger clamping force, higher speed, higher precision and higher automation level. To obtain competitive advantage, the Group has been committed to the research and development of more advanced products and is carrying out the development of cold chamber die-casting machines with 4,500 tons clamping force and plastic injection moulding machines with 2,200 tons clamping force. The Directors believe that, with its design capability, quality products and services and extensive sales network, the Group is in a position to benefit from the expected increasing market demand in the PRC for higher quality plastic injection moulding machines.

For the local machinery market, the main competitors are PRC local machinery manufacturing companies and a number of Hong Kong and Taiwan based manufacturing companies. Some of these competitors may have relatively large operations scale than that of the Group. The Directors believe that, with its commitment to research and development, its ability to provide total solutions to clients, and its continuous expansion of production capacity, the Group is in a position to take up more market share in the local machinery market.

INTERNAL CONTROL MEASURES

Internal audit

The Group has established an internal audit department (the "IAD") in January 2005 with six staff as at 31 August 2006. The six staff have different level of accounting qualification in the PRC, with two of them being non-practicing certified public accountants and one of them being non-practicing registered tax agent. IAD is mainly responsible for carrying out internal audit of the management accounts prepared by the Company's subsidiaries in the PRC. IAD's functions and responsibilities include, among others, formulating audit plan, reviewing monthly management accounts, preparing and performing audit field work, preparing monthly and quarterly audit summary reports and attending the audit committee meeting.

Audit planning

At the beginning of each year, the IAD composes internal audit plan which covers, among others, (i) audit timetable for each PRC subsidiary; (ii) scope of the audit and period to be covered; and (iii) audit staff assigned for each audit. After the finalization of the audit plan, the IAD will submit the plan to the audit committee for review.

Review monthly management accounts

At the beginning of each month, the IAD will receive management accounts and supporting schedules from each PRC subsidiary. The audit staff performs review of the management accounts and supporting schedules for the month to ensure any irregularity identified are accounted for and (where applicable) to rectify and implement improvement measures.

Prepare for audit field work

In general, a week before the date of field work, the audit staff is required to review the management accounts and supporting schedules of the relevant subsidiary for the period to be covered by the audit. In addition, the audit staff will send out notice to the relevant subsidiary and request for their assistance.

Perform audit field work

The audit staff is required to perform audit work according to the Internal Audit Procedure Manual which included but not limited to review of all necessary documents such as vouchers, invoices, bank statements, bank reconciliations, stock take reports, supporting schedules of the management accounts and tax related documents for the period covered. Furthermore, the audit staff will follow up those unsolved issues or problem areas which they have spotted in their previous audits and check to ensure that the corrective measures as suggested during last audit have been implemented.

After the completion of the audit, the audit staff will have a meeting with the general manager and the departments' staff concerned to discuss the findings and related recommendations/corrective measures. The audit staff will then prepare the meeting minutes and the audit report for endorsement by the Head of IAD. The final report will then be sent to the management for review.

In relation to the irregularities identified by the IAD during the Track Record Period, they are mainly due to occasional inadvertence or oversight of staff such as (i) delay in making correct accounting entry for changes in salary schedule, (ii) use of receipts instead of formal invoices for expenses recording purpose and (iii) incomplete documentation in respect of approval of cash advance for miscellaneous expenses which were approved by the general managers of the relevant subsidiaries verbally when they were on business trip. All of the above irregularities identified by the IAD were isolated events, are relatively small in size and minor in nature and were rectified immediately after identification. To prevent the above incidents from happening in future, the relevant accounting staff will closely monitor the accounting entry in relation to the salary schedule, only formal invoices will be accepted for expenses recording purpose and all approval of cash advance must be approved by the relevant general managers in writing.

Prepare monthly and quarterly audit summary reports

The IAD is required to submit monthly audit summary report to the members of the audit committee for their review and present quarterly audit summary reports during the quarterly audit committee meetings for approval.

Attend the audit committee meeting

The head of IAD is required to attend the audit committee meeting and report to the audit committee members regarding the quarterly works done and findings made by the IAD. The IAD is required to incorporate recommendations from the audit committee into the workflow or procedures of the IAD.

When the IAD identifies any irregularities, they will report them to the Company's audit committee and depending on the nature of the irregularities, recommend corresponding precautionary measures. The Directors are of the view that the IAD could also achieve the propose of identifying any financial irregularities in the PRC operating subsidiaries of the Group that may be resulted from any third party exerting undue influence or control over the management of the PRC operating subsidiaries.

Internal control in respect of PRC tax compliance

The Directors consider that given the complexity nature of the PRC tax rules and regulations, to assure compliance with applicable rules and regulations in relation to the Group's business operations in the PRC, each of the Group's PRC subsidiaries (except for LK (Shenzhen Wholesales) which has not commenced commercial operation) has engaged PRC certified tax accountants ("Tax Consultants") in the PRC, as intended by the Directors, on an annual basis to advise each of them on PRC tax matters since January 2005 (except LK Tech (Ningbo) which engaged Tax Consultants since January 2006 because it did not commence any operation in 2005). The scope of work of the Tax Consultants includes provision of updates on the latest taxation policies in the PRC, advice on tax planning and recommendation in respect of solutions to tax-related issues.

In addition to the above work scope, each of the Group's PRC subsidiaries (except LK(Shenzhen Wholesales) and LK Tech (Ningbo) which did not commence any operation in 2005) also engaged the Tax Consultants to conduct tax audit on them for the year of 2005 ("2005 Reports"), which were submitted to the audit committee. The audit committee received and had no comments on the 2005 Reports. Such tax audit activities are intended to be conducted on an annual basis for each of the Group's operating PRC subsidiaries.

Internal control review

The Company has appointed an independent CPA firm, Grant Thornton, to carry out a review of the Group's internal controls that include the corporate governance and the processes relating to the Group's financial closing and reporting, sales, procurement, inventory, taxation, fixed assets, cash management, financing and borrowing. In addition, the Company intends to retain Grant Thornton as on going internal control adviser to the Group after the Listing. It is planned that Grant Thornton will develop an internal control plan, which will consist of a number of individual internal control reviews throughout the financial year. In general, it will be a year round process. Grant Thornton will work closely with the management and the IAD and report to the audit committee. The appointment of Grant Thornton will enhance and encourage the compliance of the internal control procedure by the member companies of the Group and avoid the possibility of deviation from normal internal control procedure under undue influence or control over the management of the Group by any third party.

The Directors are of the view that the duties of the IAD and the appointment of external professional party to conduct review of the Group's internal control procedure would step up the checking and monitoring system of the daily operations of the member companies of the Group. In addition, the Directors are of the view that the adoption of internal control measures will enhance the audit committee's general awareness of the Group's financial matters thereby avoiding any possible irregularity, if any, which might have resulted from third party's influence in the management of the Group and such internal control measures are considered adequate.

NON-COMPETITION UNDERTAKING

Mr. Liu is one of the beneficial owners of Girgio, the Controlling Shareholder. Ms. Chong and her son and daughter are discretionary objects of The Liu Family Trust, a discretionary trust, and have no control nor beneficial interest in the Company by virtue of their being discretionary objects of The Liu Family Trust. Mr. Liu has confirmed that he is not currently engaged in any business, which directly or indirectly competes or may compete with the Group's business. Under the restrictive covenants of a share exchange deed in respect of Best Truth executed by, among other parties, Mr. Liu on 23 September 2006, Mr. Liu undertook unconditionally that at any time during which the Company is listed on the Stock Exchange and for so long as he and his associates collectively hold, whether individually or taken together, 30% or more of the issued Shares or is regarded as the controlling shareholder(s) of the Company under the Listing Rules or for a period of two years from the date of listing of the Shares on the Stock Exchange, whichever is the longest period of time:

(i) directly or indirectly solicit, interfere with, employ or endeavour to entice away from any member of the Group with a view to competing with the Group any person who, to his knowledge, is now, or has during the 12 months preceding the date of the deed been, a client, customer or employee of, or in the habit of dealing with, any member of the Group; or

(ii) directly or indirectly carry on or be engaged or concerned or interested in the businesses of design, development, manufacturing and/or sale of die-casting machineries and/or plastic injection machineries, being the current principal businesses of the Group; or

(iii) at any time use the name or trading style of any member of the Group, or represent himself as carrying on or continuing or being connected with any member of the Group or its business for any purpose whatsoever save as those names/trading styles which have been previously disclosed in writing to the Company.

Similar undertakings were given by Girgio and Ms. Chong by way of the same share exchange deed.

Each of Mr. Liu Zhou Ming (who is the son of Ms. Chong) and Fullwit gave similar undertakings under separate deeds respectively.

The principal businesses of the companies (other than member companies of the Group) owned or controlled by Mr. Liu and/or Girgio are mainly investment holding and production of mostly alloy wheels for automotives, which alloy wheels are produced by die-casting machines. These alloy wheels are used in automotives only and their customers are mostly manufacturers or owners of automotives. In contrast, die-casting machines (being one of the principal products manufactured by the Group) are mostly sold to manufacturers using die-casting machines to produce other products, part or components, or traders of die-casting machines. As the products and their functions as well as the customers of the Group are substantially different from those of the private companies owned or controlled by Mr. Liu and/or Girgio, the Directors consider that such companies will not compete (whether directly or indirectly) with the Group.

No Director is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Each of Fullwit, Girgio Mr. Liu, Ms. Chong and Mr. Liu Zhuo Ming has undertaken in favour of the Company under their respective deeds to procure the provision to the Company of all information necessary for the enforcement of the above undertaking. Each of such persons further undertakes in favour of the Company to make a statement in the annual report of the Company confirming compliance by it and its affiliates with the terms of the non-competition undertaking in their respective deeds. The Company will disclose in its annual reports on how the undertakings in the respective deeds are complied with and enforced in accordance with the principles of making voluntary disclosures in the Corporate Governance Report as defined in appendix 23 of the Listing Rules.

The independent non-executive Directors shall review, at least on an annual basis, the compliance with the non-competition undertaking by each of such persons on their existing or future competing business and the Company shall disclose the result of such review either through the annual report of the Company, or by way of announcement to the public.

During the Track Record Periods, the Group had certain transactions with the private companies beneficially owned by Mr. Liu and/or Ms. Chong and their associates (the "Private Group Companies"). Most of such transactions will be discontinued before the Listing Date, as mentioned below. Following completion of the Share Offer, the Group will continue to have two transactions with the Private Group Companies that constitute connected transactions within the meaning of the Listing Rules. Set out below is a summary of these transactions. The Company has not sought any waiver from compliance with the Listing Rules in request of these transactions as summarised below.

Type	Category	Nature of transactions	Applicable Listing Rules
Discontinued connected transactions	1.	Provision of die-casting machines and related accessories to OPP (HK)	Not applicable
	2.	Provision of machines accessories and provision of processing and training to OPP (PRC)	Not applicable
	3.	Provision of die-casting machines to Windeck	Not applicable
	4.	Provision of die-casting related accessories to LK (Shanghai)	Not applicable
	5.	Purchase of steel materials from LK (Shanghai)	Not applicable
	6.	Provision of die-casting machines to Baotou Arays	Not applicable
	7.	Resale of equipment to Baotou Arays	Not applicable
	8.	Provision of die-casting machines to Gaoyao Hongtai	Not applicable
	9.	Provision of guarantee in favor of Gaoyao Hongtai	Not applicable
	10.	Provision of die-casting machines to Shanghai Arays	Not applicable
	11.	Resale of equipment to Shanghai Arays	Not applicable

Type	Category	Nature of transactions	Applicable Listing Rules
	12.	Provision of bank guarantee in favor of Shanghai Arays	Not applicable
	13.	Provision of electricity to Shanghai Arays	Not applicable
	14.	Purchase of valves from Shanghai Arays	Not applicable
	15.	Provision of die-casting machines to Key Point	Not applicable
	16.	Resale of equipment to Key Point	Not applicable
	17.	Purchase of double injection plastic moulding machine from City Team	Not applicable
	18.	Acquisition of investment securities from Allied First	Not applicable
	19.	Lease of property from Arays Auto	Not applicable
	20.	Disposal of Sky Treasure Group to Fairview Technology	Not applicable
	21.	Lease of property to Yin Fat	Not applicable
	22.	Lease of property to Shanghai Dragon Prosper	Not applicable
	23.	Lease of property from Full Power	Not applicable
Exempt continuing connected transaction	24.	Lease of property to OPP (PRC)	Rule 14A.33
Discloseable continuing connected transaction	25.	Lease of property from Wheelfit	Rule 14A.34

Details of the transactions summarised in the table above are set out below.

DISCONTINUED CONNECTED TRANSACTIONS

During the Track Record Period, the Group had the following transactions with its connected parties, which transactions are not currently expected to continue on an ongoing basis after the Listing:

A. OPP (HK)

OPP (HK) is indirectly owned as to approximately 33.3% by Girgio, the Controlling Shareholder. OPP (HK) is therefore a connected person of the Company for the purpose of the Listing Rules. OPP (HK) is principally engaged in the trading of die-casting products of magnesium alloys.

1. Provision of die-casting machines and related accessories to OPP (HK)

The Group sold die-casting machines and related accessories to OPP (HK), with aggregate sales amounting to approximately HK$6,734,000 and HK$2,519,000 for the year ended 31 March 2004 and the year ended 31 March 2006 respectively. OPP (HK) purchased such machines and accessories for use by OPP (PRC) in its production of die-casting products. OPP (PRC) is a wholly-owned subsidiary of OPP (HK), details of which please refer to paragraph B set out below. The sales to OPP (HK) were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

B. OPP (PRC)

OPP (PRC) is indirectly owned as to approximately 33.3% by Girgio, the Controlling Shareholder and approximately 66.67% by an Independent Third Party. OPP (PRC) is therefore a connected person of the Company for the purpose of the Listing Rules. OPP (PRC) is principally engaged in the manufacture of parts and components for automotives, as well as die-casting products of magnesium alloys.

2. Provision of machines accessories and provision of processing and training to OPP (PRC)

OPP (PRC) purchased from the Group machines accessories for its production process. In addition, the Group provided processing and training to OPP (PRC) during the Track Record Periods. Such aggregate sales and provision of services amounted to approximately HK$417,000, HK$109,000 and HK$681,000 respectively for the three years ended 31 March 2006. The sales to OPP (PRC) were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

C. Windeck

Windeck is indirectly owned as to 55% by Girgio, the Controlling Shareholder. Windeck is therefore a connected person of the Company for the purpose of the Listing Rules. Windeck was incorporated in Germany and principally engaged in the sales and marketing of machines. It has not engaged in any trading since January 2004.

3. Provision of die-casting machines to Windeck

The Group sold die-casting machines to Windeck with the view to developing European markets, with aggregate sales amounting to approximately HK$2,819,000 for the year ended 31 March 2004. The sales to Windeck were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

D. LK Shanghai

LK Shanghai is owned by Goodlink Development Limited ("Goodlink") and an Independent Third Party. Goodlink is an investment holding company wholly-owned by Mr. Liu, who is an associate of the Controlling Shareholder. LK Shanghai is therefore a connected person of the Company for the purpose of the Listing Rules. LK Shanghai has been principally engaged in the manufacture and trading of steel materials during the Track Record Periods.

4. Provision of die-casting related accessories to LK (Shanghai)

The Group sold miscellaneous accessories to LK Shanghai, with aggregate sales amounting to approximately HK$5,000 for the year ended 31 March 2005. The sales to LK (Shanghai) were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

5. Purchase of steel materials from LK (Shanghai)

The Group also purchased steel materials that were used in the Group's production from LK Shanghai, with aggregate purchases amounting to approximately HK$348,000 and HK$211,000 for the year ended 31 March 2004 and the year ended 31 March 2006 respectively. The purchases from LK (Shanghai) were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

E. Baotou Arays

Baotou Arays is indirectly owned as to 80% by Mr. Liu, who is an associate of the Controlling Shareholder. Baotou Arays is therefore a connected person of the Company for the purpose of the Listing Rules. The other 20% equity interests are held by Independent Third Parties. Baotou Arays is principally engaged in the design, manufacture and sales of alloy wheels and related products.

6. Provision of die-casting machines to Baotou Arays

The Group sold die-casting machines to Baotou Arays for its production of wheel rims, with aggregate sales amounting to approximately HK$12,595,000 for the year ended 31 March 2006. The sales to Baotou Arays were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

7. Resale of equipment to Baotou Arays

Baotou Arays was then a newly established company with a limited period of credit history. Accordingly, it was difficult for Baotou Arays to purchase from overseas suppliers in particular when such purchases will generally involve issuance of letters of credit by banks. To facilitate its purchase from overseas suppliers of machines and equipment for use in its production, Baotou Arays requested the Group to purchase certain coating equipment, air compressor, CNC machines and other equipment on its behalf. As agreed between the Group and Baotou Arays, the Group would resell such machines and equipment to Baotou Arays after certain markup. Such resale amounted to approximately HK$15,095,000 for the year ended 31 March 2006. The Directors confirm that the Group has ceased to engage in this kind of purchase and resale arrangement with Baotou Arays.

F. Gaoyao Hongtai

Gaoyao Hongtai is indirectly owned as to 40% by Girgio, the Controlling Shareholder. Gaoyao Hongtai is therefore a connected person of the Company for the purpose of the Listing Rules. Gaoyao Hongtai is principally engaged in manufacture and sale of alloy die-casting parts and components used in escalators, automotives, communication equipment and electrical and mechanical products.

8. Provision of die-casting machines to Gaoyao Hongtai

The Group sold cold chamber die-casting machines to Gaoyao Hongtai for the production process of Gaoyao Hongtai, with aggregate sales amounting to approximately HK$15,914,000 for the year ended 31 March 2006. Gaoyao Hongtai was one of the Group's top five largest customers for the year ended 31 March 2006. The sales to Gaoyao Hongtai were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

9. Provision of guarantee in favour of Gaoyao Hongtai

LK (HK) and Gaoyao Hongtai entered into a sale and purchase agreement dated 24 January 2006 pursuant to which Gaoyao Hongtai agreed to purchase 3 cold chamber die-casting machines and related accessories from LK (HK) at a total consideration of RMB17,000,000 (equivalent to approximately HK$16,666,666.67). Subsequently in July 2006, Gaoyao Hongtai obtained a hire purchase facility (the "Orix Hire Purchase") from Orix Finance Lease (China) Limited ("Orix"), an Independent Third Party, in the amount of RMB12,000,000 (equivalent to approximately HK$11,764,705.88) for a hire period of 49 months commencing from July 2006. The Orix Hire Purchase was secured by a buy back guarantee (the "Buy Back Guarantee") provided by LK (HK) to Orix, whereby LK (HK) agreed that, should Gaoyao Hongtai default in payments under the Orix Hire Purchase, LK (HK) will buy back the subject die-casting machines and accessories from Orix pursuant to a pre-determined buy back schedule covering the 36 months period the Orix Hire Purchase remains outstanding. The Buy Back Guarantee issued by LK (HK) was released on 21 September 2006.

In addition to Gaoyao Hongtai, the Group does provide similar buy back guarantees to banks/financial companies for its other customers (which are Independent Third Parties) for purchasing its products. This kind of arrangement as the Directors understand is quite common in the industry of the Group. The terms of those guarantees may vary taking into account the terms of loans granted by the banks/financial companies to the relevant customers. The Directors advised that the criteria for granting the buy back guarantees for all of its customers (including connected persons) are the same. The Directors are of the view that the terms of the Buy Back Guarantee are on normal commercial terms and on terms no less favourable to the Group than those applicable to Independent Third Parties.

G. Shanghai Arays

Shanghai Arays is indirectly wholly-owned by Mr. Liu, who is an associate of the Controlling Shareholder. Shanghai Arays is therefore a connected person of the Company for the purpose of the Listing Rules. Shanghai Arays is principally engaged in the manufacture and sale of wheel nuts, wheel rims and hardware.

10. Provision of die-casting machines to Shanghai Arays

The Group sold die-casting machines to Shanghai Arays for its production of wheel rims during the Track Record Periods, with aggregate sales amounting to approximately HK$1,029,000, HK$5,285,000 and HK$1,184,000 for the three years ended 31 March 2006. Such sales to Shanghai Arays were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

11. Resale of equipment to Shanghai Arays

Shanghai Arays did not have trade finance facilities granted by its banks. Accordingly, it was difficult for Shanghai Arays to purchase from overseas suppliers in particular when such purchases generally involve issuance of letters of credit by banks. To facilitate its purchase from overseas suppliers of machines and equipment for use in its production, Shanghai Arays requested the Group to purchase certain coating equipment, CNC lathes and other equipment on its behalf. As agreed between the Group and Shanghai Arays, the Group would resell such machines and equipment to Shanghai Arays at cost (in the case of the transactions took place during the year ended 31 March 2005) or after certain markup (in the case of the transactions which took place during the year ended 31 March 2006). Such resale amounted to approximately HK$22,243,000 and HK$1,446,000 for the two years ended 31 March 2006. The Directors confirm that the Group has ceased to engage in this kind of purchase and resale arrangement with Shanghai Arays.

12. Provision of bank guarantee in favor of Shanghai Arays

The Group gave a guarantee in favour of Shanghai Arays in respect of certain banking facilities granted to Shanghai Arays. Such guarantee amounted to HK$27,300,000 for the year ended 31 March 2005 and was subsequently increased to HK$39,000,000 for the year ended 31 March 2006. Such guarantee was in place because Mr. Liu had provided personal guarantee on certain banking facilities granted to the Group. To enhance independence of the Group, the Group terminated such guarantee on 30 June 2006.

13. Provision of electricity to Shanghai Arays

As constrained by the conditions of electricity supply facility and the high cost for installing a larger electricity supply facility, Shanghai Arays requested Shanghai Atech, which was located next door, to supply it with electricity for its expansion since 2005. For each of the two years ended 31 March 2006, Shanghai Atech has paid electricity charges on behalf of Shanghai Arays which amounted to approximately HK$272,000 and HK$2,750,000 respectively. Before the Listing Date, Shanghai Arays will fully repay the amount due to Shanghai Atech. After the Listing Date, Shanghai Atech will not make advance to Shanghai Arays for payment of any electricity charges nor pay any electricity charge incurred by Shanghai Arays.

14. Purchase of valves from Shanghai Arays

During the Track Record Period, the Group from time to time purchased valves from Shanghai Arays for its production process. For each of the three years ended 31 March 2006, the total purchases of valves from Shanghai Arays amounted to approximately HK$1,431,000, HK$1,725,000 and HK$1,368,000. The purchases from Shanghai Arays were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

H. Key Point

Key Point is indirectly wholly-owned by Mr. Liu, who is an associate of the Controlling Shareholder. Key Point is therefore a connected person of the Company for the purpose of the Listing Rules. Key Point is an investment holding company interested in 80% of the equity interest of Baotou Arays.

15. Provision of die-casting machines to Key Point

The Group sold die-casting machines to Key Point for use by Baotou Arays, a subsidiary of Key Point, in the production of its products. The aggregate sales amounted to approximately HK$4,151,000 for the year ended 31 March 2005. Such sales to Key Point were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to Independent Third Parties.

16. Resale of equipment to Key Point

Baotou Arays was then a newly established company with a limited period of credit history. Accordingly, it was difficult for Baotou Arays to purchase from overseas suppliers, in particular when such purchases will generally involve issuance of letters of credit by banks. To facilitate its purchases from overseas suppliers of machines and equipment for use in its production, Key Point, as the holding company of Baotou Arays, requested the Group to purchase CNC lathes on its behalf. As agreed between the Group and Key Point, the Group would resell such machines and equipment to Key Point at cost. Such resale amounted to approximately HK$5,141,000 and HK$10,282,000 for the two years ended 31 March 2006. The Directors confirm that the Group has ceased to engage in this kind of purchase and resale arrangement with Key Point.

I. City Team

City team is indirectly wholly-owned by Mr. Liu, who is an associate of the Controlling Shareholder. City Team is therefore a connected person of the Company for the purpose of the Listing Rules. City Team was principally engaged in the trading of plastic injection machines and has not engaged in any trading since May 2004.

17. Purchase of double injection plastic moulding machine from City Team

The Group received requests from its customers for double injection plastic moulding machines, which the Group did not produce on its own. While the Group identified quality purchases that may satisfy clients' needs, the Group then considered that it would be more commercially sensible to use City Team, which did not form part of the Group, as the purchaser for such purchases. As agreed between the Group and City Team, City Team would resell such machines and equipment to the Group after reasonable markup. Such aggregate purchases amounting to HK$800,000 and HK$400,000 respectively for the two years ended 31 March 2005. The Directors confirm that the Group has ceased to engage in this kind of purchase and resale arrangement with City Team.

J. Allied First

Allied First is indirectly wholly-owned by Girgio, the Controlling Shareholder. Allied First is therefore a connected person of the Company for the purpose of the Listing Rules. Allied First is an investment holding company interested in 33.3% of the equity interest in OPP (HK).

18. Acquisition of investment securities from Allied First

The Group purchased certain listed securities amounting to HK$1,881,000 from Allied First during the year ended 31 March 2005. Allied First had certain accounts payable to the Group. Subsequently the Group and Allied First agreed to settle such accounts payable in part by the transfer of certain listed securities owned by Allied First to the Group effected at the then market value. The Directors confirm that it was a one-off incident, and the accounts payable by Allied First to the Group was settled in full.

K. Arays Auto

Arays Auto is owned as to 40% directly by Mr. Liu, who is an associate of the Controlling Shareholder and 30% directly by the brother-in-law of Mr. Liu. Arays Auto is therefore a connected person of the Company for the purpose of the Listing Rules. The other 30% equity interests are held by Independent Third Parties. Arays Auto is principally engaged in the marketing of alloy wheels, in particular those produced by Baotou Arays, in the U.S.

19. Lease of property from Arays Auto

Since LK (U.S.) had occupied part of the office area rented by Arays Auto for 22 months in the USA for office uses, the Group incurred operating lease rentals paid to Arays Auto. The rental period commenced from 1 May 2004 and ended on 28 February 2006. For each of the two years ended 31 March 2006, LK (U.S.) paid a total rental of US$15,400 (equivalent to approximately HK$120,120) and US$15,400 (equivalent to approximately HK$120,120) respectively. LK (U.S.) ceased to lease the above area from Arays Auto since 1 March 2006. Sallmanns (Far East) Limited, an independent property valuer of the Group, confirmed that the rental value of the property of Arays Auto is fair and reasonable and is based on market rate as at the commencement of the tenancy.

L. Fairview Technology

Fairview Technology is indirectly wholly-owned by Girgio, the Controlling Shareholder. Fairview Technology is therefore a connected person of the Company for the purpose of the Listing Rules. Fairview Technology is an investment holding company.

20. Disposal of Sky Treasure Group to Fairview Technology

On 30 March 2006, the Company disposed of Sky Treasure and its subsidiaries, namely Dragon Prosper and Shanghai Dragon Prosper (collectively "Sky Treasure Group") to Fairview Technology at par value of US$1. Sky Treasure and Dragon Prosper are investment holding companies, while Shanghai Dragon Prosper is principally engaged in the sales of environmental protection, water purifying, automotive and sport equipment. The Sky Treasure Group contributed revenue of HK$12,000 and sustained loss before taxation of HK$680,000 for the period from 1 April 2005 to 30 March 2006.

M. Yin Fat

Yin Fat is wholly-owned by Mr. Liu's brother and his spouse. Since Mr. Liu is an associate of the Controlling Shareholder, Yin Fat is a connected person of the Company for the purpose of the Listing Rules. Yin Fat is principally engaged in the manufacture of die-casting parts.

21. Lease of property to Yin Fat

During the Track Record Period, LK (Shenzhen) leased to Yin Fat (i) the first floor and a portion of the second floor of a factory building with a total gross floor area of approximately 2,495.86 sq.m. and (ii) nine apartments with a total gross floor area of approximately 756.09 sq.m. located at Buji Town, Longgang District, Shenzhen, the PRC. For each of the three years ended 31 March 2004, 2005 and 2006, Yin Fat paid a total annual rental of nil, HK$141,799 and HK$425,398, respectively. On 12 September 2006, LK (Shenzhen) and Yin Fat entered into a termination agreement pursuant to which both parties agreed to terminate such lease by 1 October 2006.

N. Shanghai Dragon Prosper

Shanghai Dragon Prosper is indirectly owned as to 70% by Girgio, the Controlling Shareholder. Shanghai Dragon Prosper is therefore a connected person of the Company for the purpose of the Listing Rules. Shanghai Dragon Prosper is principally engaged in the sales of environmental protection, water purifying, automotive and sport equipment.

22. Lease of property to Shanghai Dragon Prosper

During the Track Record Period, Shanghai Atech leased to Shanghai Dragon Prosper a premise at unit 2306 on level 23 (with a gross floor area of approximately 77.15 sq.m.) in Zhenyuan Building, No. 2052 Zhongshan Road North, Shanghai, the PRC for its office usage. For the year ended 31 March 2006, Shanghai Dragon Prosper paid a total annual rental of RMB10,500 (equivalent to approximately HK$10,294.12). The terms of the tenancy agreement ("Dragon Lease") in respect of the above premise commenced on 1 January 2006 and expired on 31 December 2006 at a monthly rental of RMB3,500 (equivalent to approximately HK$3,431.37). On 14 September 2006, Shanghai Atech and Shanghai Dragon Prosper entered into a termination agreement pursuant to which both parties agreed to terminate the Dragon Lease by 1 October 2006.

O. Full Power

Full Power is wholly and beneficially owned by Ms. Chong. Full Power is therefore a connected person of the Company for the purpose of the Listing Rules. Full Power is principally engaged in property investment.

23. Lease of property from Full Power

During the Track Record Period, LK(HK) leased from Full Power a premise at House K with garden, flat-roof and carport with a gross floor area of approximately 2,353 sq.ft. in Lakeview Garden, No. 21 Yau On Street, Shatin, New Territories, Hong Kong as staff quarter. For each of the three years ended 31 March 2004, 2005 and 2006, LK(HK) paid a total annual rental of HK$720,000, HK$720,000 and HK$741,000, due to the revision of the tenancy agreement, respectively. Under the tenancy agreement dated 1 September 2005, LK (HK) agreed to lease from Full Power the above premise from 1 September 2005 to 31 August 2006 at a monthly rental of HK$63,000. The relevant lease expired or, if not expired, will be terminated before the Listing Date.

EXEMPT CONTINUING CONNECTED TRANSACTION

Details of the continuing connected transaction of the Company which is exempt from the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules ("Exempt Continuing Connected Transaction") are set out below:

P. OPP (PRC)

OPP(PRC) is the Group's connected person as mentioned in paragraph A above.

24. Lease of property to OPP (PRC)

During the Track Record Period, LK (Shenzhen) leased to OPP (PRC) two levels of production plants at 1st and 2nd floors of Block 2 Warehouse (Stage II) respectively and dormitory units located beside south of the Jihe Highway, Longhua

Town, Baoan District, Shenzhen, the PRC. For each of the three years ended 31 March 2004, 2005 and 2006, OPP (PRC) paid a total of HK$839,000, HK$406,000 and HK$513,000 respectively. The terms for (i) the existing tenancy agreements in respect of the two production plants (together the "Plant Leases") commenced from 1 April 2004 and 1 January 2005 respectively, and both will expire on 31 December 2007 at a total monthly rental of RMB43,712.70 (equivalent to approximately HK$42,855.59), together with a total management fee of RMB4,657.65 (equivalent to approximately HK$4,566.32), and (ii) the existing tenancy agreements regarding the 10 dormitory units (together the "Dormitory Leases") are for various terms commencing between 7 December 2005 and 9 April 2006 and expiring between 6 February 2007 and 8 April 2007 (each of the Dormitory Leases was subsequently renewed to expire on 31 December 2007 by respective renewal agreements dated 4 September 2006, entered into between the same parties) at a total monthly rental of RMB5,010 (equivalent to approximately HK$4,912), together with a total monthly management fee of RMB528 (equivalent to approximately HK$518). The Plant Leases and Dormitory Leases enable the Group to generate rental income as an additional source of revenue for its unused and vacant premises. On 12 September 2006, LK (Shenzhen) and OPP (PRC) entered into an agreement to terminate the Plant Leases and the Dormitory Leases by 31 December 2006.

The transactions under the Plant Leases and the Domitory Leases fall within the de minimis threshold as stipulated under Rules 14A.33(3) of the Listing Rules. The Exempt Continuing Connected Transaction is not subject to any of the reporting announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

Sallmanns, independent professional property surveyors and valuers, has confirmed that the rents payable by OPP (PRC) under the Plant Leases and Dormitory Leases are fair and reasonable, and consistent with the prevailing market rents for similar premises in similar location. The Directors are of the view that the Plant Leases and Dormitory Leases have been entered into in the ordinary and ususal course of business of the Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole.

DISCLOSEABLE CONTINUING CONNECTED TRANSACTION

The following transactions will constitute discloseable continuing connected transactions for the Company after the Listing Date and will be subject to the reporting and announcement requirements as required under Rule 14A.34 of the Listing Rules:

Q. Wheelfit

Wheelfit is owned as to 50% by Mr. Liu, who is an associate of the Controlling Shareholder. Wheelfit is therefore a connected person of the Company for the purpose of the Listing Rules. Wheelfit is principally engaged in property investment.

25. Lease of property from Wheelfit

During the Track Record Period, LK(HK) leased from Wheelfit a premise at unit A on ground Floor (with a gross floor area of approximately 12,104 sq.ft.) in Mai Wah Industrial Building Numbers 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong for industrial and ancillary office usage. For each of the three years ended 31 March 2004, 2005 and 2006, LK(HK) paid a total annual rental of HK$1,116,000, HK$1,116,000 and HK$1,116,000 respectively. Under the tenancy agreement dated 1 September 2004, LK (HK) agreed to lease from Wheelfit the above premise from 1 September 2004 to 31 August 2006 at a monthly rental of HK$93,000. On 25 August 2006, LK (HK) and Wheelfit entered into a tenancy agreement ("Wheelfit Lease") to extend for a period commencing from 1 September 2006 to 31 August 2008 at a monthly rental of HK$93,000.

The continuation of the Wheelfit Lease after the completion of the Share Offer will constitute a continuing connected transaction under rule 14A.34 of the Listing Rules. The Company will comply with the relevant requirements under the Listing Rules.

Sallmanns, independent professional property surveyors and valuers, has confirmed that the rents payable by LK(HK) under the Wheelfit Lease are fair and reasonable, and consistent with the prevailing market rents for similar premises in similar location. The Directors are of the view that the Wheelfit Lease has been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole.

FUTURE PLANS AND PROSPECTS

The Directors are optimistic about the markets for die-casting machines and plastic injection moulding machines as they expect the rapid economic growth of the PRC economy, which is the main driving force for the increasing demand for metallic casting and plastic injection moulding in the future, to continue. The Group's main goals are to strengthen its leading position in the PRC die-casting machines markets and to obtain a more vivid market presence in the international markets. The Directors consider that, given its experienced management, high quality products, well recognised brand names, expanding production capacity and extensive sales and distribution network, the Group is well positioned to capitalise on the future growth of the PRC die-casting and plastic injection moulding machinery markets.

The Group plans to achieve the above goals by:–

- **Expanding production capacity** – at present, the Group has a total of 7 manufacturing subsidiaries for the production of die-casting machines and plastic injection moulding machines. Despite the expansion of manufacturing facilities during the Track Record Period, the Directors expect the demand for the Group's machinery product will increase, and the existing production capacity may not be sufficient. In view of this, the Group intended to acquire a plot of site in Shenzhen of approximately 57,000 sq.m. in area for the research and development and manufacturing of high end products such as direct clamp injection moulding machines and all electric injection moulding machines. The Directors expect that, after completion of such expansion, the Group's production capacity will be increased to approximately 5,030 standard units. Such increase is expected to take effect in September 2007. In addition, the Group has a vacant site of approximately 11,000 sq.m. held by LK Tech (Ningbo) to be developed for the expansion of its production capacity in the future when need arises. The Directors expect that, by the completion of such expansion, the Group's production capacity will be further increased to approximately 5,160 standard units. Such increase is expected to take effect in April 2008. The Directors estimate that the capital expenditure for the expansion plans of SZ Leadwell and LK Tech (Ningbo) are approximately HK$54.5 million and HK$27.5 million respectively, both of which are intended to be contributed solely from the use of proceeds and hence no capital so far has been committed for each of the above expansion plans. The Directors believe that the expansion in the Group's productivity and the strengthening of the Group's research and development capacity will help the Group achieve higher market share in the PRC and serve the customers' demand better in overseas markets.

- **Enhancing production efficiency and product quality** – though the Group has implemented a stringent quality management system to ensure that the quality standard is adhered to, the Group considers it beneficial to acquire new and sophisticated testing equipment to be used during processing procedure and assembling procedure. This testing equipment will test the accuracy and precision of the processed parts after machining, components and assembled parts to further enhance the quality control. As a result, the consistency and reliability of the overall finished products will be further improved, and will enhance the confidence of the Group's customers as the quality of products are taken to a higher standard. The utilization of more sophisticated testing equipment will also increase the production efficiency and product quality since less manual labour will be involved in the testing process.

- **Product development and enhancement** – the Group plans to increase its investment in developing new products in order to satisfy different market demand by offering a more comprehensive range of products. In respect of clamping force, the Group intends to develop new cold chamber die-casting machines and plastic injection moulding machines with a higher range of clamping force up to 4,500 tons and 2,200 tons respectively. In addition, the Group is making continuous efforts in developing 160 tons and higher force direct clamp plastic injection moulding machines and 160 tons and higher force all electric plastic injection moulding machines. Such product development can further enhance the productivity and precision of the products and achieve energy saving while being more environmental friendly.

  To enhance the Group's competitive advantages, the Group has been developing a computer-based networking system that can connect a number of die-casting machines or plastic injection moulding machines, semi-solid casting machines and real time control systems for its die-casting machines to compete with other die-casting machine manufacturers. The Group plans to provide one stop access to its client by offering a comprehensive range of products to satisfy different market demand. To strengthen its research capability, the Group will continue to collaborate with prestigious universities and technical institutions in the PRC and Hong Kong for research and development of new production technology applicable to improve the quality and functions of the Group's products.

- **Extending its sales network** – The Group has a total of 14 sales offices and 25 liaison points in the PRC. The Group intends to expand nine additional sales offices in the PRC. In addition, the Group intends to expand its overseas sales network by appointing agents in Colombia, Bangladesh, Sri Lanka, Russia, Ukraine, Romania and South Africa.

- **Enhancing horizontal and vertical integration** – the Group plans to enhance its competitiveness and enlarge its market presence by forming joint ventures with leading die-casting manufacturers. By doing so, the Group will be able to tap previously unexplored markets and to benefit from possible synergy effects. Apart from horizontal integration, the Group will also look for appropriate acquisition targets preferably those companies on the supply chain to ensure a steady supply of materials and parts at a more competitive price structure.

USE OF PROCEEDS

The Directors intend to use the net proceeds from the Share Offer to expand production capacity, to develop new products and technologies, to enhance research capabilities, to extend the sales network, to enhance vertical and horizontal integration, to repay part of the outstanding bank loans and to provide additional general working capital for the Group. Based on an Offer Price of HK$1.02 per Offer Share, being the mid-point of the stated range of the Offer Price per Share, the net proceeds from the Share Offer (assuming no Over-allotment Option is exercised), after deduction of the expenses payable by the Company, are estimated to be approximately HK$230 million. The Directors at present intend to apply the net proceeds as follows:

- approximately HK$82 million for the expansion of production capacity by building new manufacturing plants or expanding the existing manufacturing subsidiaries by setting up new phases of the production plants and related investment in new production equipment, specifically

(i) approximately HK$54.5 million for the expansion of SZ Leadwell, comprising approximately HK$17 million for the acquisition of the land of approximately 57,000 sq.m. in area (subject to grant from the Shenzhen Municipal Administration of Land Resources and Real Estate Bureau of Jianyi Building, No. 3 Zhenxing Road, Futian District Shenzhen, The PRC and the Group has not entered into any agreement for such acquisition as at the Latest Practicable Date), approximately HK$20.5 million for the construction of the production plants, and approximately HK$17 million for the investment in various production equipment such as cranes and machining centers; and

(ii) approximately HK$27.5 million for the expansion of LK Tech (Ningbo), comprising approximately HK$16 million for the construction of the phase II production plants, and approximately HK$11.5 million for the investment in various production equipment such as cranes and machining centers.

- approximately HK$34 million for the purchase of various testing equipment for production use. These testing equipment will be utilized in the Group's major operating subsidiary companies for product testing and inspection purposes.

- approximately HK$15 million for the development and commercial production of new models of machinery and related systems and for enhancement of the Group's research capabilities, specifically

(i) approximately HK$10 million for the research and development of the LK networking system, which will connect all the plastic injection moulding machines of a customer and provide consolidated information to management. The total amount comprises approximately HK$5.4 million for investment in various test equipment and related software, approximately HK$2.6 million for hiring of additional in-house research staff and fees for external consultants, and approximately HK$2 million for marketing and training activities;

(ii) approximately HK$2.9 million for the research and development of the semi-solid moulding technology; and

(iii) approximately HK$2.1 million for the research and development of the real time control system.

- approximately HK$2.6 million for the expansion of the Group's sales network in the PRC;

- approximately HK$30 million for horizontal and vertical integration, specifically

(i) approximately HK$20 million for an identified horizontal acquisition opportunity. The target, an Independent Third Party is a European based company in die-casting machines industry. The Group has been in discussion with the target for acquiring a 19.9% equity interest (valued at Euro 2 million, or approximately HK$20 million) in the target. The discussion was in preliminary stage and no terms and conditions have been fixed as at the Latest Practicable Date. If the acquisition proceeds, the Company will comply with relevant requirements of the Listing Rules accordingly;

(ii) approximately HK$10 million for vertical integration opportunity by acquiring equity interest in entities that are engaged in the production of raw materials for the production of the Group's products. As at the Latest Practicable Date, no target has been identified for such purpose. The Company will comply with relevant requirements of the Listing Rules should any opportunities arise.

- Approximately HK$52.7 million for repayment of loans of an aggregate principal amount of approximately HK$52.7 million bearing interest of approximately 5.5% per annum which will fall due during May 2008 to October 2009. Out of the above, an aggregate principal amount of HK$30.6 million was borrowed within one year prior to the date of the listing application for the capital injection into LK Tech (Ningbo).

- the remaining balance of approximately HK$13.7 million for general working capital for the Group.

Assuming the Offer Price of HK$1.13 per Share (being the high-end of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK$27.5 million, of which the Directors intend to apply (i) approximately HK$3.8 million to repay bank loan, with annual interest rates of approximately 6.6 % per annum which will fall due during November 2006 to January 2007, (ii) approximately HK$21.0 million to repay short term revolving bank loan, with annual interest rates of approximately 5.3% per annum, (iii) the balance of HK$2.7 million as general working capital.

Assuming the Offer Price of HK$0.91 per Share (being the low-end of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share), the amount of net proceeds will be reduced by approximately HK$27.5 million. In such case, the Directors intend to reduce the repayment of part of the outstanding bank loan by HK$17.9 million and reduce the balance for general working capital by HK$9.6 million, while the amounts to be applied for other purposes would remain unchanged.

Should the Over-allotment Option be exercised in full, based on an Offer Price of HK$0.91 per Share, being the low-end of the stated range of the Offer Price, the Company will receive additional net proceeds from the Share Offer of approximately HK$33.27 million which the Directors intend to apply as to approximately HK$31.32 million to repay bank loan, with annual interest rates of approximately 5.3% to 5.7% per annum which will fall due during March 2009 to September 2009, and the balance of approximately HK$1.95 million as general working capital.

Should the Over-allotment Option be exercised in full, based on an Offer Price of HK$1.13 per Share, being the high-end of the stated range of the Offer Price, the Company will receive additional net proceeds from the Share Offer of approximately HK$41.32 million which the Directors intend to apply as to approximately HK$38.50 million to repay bank loan, with annual interest rates of approximately 5.3% to 5.7% per annum which will fall due during December 2008 to September 2009, and the balance of approximately HK$2.82 million as general working capital.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term investments and/or short-term deposits with banks and/or financial institutions in Hong Kong.

BOARD OF DIRECTORS

Executive Directors

Ms. Chong Siw Yin (張俏英女士), aged 50, is the chairperson of the Board and an executive Director. Ms. Chong joined the Group in March 1988, and was appointed as an executive Director in August 2004. Ms. Chong is also a director of LK (HK), Best Truth, Lucky Prosper, Gold Millennium, Powel Excel, World Force, Cyberbay and LK (U.S.). She is responsible for the strategic planning, administration and human resources management of the Group and has over 18 years of management experience. Ms. Chong has attended secondary education, and is the spouse of Mr. Liu. Ms. Chong does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Cao Yang (曹陽先生), aged 39, 高級經營師 (senior manager) is an executive Director and chief executive officer of the Group. Prior to joining the Group, he worked for the Ganzhou education bureau in Jiangxi Province. He joined the Group in December 1991 and had once served as supervisor of human resources and administration department and plant manager of LK (Shenzhen). He has become the general manager of both LK (Shenzhen) in 2000 and SZ Leadwell since its establishment. He was appointed as an executive Director in September 2004. Mr. Cao is also a director of LK (Shenzhen), SZ Leadwell, LK (Ningbo), LK Tech (Ningbo), Shanghai Atech, LK (Zhongshan), LK (Fuxin) and LK (Shenzhen Wholesale) and responsible for the strategic planning as well as the overall manufacturing planning and sales activities of all manufacturing subsidiaries of the Group in the PRC. He has more than 14 years of experience in the manufacturing business. Mr. Cao graduated from the Mathematics faculty of Gannan Institute of Education and received Executive MBA Degree from Huazhong University of Science and Technology. He currently serves as the vice director general of Guangdong Die-Casting Association, vice president of China Shenzhen Machinery Association, vice president of Shenzhen Hi-Tech Industry Association and vice president of Shenzhen Youth Federation. Mr. Cao does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Liu Zhao Ming (劉兆明先生), aged 38, is an executive Director. He worked as an engineer in Jingyue Chinese Characters Computer Center from 1990 to 1992, joined the Group in February 1992 as an engineering manager of LK (Shenzhen) and has become the chief engineer of the Group since May 1995. He was appointed as an executive Director in September 2004. Mr. Liu is also a director of LK (Shenzhen), SZ Leadwell, LK (Ningbo), LK Tech (Ningbo), Shanghai Atech, LK (Zhongshan) and Gold Millennium. He is responsible for the strategic planning, the research and development and engineering of the Group, and has over 10 years of experience in machinery design. Mr. Liu graduated from Jinan University with a Bachelor of Science Degree in Applied Physics in 1990. He currently serves as the vice president of the Die-Casting Technical Committee of Chinese Mechanical Engineering Society, a member of Shenzhen Young Scientists Association, and the deputy officer of Tsinghua and L.K. Die-Casting High and New Technology Research Centre. Mr. Liu is a nephew to Ms. Chong Siw Yin. Mr. Liu does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Chung Yuk Ming (鍾玉明先生), aged 58, is an executive Director. Mr. Chung joined the Group in February 2001 as a director of LK (HK). He was appointed as an executive Director in September 2004. Mr. Chung is also a director of LK (Shenzhen), SZ Leadwell, LK (Ningbo), LK Tech (Ningbo), LK (Zhongshan), LK (Fuxin), LK (Shenzhen

Wholesale), Powel Excel, Lucky Prosper, World Force, LK (Delaware), LK (Taiwan), LK (U.S.) and Quantum Machinery. He is responsible for the strategic planning, the finance and investment of the Group. Mr. Chung has over 25 years of working experience in various sectors, including automobile, toys, electronics and telecommunication. Before joining the Group, he was an executive director of Kader Holdings Company Limited, and Shougang Concord Grand (Group) Limited (previously known as Kader Investment Company Ltd.), both of which are publicly listed companies in Hong Kong. Mr. Chung holds a master degree in Business Administration from the University of East Asia of Macau. He is a fellow member of the Hong Kong Institute of Directors and currently serves as a council member of The Hong Kong Association for the Advancement of Science and Technology Ltd., a director of Hong Kong & Kowloon Plastic Products Merchants United Association Limited (港九塑膠製造商聯合會有限公司), The Hong Kong Electronic Industries Association Limited (香港電子業商會), The Chiu Chau Plastic Manufacturers Association Company Limited (潮僑塑膠廠商會有限公司). Mr. Chung does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Independent non-executive Directors

Dr. Low Seow Chay (劉紹濟博士), aged 56, has been appointed as an independent director of Supreme Technology, the then holding company of the Group before completion of the Reorganisation, from July 2000 to August 2004. He is the associate professor of the Nanyang Technological University of Singapore and has more than 25 years of teaching experience in mechanical engineering. He is a former member of the Parliament of Singapore serving the term from 1988 to 2006, and is the board member of three publicly listed companies in Singapore, namely CASA Holdings Limited, Hor Kew Corporation Limited and Heeton Holdings Limited. Dr. Low received a Doctor of Philosophy Degree from The Victoria University of Manchester, U.K.. He was appointed as an independent non-executive Director in September 2004.

Dr. Hon. Lui Ming Wah, *SBS, JP* **(呂明華博士)**, aged 68, is an established industrialist serving as the Honorary Chairman of The Hong Kong Electronic Industries Association Ltd. and executive committee member of The Chinese Manufacturers' Association of Hong Kong, the founder chairman of Hong Kong Shandong Business Association, member of The Hong Kong International Arbitration Center Advisory Council, vice-chairman of Independent Police Complaints Council, and a council member of The Hong Kong Polytechnic University. In the PRC, he is a member of the National Committee of The Chinese People's Political Consultative Conference (CPPCC), a standing committee member of the Shandong Committee of CPPCC, vice president of Shandong General Chamber of Commerce, a member of China Overseas Friendship Association. He was elected to the First and Second Legislative Council of the HKSAR in 1998 and 2000. He is currently the managing director of Keystone Electronics Co., Limited, and a non-executive director of Asian Citrus Holdings Limited, the shares of which are listed on the London Stock Exchange's Alternative Investment Market. He serves as an independent non-executive director of S.A.S. Dragon Holdings Limited, Gold Peak Industries (Holdings) Limited, AV Concept Holdings Limited., and Glory Mark Hi-Tech (Holdings) Limited, the shares of which four companies are listed on the Stock Exchange. He was a non-executive director of Fujikon Industrial Holdings Limited, the shares of which are listed on the Stock Exchange. Dr. Hon. Lui obtained a master of science degree from the University of New South Wales in Australia and a doctor of philosophy from the University of Saskatchewan in Canada. He was appointed as an independent non-executive Director in September 2004. Dr. Hon. LUI Ming Wah, *SBS, JP* is a director and a shareholder as to 50% interest of each of WKP Investment Limited ("WKP Investment") and WKP Technologies Limited ("WKP Technologies"). Both WKP Investment and WKP Technologies are companies incorporated in Hong Kong and principally engaged in the production of release paper being the basic material for manufacture of synthetic leather (the "Production"). Dr. Hon.

Lui does not actively participate in the routine operations of WKP Investment and WKP Technologies, but holds discussions with the other director of the two companies on their overall business direction and strategy. WKP Investment owned a piece of land in Tai Po (the "Property") under a legal charge given by WKP Investment to an authorized financial institution. WKP Technologies owned the machinery, implements, utensils and accessories (collectively, the "Machineries") for the Production under a debenture given by WKP Technologies to another authorized financial institution. The receivers to WKP Investment and WKP Technologies were appointed on 13 May 2005 and on 20 May 2005 by the two authorized financial institutions respectively. The Property and the Machineries were sold by the receivers to a third party in July 2006 and July 2005 respectively for settlement of the indebtedness owed by WKP Investment and WKP Technologies to the respective authorized financial institutions. Accordingly, the respective facilities and amounts outstanding under the aforesaid legal charge and debenture given to the two authorized financial institutions and the personal guarantees given thereto by Dr. Hon. Lui in respect thereof were discharged.

The Directors are of the opinion that Dr. Hon. Lui, serving as director of each of WKP Investment and WKP Technologies, has acted honestly and in good faith, for proper purpose and in the interest of both and each of WKP Investment and WKP Technologies as a whole. The indebtedness owed by WKP Investment and WKP Technologies to the authorized financial institutions, culmulating in the appointments by such institutions of receivers to each of WKP Investment and WKP Technologies respectively, was due to the cessation of Production as a result of the decline in business caused by the failure of the two companies to produce release paper of the requisite quality to the satisfaction of the customers on account of a deficient Production technology. No evidence has been brought to the attention of the Directors that the integrity and competence of Dr. Hon. Lui as director of each of WKP Investment and WKP Technologies has ever been questioned. Dr. Hon. Lui's professional training in engineering and extensive experience in corporate and business activities, his record of social and community services in the PRC and Hong Kong notably serving currently as a member of The Chinese People's Political Consultative Conference and of the Legislative Council of Hong Kong as well as his serving as independent non-executive director with a number of companies listed on the Stock Exchange and the London Stock Exchange's Alternative Investment Market have fully demonstrated that he has the requisite character, experience, integrity and level of competence to act as, and commensurate with his position as, director of the Company as a listed issuer.

Mr. Tsang Yiu Keung, Paul (曾耀強先生), aged 53, is an independent non-executive director and chairman of the audit committee of both CITIC Ka Wah Bank Limited and CITIC International Financial Holdings Limited. Mr. Tsang holds a higher diploma in Accountancy from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). He is a professional accountant and a fellow member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Secretaries and Administrators. Mr. Tsang was with KPMG for more than 27 years, where he was a senior banking partner until he retired from the firm on 31 March 2003. He was appointed as an independent non-executive Director in September 2004.

Mr. Chan Wah Tip, Michael (陳華疊先生), aged 53, is an experienced solicitor practising in Hong Kong for over 20 years. Mr. Chan graduated with Bachelor of Laws (LL.B) from the University of Hong Kong in 1975 and received a Postgraduate Certificate of Laws (P.C.LL) from the University of Hong Kong in 1976. Mr. Chan is a partner of Wilkinson & Grist and serves as a non-executive director of High Fashion International Limited and Shougang Concord Technology Holdings Limited, both being companies listed on the Main Board of the Stock Exchange. He was appointed as an independent non-executive Director in September 2004.

Mr. Liu Chee Ming (劉志敏先生), aged 55, is the managing director of Platinum Holdings Company Limited. He holds a Bachelor Degree in Business Administration from the University of Singapore and is an experienced merchant banker. Mr. Liu was a member of the main board of Jardine Fleming Holdings Limited where he had worked for 19 years. He was the head of corporate finance division of Jardine Fleming between 1992 and 1995. He was an independent non-executive Director of China Yuchai International Limited, a company listed in the U.S., for a period from May 2004 to May 2005. Mr. Liu is now an independent non-executive director of Hong Kong listed Kader Holdings Company Limited, a non-executive director and an independent non-executive director of Singapore listed Media Asia Entertainment Group Limited and StarHub Ltd respectively, and a non-executive director of Oslo over-the-counter listed Yantai Raffles Shipyard Company Limited. He has been a member of the Takeovers Appeal Committee and Takeovers & Mergers Panel of the Securities and Futures Commission. He was appointed as an independent non-executive Director in December 2004.

SENIOR MANAGEMENT

Mr. Lai Hau Yin (黎孝賢先生), aged 39, is the group financial controller and company secretary of the Group. He joined the Group in September 2002 as financial controller of LK (HK) and is responsible for the strategic planning, the finance and accounting functions of the Group. He has over 13 years of experience in audit and accounting. Mr. Lai is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of the Australian Society of Certified Practicing Accountant. He graduated from Deakin University of Australia with a bachelor degree in Business, European University of Ireland with a master degree in Business Administration, and West Coast Institute of Management & Technology of Australia with a master degree in Business Administration. Prior to joining the Group, Mr. Lai was the project controller of Carry Wealth Holdings Limited, a public listed company in Hong Kong. Mr. Lai does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Ms. Wong Pui Chun (王佩珍女士), aged 47, is the general manager of L.K (HK). She joined the Group in April 2006 and has over 19 years of experience in management, finance and accounting. Ms. Wong is a Certified Public Accountant and she is also a member of American Institute of Certified Public Accountants. She graduated from University of Hawaii at Manoa with a bachelor degree in Business Administration. Prior to joining the Group, she was the administrative director of Foshan Nanhai Tai Ping Carpets Company Limited (佛山市南海太平地毯有限公司). Ms. Wong does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Li Pin Zhang (李品章先生), aged 44, is the general manager of Shanghai Atech and is responsible for the production and sales, marketing and operation of Shanghai Atech. He has over 15 years of experience in production, quality control, engineering, customer service and sales. He joined the Group in February 1991 and served various positions, including customer services officer of LK (Shenzhen), manager of Fujian sales office, plant manager of LK (Zhongshan) and deputy general manager of Shanghai Atech. Prior to joining the Group, he worked as an engineer at Fujian Nam Ping Electric Machinery Factory, a state-owned enterprise in the PRC. Mr. Li received a Diploma in Industrial Electrical Automation from Fujian Mechanical & Electrical Institute. Mr. Li does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Wang Xin Liang (王新良先生), aged 38, is the general manager of both LK (Ningbo) and LK Tech (Ningbo) and is responsible for the production and sales, marketing and operation of these companies. He joined the Group in July 1993 and served a number of positions in LK (Shenzhen), including customer services supervisor, customer services manager and marketing manager. He has over 12 years of experience in customer support services and sales. Prior to joining the Group, he was an assistant engineer of Tao Jiang Machinery Factory. He graduated from Changsha Ferrous Metal Technical School. Mr. Wang does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Tse Siu Sze (謝小斯先生), aged 38, is the general manager of LK (Zhongshan) and is responsible for the production and sales, marketing and operation of this company. He joined the Group in July 1990 and served several positions in LK (HK), including maintenance supervisor, customer services manager, marketing manager and sales manager. He has over 11 years experience in sales and marketing. Mr. Tse was appointed the vice-chairman of the 7th Executive Committee of the Hong Kong Plastic Machinery Association, the member of the 4th Committee of the Foreign Invested Enterprises Association of Zhongshan, the vice-chairman of the 3rd Committee of the Association of Commerce of Dongshen County, Zhongshan and the fellow of The Professional Validation Council of Hong Kong Industries. Mr. Tse was awarded fellow of Business Administration by Asian Knowledge Management Association in 2005 and received his MBA Degree from the Lincoln University, U.S.. Mr. Tse does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Te Yi Ming (鄧毅明先生), aged 43, is the sales controller of LK (HK) and is responsible for the sales and marketing in South China. After graduation from the Liuzhou Heavy Industrial Technical School, he worked in Liuzhou Compressor Factory in Guangxi Province until he joined the Group in March 1989 where he once served as customer services supervisor, sales officer and sales manager. He has over 15 years of experience in customer services, sales and marketing. Mr. Te is a fellow of The Professional Validation Council of Hong Kong Industries and was appointed the 2nd vice-chairman of Hong Kong (SME) Economic and Trade Promotional Association, and the 10th vice-chairman of Hong Kong Foundry Association. Mr. Te does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Chan Kwok Keung (陳國強先生), aged 41, is the engineering manager of the Group. He joined the Group in December 1998 and is responsible for the technical support, customer services and product development. He has over 15 years of experience in mechanical engineering and customer service. He is an associate member of the Hong Kong Institution of Engineers. Prior to joining the Group, he was the customer service executive of Fong's National Engineering Co Ltd.. Mr. Chan graduated from Newcastle Upon Tyne Polytechnic with a bachelor degree in Mechanical Engineering and obtained a degree of master of Science in Management from The Hong Kong Polytechnic University.

Mr. Yang Yi Zhong (楊億中先生), aged 63, is the Group's chief internal auditor and is responsible for the internal audit of the subsidiaries in the PRC. Prior to joining the Group, he was a senior accountant of Jiaozuo Electrochemistry Group. He joined the Group as the financial controller of all the PRC subsidiaries of the Group in November 1999. He has over 33 years of experience in finance and accounting. He graduated from Henan Radio & Television University with a diploma in Accounting. Mr. Yang is a member of The Chinese Institute of Certified Public Accountants. Mr. Yang does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

Mr. Dong Jian Guo (董建國先生), aged 36, is the general manager of LK (Fuxin). He joined the Group in July 1994 and is currently responsible for the production, sales, marketing and operation of LK (Fuxin), before which he was once served as a production supervisor of LK (Shenzhen), plant manager of Shanghai Atech and SZ Leadwell. He has over 11 years of experience in assembling, quality control, production coordination and marketing. Mr. Dong holds a diploma in accounting and computerised computation from Changchun Institute of Optometry and Machinery. Mr. Dong does not hold any current directorships, and did not hold any past directorships in the last three years immediately prior to the Latest Practicable Date, in other listed public companies.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lai Hau Yin (黎孝賢先生) is the company secretary and qualified accountant of the Company and his particulars are set forth in the paragraph headed "Senior management" above.

STAFF

Overview of number of staff

The Group had 3,474 staff as at 31 August 2006, with 3,389 in the PRC, 66 in Hong Kong and 19 in the overseas countries. A breakdown of its workforce by function is as follows:

	Hong Kong	PRC	Overseas countries	Total
Management	9	294	5	308
Sales and Marketing	11	419	5	435
Customer Services	14	422	2	438
Production	0	1,244	3	1,247
Accounting and Finance	8	60	2	70
Purchasing	5	58	1	64
Quality Control	0	186	0	186
Research and Development	7	260	0	267
General and Administration	12	446	1	459
Total	66	3,389	19	3,474

Relationship with staff

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

STAFF BENEFITS

The Group's employees are generally entitled to a monthly salary with a year-end double pay and discretionary bonus. The Group operates two retirement benefits schemes in Hong Kong, namely a Mandatory Provident Fund Scheme (the "MPF Scheme") and a defined contribution retirement benefits scheme (the "ORSO Scheme") as defined in the Occupational Retirement Schemes Ordinance, for all of its employees in Hong Kong. Under the MPF Scheme, contributions of 5% of the employees' relevant income are made by each of the employer and the employees. The employer's contributions are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The employer's contributions vest fully with the employees when they are contributed into the MPF Scheme. Under the ORSO Scheme, contributions of 5% of the employees' basic salaries are made by each of the employer and the employees. The employer's contributions are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the employer's contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

As required under the Regulation on Injury Insurance (工傷保險條例), Interim Measures Concerning the Maternity Insurance (企業職工生育保險試行辦法), Interim Regulations Concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) and the Interim Measures Concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) in the PRC, the Group is obliged to provide its employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance. The Directors confirm, having regard to the various certificates issued by the local social insurance bodies, that the Group has fully complied with the relevant compulsive requirements in relation to the insurance plans during the Track Record Period.

CORPORATE GOVERNANCE

The Company has adopted a set of corporate governance measures, which the Directors are of the view that they are adequate to enhance the independence of the Board:–

Board composition

The Board now comprises five independent non-executive Directors out of nine Directors. The intention for this arrangement is to ensure that matters that are materially related to the management and operation of the Group are presented to and discussed and approved by the independent non-executive Directors, who are reputable and experienced in their areas of expertise. To maintain stability of the independent non-executive Directors, each independent non-executive Director has accepted an appointment terms of three years. Regular Board meetings have been held and will be held to discuss issues including, among others, the formulation of corporate direction and business strategy, review of operations and financial performance, business and investment opportunities and internal controls of the Group.

Audit committee

The Company established an audit committee in February 2005 in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The audit committee consists of three independent non-executive Directors, namely Dr. Hon. Lui Ming Wah, *SBS, JP*, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael, Mr. Tsang Yiu Keung, Paul is the chairman of the audit committee. Under its terms of reference, the audit committee shall meet at least four times a year. The internal audit department reports directly to the audit committee.

Nomination committee

The Company established the nomination committee in February 2005 with written terms of reference. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of the Board succession. The nomination committee can reasonably ensure that only candidates with capability and relevant experience will be appointed as future Directors. Such monitoring by the nomination committee will lower the possibility for appointment of someone that may affect the independence of the Board. The nomination committee has three members comprising Mr. Chan Wah Tip, Michael, Dr. Low Seow Chay and Mr. Liu Chee Ming, all being independent non-executive Directors. Mr. Chan Wah Tip is the chairman of the nomination committee. Under its terms of reference, the nomination committee shall meet at least twice a year.

Remuneration committee

The Company established the remuneration committee in February 2005 with written terms of reference. The primary duties of the remuneration committee include reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Schemes. The remuneration committee can take reasonable steps to ensure that the Directors are compensated properly based on their actual contribution to the Group instead of other irrelevant reasons such as family relationship or acting in the interest of the controlling shareholder. The remuneration committee has three members comprising Mr. Liu Chee Ming, Dr. Hon. Lui Ming Wah, SBS, JP and Mr. Tsang Yiu Keung, Paul, all being independent non-executive Directors. Mr. Liu Chee Ming is the chairman of the Remuneration Committee. Under its terms of reference, the remuneration committee shall meet at least twice a year.

DIRECTORS' REMUNERATION

The Directors received remunerations from the Group during the Track Record Period. The total remunerations paid to the Directors for the three years ended 31 March 2006 are approximately HK$5.0 million, HK$5.1 million and HK$6.9 million respectively.

During the three years ended 31 March 2006, the Directors were entitled to discretionary bonus. The discretionary bonus was determined with reference to individual performance and profit level of the Group for the year. The aggregate discretionary bonus for the executive Directors for each of the three years ended 31 March 2006 amounted to approximately HK$2.1, HK$1.1, HK$0.9 million respectively, representing approximately 1.8%, 1.1% and 0.8% of the net profit attributable to shareholders for the respective years.

Each of the executive Directors has entered into a service contract with the Company. Each of the executive Directors shall be entitled to a basic salary and a discretionary bonus to be determined by the Board with reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items ("Net Profits") provided that the aggregate amount of discretionary bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year. Further details of which are set out in the paragraph headed "Further information about directors, management and staff" in appendix V to this prospectus.

SHARE OPTION SCHEMES

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme which, in the opinion of the Directors, will enable the Group to recruit and retain high-calibre employees and to improve employee loyalty. The principal terms of these schemes are summarised in the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in appendix V to this prospectus.

COMPLIANCE ADVISER

The Company intends to appoint Taifook Capital as its compliance adviser before the Listing Date pursuant to Rule 3A.19 of the Listing Rules. The material terms of the compliance adviser's agreement to be made by the Company with Taifook Capital include the following:

(a) Taifook Capital is to be appointed by the Company as its compliance adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date; and

(b) pursuant to Rule 3A.23 of the Listing Rules, Taifook Capital will advise the Company on the following matters:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where the Company proposes to use the proceeds of the Public Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the shares.

So far as the Directors are aware, immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account Shares which may be taken up under the Share Offer or Shares which fall to be allotted and issued pursuant to the exercise of the Over-allotment Option), the following persons/entities will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of part XV of the SFO, or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Name	Capacity	Number of Shares	Percentage of voting power
Girgio[(1)&(5)]	Beneficial owner	750,000,000 long position	75%
		37,500,000 short position	3.75%
Ms. Chong[(1)&(5)]	Please refer to Note(s) below	750,000,000 long position	75%
		37,500,000 short position	3.75%
Mr. Liu[(2)]	Please refer to Note(s) below	750,000,000 long position	75%
Fullwit[(1)&(5)]	Please refer to Note(s) below	712,500,000 long position	71.25%
		37,500,000 short position	3.75%
The Liu Family Unit Trust[(1),(3)&(4)]	Interest of a trust entity	712,500,000 long position	71.25%
The Liu Family Trust[(4)]	Interest of a trust entity	712,500,000 long position	71.25%

Notes:

1. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. The Liu Family Unit Trust is therefore deemed interested in the Shares held by Girgio. Fullwit is wholly-owned by Ms. Chong. Besides deemed interested in the Shares held by Girgio through Fullwit, Ms. Chong being the spouse of Mr. Liu is also deemed interested in the Shares held by Mr. Liu.

2. Mr. Liu is the spouse of Ms. Chong and deemed interested in the Shares held by Ms. Chong. Besides, Mr. Liu holds 5% interest in Girgio.

3. The Liu Family Unit Trust was established by Mr. Liu, as settlor on 22 February 2002, of which the units in issue are owned as to 99.9% by HSBC International Trustee Limited as trustee of The Liu Family Trust and as to 0.1% by Ms. Chong in her personal interest.

4. The Liu Family Trust was established by Mr. Liu, as settlor on 22 February 2002 as an irrevocable discretionary trust of which the beneficiaries thereto are Ms. Chong and the children of Mr. Liu and Ms. Chong. HSBC International Trustee Limited as trustee of The Liu Family Trust owns 99.9% of the units issued under The Liu Family Unit Trust and Ms. Chong owns 0.1%, and therefore they have an indirect attributable interest of approximately 71.18% and 0.07%

respectively in the issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised). Under the relevant trust deed, HSBC International Trustee Limited is generally subject to fiduciary duties in accordance with law.

Clause 12 of the Unit Trust Deed of The Liu Family Unit Trust provides that HSBC International Trustee Limited as unitholder will be entitled to receive income and, upon termination of The Liu Family Unit Trust, to receive distributions in accordance with the Unit Trust Deed. However, HSBC International Trustee Limited as unitholder shall not have beneficial or other interest in any particular asset or part of the trust property, nor any right to exercise any of the rights, power or privileges in respect of any of the property forming part of the trust property, nor any right to require the transfer to him of any of the assets or property which from time to time constitute that trust property, nor any right to interfere with or to question the exercise or non-exercise by Fullwit in accordance with this trust of its rights and power in dealing with the trust property or any part thereof. Hence, save for being an unitholder of the units in issue and trustee of The Liu Family Trust, HSBC International Trustee Limited is neither a shareholder of the Company, Girgio nor Fullwit, and therefore does not have any direct interest in or control over the Company. HSBC International Trustee Limited as unitholder only has an economic interest under The Liu Family Unit Trust in the form of entitlement to receive income and distributions as set out in The Liu Family Unit Trust. In addition, HSBC International Trustee Limited as unitholder is not entitled to claim any interest in any of the particular asset or property held by Fullwit as trustee of The Liu Family Unit Trust. In this respect, HSBC International Trustee Limited as unitholder does not have any beneficial interest in the trust property, nor any right to exercise any of the rights, powers or privileges in respect of any of the trust property, to require the transfer to it of any of the trust property, to interfere with or to question the exercise or non-exercise by Fullwit as trustee of The Liu Family Unit Trust in accordance with the Unit Trust Deed of Fullwit's rights and powers in dealing with the trust property. As such, HSBC International Trustee Limited as unitholder does not have any control or influence over Fullwit as trustee of The Liu Family Unit Trust nor, for that matter, over Ms. Chong as sole shareholder of Fullwit and Girgio as the controlling shareholder of the Company. HSBC International Trustee Limited is therefore not capable of directing Girgio to acquire or dispose of any of the Shares nor Fullwit to acquire or dispose of any of its shares in Girgio nor Ms. Chong to acquire or dispose of any of her shares in Fullwit. HSBC International Trustee Limited as unitholder will have the right to monitor the performance of Fullwit to the effect that HSBC International Trustee Limited can compel Fullwit as trustee to administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed. Such right of HSBC International Trustee Limited as unitholder to ensure that Fullwit as trustee acts in observance of the terms of the Unit Trust Deed is basically a monitoring function and by no means empowers HSBC International Trustee Limited as unitholder to interfere or influence the exercise by Fullwit of its rights and powers in accordance with the wishes of HSBC International Trustee Limited. HSBC International Trustee Limited as unitholder may only exercise such right when Fullwit as trustee does not administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed.

Clause 13 of the Unit Trust Deed provides that the trust property shall be managed by Fullwit as trustee of The Liu Family Unit Trust for the benefit of HSBC International Trustee Limited and Ms. Chong as unitholders with full and complete power of management. Girgio, being beneficial owner of the 750,000,000 Shares is entitled to 75% of the voting power of the Company.

5. The short position of the 37,500,000 Shares arises as a result of the entering into of the Stock Borrowing Agreement by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. Fullwit is wholly-owned by Ms. Chong.

The Company has adopted corporate governance measures to ensure that the Board can operate independently in carrying on the Company's business. The Board with a total membership of nine has a majority of five independent non-executive directors, who are all reputable and experienced in their areas of expertise and are capable of monitoring the operation of the Company independently free from any influence of the controlling shareholder. The independent non-executive Directors monitor the operation of the Company mainly through a number of special committees, each consisting of three independent non-executive Directors: (i) the audit committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group; (ii) the nomination committee ensures that only candidates with capability and relevant experience will be appointed as directors so as to lower the possibility of appointing individuals who may affect the independence of the Board; and (iii) the remuneration committee further ensures that the Directors are properly remunerated on the basis of their actual contributions to the Group instead of other irrelevant reasons such as the interests of the controlling shareholder. Furthermore, the Group has been managed by a team of senior management staff who is not only experienced but also possess the requisite skill and expertise to work and carry on the business of the Group independently free from any influence and control of the controlling shareholder. In light of the aforesaid, the Directors are satisfied that the Board and the senior management team of the Group is able to carry on the business of the Group independently of the controlling shareholder and its associates upon Listing.

Each of Girgio, Fullwit as trustee of The Liu Family Unit Trust, Mr. Liu, Ms. Chong and son of Mr. Liu and Ms. Chong has undertaken to the Stock Exchange and the Company that it shall not and shall procure that the relevant registered holder(s) shall not (except in respect of Girgio, pursuant to or in connection with the Stock Borrowing Agreement):

(a) within the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of any of the Shares beneficially owned by Girgio and Fullwit as trustee of The Liu Family Unit Trust; and

(b) within the period six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrance in respect of any of the Shares beneficially owned by Girgio, Fullwit as trustee of The Liu Family Unit Trust, Mr. Liu, Ms. Chong and Mr. Liu Zhuo Ming (who is the son of Mr. Liu and Ms. Chong) if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrance, Girgio, Fullwit as trustee of The Liu Family Unit Trust, Mr. Liu, Ms. Chong and Mr. Liu Zhuo Ming would cease to be controlling shareholders (as defined in the Listing Rules) of the Company.

Each of Girgio, Fullwit as trustee of The Liu Family Unit Trust, Mr. Liu, Ms. Chong and son of Mr. Liu and Ms. Chong has also undertaken to the Stock Exchange and the Company that within the period commencing on the date of this prospectus and ending on the date which is the 12 months from the Listing Date, it shall:

(1) when it/he/she pledges/charges any Shares beneficially owned by it/he/she in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of Shares so pledged/charged; and

(2) when it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform the Company of such indications.

The authorised and issued capital of the Company are as follows:

Authorised:		*HK$*
3,000,000,000	Shares	300,000,000
Issued and to be issued, fully paid or credited as fully paid:		
650,000,000	Shares in issue	65,000,000
250,000,000	Shares to be issued under the Share Offer	25,000,000
100,000,000	Shares to be issued under the Capitalisation Issue	10,000,000
Total:		
1,000,000,000	Shares	100,000,000

Assumptions

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made, but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment, issue and repurchase of the Shares granted to the Directors as described below.

Ranking

The Offer Shares and the Shares to be allotted and issued upon the exercise of the Over-allotment Option will rank pari passu in all respects with all other Shares in issue or to be issued as mentioned in this prospectus, and in particular, will qualify in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus except in respect of the Capitalisation Issue.

Share Option Schemes

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, the principal terms of which are summarised in the section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in appendix V to this prospectus.

General mandate to issue new Shares

The Directors have been granted a general unconditional mandate to allot, issue and deal in the Shares with a total nominal value of not more than the sum of:

1. 20% of the total nominal amount of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option); and

2. the total nominal amount of the share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue or deal in the Shares pursuant to a rights issue, scrip dividend or similar arrangement or the exercise of options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- the expiry of the period within which the next annual general meeting of the Company is required by the Articles, the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or revising such mandate;

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Written resolutions of the sole shareholder passed on 23 September 2006" in appendix V to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in appendix V to this prospectus.

This mandate will expire:

- at the conclusion of the Company's next annual general meeting; or
- the expiry of the period within which the next annual general meeting of the Company is required by the Articles, the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or revising such mandate;

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Written resolutions of the sole shareholder passed on 23 September 2006" in appendix V to this prospectus.

Rule 10.08 of the Listing Rules

The Company confirms that it will comply with the requirements of Rule 10.08 of the Listing Rules upon Listing. Rule 10.08 of the Listing Rules provides that no further Shares or securities convertible into equity securities of the Company may be issued or form the subject of any agreement to such an issue within six months from the date on which the Shares of the Company first commence dealing on the Stock Exchange, subject to limited exceptions including, among others, the issue of Shares, the Listing of which having been approved by the Stock Exchange, pursuant to the Share Option Scheme and the capitalization issue.

INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2006, being the latest practicable date for this indebtedness statement prior to the printing of this prospectus, the total banking facilities granted to the Group were approximately HK$586.2 million, in which approximately HK$371.4 million was utilised by the Group as bank borrowings. Approximately 57.3% of such utilised bank borrowings were secured.

As at the close of business on 31 July 2006, the Group's secured bank borrowing were secured by certain of the Group's assets comprising property, plant and equipment, investment properties, land use rights, bills receivable and restricted bank balances amounting to approximately HK$192.9 million. As at the close of business on 31 July 2006, the Group's utilised bank borrowings to the extent of approximately HK$169.2 million were guaranteed by Mr. Liu and corporate guarantees of companies controlled by Ms. Chong and Mr. Liu. The relevant banks had given their respective consents in principle to release the guarantees and undertakings and replace them with corporate guarantees and undertakings provided by the Company and/or other members of the Group upon Listing.

As at the close of business on 31 July 2006, the Group also had restricted bank balances of approximately HK$9.6 million pledged to banks for credit facilities granted to some of the Group's customers to purchase the Group's products.

The Group's investments in certain subsidiaries with aggregate net asset value of approximately HK$71.0 million were pledged to a bank for banking facilities granted to the Group.

Included in the Group's total banking facilities as at 31 July 2006 were banking facilities provided by a bank to a subsidiary of the Company in an aggregate amount of approximately HK$97.6 million, of which approximately HK$43.1 million was utilised. The credit facilities are subject to review at any time by the bank and require an undertaking from Mr. Liu Siong Song not to pledge 37,500,000 shares indirectly owned by him in the Company after its successful public listing in the stock market to other financial institutions without the bank's consent.

Contingent liabilities

As at the close of business on 31 July 2006, the Group had contingent liabilities in respect of guarantees given amounting to approximately HK$24.2 million for credit facilities utilised by the Group's customers. The loans with the relevant guarantee arrangement in place as at 31 March 2004 were fully settled and approximately 96.1% of the loans with the relevant guarantee arrangement in place as at 31 March 2005 were settled. The guarantees were given by the Group, in the normal course of business to third party banks/financial institution for credit facilities granted to the Group's customers (including a connected person of the Company, Gaoyao Hongtai, details of which please refer to the paragraph headed "Discontinued connected transactions") under the section headed "Connected transactions" for purchasing its products. The Directors advised that the criteria for granting the buy back guarantees for all of its customers (including connected persons) are the same. The guarantee provided by the Group in favour of Gaoyao Hongtai was released on 21 September 2006. The Group will normally consider factors including, among others, financial information, credit rating and credit history of, as well as business relationship with the customer. Pursuant to the terms of the guarantees in general, the

Group has an obligation to settle the portion which the customers defaulted to repay, but the Group has the right to collect the products, which are pledged to the banks/financial institution for the credit facilities, from the respective customers. The Directors consider that in case of default in payments, the net realisable value of the related machines can substantially cover the repayment of the outstanding principal amounts together with the accrued interest and related costs. The amount of provision made by the Group to discharge its obligations under the guarantees amounted to HK$1,367,458 for the year ended 31 March 2006. No such provision was made for the years ended 31 March 2004 and 2005.

A High Court action has been made against a subsidiary by an individual (the "Plaintiff") in relation to the compensation for injury in a traffic accident that happened in December 2005 where the subject car was owned by the subsidiary. The court has ordered damages of approximately HK$1,531,000 to be paid to the Plaintiff, of which approximately HK$329,000 has been paid by the subsidiary. The Directors, after taking legal advice, consider that the subsidiary should have a reasonable chance of success in appealing against the judgement and have filed an appeal on 22 May 2006. Accordingly, no provision for the damages that might eventually be payable by the subsidiary has been made in the financial statements. The appeal is still pending hearing at the Latest Practicable Date.

Commitments

As at 31 July 2006, the Group had the following commitments:

		HK$'000
(i)	**Operating lease commitments in respect of land buildings which are due for payment:**	
	– Within one year	1,449
	– In the second to fifth year inclusive	740
		2,189
(ii)	**Capital commitments in respect of acquisition of property, plant and equipment:**	
	– Authorised but not contracted for	250
	– Contracted but not provided for	9,188
		9,438
(iii)	**Other commitments**	
	Authorised but not contracted for	
	– Business project relating to development of automatic control device	9,709
	Contracted but not provided for	
	– Research and development costs	2,845
	– Others	1,748
		4,593
		14,302

Disclaimers

Save as disclosed under the paragraphs "Borrowings", "Contingent liabilities", and "Commitments" of this section headed "Financial information" of this prospectus, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2006.

The Directors confirm that there have been no material changes in the Group's indebtedness and contingent liabilities since 31 July 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Up to the Latest Practicable Date, the Group has been generally financing its operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Share Offer, the Group expects its capital and operating requirements will be funded through internally generated cash flows, the net proceeds from the Share Offer and cash on hand. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing or bank borrowings.

Cash flows

A high level of cash balance is required for the Group's daily transactions and operations. During the Track Record Period, the Group financed the working capital needs principally through net cash flow from operating activities and short-term borrowings. The Group generally maintained a healthy level of cash balance in the past three years ended 31 March 2006. The Group's cash and cash equivalents amounted to approximately HK$62.9 million, HK$59.8 million and HK$60.8 million as at 31 March 2004, 2005 and 2006 respectively.

Operating activities

Net cash inflow/(outflow) generated from/(used in) operating activities amounted to approximately HK$54.5 million, HK$59.6 million and HK$(29.2 million) for each of the three years ended 31 March 2006 respectively.

The slight increase in net cash inflow for the year ended 31 March 2005 as compared to that for the year ended 31 March 2004 was mainly attributable to the decrease in the cash outflow from changes in working capital which was mainly due to the increase in accounts payable together with other payables resulting from (i) the outstanding payments for construction costs and acquisition of plant and equipment for the expansion of the Group's various manufacturing plants and production facilities; and (ii) the outstanding consideration for acquisition of the business of LK (Fuxin), as well as the increase in deposits and accruals. However, such slight increase in net cash inflow was partially offset by the increase in (i) amounts due from related companies regarding the outstanding balance in respect of sale and resale of machines and equipment to the related companies as well as advances given by the Group to the related companies; and (ii) inventories as a result of the increase in price of major raw materials, in particular steel.

For the year ended 31 March 2006, the net cash outflow was mainly due to the significant increase in accounts receivable in particular the significant increase in accounts receivable with extended credit terms and/or receivable by instalments, conducted during the year ended 31 March 2006, details of which please refer to the sub-section headed "Analysis on financial conditions" under the section headed "Financial information" in this prospectus.

Investing activities

Net cash outflow used in investing activities amounted to approximately HK$24.7 million, HK$119.9 million, and HK$117.1 million for each of the three years ended 31 March 2006 respectively. The net cash outflow used in investing activities for the three years ended 31 March 2006 mainly consisted of the acquisition of property, plant and equipment and payments for construction in progress and land use rights. Net cash outflow used in investing activities for each of the year ended 31 March 2005 and 2006 increased by approximately 385.4% and 374.1% respectively as compared to that for the year ended 31 March 2004. The increase was mainly due to the substantial costs incurred for the purchases of plant and equipment and payment for construction cost for new production plants of SZ Leadwell, LK (Zhongshan), Shanghai Atech, LK Tech (Ningbo) and LK (Fuxin).

Financing activities

Net cash flow (used in)/generated from financing activities amounted to approximately HK$(9.1) million, HK$56.8 million and HK$146.8 million for each of the three years ended 31 March 2006 respectively. The increase in net cash from financing activities for the year ended 31 March 2005 of approximately HK$65.9 million as compared to that for the year ended 31 March 2004 was mainly attributable to the net increase in bank loans of approximately HK$79.5 million for the purpose of financing the construction of new manufacturing plants, acquisition of plant and machinery, and the acquisition of LK (Fuxin) which was offset by the net repayment of amounts due to holding companies of HK$39.8 million. Moreover, no cash dividend was paid for the year ended 31 March 2005 and dividends of HK$20 million in relation to the year ended 31 March 2003 paid during the year ended 31 March 2004 also contributed to the increase in net cash from financing activities for the year ended 31 March 2005. For the year ended 31 March 2006, the increase in net cash generated from financing activities mainly arose in net increase in bank loans of approximately HK$46.9 million for payment of construction costs for new manufacturing plants and acquisition of plant and machinery for the expansion of production facilities of the Group and less repayments that were made to holding companies for the year ended 31 March 2006.

Net current assets

As at 31 July 2006, the Group had net current assets of approximately HK$184.6 million, comprising current assets of approximately HK$812.3 million and current liabilities of approximately HK$627.7 million. The following sets out the composition of the Group's unaudited current assets and liabilities as at 31 July 2006:

	HK$'000
Current assets	
Inventories	286,914
Bills and accounts receivables	310,137
Other receivables, prepayments and deposits	32,492
Amounts due from related entities	95,252
Restricted bank balances	19,196
Cash and bank balances	68,282
	812,273
Current liabilities	
Bills and accounts payable	258,470
Other payables, deposits and accruals	81,749
Amounts due to related entities	26
Bank borrowings – due within one year	285,251
Tax payable	2,232
	627,728
Net current assets	184,545

The Directors confirm that there has been no material adverse change in the net current assets position of the Group since 31 July 2006.

Maturity, currency and interest rate structure of bank borrowings

As at 31 July 2006, approximately 76.8% of the bank borrowings were repayable within one year, approximately 10.6% of the bank borrowings were repayable between one to two years and approximately 12.6% of the bank borrowings were repayable between two to five years. The bank borrowings were denominated in several currencies and they comprised approximately 54.1% of RMB, 43.7% of Hong Kong Dollars, 1.3% of U.S. Dollars and 0.8% of Japanese yen and 0.1% of other currencies. Approximately 35.2% of the bank borrowings were at fixed interest rates and 64.8% of the bank borrowings were at floating interest rates.

Working capital

The Directors are of the opinion that, taking into consideration the financial resources available to the Group including its internally generated funds and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that save as disclosed in the paragraphs headed "Borrowings" and "Contingent liabilities" in this "Financial Information" section, as at the Latest Practicable Date, they were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVE

There was no reserve of the Company available for distribution to the shareholders as at 31 March 2006 (being the date to which the latest audited combined financial statements of the Group were made up).

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 March 2006 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

TRADING RECORD

The following table is a summary of the combined results of the Group for each of the three years ended 31 March 2006, prepared on the basis that the current structure of the Group was in existence throughout the period under review. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

		Year ended 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*1*	601,974	667,588	851,519
Cost of sales		(346,599)	(423,319)	(564,407)
Gross profit		255,375	244,269	287,112
Other revenue		3,541	18,054	32,625
Distribution costs		(46,417)	(56,175)	(79,092)
Administration expenses		(89,867)	(90,484)	(107,855)
Profit from operations		122,632	115,664	132,790
Finance costs		(2,506)	(9,219)	(14,914)
Profit before taxation		120,126	106,445	117,876
Income taxes		(6,518)	(3,630)	(10,260)
Profit for the year		113,608	102,815	107,616
Profit/(loss) attributable to:				
Equity holders of the Company		113,608	102,816	107,616
Minority interests		–	(1)	–
		113,608	102,815	107,616
Dividends	*2*			
– Declared		45,000	40,000	–
– Proposed		–	–	43,000
		45,000	40,000	43,000
		HK cents	*HK cents*	*HK cents*
Earnings per share				
Basic	*3*	15.1	13.7	14.3

Notes:

1. Turnover

During the three years ended 31 March 2006, the turnover of the Group consists of sales of die-casting machines, plastic injection moulding machines and related accessories.

2. Dividends

The proposed final dividend of a subsidiary amounting to HK$43 million for the financial year ended 31 March 2006 was subsequently approved by its then shareholders and will be settled by way of setting off against the amounts due from related entities prior to the Listing Date.

3. Earnings per share

The calculations of basic earnings per Share are based on the net profit from ordinary activities attributable to the Shareholders for each of the Track Record Period and on the assumption that 750,000,000 Shares were deemed to have been issued, comprising 650,000,000 Shares in issue as at the date of this prospectus and 100,000,000 Shares to be issued pursuant to the Capitalisation Issue, as described more fully in the paragraph headed "Written resolutions of the sole shareholder passed on 23 September, 2006" in section 3 of appendix V to this prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE OPERATIONS

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group for the three years ended 31 March 2006, all of which is set forth in the accountants' report set out in appendix I to this prospectus. Except for the financial information included in the accountants' report, the remainder of the Group's financial information presented in this section has been extracted or derived from the unaudited financial statements or other financial records of the Group which the Directors have taken a reasonable care to prepare. Investors should read the whole of the accountants' report and not rely merely on the financial synopsis contained in this section.

For the year ended 31 March 2004

Turnover

The total turnover for the year amounted to approximately HK$602.0 million, which comprised the sale of cold chamber die-casting machines, hot chamber die-casting machines, plastic injection moulding machines and other related accessories of approximately HK$284.8 million, HK$142.2 million, HK$131.0 million and HK$44.0 million respectively.

Cost of Sales

Cost of sales for the year ended 31 March 2004 was approximately HK$346.6 million. It consisted principally of costs of materials of approximately HK$293.1 million, which represented approximately 84.6% of cost of sales. Manufacturing overhead represented approximately 15.4% of total cost of sales which consisted principally of wages of approximately HK$21.0 million, depreciation of approximately HK$10.5 million, and subcontracting fees of approximately HK$9.9 million.

Gross profit

The overall gross profit margin was approximately 42.4% for the year ended 31 March 2004.

Other revenue

Other revenue for the year ended 31 March 2004 was approximately HK$3.5 million, which mainly consisted of rental income of approximately HK$1.3 million and other subsidies from government of approximately HK$1.0 million.

Distribution costs

Distribution costs for the year ended 31 March 2004 amounted to approximately HK$46.4 million, which mainly comprised wages and staff commission of approximately HK$17.3 million, advertising expenses of approximately HK$4.1 million, transportation cost of approximately HK$9.0 million, and travelling expenses of approximately HK$4.4 million.

Administration expenses

Administration expenses for the year ended 31 March 2004 amounted to approximately HK$89.9 million, which consisted principally of wages and staff welfares of approximately HK$34.5 million, impairment loss on accounts receivable and amounts due from fellow subsidiaries and a related company of approximately HK$12.2 million, depreciation of approximately HK$6.5 million, provision for a legal claim of approximately HK$3.4 million, travelling expenses of approximately HK$3.3 million and research and development cost of approximately HK$2.3 million.

Profit from operations

The Group recorded a profit from operations of approximately HK$122.6 million for the year ended 31 March 2004.

Finance costs

Finance costs for the year ended 31 March 2004 of approximately HK$2.5 million, which mainly consisted of interest on bank loans and overdrafts of approximately HK$3.5 million and bank charges of approximately HK$1.0 million, net off by exchange gain of approximately HK$2.0 million.

Income tax

Income tax expenses for the year ended 31 March 2004 amounted to approximately HK$6.5 million, equivalent to an effective tax rate of approximately 5.4%.

Net profit attributable to equity holders of the Company

With the profit generated from operations of approximately HK$122.6 million, finance costs of approximately HK$2.5 million, taxation charge of approximately HK$6.5 million, the Group recorded a net profit attributable to equity holders of the Company for the year ended 31 March 2004 of approximately HK$113.6 million, representing a net profit margin of approximately 18.9%.

For the year ended 31 March 2005

Turnover

For the year ended 31 March 2005, the turnover amounted to approximately HK$667.6 million, which comprised the sales of cold chamber die-casting machines, hot chamber die-casting machines, plastic injection moulding machines and other related accessories of approximately HK$353.9 million, HK$146.2 million, HK$125.1 million and HK$42.4 million respectively. The turnover of cold chamber die-casting machines increased by 24.3% compared with that for the year ended 31 March 2004 and a major reason for such increase is the increasing demand from manufacturers in the automotive and toy industry. No material fluctuation was noted for the turnover of hot chamber die-casting machines, plastic injection moulding machines and other related accessories.

Cost of Sales

Cost of sales for the year ended 31 March 2005 was approximately HK$423.3 million, representing an increase of approximately HK$76.7 million or approximately 22.1% as compared to the year ended 31 March 2004. It mainly consisted of costs of materials of approximately HK$352.5 million, which represented approximately 83.3% of total cost of sales, wages of approximately HK$25.2 million, depreciation of approximately HK$13.6 million, and subcontracting fees of approximately HK$19.8 million. The increase in cost of sales was mainly due to the increase in costs of materials of approximately HK$59.4 million and subcontracting fees of approximately HK$9.9 million as a result of the increase in the quantity of products sold during the year and increase in the price of raw materials, in particular, steel. Moreover, the increase in wages and depreciation charges of approximately HK$4.2 million and HK$3.1 million respectively as a result of the expansion of new manufacturing plants and the increase in acquisition of plant and equipment also contributed to increase in cost of sales.

Gross profit

The gross profit margin decreased from approximately 42.4% for the year ended 31 March 2004 to approximately 36.6% for the year ended 31 March 2005. The decrease was mainly due to (i) the reduction in average selling prices of the Group's products which was in turn due to intense market competition; and (ii) the driving up of the cost of raw materials, such as steel, in which the average price has been increased by 13% from 2004 to 2005, as a result of the shortage in steel in the market.

Other revenue

Other revenue for the year ended 31 March 2005 increased by approximately HK$14.5 million or approximately 409.9% as compared to that of the year ended 31 March 2004. The increase was mainly due to recognition of negative goodwill of approximately HK$4.6 million, increase in fair value of investment properties of approximately HK$3.1 million and the increase in value added tax refunded by tax authorities of approximately HK$6.2 million during the year ended 31 March 2005. Under the relevant PRC regulations, except LK (Shenzhen), which had already enjoyed the value added tax refunds for the year ended 31 March 2004, SZ Leadwell and Shanghai Atech were also entitled to the refund of certain value added tax payment on sales of software bundled with the sold machines for the year ended 31 March 2005.

Distribution costs

Distribution costs for the year ended 31 March 2005 amounted to approximately HK$56.2 million, representing an increase of approximately HK$9.8 million or approximately 21.0% as compared to the year ended 31 March 2004. The key components of distribution costs included wages of approximately HK$14.0 million, commission to staff of approximately HK$8.6 million, transportation cost of approximately HK$9.3 million, travelling expenses of approximately HK$5.4 million, consumable stores for packaging of materials of approximately HK$3.9 million, motor vehicles expenses of approximately HK$2.8 million and advertising expenses of approximately HK$2.7 million. The increase in balance was mainly due to the increase in staff commission of approximately HK$5.2 million as a result of the implementation of a new commission scheme by the Group during the year ended 31 March 2005. Moreover, as a result of the increase in sales for the years ended 31 March 2005, the overall increase in sales-related expenses, such as travelling expenses, consumable stores and motor vehicle expenses of approximately HK$1.0 million, HK$1.5 million and HK$0.8 million respectively further increased the distribution costs.

Administration expenses

Administration expenses for the year ended 31 March 2005 amounted to approximately HK$90.5 million, which mainly comprised the wages and staff welfares of approximately HK$32.6 million, impairment loss on bills and accounts receivable and amounts due from fellow subsidiaries and a related company of approximately HK$12.4 million, research and development cost of approximately HK$10.1 million, depreciation of approximately HK$5.9 million and travelling expenses of approximately HK$3.3 million. The administrative expenses remained steady for the year ended 31 March 2005, which combined the factors: (i) an increase in research and development cost of approximately HK$7.8 million for the year ended 31 March 2005 as compared to that for the year ended 31 March 2004 resulted from the development of more advanced products by the Group and (ii) a write back of provision for legal claims of approximately HK$3.6 million, which had been originally made during the year ended 31 March 2004, in relation to outstanding consultancy fees and related interests claimed by an independent third party to the Group (please refer to note 28(b)(i) disclosed in the section "Contingent liabilities" of the accountants' report in appendix I of this prospectus for details), and such write back contributed to a net decrease in administrative expenses of approximately HK$7 million for the year ended 31 March 2005.

Profit from operations

The Group recorded a profit from operations of approximately HK$115.7 million for the year ended 31 March 2005, representing a decrease of approximately HK$6.9 million or approximately 5.6% as compared to that of the year ended 31 March 2004. The drop in balance was mainly due to the decrease in gross profit as a result of the decrease in selling price of the Group's products in response to market competition.

Finance costs

Finance costs for the year ended 31 March 2005 amounted to approximately HK$9.2 million, representing an increase of approximately HK$6.7 million or approximately 267.9% from prior year. It mainly included interest on bank borrowings of approximately HK$6.4 million, exchange losses of approximately HK$1.5 million and bank charges of approximately HK$1.3 million.

The bank borrowings balance increased from approximately HK$92 million as at 31 March 2004 to approximately HK$201.7 million as at 31 March 2005 and the interest on bank borrowings increased by approximately HK$2.9 million accordingly. Moreover, because of foreign exchange fluctuation, the Group recorded HK$2.0 million exchange gains for the year ended 31 March 2004 and HK$1.5 million exchange losses for the year ended 2005.

Income tax

Income tax expenses for the year ended 31 March 2005 was approximately HK$3.6 million, equivalent to an effective tax rate of approximately 3.4%. The drop in effective tax rate compared to prior year was mainly due to the substantial increase in profits derived from SZ Leadwell, which is exempted from the Enterprise Income Tax ("EIT") for the year up to 31 December 2004.

Net profit attributable to equity holders of the Company

The Group recorded a profit attributable to equity holders of the Company of approximately HK$102.8 million for the year ended 31 March 2005, representing a net profit margin of approximately 15.4%. The decrease in net profit margin from approximately 18.9% for the year ended 31 March 2004 to approximately 15.4% for the year ended 31 March 2005 was mainly attributable to the drop in gross profit margin and more finance costs were incurred as a result of the increase in bank borrowings during the financial year ended 31 March 2005.

For the year ended 31 March 2006

Turnover

The total turnover for the year ended 31 March 2006 amounted to approximately HK$851.5 million, which comprised the sale of cold chamber die-casting machines, hot chamber die-casting machines, plastic injection moulding machines and other related accessories of approximately HK$416.2 million, HK$183.5 million, HK$164.8 million and HK$87.0 million respectively. The turnover of cold chamber die-casting machines, hot chamber die-casting machines, plastic injection moulding machines and other related accessaries increased by approximately 17.6%, 25.5%, 31.7% and 105.2% respectively compared with that for the year ended 31 March 2005. The increase was mainly due to the improvement in the overall market environment and the increase in demand for die-casting machines and plastic injection moulding machines particularly in the automotive and home electrical appliance manufacturing industry in the PRC. The significant increase in other related accessories was mainly due to the increase in sales of peripheral products which were used along with the Group's die-casting machines and plastic injection moulding machines, such as automatic ladles, automatic sprayers and automatic extractors, which increased in line with the increase in sales of die-casting machines and plastic injection moulding machines of the Group. Moreover, the significant increase in sales of CNC machine as a result of the promotion of the Group and high demand for such product in the market also contributed to the increment.

Cost of Sales

Cost of sales for the year ended 31 March 2006 was approximately HK$564.4 million, representing an increase of approximately HK$141.1 million or 33.3%. The balance mainly consisted of costs of materials of approximately HK$471.2 million, wages of approximately HK$30.6 million, subcontracting fee of approximately HK$18.9 million, and depreciation of approximately HK$23.4 million. The main reasons for the increase in cost of sales were (i) the consumption of the raw materials purchased near the year ended 31 March 2005 with relatively higher prices; (ii) the increase in depreciation charges of approximately HK$9.8 million as a result of additional plant and machinery acquired for the expansion of production facilities in Shanghai and Fuxin; and (iii) the increase in wages of approximately HK$5.4 million as a result of additional staff employed for the Group's expansion.

Gross profit

The gross profit margin decreased from approximately 36.6% to approximately 33.7% for the year ended 31 March 2006. The decrease was mainly due to (i) raw materials acquired near the end of prior financial year with relatively higher prices were consumed in the current financial year; and (ii) the overall increase in depreciation charges and staff costs as a result of the expansion of the Group's production facilities.

Other revenue

Other revenue for the year ended 31 March 2006 amounted to approximately HK$32.6 million, representing an increase of approximately HK$14.6 million or 80.7%. The revenue mainly consisted of the value added tax refunded by tax authorities of approximately HK$18.1 million, other subsidies from government of approximately HK$4.2 million, income of approximately HK$2.8 million arising from purchasing of fixed assets on behalf of related companies, rental income of approximately HK$1.6 million, and increase in fair value of investment properties of approximately HK$1.8 million. The income arising from purchasing of fixed assets on behalf of related companies contributed to the increase in other revenue for the year ended 31 March 2006 as no such income appeared in prior year. Moreover, the balance further increased by approximately HK$11.5 million as SZ Leadwell and Shanghai Atech enjoyed full year value added tax refund for the year ended 31 March 2006.

Distribution costs

Distribution costs for the year ended 31 March 2006 amounted to approximately HK$79.1 million, representing an increase of approximately HK$22.9 million or approximately 40.7% as compared to prior year. The increase was mainly attributable to the increase in wages of approximately HK$7.3 million, travelling expenses of approximately HK$3.5 million, staff commission of approximately HK$2.8 million, and agency commission of approximately HK$4.3 million for business expansion of the Group. In view of the severe competition in the market, the Group strengthened its sales team by recruiting more salespersons, purchasing more motor vehicles for customers visit and improving the commission scheme. These measures have therefore resulted in an increase in the distribution costs.

Administration expenses

Administration expenses for the year ended 31 March 2006 amounted to approximately HK$107.9 million, representing an increase of approximately HK$17.4 million or approximately 19.2% as compared to the prior year. The increase was mainly attributable to (i) the increase in wages and staff welfares of approximately HK$5.6 million as a result of the increase in the number of staff for the Group's expansion of manufacturing plants in Shanghai and Fuxin and (ii) an increase in research and development cost of approximately HK$2.4 million resulted from more resources have been invested by the Group to develop advanced products. The increase in administrative expenses was partially offset by decrease in impairment loss on bills and accounts receivable and amounts due from fellow subsidiaries and a related company of approximately HK$5.9 million for the year ended 31 March 2006.

Finance costs

Finance costs for the year ended 31 March 2006 amounted to approximately HK$14.9 million, representing an increase of approximately HK$5.7 million or 62.0%. The increase was due to an increase in interest on bank borrowings of HK$8.7 million resulting from the increase in bank borrowings for operations from approximately HK$201.7 million as at 31 March 2005 to approximately HK$352.9 million as at 31 March 2006. The increase in interest rate of fixed rate bank borrowings from at least 4.65% as at 31 March 2005 to at least 5% as at 31 March 2006 also contributed to the overall increase in finance costs.

Income tax

Income tax expenses for the year ended 31 March 2006 was approximately HK$10.3 million, equivalent to an effective tax rate of approximately 8.7%. The increase in effective tax rate was mainly due to the zero tax rate preferential tax treatment of EIT entitled by SZ Leadwell had ceased since January 2005 and SZ Leadwell was subject to EIT rate of 7.5% afterwards.

Net profit attributable to equity holders of the Company

The Group's net profit increased by approximately 4.7% from approximately HK$102.8 million for the year ended 31 March 2005 to approximately HK$107.6 million for the year ended 31 March 2006 primarily due to the increase in turnover as a result of the high demand of the Group's products. The net profit margin decreased from approximately 15.4% for the year ended 31 March 2005 to approximately 12.6% for the year ended 31 March 2006 and it was mainly due to (i) the drop in gross profit margin; (ii) the increase in distribution costs resulting from the strengthening of the sales team of the Group; and (iii) more finance costs were incurred as a result of the increase in bank borrowings of the Group.

TAXATION

Hong Kong

No Hong Kong profits tax were provided for the two years ended 31 March 2005 and 2006 as there were no assessable profits arose for such period. Hong Kong profits tax for the year ended 31 March 2004 is calculated at 17.5% of the estimated assessable profit for that year.

PRC

The enterprise income tax rate generally applicable in the PRC is 33% (with national and local income tax rates of 30% and 3% respectively) of taxable income. As advised by the legal adviser to the Company as to PRC laws, certain subsidiaries of the Company are eligible for preferential corporate income tax treatments pursuant to certain taxation provisions. Pursuant to《中華人民共和國外商投資企業和外國企業所得稅法》(the Foreign Enterprise Income Tax Law), a foreign enterprise engaged in manufacturing business in the Special Economic Zone or Economic and Technology Development Zone is entitled to enjoy a reduced rate at 15% while for those in coastal economic open zones is entitled to enjoy a reduced rate at 24%. In addition, a foreign enterprise engaged in manufacturing business for a term of at least 10 years is exempted from enterprise income tax for the first two profit-making years, and is entitled to a 50% relief from the applicable enterprise income tax for the following three years (the "Tax Holiday"). Pursuant to《中華人民共和國外商投資企業和外國企業所得稅法實施細則》(Rules for the Implementation of the Income Tax Law of the PRC for Foreign Invested Enterprises and Foreign Enterprises), advanced technology companies may continue to enjoy a 50% relief from the applicable enterprise income tax after the Tax Holiday ("Extended Tax Holiday").

SZ Leadwell is registered in the Special Economic Zone and is engaging in the manufacturing business for a term of at least 10 years, and therefore enjoys the Tax Holiday. In addition, it is subject to the exemption of local income tax. The first profit-making year for SZ Leadwell is 2003. Accordingly, the applicable effective tax rate is 7.5% for the period commencing from 1 January 2005 to 31 December 2007. Moreover, under Article 1 of Notice of the State Taxation Administration on the Relevant Taxation Issues to encourage the development of software and integrated circuit industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知第一條), SZ Leadwell received refund of value added tax paid on sales of software bundled with the sold machines.

LK (Shenzhen) is registered in the Special Economic Zone and is engaging in the manufacturing business for a term of at least 10 years. However, its Tax Holiday was expired. In addition, it is subject to the exemption of local income tax and therefore, the applicable effective tax rate is 15%. On 11 August 1999, the local tax bureau granted to a subsidiary which was classified as high technology enterprise, LK (Shenzhen), an extension of reduction in 50% income tax rate for five years commencing from 1999 pursuant to article 75 of Rules for the implementation of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法實施細則第七十五條). On 5 July 2002, the tax bureau found out the grant of the additional tax concession period was beyond that of the national rules and regulations of three years applicable to high technology enterprises. Therefore, the tax bureau has revoked the tax concession granted to LK (Shenzhen) since 1 January 2002. Subsequently, the Finance Bureau of Shenzhen at its discretion provided subsidy to LK (Shenzhen) during the period from 1 January 2002 to 31 December 2005. The Finance Bureau of Shenzhen is a municipal general functional department which has the authority to grant subsidy to enterprises. Moreover, under Article 1 of Notice of the State Taxation Administration on the Relevant Taxation Issues to encourage the development of software and integrated circuit industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知第一條), LK (Shenzhen) received refund of value added tax paid on sales of software bundled with the sold machines.

LK (Zhongshan) is situated in the coastal economic open zone and is qualified as an advanced technology company, and therefore enjoys the Extended Tax Holiday. In addition, it is subject to the exemption of local income tax based on approval of Zhongshan tax bureau dated 25 November 2003. Its first profit-making year is 1999. Accordingly, the applicable effective tax rate is 12% for the period commencing from 1 January 2001 to 31 December 2003 and extends from 1 January 2004 to 31 December 2006.

Shanghai Atech is situated in the coastal economic open zone and is qualified as an advanced technology company, and therefore enjoys the Extended Tax Holiday. In addition, it is subject to 50% relief from the local income tax. Its first profit-making year is 1999. Accordingly, the applicable effective tax rate is 12% and 13.5% for the periods from 1 January 2001 to 31 December 2003 and from 1 January 2004 to 31 December 2006 respectively. Moreover, under Article 1 of Notice of the State Taxation Administration on the Relevant Taxation Issues to encourage the development of software and integrated circuit industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知第一條), Shanghai Atech received refund of value added tax paid on sales of software bundled with the sold machines.

LK (Ningbo) is registered in the Economic and Technology Development Zone and is engaging in the manufacturing business for a term of at least 10 years, and therefore enjoys the Tax Holiday. In addition, it is subject to 50% relief from the local income tax. The first profit-making year for LK (Ningbo) is 2003. Accordingly, the applicable effective tax rate is 8.25% for the period commencing from 1 January 2005 to 31 December 2007.

LK Fuxin, LK Tech (Ningbo) and LK (Shenzhen Wholesales) have not yet commenced their first profit-making year and therefore are not subject to enterprise income tax.

Incidents of tax non-compliance

During the Track Record Period, there were several incidents of tax non-compliance (the "Incidents") relating to three Group members, namely LK (Fuxin), SZ Leadwell and LK (Ningbo). The Incidents mainly related to non-compliance with the laws or regulations governing PRC value-added tax ("VAT") by such Group members. The relevant Group members already fully settled the tax payments, deferment charges and/or penalty (where penalty was imposed in one incident only) imposed by the relevant PRC tax authorities. As compared with the aggregate amount of VATs incurred by the Group in the corresponding periods, the aggregate amount of the tax payments in relation to the Incidents was minimal in size. As advised by the legal adviser to the Company as to PRC laws, the Incidents do not have any adverse impact on the business operations of the Group in the PRC.

The following are brief details of the Incidents:

LK (Fuxin)

In December 2004, LK (Fuxin) was established by the Group for the purpose of holding the die-casting machine business assets which the Group acquired from a state owned enterprise in Fuxin (the "Predecessor") in late 2004. In 2005 and 2006, Fuxin Tax Bureau informed LK (Fuxin) that it was deemed to be responsible for the tax liabilities for the three tax non-compliance incidents relating to the Predecessor's business operations in 2004, because LK (Fuxin) had practically taken over all the principal assets of the Predecessor which had then ceased its operations. As stated in the letter(s) to LK (Fuxin) issued by Fuxin Tax Bureau, the tax non-compliance incidents were not due to any non-compliance acts or failure to act committed by LK (Fuxin), and LK (Fuxin) did not commit tax evasion.

In the first incident, the Predecessor failed to observe the treatment of making entry of the required output VAT entry for certain input VAT (進項稅額轉出處理) in respect of the loss of raw materials identified at a stock-take in 2005, which loss amounted to approximately RMB605,200 (equivalent to approximately HK$593,333). As a result, LK (Fuxin) was required to pay VAT in the sum of approximately RMB102,900 (equivalent to approximately HK$100,882) and a 0.05% deferment charge accrued thereon. In the second incident, two of the vehicles acquired by LK (Fuxin) from the Predecessor were sold in 2005. At the time of their respective sales, LK (Fuxin) used the original book costs of the two vehicles as the basis for determining whether there was any VAT liability. The local tax bureau, however, subsequently ruled that the book costs net of depreciation should be used as the basis for determining whether there was any VAT implication. By using such basis, the selling prices were greater than their respective net book values. As a result, LK (Fuxin) was required to pay VAT of approximately RMB7,300 (equivalent to approximately HK$7,157) and a 0.05% deferment charge in respect of the difference in value. In the third incident, the Predecessor, in line with its then practice, delivered 10 die-casting machines to its customers in October 2004. The Predecessor, if it had continued to run its business, would have issued invoices to its customers after completion of the test-run conducted at the factories of the customers, which might take usually a few months after the date of delivery. In early 2005, the local tax bureau conducted a field audit. At such time, LK (Fuxin) had not yet issued the invoices to the customers because the record of the Predecessor was not clear and LK (Fuxin) had to verify and seek confirmations as to whether and (if so) when and which die-casting machines were actually delivered and sold to each of the customers and at what prices. The local tax bureau noted that the invoices were not issued immediately after delivery of the die-casting machines. As a result, LK (Fuxin) was required to pay VAT chargeable at an amount of approximately RMB1.12 million (equivalent to approximately HK$1.10 million).

LK (Fuxin) already settled all the VAT payment as required by the Fuxin Tax Bureau.

SZ Leadwell

In 2004, SZ Leadwell received from third parties a number of transportation invoices with an aggregate underlying amounts of approximately RMB656,500 (equivalent to approximately HK$643,627). SZ Leadwell used the transportation invoices in filings with the relevant tax authority for tax deduction purpose. At such time, the transportation invoices were accepted by the Local Tax Bureau of Shenzhen. Subsequently in 2005, the Local Tax Bureau of Shenzhen informed SZ Leadwell that the information contained in the transportation invoices was not complete enough to be allowed for tax deduction purpose. As a result, SZ Leadwell was required to pay VAT in the sum of approximately RMB46,000 (equivalent to approximately HK$45,098).

According to SZ Leadwell, the transportation invoices were received from third parties and it had no knowledge that the information contained in the transportation invoices was incomplete because, in particular, they were accepted by the Local Tax Bureau of Shenzhen at the time of tax filing. According to a letter issued by Local Tax Bureau of Shenzhen, it agreed with the submission of SZ Leadwell that the relevant supplementary tax payment was not resulted from tax evasion. No deferment charges were imposed. SZ Leadwell already settled the required VAT payment.

LK (Ningbo)

In 2005, Ningbo Tax Bureau informed LK (Ningbo) that it failed to file and pay VAT on a number of deemed sales of accessories that were provided by it to clients free of charge during the warranty period for the years of 2003 and 2004. The relevant sales amounted to some RMB617,400 (equivalent to approximately HK$605,294). As a result, LK

(Ningbo) was required to pay VAT of in the sum of approximately RMB98,700 (equivalent to approximately HK$96,765), a 0.5% deferment charge and a tax penalty of RMB49,336 (equivalent to approximately HK$48,369). According to the Company, the relevant Incidents arose due to difference in interpretation of tax regulations of LK (Ningbo) and Ningbo Tax Bureau. LK (Ningbo) was of the view that provisions of accessories to clients during warranty period did not constitute sales to clients and therefore no VAT filings were required. LK (Ningbo) already settled the required VAT payment and penalty.

Legal impact

As advised by the legal adviser to the Company as to PRC law, the impact of non-compliance with the PRC tax rules and regulations varies depending on the nature of the non-compliance matters and whether the responsible parties have paid the remedial tax and penalty (if required) as directed by relevant tax authorities. The legal adviser to the Company as to PRC law take the view that having considered the nature of the Incidents and the fact that the relevant Group members has paid all remedial tax and penalty (so far as it is applicable) as instructed by the relevant tax authorities, the Incidents shall have no adverse impact on continuing existence of the relevant Group members in the PRC.

Enhanced internal control and tax consultation

To enhance the Group's internal control procedures for compliance with PRC tax rules and regulations, the Group adopts certain internal control procedures, whose objectives are twofold - to impose an effective control mechanism to ensure tax non-compliance matters are identified and dealt with in timely manner and to avoid repetition of tax non-compliance matters of the same nature, and to enhance the Group's general awareness of its obligations under the PRC tax rules and regulations.

On the control front, in 2005, the Group strengthened the function of the internal audit department by setting out a clear objective and duties of the internal audit department and by making it directly responsible to the Company's audit committee, an independent committee overseeing the audit related matters of the Group. Details of the functions and responsibilities of the internal audit department please refer to the sub-section headed "Internal control measures" under the section headed "Business" in this prospectus. In addition, in 2006, the Group has appointed PRC certified tax accountants to carry out tax audit of its PRC subsidiaries for the year 2005.

On the awareness front, in 2005, the Group has appointed the above tax accountants to provide tax consulting services to its PRC subsidiaries, which include provision of updates on the latest taxation policies in the PRC, advice on tax planning and recommendation in respect of solutions to tax-related issues.

Overseas

No provision for overseas income tax has been made as the Group has no assessable profits subject to overseas income tax during the Track Record Period.

A reconciliation of the tax charge applicable to profit before tax using the statutory tax rate for Hong Kong to the tax expense at the Group's effective tax rate is as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	120,126	106,445	117,876
Applicable Hong Kong Profits Tax rate	17.5%	17.5%	17.5%
	HK$'000	*HK$'000*	*HK$'000*
Tax charge at Hong Kong Profits Tax rate	21,022	18,628	20,628
Effect of different and preferential tax rates applicable to other jurisdictions	(17,072)	(14,947)	(8,277)
Effect of non-taxable income	(674)	(2,448)	(2,640)
Effect of non-deductible expenses	2,119	73	124
Effect of unrecognised tax losses	1,284	1,368	869
Effect of other temporary differences not recognised	–	217	(758)
Effect of recognition of temporary differences not previously recognised	–	(108)	–
Effect of opening deferred tax balance resulting from a change in tax rate	(43)	–	–
Under/(over) provision of tax in prior years	196	(80)	(1,168)
Others	(314)	927	1,482
Tax charge for the year	6,518	3,630	10,260

ANALYSIS ON FINANCIAL CONDITION

Selected financial ratios

	Year ended 31 March		
	2004	**2005**	**2006**
Inventory turnover (days) *(Note 1)*	165	197	133
Accounts receivable turnover (days) *(Note 2)*	86	79	106
Trade payable turnover (days) *(Note 3)*	93	97	86
Gearing ratio (%) *(Note 4)*	31	56	74

Notes:

1. The calculation of inventory turnover (days) is based on the closing inventory balance (net of provision) divided by cost of sales and multiplied by 365 days.

2. The calculation of accounts receivable turnover (days) is based on the closing balance for bills and accounts receivable (net of provision) divided by turnover and multiplied by 365 days.

3. The calculation of trade payable turnover (days) is based on the closing balance for bills and accounts payable (after excluding the payables arising from purchase of property, plant and equipment for the Group and on behalf of related companies amounting to HK$3,088,000, HK$41,954,000 and HK$8,946,000 as at 31 March 2004, 2005 and 2006 respectively) divided by cost of sales and multiplied by 365 days.

4. The calculation of gearing ratio is based on the closing balance of bank borrowings divided by total equity.

Inventory turnover days

The inventory turnover days for the three years ended 31 March 2006 were approximately 165 days, 197 days and 133 days respectively. The Group's inventories mainly consisted of raw materials, work in progress and finished goods. Approximately 48.8%, 49.4% and 50.1% of the Group's inventories was made up of raw materials as at the respective year-end dates for 2004, 2005 and 2006.

The decrease in raw materials, spares parts and work in progress of approximately 9.0%, 61.3% and 27.1% respectively as at 31 March 2006 compared to that of the year ended 31 March 2005 and it was mainly due to the Group's intention to reduce the level of raw materials and spare parts so as to stabilise the inventory turnover during the year ended 31 March 2006. The finished goods slightly increased by 6.8% as at 31 March 2006 compared to that of prior financial year end was primarily attributable to more finished goods being produced by the Group, which were ready to be delivered to the customers after the year end in accordance with their instructions.

The inventory turnover days increased from approximately 165 days to approximately 197 days for the year ended 31 March 2005 was mainly due to the maintaining of a larger quantity of raw materials to ensure steady supply and the upward movement in prices of raw materials in the corresponding period. The inventory turnover days decreased from approximately 197 days to approximately 133 days for the year ended 31 March 2006 was mainly due to the reduction in raw materials and spare parts as a result of relatively more raw materials being kept by the Group to ensure steady supply for the year ended 31 March 2005 and the Group's intention to reduce the level of raw materials and spare parts so as to stabilise the inventory turnover during the year ended 31 March 2006 as mentioned in the prior paragraph.

The Group has a policy to write down inventories based on aging. Management will review the inventory aging set out on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value to ascertain whether allowance is required to be made for any obsolete and slow-moving items. As at 31 March 2006, write down of inventory of approximately 1.8% and 5.8% of total inventories had been made for the balances falling within one to two years and over two years respectively.

As at 31 August 2006, the usage of inventory accounted for approximately 71.2% of total inventories as at 31 March 2006.

Accounts receivable turnover days

In general, customers are required to pay deposits upon placing orders, and the balances to be payable upon goods are delivered to customers. Some customers are granted a credit terms with repayment period ranging from 1 month to 6 months. For certain customers, the Group offers extended credit terms with the deposits paid upon placing orders and the remaining balances payable by instalments ranging from 6 months to 12 months.

The accounts receivable turnover days for the three years ended 31 March 2006 were approximately 86 days, 79 days and 106 days respectively. The high turnover days for the year ended 31 March 2006 was mainly attributable to the increase of sales, in particular larger sales were conducted near the end of the financial year 2006, and the Group had offered more customers with extended credit terms (with sales proceeds payable by instalments which normally range from 6 months to 12 months). For the year ended 31 March 2006, the sales of the Group conducted with the customers with extended credit terms amounted to approximately HK$223 million, which attributed to approximately 26% of the total sales of the Group. In general, the Group maintains the credit terms granted to customers after initial transactions with the customers. When requests for revision of credit terms are received from customers, the management of the Group will take into account the factors such as their credit worthiness and sales contribution to the Group before granting revised credit terms to them.

The Group kept on controlling the credit risk by adopting a prudent approach in selecting customers. Moreover, the Group frequently and closely monitors the settlements from customers to ensure the outstanding balances are timely followed up and customers with financial difficulties are handled at an early stage. Up to 31 August 2006, approximately 48.2% of accounts receivable as at 31 March 2006 had been settled.

Trade payable turnover days

Normally, the payment terms offered by the suppliers range from 30 to 90 days after the end of the month in which the purchases occurred. The Group also settles its trade payables by bills with a maturity date ranging from one to six months.

The trade payable turnover days were approximately 93 days, 97 days and 86 days respectively for the three years ended 31 March 2006. The Group maintained a stable repayment level to trade creditors throughout the Track Record Period. The increase in trade payable turnover days for the year ended 31 March 2005 was mainly due to the increase in inventory of raw materials as at 31 March 2005. For the financial year ended 31 March 2005, the Group maintained a high level of raw materials to ensure steady supply and in view of the significant upward movement in prices of raw materials in the corresponding period. With the Group's intention to reduce the level of raw materials and spare parts so as to stabilise the inventory turnover during the year ended 31 March 2006, the trade payable turnover days decreased accordingly.

Gearing ratio

The gearing ratio increased from approximately 31% to approximately 74% throughout the Track Record Period. The increase was mainly due to the increase in bank borrowings from approximately HK$92.0 million as at 31 March 2004 to approximately HK$352.9 million as at 31 March 2006 primarily for the purpose of financing the construction of new manufacturing plants and acquisition of plant and machinery for the manufacturing subsidiaries located at Shenzhen, Zhongshan, Shanghai and Ningbo at amounts of approximately HK$58.0 million, HK$39.5 million, HK$37.3 million and HK$59.5 million respectively. Moreover, the bank borrowings were partially utilised by the Group as general working capital throughout the Track Record Period.

ADVANCES TO RELATED PARTIES

During the Track Record Period, the Group made advances to certain related parties, details of which are stated in Note 25(c) of the accountants' report set out in appendix I to this prospectus.

Under Article 61 of the General Regulation on Loans issued in 1996, PRC enterprises are generally prohibited from extending loans or transformed loans to each other. Under Article 73 of the General Regulations on Loans, if the enterprises provide loans or transformed loans to each other, the lender may be subject to a fine which may be imposed by the People's Bank of China in the amount between one and five times of the illegal income obtained from such prohibited loans or transformed loans.

According to the legal adviser to the Company as to PRC law, as the advances of the Group were fully repaid with no illegal income before the Latest Practicable Date, they are of the opinion that (i) no penalty nor other legal liability will be imposed on any party involved in the granting and receipt of the advances after the Group's receipt in full of the relevant advances and (ii) such arrangement in relation to the advances amongst the Group companies has not contravened any applicable existing PRC laws and regulations.

As advised by the Directors, the advances made to certain related parties during the Track Record Period had been properly approved and documented. The Directors also confirm that such loan advancing activities will cease to continue after the Listing.

PROPERTY INTERESTS

Property valuation

Sallmanns (Far East) Limited, an independent valuer, has undertaken an assessment for the Company with regard to the valuation of its property interests as at 31 July 2006. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in appendix III to this prospectus.

Property interest held and occupied by the Group in Hong Kong

The Group owns and occupies an industrial unit at Unit A on 8th Floor and a Car Parking Space No. 29 in Mai Wah Industrial Building, Nos. 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong. This property has a gross floor area of approximately 5,499 sq.ft. (510.9 sq.m.) and is currently occupied by the Group for industrial, ancillary office and car parking purposes. The Company's Hong Kong legal adviser is of the opinion that LK (HK) has shown a good title to this property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

Property interests held by the Group for investment purpose in Hong Kong

The Group owns an office unit at Unit 1106 on 11th Floor, Tower II, Metroplaza, Nos. 223 Hing Fong Road, Kwai Chung, New Territories, Hong Kong. This property has a gross floor area of approximately 1,606 sq.ft. (149.2 sq.m.) and is currently leased to an independent third party for office purpose. The Company's Hong Kong legal adviser is of the opinion that LK (HK) has shown a good title to this property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

The Group also owns two factory units at Nos. 1102 and 1104 on 11th Floor, Tsuen Wan Industrial Centre, Nos. 220 - 248 Texaco Road, Tsuen Wan, New Territories, Hong Kong. This property has a total gross floor area of approximately 5,884 sq.ft. (546.6 sq.m.) and is currently leased to an independent third party for storage purpose. The Company's Hong Kong legal adviser is of the opinion that LK (HK) has shown a good title to this property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

Property interests rented and occupied by the Group in Hong Kong

The Group rents and occupies an industrial unit at Unit A on Ground Floor, Mai Wah Industrial Building, Nos. 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong. This property has a saleable area of approximately 12,104 sq.ft. (1,124.5 sq.m.) and is currently occupied by the Group as industrial and ancillary office purposes.

Property interest held and occupied by the Group in the PRC

The Group owns the land use rights of three parcels of land at Guangfu Road, Tongle Village An Le Economic Co-operative Association Shimowei and Yuechangyuan, Yiu Chang District, Dongshen Town, Zhongshan City, the PRC with a total site area of approximately 21,184.06 sq.m., on which various buildings with a total gross floor area of approximately 14,938 sq.m. are erected. This property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.

The Group owns the land use rights of two parcels of land located beside south of the Jihe Highway, L.K. Industrial Zone, Qinghu Village, Longhua Town, Baoan District, Shenzhen City, the PRC with a total site area of approximately 56,343.71 sq.m., on which various buildings with a total gross floor area of approximately 53,203.88 sq.m. are erected. This property is currently occupied by the Group for industrial, ancillary office and dormitory purposes, except for 2 levels of a warehouse and 10 dormitory units rented to a connected party. Pursuant to a tenancy termination agreement dated 12 September 2006, the relevant lease will be terminated by 31 December 2006.

The Group owns the land use rights of three parcels of land at No. 42 Minyi Road, Xinqiao Development Zone, Songjiang District, Shanghai, the PRC with a total site area of approximately 23,590 sq.m., on which various buildings with a total gross floor area of approximately 17,274 sq.m. are erected. (The existing factory plant of Shanghai Atech) This property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.

The Group also owns and occupies an office unit at Unit 2304 on Level 23 of Zhenyuan Building, No. 2052 Zhongshan Road North, Shanghai, the PRC. This property has a gross floor area of approximately 143.6 sq.m. and is currently occupied by the Group for office purposes.

The Group owns the land use right of a parcel of land at No. 18 North Yanshanhe Road, Beilun District, Ningbo City, the PRC with a total site area of approximately 58,600 sq.m. on which various buildings with a total gross floor area of approximately 28,375 sq.m. are erected. The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.

The Group owns the land use right of a parcel of land at No. 306 Haixin Road, Taiping District, Fuxin City, Liaoning Province, the PRC with a total site area of approximately 81,532 sq.m on which various buildings with a total gross floor area of approximately 15,935.25 sq.m. are erected. The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.

The Company's PRC legal adviser are of the opinion that the Group has obtained valid titles for these properties.

Property interest held by the Group for investment purpose in the PRC

The Group owns 9 office unit at Unit 2301-2303, 2305-2310 on Level 23, Zhenyuan Building, No. 2052 Zhongshan Road North, Shanghai, the PRC. The property has a total gross floor area of approximately 668.89 sq.m. and is currently leased to two independent third parties and a connected party for office purpose. Pursuant to a tenancy termination agreement dated 14 September 2006, the relevant lease will be terminated by 1 October 2006.

The Group owns 1st floor and portion of 2nd floor of No. 4 Factory Building and 9 apartments units located at No. 1 Dormitory Building, Jihua Industrial Area, Buji Town, Longgang District, Shenzhen, the PRC. The property has a total gross floor area of approximately 3,251.95 sq.m. and is currently leased to a connected party for office purpose. Pursuant to a tenancy termination agreement dated 12 September 2006, the relevant lease will be terminated by 1 October 2006.

The Company's PRC legal adviser is of the opinion that the Group has obtained valid titles for these two properties.

Property interest rented and occupied by the Group in the PRC

The Group rents and occupies 14 sales offices and 25 liaison points in the PRC. These properties have a total gross floor area of approximately 4,848.73 sq.m. and are currently occupied by the Group for sales offices and liaison points purposes.

Instead of setting out full details of each such rented property, the leased properties of the 14 sales offices and 25 liaison points are presented by way of a list of such property interests categorized into 7 groups on the basis of each group providing after sales services to customers for a subsidiary of the Group as disclosed in summary form in items 14 to 20 in "Group VI - Property interests rented and occupied by the Group in the PRC" in the summary of values and valuation certificates as set out in appendix III to this document. Pursuant to the legal opinion to the property interests by the Group's PRC legal adviser, some of the sales offices and liaison points are residential in nature but used as offices. The Company's PRC legal advisers further confirm that there is no restriction on residential premises to be used for commercial purpose. Therefore, though the Group has entered into certain leases in relation to premises which are residential in nature, the use for commercial purpose by the Group as its sales offices and liaison points have not contravened any existing PRC laws and state regulations. In addition, the Group has also duly obtained business registrations/certificates at the relevant government authorities for the sales offices. As at the Latest Practicable Date, the Group has not been supplied with documents to verify the lessors' title to some the relevant properties. In the event that the lessors of the relevant leased properties were not the owners thereof or otherwise did not have the requisite rights to lease the relevant properties to the Group, other third party having the requisite authority might have the right to evict the Group from the relevant leased properties and claim against the Group for compensation for any economic loss suffered. The relevant leased properties are used by the Group as liaison points and the Directors believe that the Group's business operations will not be affected in the event that the Group is evicted from the relevant properties. The Directors consider that there will be little difficulties for the Group to find other offices or units in replacement thereof and will incur additional costs and expenses as a result of the relocation.

Property interest rented and occupied by the Group in Canada

The Group rents and occupies three industrial units at No. 210 Brunel Road City of Mississauga, County of Peel, Ontario, Canada. The property has a total gross floor area of approximately 1,270.22 sq.m. and is currently occupied by the Group for sales, distribution, demonstration and ancillary office purposes.

The Company's Canada legal adviser is of the opinion that (i) the lessor is the registered owner of the property and is legally entitled to grant a lease of the property to the Group and (ii) the respective lease agreement has been duly executed by the lessor and the Group and is legally valid and binding on the lessor and the Group.

Property interest rented and occupied by the Group in U.S.

The Group rents and occupies an office in the Building at 8436 Homestead, Zeeland, Michigan 49464, United States. The property has a gross floor area of approximately 300 sq.ft. (27.87 sq.m.) and is currently occupied by the Group for sales, distribution, demonstration and ancillary office purposes.

The Company's U.S. legal adviser is of the opinion that (i) the respective lease agreement has been duly authorized by all requisite corporate action, executed and delivered by the Group; (ii) the Group has the corporate power to execute, deliver and perform the lease agreement; and (iii) the respective lease agreement constitutes the valid and binding obligation of the Group and enforceable in accordance with its terms.

Property interest rented and occupied by the Group in Taiwan

The Group rents and occupies an office unit at Unit A4 on 5th Floor, Kaohsiung Commercial Building, No. 502 Jiu Ru Yi Road, Kaohsiung City, Taiwan. The property has a gross floor area of approximately 35.02 ping (115.77 sq.m.) and is currently occupied by the Group for sale office purposes.

The Group rents and occupies an office unit at Unit A on 8th Floor, No. 52 of Alley 646, Jin Ma Road Section 3, Xi Shi Avenue, No. 5 Lin Changhua City, Changhua County, Taiwan. The property has a gross floor area of approximately 34.8 ping (115.04 sq.m.) and is currently occupied by the Group for sale office purpose.

The Group rents and occupies a warehouse at No. 18 of Alley 171, Zhongxin Road Section 1, Wugu Village, Taipei County, Taiwan. The property has a gross floor area of approximately 98 ping (323.97 sq.m.) and is currently occupied by the Group for storage purposes.

The Company's Taiwan legal adviser is of the opinion that in so far as the written terms and conditions of the three lease agreements are concerned, LK (Taiwan) does not violate the relevant Republic of China laws and regulations.

Disclosure of the reconciliation of the Group's properties from the audited combined financial statements as at 31 March 2006 to the valuation as at 31 July 2006 as required under Rule 5.07 of the Listing Rules is set out below:

	HK$'000
Valuation of properties of the Group as at 31 July 2006 as set out in the property valuation report in appendix III to this prospectus	150,490
Net book value of properties held by the Group as at 31 March 2006	
Leasehold land and buildings	166,211
Investment properties	17,219
Land use rights	31,722
	215,152
(Less)/Add:	
Leasehold land and buildings as at 31 March 2006 not attributed any commercial value due to pending for obtaining title certificate	(47,180)
Depreciation on leasehold land and buildings for the four months ended 31 July 2006	(2,424)
Amortisation of land use rights for the four months ended 31 July 2006	(181)
Exchange realignment during the four months ended 31 July 2006	1,474
Net book value as at 31 July 2006	166,841
Revaluation deficit, before income taxes	(16,351)

The above revaluation deficit includes revaluation deficit for leasehold land and buildings and land use rights amounting to HK$16,262,000.

DIVIDEND POLICY

Following the Listing, Shareholders will be entitled to receive dividends declared by the Company. The Company intends to pay dividends by way of interim and final dividends. The Directors generally intend to declare and recommend dividends which would amount in total to not less than 30% of the distributable profit for the period subsequent to the Share Offer. The payment and amount of any dividends will be at the discretion of the Directors and will depend upon the Group's earnings, financial conditions, cash requirements and availability, and other factors. There is no assurance as to whether the dividend distribution will occur as intended, what the amount of dividend payment or the timing of such payment will be.

As at the Latest Practicable Date, dividends of approximately HK$45 million and HK$40 million were declared and paid in respect of each of the two years ended 31 March 2005 respectively, and a dividend of HK$43 million for the year ended 31 March 2006 was declared, which will be settled by way of setting off against the amounts due from related entities prior to the Listing Date. The Directors intend to declare a final dividend for the financial year ending 31 March 2007, which amount will depend on the Group's earnings, financial conditions, cash requirements and availability, and other factors. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma adjusted net tangible assets

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets attributable to equity holders of the Company as at 31 March 2006, as shown in the accountants' report, the text of which is set out in appendix I to this prospectus and adjusted as follows:

	Audited combined net tangible assets attributable to equity holders of the Company as at 31 March 2006	**Add: Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the offer price of HK$0.91 per share, being the lowest price of the price range	470,722	202,500	673,222	0.67
Based on the offer price of HK$1.02 per share, being the mid price of the price range	470,722	230,000	700,722	0.70
Based on the Offer Price of HK$1.13 per Share, being the highest price of the price range	470,722	257,500	728,222	0.73

Notes:

1. The audited combined net tangible assets as at 31 March 2006 is arrived at after deduction of the intangible assets of HK$3,220,000 from the net assets of HK$473,942,000 as at 31 March 2006.

   The land use rights are accounted for as operating lease under Hong Kong Accounting Standard 17 "Leases" and are treated as prepaid lease payment. Accordingly, land use rights of HK$31,722,000 as at 31 March 2006 do not meet the definition of an intangible asset and are included in net tangible assets above.

   The deferred tax assets are accounted for under Hong Kong Accounting Standard 12 "Income Taxes". Accordingly, deferred tax assets of HK$7,364,000 as at 31 March 2006 do not meet the definition of an intangible asset and are included in net tangible assets above.

2. The estimated net proceeds from the Share Offer is based on the Offer Price of HK$0.91, HK$1.02 and HK$1.13 per Share, after deduction of the underwriting fees and related expenses payable by the Company, and takes no account of any Shares which may be allotted and issued pursuant to the Over-allotment Option and any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or Shares which may be allotted and issued or purchased by the Company pursuant to the general mandate for allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 23 September 2006" in section 3 of appendix V to this prospectus.

3. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the preceding paragraph and on the basis of the total 1,000,000,000 Shares to be in issue immediately after the completion of the Share Offer without taking into account the proposed final dividend of a subsidiary of the Company amounting to HK$43,000,000 in respect of the year ended 31 March 2006 which was subsequently approved by its then shareholders.

4. The Group's property interests at 31 July 2006 were valued by Sallmanns (Far East) Limited ("Sallmanns") and the valuation report in respect of which is set out in appendix III to this prospectus. Comparing the valuation amount of HK$150,490,000 as at 31 July 2006 to the corresponding unaudited carrying value of the Group's property interests as at 31 July 2006, there was an net revaluation deficit before income tax, of HK$16,351,000 which has not be included in the above net tangible assets of the Group. The net deficit to the extent of HK$16,262,000 attributable to leasehold land and buildings will not be recognised in the Group's financial statements for the year ending 31 March 2007 as it is the Group's policy to state its lease premium for land and buildings at cost less accumulated depreciation and amortisation and any impairment loss in accordance with Hong Kong Accounting Standards 17 and 16, rather than at revalued amounts. The revaluation deficit does not result in recognition of impairment loss as the recoverable amount (i.e. value in use) of the land and buildings is higher than their carrying value. If such revaluation deficit was incorporated in the Group's financial statements for the year ending 31 March 2007, depreciation charge in respect of leasehold land and buildings will be reduced by approximately HK$1,074,000 per annum.

Unaudited pro forma earnings per share

The unaudited pro forma earnings per Share has been prepared, on the basis of the notes set out below, to illustrate the effect of the Share Offer on the Group's earnings per Share for the year ended 31 March 2006 as if it had taken place on 1 April 2005. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial results of the Group.

Audited combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 *(Note 1)*	HK$107,616,000
Unaudited pro forma basic earnings per Share for the year ended 31 March 2006 *(Note 2)*	HK10.8 cents
Unaudited pro forma diluted earnings per Share taking into account the Pre-IPO Options granted *(Note 3)*	HK10.4 cents

Notes:

1. The audited combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 is extracted from the accountants' report set out in appendix I to this prospectus.

2. The unaudited pro forma basic earnings per Share is calculated by dividing the combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 by the total of 1,000,000,000 Shares assuming that the Shares in issue at the date of this prospectus and the Share Offer had been in issue on 1 April 2005 but without taking account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Option Scheme.

3. The calculation of unaudited pro forma diluted earnings per Share is calculated by dividing the combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 by the total of 1,036,800,000 Shares assuming that the Shares in issue at the date of this prospectus and the Share Offer had been in issue on 1 April 2005 and the Pre-IPO Options granted pursuant to the Pre-IPO Share Option Scheme were exercised in full on 1 April 2005. It is also assumed that all Shares under the Pre-IPO Share Option Scheme being issued at no consideration. This has not considered the proceeds that will be received under exercise of the Pre-IPO Options granted under the Pre-IPO Share Option Scheme and hence has not considered the impact of fair value of the Shares on computation of number of dilutive potential shares. The Directors consider it is impracticable to estimate the fair value of Shares prior to its listing.

4. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 March 2006.

The purpose of the statements of unaudited pro forma adjusted net tangible assets and the pro forma earnings per share are to illustrate the combined net tangible assets of the Group and the earnings per share of the Group as a result of the Share Offer of the Company based on the audited combined net tangible assets of the Group as at 31 March 2006 and the net profit attributable to equity holders of the Company for the year ended 31 March 2006. Please note that the above unaudited pro forma adjusted net tangible assets and pro forma earnings per share are prepared for illustrative purpose only, and because of their nature, they may not give a true picture of the Group's financial position and earnings per share. Please refer to appendix II to this prospectus for the opinion of the reporting accountants in relation to the unaudited pro forma adjusted net tangible assets and the unaudited pro forma earnings per share.

UNDERWRITERS

Set out below are the Underwriters:

Placing Underwriters

Taifook Securities
UOB Kay Hian (Hong Kong) Limited
China Merchants Securities (HK) Co., Ltd.
CIMB-GK Securities (HK) Limited
ICEA Capital Limited
Mega Capital (Asia) Company Limited
Sun Hung Kai International Limited

Public Offer Underwriters

Taifook Securities
UOB Kay Hian (Hong Kong) Limited
China Merchants Securities (HK) Co., Ltd.
CIMB-GK Securities (HK) Limited
First Shanghai Securities Limited
ICEA Capital Limited
Phillip Securities (HK) Limited
Polaris Capital (Asia) Limited
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the related application forms, and is offering the Placing Shares for subscription by the professional, institutional and private investors on and subject to the terms and conditions of the Placing, in each case at the Offer Price. Subject to, among other things, the approval of the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (and such listing and permission not subsequently being revoked prior to the date on which dealings in the Shares first commence on the Stock Exchange) being granted by the Listing Committee of the Stock Exchange on or before 16 October 2006 or such later date as the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may in its absolute discretion determine, (a) the Public Offer Underwriters have severally agreed to subscribe or procure subscribers, on the terms and conditions of this prospectus and the application forms relating hereto, for the Public Offer Shares now being offered for subscription but not taken up under the Public Offer, and (b) the Placing Underwriters have severally agreed to subscribe or procure subscribers, on and subject to the terms and conditions of the Placing, for the Placing Shares.

Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriters) is entitled to terminate the Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the scheduled Listing Date to the Company if certain events, including the following events, shall occur prior to such time:

(a) there comes to the notice of any of the Sponsor, the Lead Manager and the other Underwriters that:

(i) any statement contained in this prospectus or the application forms relating thereto or the documents for the Share Offer was when such document was issued, or has become, untrue, incorrect or misleading in any material respect in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or

(ii) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or the documents for the Share Offer, constitute a material omission therefrom in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters); or

(iii) any of the representations, warranties and undertakings contained in the Underwriting Agreement is untrue or inaccurate in any respect which the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) in its sole and absolute opinion considers to be material in the context of the Share Offer; or

(iv) any event, act or omission which gives or is likely to give rise to a liability of any of the Company, the executive Directors, Girgio, Fullwit, Mr. Liu and Ms. Chong pursuant to the indemnities given under the Underwriting Agreement; or

(v) any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, Girgio, Fullwit, Mr. Liu and Ms. Chong under the Underwriting Agreement has not been complied with or observed by any of them in any respect considered by the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) in its sole and absolute opinion to be material; or

(vi) any information, matter or event which in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may lead to a material adverse change or prospective material adverse charge in the business or in the financial or trading position or prospects of the Group, or

(b) there shall develop, occur, exist or come into effect;

(i) any new law or regulation or any change in existing laws or regulations of any nature whatsoever or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

(ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs) in local, national, or international financial, political, military, industrial, fiscal or economic conditions or prospects; or

(iii) any change in the conditions of the local, national or international securities or commodities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or

(v) a change or development involving a prospective change in taxation or exchange control (or the implementation of exchange control) in Hong Kong, the Cayman Islands, the BVI, the U.S., Canada, Singapore, Taiwan, the PRC or other relevant jurisdictions; or

(vi) any event, or series of events, beyond the reasonable control of the Underwriters, including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, accident, interruption or delay in transportation, economic sanctions, public disorder, riot and epidemic; or

(vii) any litigation or claim brought by any third party against any member of the Group which will or is reasonable likely to result in the Group incurring liability that is material to the Group as a whole; or

(viii) the imposition of economic sanctions relating to the business of the Group, in whatever form, directly or indirectly, by, or for the U.S. or by the European Union (or any member thereof) or the PRC; or

(ix) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters in a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(x) any other change whether or not ejusdem generis with any of the foregoing, and which, in each case, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters):

(aa) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group or to any present or prospective shareholders of the Company in his capacity as such; or

(bb) has or will have or is likely to have a material adverse effect on the success of the Placing and/or the Public Offer or the level of the Placing Shares or Public Offer Shares being applied for or accepted or the distribution of the Offer Shares; or (cc) makes it inadvisable or inexpedient to proceed with the Placing and/or the Public Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by the documents for the Public Offer and the Placing.

which in the sole and absolute opinion of Taifook Securities (1) is or will or could be expected to have a material adverse effect on the business, financial or other condition or prospects of the Company or the Group or any member of the Group; or (2) has or will have or could be expected to have a material adverse effect on the success of the Placing or the level of interest under the Placing; or (3) makes it inadvisable or inexpedient for the Placing to proceed.

Underwriters' interests in the Company

Save for their respective obligations and the Over-allotment Option granted to the Lead Manager under the Underwriting Agreement and the related Stock Borrowing Agreement, none of the Underwriters has any shareholding interest in the Company or any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

SPONSOR'S AND UNDERWRITERS' INTERESTS IN THE COMPANY

The Sponsor will receive a financial advisory fee. The Company intends to appoint the Sponsor as its compliance adviser before the Listing Date in accordance with Rule 3A.19 of the Listing Rules. Please refer to the paragraph headed "Compliance adviser" of the "Directors, senior management and staff" section of this prospectus for further details. The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set forth under "Commissions and expenses" above.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$1.02, being the mid-point of the Offer Price range of HK$0.91 to HK$1.13 per Share, the fees and commissions in connection with the Public Offer and the Placing, together with the Stock Exchange listing fees, SFC transaction levy of 0.005%, Stock Exchange trading fee of 0.005%, legal and other professional fees, printing, and other expenses relating to the Share Offer, are estimated to amount to approximately HK$25 million in aggregate and will be payable by the Company.

Save as disclosed above, none of the Sponsor and the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Share Offer.

Our Directors and the Sponsor will ensure there will be a minimum 25% of the total issued share capital of the Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

PRICE PAYABLE ON APPLICATION

Applicants under the Public Offer should pay, on application, the Offer Price of HK$1.13 per Share, being the upper limit of the stated range of the Offer Price, plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.005% SFC transaction levy, amounting to a total of approximately HK$2,853.53 per board lot of 2,500 Offer Shares.

DETERMINING THE OFFER PRICE

The Placing Underwriters would solicit from prospective investors indications of interest in acquiring the Placing Shares. Prospective investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The Offer Price will be fixed by agreement between the Company and the Lead Manager (on behalf of the other Underwriters) on or before the Price Determination Date, which is currently scheduled on 6 October 2006 or by the latest on 12 October 2006 at 6:00 p.m. If the Lead Manager (on behalf of the other Underwriters) and the Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on 12 October 2006, the Share Offer will not become unconditional and will lapse.

The Offer Price will not be more than HK$1.13 per Share and is currently expected to be not less than HK$0.91 per Share. **Prospective investors should be aware that the Offer Price to be determined at or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective investors during the book-building process, the Lead Manager (for itself and on behalf of the other Underwriters), and with the consent of the Company thinks it appropriate (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range stated in this prospectus), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the day which is the latest day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer cause to be published South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of such a change. Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics, as currently set out in ''Summary'' and any other financial information which may change materially as a result of any such change. Applicants under the Public Offer should note that, even if the indicative Offer Price is so reduced, in no circumstances can applications be withdrawn once submitted, except where a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which limits the responsibility of that person for this prospectus, in which case applications made may be revoked before the said fifth day.

In the absence of any notice being published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of a reduction of the indicative Offer Price range in the manner set out above, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds from the issue of the Public Offer Shares and the Placing Shares to be received by the Company, assuming that the Over-allotment Option is not exercised and an Offer Price of HK$1.02 per Share (being the mid-point of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share) and after deducting commissions and expenses, are estimated to be about HK$230 million.

If the Over-allotment Option is exercised in full and assuming an Offer Price of HK$1.02 per Share (being the mid-point of the stated range of the Offer Price of between HK$0.91 and HK$1.13 per Share), the Company would receive additional net proceeds from the issue of new Shares, after deducting commissions and expenses attributable to the exercise of the Over-allotment Option, of about HK$37.29 million.

The Offer Price, level of indication of interest in the Placing, basis of allotment and the results of applications of the Public Offer are expected to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on 13 October 2006.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

(a) Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option), the Capitalisation Issue and the exercise of any options that are granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange); and

(b) Price determination

The Offer Price having been duly determined before the Price Determination Date; and

(c) Underwriting agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions given by the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Underwriting Agreement and grounds for termination are set out in the section headed “Underwriting” in this prospectus.

If these conditions are not fulfilled at or before 8:00 a.m. on 16 October 2006 or such later date as the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) may in its absolute discretion determine, the Share Offer will lapse and your application money will be returned to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your money” in the relevant application forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of 250,000,000 Shares will initially be made available under the Share Offer, of which 225,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Placing. The remaining 25,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will initially be offered for subscription under the Public Offer. Out of the 25,000,000 Public Offer Shares, up to a maximum of 2,500,000 Public Offer Shares (representing 10% of the Public Offer Shares) will be available for subscription on a preferential basis under the Public Offer by eligible full-time employees of the Group. The number of Shares offered for subscription under the Placing and the Public Offer will be subject to re-allocation on the basis described below.

OVER-ALLOTMENT OPTION

In addition, the Company has granted the Over-allotment Option, exercisable by the Lead Manager at any time within 30 days from the last date for lodging applications under the Public Offer, subject to the terms of the Underwriting Agreement, to require the Company to allot and issue up to an aggregate of 37,500,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Placing and the Public Offer, as the case may be, to cover over-allocations in the Placing (if any) and/or to satisfy the Lead Manager's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Lead Manager may also, at its option, cover any over-allocations under the Placing through stock borrowing arrangements and the purchase of Shares in the secondary market or by a combination of purchase in the secondary market and exercise of the Over-allotment Option otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued under the Over-allotment Option. Assuming the Over-allotment Options is not exercised, the Offer Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue . If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent approximately 27.71% of the enlarged issued share capital of the Company immediately after completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in the South China Morning Post and in Chinese in Hong Kong Economic Times.

In order to facilitate settlement of over-allocations in connection with the Placing, the Stock Borrowing Agreement has been entered into between Girgio and the Lead Manger whereby Girgio has agreed with the Lead Manager that, if requested by the Lead Manager, he will, subject to the terms of the Stock Borrowing Agreement, make available to the Lead Manager up to 37,500,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the Placing, if any.

The net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be approximately HK$230 million. If the Over-allotment Option is exercised in full and assuming an Offer Price of

HK$1.02 per Share (being the mid-point of the stated range of the Offer Price between HK$0.91 and HK$1.13 per Share), the Company will receive additional net proceeds of approximately HK$37.29 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriters to professional, institutional and private investors. The Offer Shares are not available for subscription by the Directors, chief executive of the Company, existing beneficial owners of the Shares or their respective associates.

THE PLACING

The Company is initially offering, at the Offer Price, 225,000,000 Shares (subject to reallocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 90% of the total number of Shares being initially offered under the Share Offer, for subscription by way of Placing. The Placing is managed by the Lead Manager and fully underwritten by the Placing Underwriters subject to the terms and conditions of the Underwriting Agreement. Pursuant to the Placing, it is expected that the Placing Underwriters or selling agents nominated by any of them will, on behalf of the Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.005% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid broad shareholder base to the benefit of the Company and its shareholders taken as a whole. The levels of indication of interest in the Placing are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 13 October 2006. The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above.

THE PUBLIC OFFER

The Company is initially offering, at the Offer Price, 25,000,000 Shares (subject to reallocation as mentioned in the paragraph headed "Re-allocation of Offer Shares between the Public Offer and the Placing" below), representing 10% of the total number of Shares being initially offered under the Share Offer, for subscription under the Public Offer. The Public Offer is fully underwritten by the Public Offer Underwriter subject to the terms and conditions of the Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus a 1% brokerage, 0.005% SFC transaction levy, and 0.005% Stock Exchange trading fee.

Out of the 25,000,000 Public Offer Shares, up to a maximum of 2,500,000 Public Offer Shares (10% of the Offer Shares initially available under the Public Offer) are available for subscription on a preferential basis under the Public Offer by eligible full-time employees of the Group (other than the directors or chief executive of the Company or any of its subsidiaries, existing beneficial owners of Shares and their respective associates) who have made their respective applications on the **PINK** application forms. As at the Latest Practicable Date, the total number of eligible full-time employees of the Group is approximately 3,500. Any application made by an eligible full-time employee of the Group on a **PINK** application form for more than 2,500,000 Public Offer Shares will be rejected.

Allocation of Public Offer Shares validly applied for on **PINK** application forms will be (a) made on a pro rata basis in proportion (as nearly as possible without involving portions of a board lot) to the number of Public Offer Shares validly applied for; or (b) balloted if there are insufficient Public Offer Shares to be allocated on a pro rata basis. If balloting is conducted, some employees may be allocated more Public Offer Shares than others who have applied for the same number of Public Offer Shares on **PINK** application forms. The allocation of the Public Offer Shares will in any event be allocated on an equitable basis and will be based on the allocation guidelines contained in Practice Note 20 to the Listing Rules and distribute to the eligible employee. It will not be based on seniority or length of service of the eligible employees who have applied for the Public Offer Shares on **PINK** application forms. Any Shares not subscribed for by eligible full-time employees of the Group in connection with the preferential offer to employees will be available for subscription by the public under the Public Offer.

The total number of securities available for public subscription (taking account of any clawback feature in the case of issues which involve both placement and public subscription tranches) are to be divided equally into pools: pool A and pool B. The securities in pool A should be allocated on an equitable basis to applicants who have applied for securities in the value of HK$5 million (excluding the SFC transaction levy, the Stock Exchange trading fee and brokerage) or less. The securities in pool B should be allocated on an equitable basis to applicants who have applied for securities in the value of more than HK$5 million (excluding the SFC transaction levy, the Stock Exchange trading fee and brokerage) and up to the value of pool B. Where one of the pools is undersubscribed, the surplus securities should be transferred to satisfy demand in the other pool and be allocated accordingly. No applications should be accepted from investors applying for more than the total number of shares originally allocated to each pool. Multiple applications within either pool or between pools should be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of the Public Offer and basis of allotment of the Public Offer Shares are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on 13 October 2006.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications and applications for more than 100% of the Public Offer Shares being initially offered for public subscription under the Public Offer are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" above.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the stabilisation price will not exceed the initial public offer price. In other jurisdictions, the stabilisation price may or may not be higher than the initial public offer price. A press announcement will be made in the event that the Over-allotment Option is exercised in part or in full.

In connection with the Share Offer, the Lead Manager may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, the Lead Manager may exercise the Over-allotment Option no later than 30 days after the last date for lodging applications under the Public Offer or make (or agree, offer or attempt to make) open-market purchases in the secondary market. The Lead Manager may also sell or agree to sell any Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. However, there is no obligation on the Lead Manager to do this. Such stabilisation action, if began, may be discontinued at any time, and is required to be brought to and after a limited period. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 37,500,000 Shares, which is 15% of the Shares initially available under the Share Offer.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the commencement of trading of the Offer Shares after this prospectus is issued and ends on the 30th day after the last day for the lodging of applications under the Public Offer ("Stabilisation Period"). The Stabilisation Period is expected to expire on Saturday, 4th November 2006, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price, could fall.

During the stabilisation period, as detailed below, the Lead Manager as stabilising manager or any person acting for it, may offer or agree to purchase, or purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with any such stabilisation transactions, the Lead Manager as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Lead Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Lead Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Lead Manager and is uncertain. In the event that the Lead Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made, or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

(a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 50,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 75,000,000 Shares will be available under the Public Offer (taking into account a maximum of 2,500,000 Public Offer Shares made available on a preferential basis to eligible full-time employees of the Group on **PINK** application forms), representing 30% of the Offer Shares initially available under the Share Offer;

(b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 75,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 100,000,000 Shares will be available under the Public Offer (taking into account a maximum of 2,500,000 Public Offer Shares made available on a preferential basis to eligible full-time employees of the Group on **PINK** application forms), representing 40% of the Offer Shares initially available under the Share Offer;

(c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 100,000,000 Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 125,000,000 Shares will be available under the Public Offer (taking into account a maximum of 2,500,000 Public Offer Shares made available on a preferential basis to eligible full-time employees of the Group on **PINK** application forms), representing 50% of the Offer Shares initially available under the Share Offer; and

(d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

If the Public Offer is not fully subscribed, the Lead Manager (for itself and on behalf of the Sponsor and the other Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing.

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant maintained in CCASS.

Use a **PINK** application form if you are an eligible full-time employee of the Group and want your application to be given preferential consideration. Up to 2,500,000 Public Offer Shares (representing 10% of the Offer Shares initially available under the Public Offer) are available to full-time employees of the Group on the basis.

Note: The Offer Shares are not available to the directors or chief executive of the Company or any of its subsidiaries, existing beneficial owners of Shares or their respective associates save for the circumstances permitted by the Listing Rules.

WHERE TO COLLECT THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

You can collect a **WHITE** application form and a prospectus from:

Any participant of the Stock Exchange

or

Taifook Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

or

Co-Lead Manager

UOB Kay Hian (Hong Kong) Limited
15/F, Aon China Building
29 Queen's Road Central
Hong Kong

Co-Managers

China Merchants Securities (HK) Co., Ltd.
48/F., One Exchange Square
8 Connaught Place, Central
Hong Kong

CIMB-GK Securities (HK) Limited
25/F., Central Tower
28 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19/F., Wing On House
71 Des Voeux Road Central
Hong Kong

ICEA Capital Limited
26/F., ICBC Tower
3 Garden Road, Central
Hong Kong

Phillip Securities (HK) Limited
11-12/F, United Centre
95 Queensway
Hong Kong

Polaris Capital (Asia) Limited
Unit 6503-06, The Center
99 Queen's Road Central
Hong Kong

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
Hong Kong

or any of the following branches of Hang Seng Bank Limited:

Hong Kong Island:

Head Office	83 Des Voeux Road Central, Central
Central District Branch	Basement, Central Building, Pedder Street, Central
Wanchai Branch	200 Hennessy Road, Wanchai
Causeway Bay Branch	28 Yee Wo Street, Causeway Bay
North Point Branch	335 King's Road, North Point

Kowloon:

Tsimshatsui Branch	18 Carnarvon Road, Tsimshatsui
Kowloon Main Branch	618 Nathan Road, Mong Kok
Pei Ho Street Branch	151 Pei Ho Street, Shamshuipo
Kwun Tong Branch	70 Yue Man Square, Kwun Tong

New Territories:

Shatin Branch	Shop 18, Lucky Plaza, Wang Pok Street, Shatin
Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** application form and a prospectus during the normal business hours from 9:00 a.m. on 29 September 2006 to 12:00 noon on 5 October 2006 from:

the Depository Counter of HKSCC
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or your stockbroker who may have the application forms and prospectus available.

You can collect a **PINK** application form from Mr. Lai Hau Yin, the company secretary of the Company, at Unit A, 8th Floor, Mai Wah Industrial Building, 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected.

If your application is made through a duly authorised attorney, the Company or the Lead Manager as agent of the Company, may accept the application at their respective discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Lead Manager in its capacity as agent of the Company, has full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW MANY APPLICATIONS MAY YOU MAKE

There are only two situations where you may make more than one application for the Public Offer Shares:

1. If you are a nominee, you may lodge more than one application form in your own name on behalf of different owners. In the box on the application form marked "For nominees" you must include:

   – an account number; or

   – some other identification code

   for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being for your benefit.

2. If you are a full-time employee of the Group and apply on a **PINK** application form, you may also apply on a **WHITE** or **YELLOW** application form.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and submitting an application form, you:

– (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form; or

– (if you are a full-time employee) **warrant** that this is the only application which will be made for your benefit on a **PINK** application form; or

– (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form, and that you are duly authorised to sign the application form as that other person's agent.

Save as referred to above, all of your applications for Public Offer Shares will be rejected as multiple applications if you, or you and your joint applicants together or any of your joint applicants:

– make more than one application on a **WHITE** or **YELLOW** application form; or

– make more than one application on a **PINK** application form; or

– apply on one **WHITE** or **YELLOW** application form for more than 100% of the Public Offer Shares being initially available in either pool A or pool B; or

– apply on one **PINK** application form for more than 100% of the Public Offer Shares being offered to eligible employees of the Group; or

– apply for, take up or indicate an interest in any Placing Shares or otherwise participate in the Placing; or

– have been allotted or will be allotted Placing Shares under the Placing.

All of your applications for Public Offer Shares will also be rejected as multiple applications if more than one application is made for your benefit unless you are an eligible employee of the Group who has made an application on a **PINK** application form. If an application is made by an unlisted company and

– the only business of that company is dealing in securities; and

– you exercise statutory control over that company,

then that application will be treated as being for your benefit.

Unlisted company *means a company with no equity securities listed on the Stock Exchange.*

Statutory control *means you:*

– *control the composition of the board of directors of that company; or*

– *control more than half the voting power of that company; or*

– *hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

You must pay the Offer Price of HK$1.13 per share, being the upper limit of the stated range of the Offer Price, together with brokerage of 1%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005% of the Offer Price on application. This means that for every 2,500 Hong Kong Offer Shares you will pay approximately HK$2,853.53. The application forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares.

You must pay the Offer Price, the brokerage, the Stock Exchange trading fee and the SFC transaction levy in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the related application forms. Your cheque or banker's cashier order will not be presented for payment before 12:00 noon on 5 October 2006.

If your application is successful, the brokerage is paid to participants of the Stock Exchange and the SFC transaction levy are paid to the SFC and the trading fee is paid to the Stock Exchange.

Determination of the Offer Price

The Offer Price is expected to be determined by the Price Determination Agreement to be made between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on or before 6 October 2006 or such later date or time as may be agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company, but in any event not later than 6:00 p.m. on 12 October 2006. The Offer Price will not be more than HK$1.13 per Share and is expected to be not less than HK$0.91 per Share. The Lead Manager (for itself and on behalf of the Underwriters and with the consent of the Company) may reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of the reduction of the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Investors applying for Public Offer Shares must pay the maximum Offer Price of HK$1.13 per Share, together with brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.005%, subject to refund if the Offer Price, as finally determined, is lower than the maximum Offer Price being HK$1.13 per Share. If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters) by 6:00 p.m. on 12 October 2006, the Share Offer will not become unconditional and will lapse.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

PINK Application Forms

Completed **PINK** application forms, with payment attached, must be returned to Mr. Lai Hau Yin, the company secretary of the Company, at Unit A, 8th Floor, Mai Wah Industrial Building, 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong **by 4:00 p.m. on Wednesday, 4 October 2006.**

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on 5 October 2006, or, if the application lists of the Public Offer are not open on that day, then by 12:00 noon (Hong Kong time) on the day the lists are open.

Your completed application form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any of the branches of **Hang Seng Bank Limited** listed under "Where to collect the prospectuses and the application forms for the Public Offer Shares" above at the following times:

Friday, 29 September 2006	**–**	**9:00 a.m. to 4:00 p.m.**
Tuesday, 3 October 2006	**–**	**9:00 a.m. to 4:00 p.m.**
Wednesday, 4 October 2006	**–**	**9:00 a.m. to 4:00 p.m.**
Thursday, 5 October 2006	**–**	**9:00 a.m. to 12:00 noon**

The application lists will open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on 5 October 2006.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS OF THE PUBLIC OFFER

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a **black** rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on 5 October 2006 in Hong Kong. Instead the application lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the application lists of the Public Offer do not open and close on 5 October 2006, the dates mentioned in the section headed "Expected timetable" in this prospectus and the related application forms and other dates mentioned in this prospectus may be affected. A press announcement will be made in such event in South China Morning Post (in English) and in Hong Kong Economic Times (in Chinese).

CIRCUMSTANCES IN WHICH AN APPLICANT WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

If your application is revoked

By completing and submitting an application form, you agree that you cannot revoke your application before the end of the fifth day after the time of the opening of the application lists, excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong, unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under the section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company and will become binding when you lodge your application form. This collateral contract will be in consideration for the Company agreeing that it will not offer any Public Offer Shares to any person before the end of the fifth day after the time of the opening of the application lists except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in South China Morning Post and in Chinese in Hong Kong Economic Times of the basis of allocation, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

If the allotment of the Public Offer Shares is void

Your allocation of the Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

PUBLICATION OF RESULTS

The Company expects to release an announcement on the Offer Price, indication of the level of interests in the Placing, results of applications and basis of allocation of Shares under the Public Offer, with successful applicants' identification numbers, where appropriate, on 13 October 2006 in English in South China Morning Post and in Chinese in Hong Kong Economic Times.

COLLECTION/POSTING OF SHARE CERTIFICATES/REFUND CHEQUES AND DEPOSIT OF SHARE CERTIFICATES INTO CCASS

The Company will not issue temporary documents of title. No receipt will be issued for application monies received.

WHITE application forms:

If you have applied for 500,000 Public Offer Shares or more and have indicated on your application form that you will collect your Share certificate(s) and/or refund cheque, if any, in person, you may collect it/them, in person from:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of Share certificates and refund cheques. The date of despatch is expected to be on 13 October 2006.

If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives, as the case may be, must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you have opted for collection in person but do not collect your Share certificate(s) and/or refund cheque, if any, in person within the time specified for collection, it/they will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your application form in the afternoon on the date of despatch by ordinary post and at your own risk.

If you have applied for 500,000 Public Offer Shares or more and have not indicated on your application form that you will collect your Share certificate(s) and/or refund cheque, if any, in person, or if you have applied for less than 500,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your Share certificate(s) and/or refund cheque, if any, in respect of the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, if any, without interest, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your application form on the date of despatch by ordinary post and at your own risk.

A refund cheque, if any, will be printed with part of your Hong Kong identity card number (or passport number) on your application form, or, in case of joint applicants, the identity information of the first-named applicant on your application form will be printed. When a refund cheque is presented to a bank, the bank will cross-check both the name and the printed part of the Hong Kong identity card or passport number of the payee shown on the cheque against the bank's own record on the information of the account holder. If there is a discrepancy, the bank might request for other proof of identity or take other steps for verification. If the bank is unable to be satisfied with the identity of the payee, the bank might reject the deposit of the refund cheque concerned. Therefore, you are advised to ensure that your identification numbers are accurately filled in on the related application forms to avoid delay in cashing your refund cheques, if any. If you are in doubt, you should enquire with the Company's Hong Kong share registrar.

YELLOW application forms:

If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your CCASS investor participant stock account or the stock account of your designated CCASS participant, as instructed by you, at the close of business on 13 October 2006, or under contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant, other than a CCASS investor participant:

- for Public Offer Shares credited to the stock account of your designated CCASS participant, other than a CCASS investor participant, you can check the number of Public Offer Shares allotted to you with that CCASS participant on 13 October 2006.

If you are applying as a CCASS investor participant:

- The Company expects to publish the results of CCASS investor participants' applications together with the results of the Public Offer in the newspapers on 13 October 2006. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 13 October 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account.

If you have applied for 500,000 Public Offer Shares or more and have indicated on your application form that you will collect your refund cheque in person, please follow the same instructions set out in the paragraph headed "**WHITE** application forms" above.

If you have applied for less than 500,000 Public Offer Shares, or if you have applied for 500,000 Public Offer Shares or more and have not indicated on your application form that you will collect your refund cheque, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer "in the section headed "Structure and conditions of the Share Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto have become void, then your refund cheque (without interest), if any, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your application form on the date of despatch, which is expected to be 13 October 2006 by ordinary post and at your own risk.

PINK application forms:

Your share certificate(s), and, if any, refund cheque(s) will be sent to the address on your application form on the date of despatch (which is expected to be 13 October 2006), by ordinary post and at your own risk.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on 16 October 2006.

The Shares will be traded in board lots of 2,500 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares issued and to be issued as mentioned in this prospectus and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or such other date determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, BDO McCabe Lo Limited, Certified Public Accountants, Hong Kong.

BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 2239

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傳真:(八五二)二八一五 二二三九

Date: 29 September 2006

The Directors
L.K. Technology Holdings Limited
Taifook Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding L.K. Technology Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") for each of the three years ended 31 March 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 29 September 2006 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 18 August 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a corporate reorganisation, further details of which are set out in the section headed "Corporate reorganisation" in section 4 of appendix V to this prospectus (the "Corporate Reorganisation"), the Company became the holding company of the companies now comprising the Group on 23 September 2006.

At the date of this report or up to the date of disposal or dissolution of relevant subsidiaries if earlier, the Company has direct or indirect interests in the following subsidiaries, all of which are private limited companies or if incorporated/established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private limited company:

Name	Issued and fully paid shares/registered capital held	Place and date of establishment/ incorporation *(Note ii)*	Principal activities
Subsidiaries directly held by the Company			
Best Truth Enterprises Limited ("Best Truth")	2 ordinary shares of US$1 each	British Virgin Islands 10 June 2004	Investment holding
Cyberbay Pte Ltd. ("Cyberbay")	2 ordinary shares of S$1 each	Singapore 23 September 2000	Investment holding

Name	Issued and fully paid shares/registered capital held	Place and date of establishment/ incorporation *(Note ii)*	Principal activities
World Force Limited ("World Force")	1 ordinary share of US$1	British Virgin Islands 18 January 2005	Investment holding
Sky Treasure Trading Limited ("Sky Treasure") *(Note iii)*	1 ordinary share of US$1	British Virgin Islands 6 August 2004	Investment holding
Subsidiaries indirectly held by the Company			
L.K. Machinery Company Limited ("LK (HK)")	10,000,000 ordinary shares of HK$1 each	Hong Kong 9 July 1985	Sale of die-casting machines and plastic injection moulding machines, and investment holding
Gold Millennium Ltd. ("Gold Millennium")	1 ordinary share of US$1	British Virgin Islands 4 January 2000	Investment holding
力勁機械（深圳）有限公司 L.K. Machinery (Shenzhen) Co. Ltd.* ("LK (Shenzhen)")	HK$19,500,000	The People's Republic of China (the "PRC") 5 June 1991	Manufacture and sale of die-casting machines
中山力勁機械有限公司 Zhongshan L.K. Machinery Co. Ltd.* ("LK (Zhongshan)")	US$4,300,000	PRC 15 November 1994	Manufacture and sale of plastic injection moulding machines
上海一達機械有限公司 Shanghai Atech Machinery Co. Ltd.* ("Shanghai Atech")	US$4,900,000	PRC 26 December 1995	Manufacture and sale of die-casting machines
深圳領威科技有限公司 Shenzhen Leadwell Technology Co. Ltd.* ("SZ Leadwell")	RMB46,500,000	PRC 30 November 2001	Manufacture and sale of die-casting machines and plastic injection moulding machines
寧波力勁機械有限公司 Ningbo L.K. Machinery Co. Ltd.* ("LK (Ningbo)")	US$380,000	PRC 19 April 2002	Manufacture and sale of die-casting machines and plastic injection moulding machines
寧波力勁科技有限公司 Ningbo L.K. Technology Co. Ltd.* ("LK Tech (Ningbo)")	Registered capital of US$10,000,000 to the extent of US$8,956,270 paid up	PRC 8 January 2004	Commenced operations of manufacture and sale of die-casting machines and plastic injection moulding machines since July 2006

Name	Issued and fully paid shares/registered capital held	Place and date of establishment/ incorporation *(Note ii)*	Principal activities
阜新力勁北方機械有限公司 Fuxin L.K. Northern Machinery Co. Ltd.* ("LK (Fuxin)")	HK$30,000,000	PRC 27 December 2004	Manufacture and sale of die-casting machines
深圳市力勁機械銷售有限公司 Shenzhen L.K. Machinery Wholesale Co. Limited ("LK (Shenzhen Wholesale)")	Registered capital of RMB10,000,000 to the extent of RMB5,000,000 paid up	PRC 19 September 2005	Not yet commenced operations
上海昌唯龍商貿有限公司 Shanghai Dragon Prosper Trading Limited* ("Shanghai Dragon Prosper") *(Note iii)*	Registered capital of US$1,000,000 to the extent of US$150,000 paid up	PRC 18 August 2005	Trading and wholesale of energy saving equipment, water purifier, alloy wheels, health equipment, seal of containers, lottery balls and exercise equipment
Power Excel International Limited ("Power Excel")	2 ordinary shares of HK$1 each	Hong Kong 27 February 2002	Investment holding
L.K. Machinery USA, Inc. ("LK (U.S.)")	1,000 shares with US$1,000 paid up	United States of America 22 February 2002	Sale of die-casting machines and plastic injection moulding machines
L.K. Machinery, Inc. ("LK (Delaware)")	1,000 shares of US$0.01 each	United States of America 24 April 2006	Not yet commenced operations
力勁機械股份有限公司 L.K. Machinery Corp. ("LK (Taiwan)")	1,100,000 ordinary shares of NT$10 each	Taiwan 4 November 2002	Sale of die-casting machines and plastic injection moulding machines
Quantum Machinery International Inc. ("Quantum Machinery")	1,000,000 common shares with C$1,000,000 paid up	Canada 29 November 2000	Sale of die-casting machines and plastic injection moulding machines
Quantum Precision Machinery Inc. ("Quantum Precision")	20 common shares with C$20 paid up	Canada 20 August 1998	Dissolution on 2 December 2004
R.J. Trading Inc. ("RJ Trading")	40 common shares with C$40 paid up	Canada 20 August 1998	Dissolution on 2 December 2004
Lucky Prosper Limited ("Lucky Prosper")	1 ordinary share of HK$1	Hong Kong 18 October 2004	Investment holding

Name	Issued and fully paid shares/registered capital held	Place and date of establishment/ incorporation *(Note ii)*	Principal activities
Dragon Prosper Limited ("Dragon Prosper") *(Note iii)*	1,000 ordinary shares of HK$1 each	Hong Kong 15 September 2004	Investment holding

* *The English name is made for identification purpose only*

Notes:

(i) The companies established in the PRC have a limited number of years of operations. However, they are extendable by application to the relevant government authority.

(ii) All companies principally operate in their respective places of incorporation/establishment and are wholly-owned subsidiaries during the Relevant Periods except for Dragon Prosper and Shanghai Dragon Prosper which are effectively 70% owned by the Company.

(iii) Sky Treasure and its subsidiaries, Dragon Prosper and Shanghai Dragon Prosper, ceased to be subsidiaries of the Company upon disposal by the Company on 30 March 2006.

(iv) 中山卓威機械有限公司 (Zhongshan Cheuk Wei Machinery Co., Ltd. ("Cheuk Wei")) which was established on 28 September 2002 had not commenced operations and had not received any capital contribution from the Group since the date of establishment. The Group had applied for deregistration of Cheuk Wei, which was approved by the relevant authority on 8 September 2004. Accordingly, Cheuk Wei is not included in the above list of subsidiaries and no financial statements were prepared.

No audited financial statements have been prepared for the Company since the date of its incorporation as it has not carried on any business, other than the transactions related to the Corporate Reorganisation and the disposal of Sky Treasure. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company since its date of incorporation to the date of this report.

No statutory financial statements have been prepared for Best Truth, Gold Millennium, LK (U.S.), Quantum Precision, RJ Trading, Sky Treasure, World Force and LK (Delaware) since their respective dates of incorporation as there is no statutory requirement for these companies to prepare audited financial statements. For the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing (the "Auditing Standards") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the management accounts of these companies (except for LK (Delaware) which was incorporated on 24 April 2006) for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA.

The financial statements of Cyberbay for the three years ended 31 March 2004, 2005 and 2006 prepared in accordance with Singapore Financial Reporting Standards were audited by BDO Raffles.

The consolidated financial statements of Quantum Machinery for the three years ended 31 March 2004, 2005 and 2006 prepared in accordance with Canadian generally accepted accounting principles were audited by BDO Dunwoody LLP.

The financial statements of LK (Taiwan) for the three years ended 31 March 2004, 2005 and 2006 prepared in accordance with accounting principles generally accepted in Taiwan were audited by BDO Taiwan Union & Co.

For the purpose of this report, we have carried out independent audit procedures in accordance with the Auditing Standards on the management accounts of Cyberbay, Quantum Machinery and LK (Taiwan) for the Relevant Periods prepared in accordance with HKFRS.

The statutory financial statements of the following companies established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to wholly foreign owned enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Name	Financial years/period	Statutory auditors
力勁機械(深圳)有限公司 LK (Shenzhen)	Years ended 31 December 2003 and 2004	深圳岳華會計師事務所有限公司 (Yuehua Certified Public Accountants Co., Ltd Shenzhen)
	Year ended 31 December 2005	深圳中聯岳華會計師事務所 (Zhong Lian Yuehua Certified Public Accountants Shenzhen)
深圳領威科技有限公司 SZ Leadwell	Years ended 31 December 2003 and 2004	深圳岳華會計師事務所有限公司 (Yuehua Certified Public Accountants Co., Ltd Shenzhen)
	Year ended 31 December 2005	深圳中聯岳華會計師事務所 (Zhong Lian Yuehua Certified Public Accountants Shenzhen)
中山力勁機械有限公司 LK (Zhongshan)	Years ended 31 December 2003, 2004 and 2005	中山市永信會計師事務所 (Yongxin Certified Public Accountants)
上海一達機械有限公司 Shanghai Atech	Years ended 31 December 2003, 2004 and 2005	上海申洲會計師事務所有限公司 (Shanghai Shenzhou Certified Public Accountants Company Limited)
寧波力勁機械有限公司 LK (Ningbo)	Years ended 31 December 2003, 2004 and 2005	浙江正大會計師事務所寧波分所 (Zhejiang Zhengda Certified Public Accountants)
阜新力勁北方機械有限公司 LK (Fuxin)	From 27 December 2004 (date of establishment) to 31 December 2005	阜新天衡會計師事務所有限責任公司 (Fuxin Tianheng Certified Public Accountants Co. Ltd.)

Name	Financial years/period	Statutory auditors
深圳市力勁機械銷售有限公司 LK (Shenzhen Wholesale)	From 19 September 2005 (date of establishment) to 31 December 2005	深圳中聯岳華會計師事務所 (Zhong Lian Yuehua Certified Public Accountants Shenzhen)
上海昌唯龍商貿有限公司 Shanghai Dragon Prosper	From 18 August 2005 (date of establishment) to 31 December 2005	上海大公大同會計師事務所有限公司 (Shanghai Da Gong Da Tong Certified Public Accountants Company Limited)
寧波力勁科技有限公司 LK Tech (Ningbo)	From 8 January 2004 (date of establishment) to 31 December 2004 and year ended 31 December 2005	浙江正大會計師事務所寧波分所 (Zhejiang Zhengda Certified Public Accountants)

For the purpose of this report, we have carried out independent audit procedures in accordance with the Auditing Standards on the management accounts of the above companies for the Relevant Periods prepared in accordance with HKFRS.

We have acted as the statutory auditors of LK (HK) and Power Excel for the year ended 31 March 2006. BDO McCabe Lo & Company, prior to the reorganisation as BDO McCabe Lo Limited in August 2005, were the statutory auditors of LK (HK) and Power Excel for the years ended 31 March 2004 and 2005. We acted as the statutory auditors of Lucky Prosper for the period from 18 October 2004 (date of incorporation) to 31 March 2006 and of Dragon Prosper from 15 September 2004 (date of incorporation) to 31 March 2005 and the year ended 31 March 2006. The financial statements of Dragon Prosper for the year ended 31 March 2006 were qualified because of non-preparation of consolidated financial statements. As the financial statements of Dragon Prosper's subsidiary have been included in the Group's combined financial statements for the Relevant Periods, we are satisfied that the qualification has no impact on the combined results, combined balance sheets and combined cash flows of the Group for the Relevant Periods.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods in accordance with HKFRS. We have audited the combined financial statements in accordance with the Auditing Standards.

For the purpose of this report, we have examined the audited combined financial statements of the Group for the Relevant Periods prepared in accordance with HKFRS and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3,340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. We have planned and performed our work so as to obtain reasonable assurance that the Financial Information upon which our opinion is given is free from material misstatements.

The Financial Information set out in this report has been prepared based on the audited combined financial statements of the Group as if the Corporate Reorganisation had been completed as at the beginning of the Relevant Periods. No adjustments have been made to the audited combined financial statements in the preparation of our report for inclusion in this prospectus.

The directors of the respective companies now comprising the Group during the Relevant Periods are responsible for preparing the financial statements of respective companies which give a true and fair view. The directors of the Company are responsible for preparing the combined financial statements which give a true and fair view. In preparing the combined financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the combined financial statements and the contents of this prospectus in which this report is included. It is our responsibility to compile the Financial Information based on the audited combined financial statements of the Group and to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 of Section A below, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group for the Relevant Periods and of the combined state of affairs of the Group as at 31 March 2004, 2005 and 2006 and the state of affairs of the Company as at 31 March 2005 and 2006.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS
FOR THE THREE YEARS ENDED 31 MARCH 2004, 2005 AND 2006

		Year ended 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*5*	601,974	667,588	851,519
Cost of sales		(346,599)	(423,319)	(564,407)
Gross profit		255,375	244,269	287,112
Other revenue	*5*	3,541	18,054	32,625
Distribution costs		(46,417)	(56,175)	(79,092)
Administration expenses		(89,867)	(90,484)	(107,855)
Profit from operations	*6*	122,632	115,664	132,790
Finance costs	*8*	(2,506)	(9,219)	(14,914)
Profit before taxation		120,126	106,445	117,876
Income taxes	*9*	(6,518)	(3,630)	(10,260)
Profit for the year		113,608	102,815	107,616
Profit/(loss) attributable to:				
Equity holders of the Company		113,608	102,816	107,616
Minority interests		–	(1)	–
		113,608	102,815	107,616
Dividends	*10*			
– Declared		45,000	40,000	–
– Proposed		–	–	43,000
		45,000	40,000	43,000
		HK cents	*HK cents*	*HK cents*
Earnings per share				
Basic	*11*	15.1	13.7	14.3

COMBINED BALANCE SHEETS AS AT 31 MARCH 2004, 2005 AND 2006

		As at 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Intangible assets	*12*	2,799	3,259	3,220
Property, plant and equipment	*13*	148,511	251,827	335,221
Investment properties	*14*	8,945	15,300	17,219
Land use rights	*15*	20,958	31,724	31,722
Available-for-sale financial assets	*16*	93	1,765	1,216
Deferred tax assets	*17*	5,287	6,400	7,364
Bills and accounts receivable – due after one year	*18*	2,003	282	4,148
Amounts due from related entities	*25(c)*	8,146	6,494	–
Restricted bank balances	*29*	2,007	1,853	1,969
		198,749	318,904	402,079
Current assets				
Inventories	*19*	156,676	229,009	205,964
Bills and accounts receivable	*18*	139,179	144,675	243,567
Other receivables, prepayments and deposits	*20*	10,681	23,371	26,664
Amounts due from related entities	*25(c)*	15,351	75,595	95,625
Restricted bank balances	*29*	13,705	17,174	18,482
Cash and bank balances		64,969	60,831	65,435
		400,561	550,655	655,737

COMBINED BALANCE SHEETS – Continued
AS AT 31 MARCH 2004, 2005 AND 2006

		As at 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Bills and accounts payable	*21*	91,834	154,607	142,010
Other payables, deposits and accruals	*22*	66,690	93,567	83,968
Amounts due to related entities	*25(d)*	46,185	55,823	109
Bank borrowings – due within one year	*23*	56,850	138,424	261,282
Tax payable		5,639	2,002	4,916
		267,198	444,423	492,285
Net current assets		133,363	106,232	163,452
Total assets less current liabilities		332,112	425,136	565,531
Non-current liabilities				
Bank borrowings – due after one year	*23*	(35,140)	(63,325)	(91,589)
Net assets		296,972	361,811	473,942
EQUITY				
Share capital	*24*	10,000	10,000	10,000
Reserves		286,972	351,811	463,942
Equity attributable to the Company's equity holders		296,972	361,811	473,942

BALANCE SHEETS OF THE COMPANY
AS AT 31 MARCH 2005 AND 2006

		As at 31 March	
		2005	**2006**
	Note	*HK$'000*	*HK$'000*
Non-current asset			
Interest in a subsidiary		–	–
Current liabilities			
Accruals		585	585
Amount due to a subsidiary		220	1,456
		805	2,041
Total assets less current liabilities		(805)	(2,041)
EQUITY			
Share capital	*24*	–	–
Accumulated losses		(805)	(2,041)
Net deficit		(805)	(2,041)

COMBINED CASH FLOW STATEMENTS
FOR THE THREE YEARS ENDED 31 MARCH 2004, 2005 AND 2006

		Year ended 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
Profit before taxation		120,126	106,445	117,876
Adjustments for:				
Bank interest income		(676)	(603)	(783)
Interests on bank borrowings		3,576	6,373	15,100
Depreciation		17,154	20,347	32,273
Effect of foreign exchange rates changes		(558)	(400)	844
Increase in fair value of investment properties		(173)	(3,055)	(1,830)
Amortisation of trademark		–	12	48
Amortisation of land use rights		405	510	612
Recognition of negative goodwill		–	(4,639)	–
Write down/(reversal of write down) of inventory		3,745	5,839	(2,458)
Impairment loss on bills and accounts receivable		3,257	9,034	6,663
Impairment loss/(reversal of impairment loss) on amounts due from fellow subsidiaries		6,719	2,798	(133)
Impairment loss on amount due from a related company		2,178	562	–
Provision for/(write back of provision for) a legal claim		3,400	(3,564)	–
Loss/(gain) on disposal of property, plant and equipment		171	18	(60)
Gain on disposal of subsidiaries		–	–	(915)
Impairment loss on available-for-sale financial assets		–	–	93
Operating profit before changes in working capital		159,324	139,677	167,330
(Increase)/decrease in inventories		(38,795)	(62,544)	25,446
Increase in bills and accounts receivable		(46,512)	(4,721)	(109,427)
Decrease/(increase) in other receivables, prepayments and deposits		3,808	(11,801)	(3,488)
(Increase)/decrease in amounts due from fellow subsidiaries		(4,369)	1,521	(3,502)
Increase in amounts due from related companies		(10,486)	(64,095)	(9,901)
Decrease in amounts due from directors		69	598	–
(Decrease)/increase in bills and accounts payable		(11,338)	58,308	(12,560)
Increase/(decrease) in other payables, deposits and accruals		18,010	8,293	(3,989)
Decrease in amount due to a related entity		(140)	–	–
(Decrease)/increase in amounts due to fellow subsidiaries		(23)	9,492	(55,677)
Cash generated from/(used in) operations		69,548	74,728	(5,768)
Tax paid		(11,446)	(8,768)	(8,310)
Interest paid		(3,576)	(6,373)	(15,100)
Net cash from/(used in) operating activities		54,526	59,587	(29,178)

COMBINED CASH FLOW STATEMENTS – Continued
FOR THE THREE YEARS ENDED 31 MARCH 2004, 2005 AND 2006

		Year ended 31 March		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities				
Purchases of property, plant and equipment		(16,069)	(55,013)	(46,994)
Payment for construction in progress		(1,617)	(56,009)	(66,241)
Payment for land use rights		(2,821)	(5,125)	–
Acquisition of available-for-sale financial assets		–	(1,881)	–
Government grant received for purchase of property, plant and equipment		–	2,830	–
Increase in restricted bank balances		(5,894)	(3,315)	(1,424)
Proceeds from disposal of property, plant and equipment		1,068	309	2,252
Interest received		676	603	783
Acquisition of a business	*26(a)*	–	(2,342)	–
Partial settlement of the cash consideration for acquisition of a business	*26(a)*	–	–	(5,181)
Disposal of subsidiaries	*26(b)*	–	–	(247)
Net cash used in investing activities		(24,657)	(119,943)	(117,052)
Financing activities				
Inception of new bank loans		52,169	160,508	309,895
Repayment of bank loans		(35,249)	(64,057)	(166,555)
(Decrease)/increase in amount due to holding company		(7)	(39,830)	1,270
Net (decrease)/increase in trust receipt loans		(6,014)	169	2,172
Issue of shares of a subsidiary to its minority shareholder		–	1	–
Dividends paid		(20,000)	–	–
Net cash (used in)/from financing activities		(9,101)	56,791	146,782
Net increase/(decrease) in cash and cash equivalents		20,768	(3,565)	552
Effect of foreign exchange rates changes		38	439	523
Cash and cash equivalents at beginning of year		42,088	62,894	59,768
Cash and cash equivalents at end of year		62,894	59,768	60,843
Analysis of the balances of cash and cash equivalents:				
Cash and bank balances		64,969	60,831	65,435
Bank overdrafts		(2,075)	(1,063)	(4,592)
		62,894	59,768	60,843

COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE YEARS ENDED 31 MARCH 2004, 2005 AND 2006

	Share capital *HK$'000*	Capital reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Statutory reserve (Note) *HK$'000*	Investment revaluation deficit *HK$'000*	Property revaluation reserve *HK$'000*	Dividend reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 April 2003	10,000	45,975	1,699	21,269	–	–	20,000	149,683	248,626	–	248,626
Exchange realignment recognised in equity	–	–	(262)	–	–	–	–	–	(262)	–	(262)
Net profit for the year	–	–	–	–	–	–	–	113,608	113,608	–	113,608
Total recognised income/(expense) for the year	–	–	(262)	–	–	–	–	113,608	113,346	–	113,346
Capitalisation of statutory reserve of a subsidiary as paid up capital	–	3,095	–	(3,095)	–	–	–	–	–	–	–
Transfer to reserve	–	–	–	11,581	–	–	–	(11,581)	–	–	–
Dividends declared and paid *(Note 10)*	–	–	–	–	–	–	(20,000)	(45,000)	(65,000)	–	(65,000)
	–	3,095	(262)	8,486	–	–	(20,000)	57,027	48,346	–	48,346
At 31 March 2004	10,000	49,070	1,437	29,755	–	–	–	206,710	296,972	–	296,972
At 1 April 2004	10,000	49,070	1,437	29,755	–	–	–	206,710	296,972	–	296,972
Surplus on revaluation of other property upon reclassification	–	–	–	–	–	2,588	–	–	2,588	–	2,588
Deferred tax on revaluation surplus	–	–	–	–	–	(388)	–	–	(388)	–	(388)
Loss on available-for-sale financial assets	–	–	–	–	(209)	–	–	–	(209)	–	(209)
Exchange realignment	–	–	32	–	–	–	–	–	32	–	32
Gain/(loss) recognised in equity	–	–	32	–	(209)	2,200	–	–	2,023	–	2,023
Net profit/(loss) for the year	–	–	–	–	–	–	–	102,816	102,816	(1)	102,815
Total recognised income/(expense) for the year	–	–	32	–	(209)	2,200	–	102,816	104,839	(1)	104,838
Capitalisation of statutory reserve and retained profits of a subsidiary as paid up capital	–	18,739	–	(4,685)	–	–	–	(14,054)	–	–	–
Issue of shares of a subsidiary to its minority shareholder	–	–	–	–	–	–	–	–	–	1	1
Transfer to reserve	–	–	–	21,238	–	–	–	(21,238)	–	–	–
Dividends declared and paid *(Note 10)*	–	–	–	–	–	–	–	(40,000)	(40,000)	–	(40,000)
	–	18,739	32	16,553	(209)	2,200	–	27,524	64,839	–	64,839
At 31 March 2005	10,000	67,809	1,469	46,308	(209)	2,200	–	234,234	361,811	–	361,811

COMBINED STATEMENTS OF CHANGES IN EQUITY – Continued
FOR THE THREE YEARS ENDED 31 MARCH 2004, 2005 AND 2006

	Share capital HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory reserve (Note) HK$'000	Investment revaluation deficit HK$'000	Property revaluation reserve HK$'000	Dividend reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2005	10,000	67,809	1,469	46,308	(209)	2,200	–	234,234	361,811	–	361,811
Exchange realignment	–	–	4,971	–	–	–	–	–	4,971	–	4,971
Loss on available-for-sale financial assets	–	–	–	–	(456)	–	–	–	(456)	–	(456)
Gain/(loss) recognised in equity	–	–	4,971	–	(456)	–	–	–	4,515	–	4,515
Net profit for the year	–	–	–	–	–	–	–	107,616	107,616	–	107,616
Total recognised income/(expense) for the year	–	–	4,971	–	(456)	–	–	107,616	112,131	–	112,131
Capitalisation of statutory reserve of a subsidiary as paid up capital	–	962	–	(962)	–	–	–	–	–	–	–
Transfer to reserve	–	–	–	6,803	–	–	–	(6,803)	–	–	–
Proposed dividends *(Note 10)*	–	–	–	–	–	–	43,000	(43,000)	–	–	–
	–	962	4,971	5,841	(456)	–	43,000	57,813	112,131	–	112,131
At 31 March 2006	10,000	68,771	6,440	52,149	(665)	2,200	43,000	292,047	473,942	–	473,942

Note: The statutory reserve is reserve of the Company's subsidiaries operating as foreign investment enterprises in the PRC. The transfer to this reserve is governed by relevant regulations of the PRC and the articles of association of these subsidiaries. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses or be capitalised as paid up capital.

1. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The combined financial statements have been prepared on a combined basis as prescribed by the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The combined income statements, combined cash flow statements and combined statements of changes in equity 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/establishment, where this is a shorter period. The combined balance sheets of the Group as at 31 March 2004, 2005 and 2006 have been prepared to present the assets and liabilities of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at those dates.

In applying the principles of merger accounting for corporate reorganisation under common control, the financial statement items of Best Truth, Cyberbay, LK (HK) and World Force and their subsidiaries are included in the Financial Information as they are under the common control of Girgio Industries Limited, the ultimate holding company of the Company. No accounting adjustment to the net assets nor net results of these companies was required to achieve consistency with the Group's accounting policies.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable HKFRS (which includes all applicable Hong Kong Accounting Standards ("HKAS") and Interpretations) and has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment properties, which are carried at fair values.

The preparation of the Financial Information in accordance with HKFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the Relevant Periods. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

The principal accounting policies, which have been consistently applied during the Relevant Periods, adopted by the Group are set out below:

(a) Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date of ceases.

All significant inter-company transactions, cash flows and balances between the companies now comprising the Group are eliminated.

(i) Merger accounting for common control combination

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(ii) Business combinations

Except for the merger accounting for the Corporate Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries or businesses 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.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(b) Goodwill

Goodwill is test annually for impairment and carried at cost less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of acquisition is less than the fair value of the net assets of an entity or business acquired, the difference (i.e. negative goodwill) is recognised directly in the income statement.

(c) Revenue recognition

Revenue from goods sold is recognised, when the significant risks and rewards of ownership have been transferred to the buyer.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the applicable interest rate.

(d) Employee benefits

(i) Pension schemes

The Group operates two retirement benefits schemes in Hong Kong, namely a Mandatory Provident Fund Scheme (the "MPF Scheme") and a defined contribution retirement benefits scheme (the "ORSO Scheme") as defined in the Occupational Retirement Schemes Ordinance, for all of its employees in Hong Kong.

Under the MPF Scheme, contributions of 5% of the employees' relevant income are made by each of the employer and the employees subject to a cap of HK$1,000. The employer's contributions are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The employer's contributions vest fully with the employees when they are contributed into the MPF Scheme. Employees joining the Group after 1 December 2000 are only eligible for participating in the MPF Scheme.

Under the ORSO Scheme, contributions of 5% of the employees' basic salaries are made by each of the employer and the employees. The employer's contributions are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the employer's contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(d) Employee benefits – Continued

(i) Pension schemes – Continued

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries established in the PRC are required to participate in a government-regulated defined contribution pension scheme. These subsidiaries are required to contribute a certain percentage of the payroll costs to the pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the pension scheme.

The employer's contributions to relevant retirement schemes for the employees of the Group's subsidiaries in other countries are charged to the income statement as they become payable in accordance with the local requirements. The number of employees and employer's contributions of these subsidiaries during the Relevant Periods are insignificant.

(ii) Long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employees fulfill certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefits that employees have earned in return for their service in the current and prior periods. A provision is made for the estimated liability of long service payments calculated net of expected reduction from benefits available from pension schemes.

(iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and other non-accumulating compensated absences are not recognised until the time of leave.

(e) Research and development costs

Research and development costs comprise all costs of materials, direct labour and an appropriate proportion of overheads that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

All research costs are charged to income statement as incurred.

Expenditure on development activities is capitalised only if the product or process is clearly defined, technically and commercially feasible, the attributable expenditure is separately identifiable and the Group has sufficient resources and intention to complete the development. Development costs that do not meet the above criteria are recognised as expenses as incurred. During the Relevant Periods, no development costs have been capitalised.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(f) Income taxes

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 Relevant Periods. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(g) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(h) Investment properties

Investment properties are land and/or buildings which held to earn rentals and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Investment properties are stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in income statement for the Relevant Periods in which they arise.

(i) Property, plant and equipment

Land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease, are stated as finance lease and included in land and buildings at cost, less accumulated depreciation and impairment losses, if any.

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. 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 charged to the income statement for the Relevant Periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life at the following annual rates:

Buildings situated on leasehold land	Over the shorter of the unexpired lease term of lease and their estimated useful lives of no more than 50 years
Leasehold improvements	5% – 20%
Plant and machinery	10% – 20%
Furniture, fixtures and office equipment	5% – 20%
Motor vehicles	20%

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

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 included in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(i) Property, plant and equipment – Continued

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

(j) Trademark

Trademark is measured initially at purchase cost and is subsequently amortised on a straight line basis over its estimated useful life of ten years less impairment loss, if any.

(k) Operating leases

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.

Rental payments/receipts under operating leases are recognised in the income statement on a straight-line basis over the terms of the respective leases.

(l) Land use rights

Land use rights represent up-front payments to acquire long term interests in lessee-occupied properties. These payments are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged to the income statement on a straight-line basis over the terms of the respective leases.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in first out method. Net realisable value represents the estimated selling price in the ordinary and usual course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write down is made for deteriorated, damaged, obsolete and slow moving inventories.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(n) Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. The accounting policies adopted for specific financial assets and financial liabilities are set out below:

Bills and accounts receivable, other receivables and amounts due from related entities

Bills and accounts receivable, other receivables and amounts due from related entities are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate impairment loss on an account receivable is recognised in income statement when there is objective evidence that the asset is impaired. The impairment loss recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

These investments are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement. Impairment losses recognised in income statement for these investments are not subsequently reversed through income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Bills and accounts payable, other payables and amounts due to related entities

Bills and accounts payable, other payables and amounts due to related entities are initially measured at fair values and are subsequently measured at amortised cost, using the effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(n) Financial instruments – Continued

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 carrying amount of the financial asset and the sum of the consideration received and cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

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 expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in income statement.

(o) Foreign currencies

The individual financial statements of each group companies are presented in the currency of the primary economic environment in which the company operates (its functional currency). For the purpose of preparation of the Financial Information, the results, cash flows and financial position of each group companies are presented in Hong Kong dollars, which is the Company's functional currency and presentation currency for the Financial Information.

In preparing the financial statements of the individual group companies, transactions in currencies other than the group company's functional currency (foreign currencies) are recorded at the rates of exchange 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 retranslation of monetary items, are included in income statement. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the Relevant Periods, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange fluctuation reserve. Such translation differences are recognised in income statement in the Relevant Periods in which the foreign operation is disposed of.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(p) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(q) Borrowing costs

Borrowing costs are recognised in income statement in which they are incurred.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(s) Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the income statement.

The Group regards its financial guarantee contracts provided in respect of credit facilities granted by financial institutions to certain customers of the Group and financial guarantee contracts provided to its related parties as insurance contracts.

(t) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital disclosures[1]
HKAS 19 Amendment	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 Amendment	Net investment in foreign operation[2]
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 Amendment	The fair value option[2]
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts[2]
HKFRS 6	Exploration for evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS – Interpretation 4	Determining whether an arrangement contains a lease[2]
HKFRS – Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) –Interpretation 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) –Interpretation 7	Apply restatement approach under HKAS 29 – Financial reporting in hyper inflationary economies[4]
HK(IFRIC) –Interpretation 8	Scope of HKFRS 2[5]
HK(IFRIC) –Interpretation 9	Reassessment of embedded derivatives[6]

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 2, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 2 (m) describes that inventories are stated at the lower of cost and net realisable value.

The Group has a policy to write down inventories based on their aging. Management review the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value to ascertain whether allowance is required to be made for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified.

Bills and accounts receivable, and amounts due from related entities

Note 2(n) describes that bills and accounts receivable and amounts due from related entities are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate impairment loss on an account receivable is recognised in income statement when there is objective evidence that the asset is impaired.

The Group adopts a prudent approach in selecting its customers in order to minimise its credit risk. All new customer accounts with credit terms are reviewed by the finance department in areas including credit ratings, credit history, and sales amount, etc for the purpose of making an assessment of the payment term or assigning a credit limit if applicable.

The Group has implemented a credit policy with an aim to maintain the accounts receivable at a low level. The level of accounts receivable will be reviewed by the Group's senior management of the finance department on a monthly basis. Impairment loss will be recognised when the recoverability of the outstanding debts is uncertain after taking into account the aging of the debts and the likelihood of collection.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION

The turnover and revenue recognised during the Relevant Periods are as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Sales of machines and related accessories, net of returns and discounts	601,974	667,588	851,519
Other revenue			
Rental income	1,273	1,142	1,601
Bank interest income	676	603	783
Other subsidies from government *(Note (i))*	962	1,139	4,245
Value added tax refunded *(Note (ii))*	316	6,536	18,063
Recognition of negative goodwill	–	4,639	–
Increase in fair value of investment properties	173	3,055	1,830
Gain on disposal of subsidiaries	–	–	915
Gain on resale of plant and equipment to related companies *(Note 25(b))*	–	–	2,780
Sundry income	141	940	2,408
	3,541	18,054	32,625
	605,515	685,642	884,144

Notes:

(i) It mainly includes subsidies received by LK (Shenzhen) after the revocation of certain income tax relief and tax refund arising from reinvestment of earnings of Shanghai Atech by the Group.

On 11 August 1999, the local tax bureau granted to a subsidiary which was classified as high technology enterprise, LK (Shenzhen), an extension of reduction in 50% income tax rate for five years commencing from 1999 pursuant to article 75 of Rules for the implementation of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法實施細則第七十五條). On 5 July 2002, the tax bureau found out the grant of the additional tax concession period was beyond that of the national rules and regulations of three years applicable to high technology enterprises. Therefore, the tax bureau has revoked the tax concession granted to LK (Shenzhen) since 1 January 2002. Subsequently, the Finance Bureau of Shenzhen at its discretion provided subsidy to LK (Shenzhen) during the period from 1 January 2002 to 31 December 2005. The Finance Bureau of Shenzhen is a municipal general functional department which has the authority to grant subsidy to enterprises.

Under article 8 of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法), income tax refund on reinvestments is available to foreign investors when they reinvest the retaining profits in their entities in the PRC, instead of distributing and remitting outside the PRC.

(ii) Under Article 1 of Notice of the State Taxation Administration on the Relevant Taxation Issues to encourage the development of software and integrated circuit industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知第一條), certain subsidiaries, SZ Leadwell, LK (Shenzhen) and Shanghai Atech, received refund of value added tax paid on sales of software bundled with the sold machines.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION – Continued

Primary reporting format – Business segments

The Group is principally engaged in the design, manufacture, and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines and related accessories.

As the Group has only one business segment, no business segment analysis was presented for the Relevant Periods.

Secondary reporting format – Geographical segments

The Group's operations are principally located in the PRC. As over 90% of the Group's revenue are derived from customers and operations based in the PRC, no analysis of the Group's geographical revenue is presented for the Relevant Periods.

The additions to property, plant and equipment, land use rights and intangible assets for the Relevant Periods are as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Location			
The PRC	19,616	133,763	112,736
Hong Kong	891	2,312	401
Other countries	–	382	98
	20,507	136,457	113,235

The carrying amounts of segment assets by location of assets as at respective balance sheet dates are as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Location			
The PRC	532,555	794,228	973,051
Hong Kong	35,974	52,857	48,111
Other countries	25,494	16,074	29,290
Total segment assets	594,023	863,159	1,050,452
Deferred tax assets	5,287	6,400	7,364
Total assets	599,310	869,559	1,057,816

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amortisation of:			
– Trademark	–	12	48
– Land use rights	405	510	612
Depreciation of property, plant and equipment	17,154	20,347	32,273
Total amortisation and depreciation	17,559	20,869	32,933
Auditors' remuneration	886	1,028	1,100
Cost of sales	346,599	423,319	564,407
Loss on disposal of property, plant and equipment	171	18	–
Impairment loss on bills and accounts receivable *(Note (i))*	3,257	9,034	6,663
Impairment loss/(reversal of impairment loss) on amounts due from fellow subsidiaries	6,719	2,798	(133)
Impairment loss on amount due from a related company	2,178	562	–
Write down/(reversal of write down) of inventory	3,745	5,839	(2,458)
Provision for a legal claim *(Note 28(b)(i))*	3,400	–	–
Impairment loss on available-for-sale financial assets	–	–	93
Directors' emoluments *(Notes (ii) and 7)*	4,953	5,141	6,865
Staff costs (excluding directors' emoluments)	77,739	88,321	112,492
Contributions to defined contribution plans *(Note (iv))*	1,583	2,360	3,921
Total staff costs	84,275	95,822	123,278
Research and development costs	5,686	10,151	13,445
Less: Government grants *(Note (iii))*	(3,413)	(47)	(961)
Net research and development costs	2,273	10,104	12,484
Gross rental income from investment properties	(434)	(736)	(1,088)
Less: Outgoings	66	73	69
Net rental income from investment properties	(368)	(663)	(1,019)
Gross rental income from other properties	(839)	(406)	(513)
Increase in fair value of investment properties	(173)	(3,055)	(1,830)
Write back of provision for a legal claim and accrued legal fee *(Note 28(b)(i))*	–	(3,564)	–
Bank interest income	(676)	(603)	(783)
Recognition of negative goodwill	–	(4,639)	–
Gain on disposal of subsidiaries	–	–	(915)
Gain on disposal of property, plant and equipment	–	–	(60)

6. PROFIT FROM OPERATIONS – Continued

Notes:

(i) The impairment loss on bills and accounts receivable includes non-recoverable payments made to banks by the Group to discharge the obligation under the guarantees given for its customers as mentioned in note 28(a)(i) to the financial statements.

(ii) The directors' emoluments include an operating lease rental in respect of a residential premises provided to a director of the Company. The rental expenses amounted to HK$720,000, HK$720,000, HK$741,000 for the years ended 31 March 2004, 2005 and 2006 respectively.

(iii) Government grants have been received from the relevant PRC authorities in certain development zones to encourage the development of the Group's business. There are no unfulfilled conditions or contingencies relating to these grants.

(iv) The forfeited contributions available to offset against contributions in respect of the Relevant Periods, if any, is insignificant.

There was no forfeited contributions as at 31 March 2004, 2005 and 2006 available to offset against future contributions.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company by the companies now comprising the Group during the Relevant Periods are as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Fees	–	–	1,110
Salaries and other allowances	2,827	3,940	4,819
Discretionary bonuses	2,073	1,149	877
Retirement scheme contributions	53	52	59
	4,953	5,141	6,865

The remuneration of each of the directors during the Relevant periods is as follows:

	Fees	**Salaries and other allowances**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2004					
Executive directors					
Chong Siw Yin	–	1,098	–	12	1,110
Cao Yang	–	568	1,084	16	1,668
Liu Zhao Ming	–	251	989	13	1,253
Chung Yuk Ming	–	910	–	12	922
	–	2,827	2,073	53	4,953

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(a) Directors' emoluments – Continued

	Fees *HK$'000*	Salaries and other allowances *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Year ended 31 March 2005					
Executive directors					
Chong Siw Yin	–	2,085	–	6	2,091
Cao Yang	–	658	566	20	1,244
Liu Zhao Ming	–	249	283	14	546
Chung Yuk Ming	–	948	300	12	1,260
	–	3,940	1,149	52	5,141
Independent non-executive directors					
Low Seow Chay	–	–	–	–	–
Lui Ming Wah	–	–	–	–	–
Tsang Yiu Keung	–	–	–	–	–
Chan Wah Tip	–	–	–	–	–
Liu Chee Ming	–	–	–	–	–
	–	–	–	–	–
	–	3,940	1,149	52	5,141

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(a) Directors' emoluments – Continued

	Fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2006					
Executive directors					
Chong Siw Yin	–	2,521	–	12	2,533
Cao Yang	–	758	404	21	1,183
Liu Zhao Ming	–	406	173	14	593
Chung Yuk Ming	–	1,134	300	12	1,446
	–	4,819	877	59	5,755
Independent non-executive directors					
Low Seow Chay	180	–	–	–	180
Lui Ming Wah	180	–	–	–	180
Tsang Yiu Keung	250	–	–	–	250
Chan Wah Tip	250	–	–	–	250
Liu Chee Ming	250	–	–	–	250
	1,110	–	–	–	1,110
	1,110	4,819	877	59	6,865

The emoluments of the directors fell within the following bands:

	Number of directors Year ended 31 March		
	2004	**2005**	**2006**
Nil to HK$1,000,000	1	6	6
HK$1,000,001 to HK$1,500,000	2	2	2
HK$1,500,001 to HK$2,000,000	1	–	–
HK$2,000,001 to HK$2,500,000	–	1	–
HK$2,500,001 to HK$3,000,000	–	–	1

During the Relevant Periods, no emoluments was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the Relevant Periods.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS – Continued

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Number of directors and non-directors Year ended 31 March		
	2004	**2005**	**2006**
Directors	3	3	3
Non-directors	2	2	2
	5	5	5

The emoluments payable to the non-director individuals are as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other allowances	2,102	1,067	1,088
Discretionary bonuses	3,297	366	1,191
Retirement scheme contributions	96	42	45
	5,495	1,475	2,324

The emoluments of the non-director individuals fell within the following bands:

	Number of individuals Year ended 31 March		
	2004	**2005**	**2006**
Nil to HK$1,000,000	–	2	–
HK$1,000,001 to HK$1,500,000	1	–	2
HK$4,000,001 to HK$4,500,000	1	–	–

8. FINANCE COSTS

	Year ended 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Interests on bank loans and overdrafts wholly repayable within five years	3,576	6,373	15,100
Exchange (gains)/losses, net	(1,946)	1,508	(1,328)
Bank charges	876	1,338	1,142
	2,506	9,219	14,914

9. INCOME TAXES

The tax charge/(credit) for the Relevant Periods in the income statement represents:

	Year ended 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong Profits Tax			
Current year	765	–	–
Under/(over) provision in prior years	196	–	(194)
	961	–	(194)
PRC Enterprise Income Tax ("EIT")			
Current year	8,041	5,211	12,392
Over provision in prior years	–	(80)	(974)
	8,041	5,131	11,418
Deferred taxation			
Current year	(2,441)	(1,393)	(964)
Under recognition in prior years	–	(108)	–
Attributable to a change in tax rate	(43)	–	–
	(2,484)	(1,501)	(964)
Tax charge for the year	6,518	3,630	10,260

No Hong Kong Profits Tax has been provided for the years ended 31 March 2005 and 2006 as there were no assessable profits arose for these years. Hong Kong Profits Tax for the year ended 31 March 2004 is calculated at 17.5% of the estimated assessable profit for that year.

In accordance with the applicable Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiaries registered in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax loss brought forward and are entitled to 50% relief on the income tax in the following three years.

9. INCOME TAXES – Continued

The tax rates applicable to each of the principal subsidiaries established in the PRC are set out below:

LK (Shenzhen) is taxed at the applicable income tax rate of 15% during the Relevant Periods.

LK (Zhongshan) was entitled to 50% income tax relief for three years starting from 1 January 2001. As it was classified as high technology entity under relevant rules, an extension of 50% income tax relief was granted for three years commencing from 1 January 2004. The applicable tax rate is therefore 12% during the period from 1 January 2004 to 31 December 2006.

Shanghai Atech commenced its first profit making year from 1 January 1999. As Shanghai Atech was classified as high technology entity under relevant rules, an exemption was granted for the national income tax and the local income tax for two years and five years respectively and a 50% relief was granted for national income tax and local income tax for six years and three years respectively. Accordingly, the income tax rate applicable to Shanghai Atech during the period from 1 January 2001 to 31 December 2003 was 12%. The income tax rate for the period from 1 January 2004 to 31 December 2006 is 13.5%.

SZ Leadwell commenced its first profit making year from 1 January 2003 and therefore is exempted from the EIT for two years up to 31 December 2004. It is entitled to 50% relief on EIT for three years commencing from 1 January 2005. Accordingly, the income tax rate applicable to SZ Leadwell from 1 January 2005 to 31 December 2007 is 7.5%.

LK (Ningbo) commenced its first profit making year from 1 January 2003 and therefore is exempted from national income tax and local income tax for two years commencing from 1 January 2003. It is entitled to 50% relief for both national income tax and local income tax for three years commencing from 1 January 2005. Accordingly, the income tax rate applicable to LK (Ningbo) from 1 January 2005 to 31 December 2007 is 8.25%.

LK (Fuxin), LK Tech (Ningbo), LK (Shenzhen Wholesale) and Shanghai Dragon Prosper have not yet commenced their first profit making year and therefore are not subject to EIT.

No provision for overseas income tax has been made as the Group has no assessable profits subject to overseas income tax during the Relevant Periods.

The details of recognised and unrecognised deferred taxation are set out in note 17.

9. INCOME TAXES – Continued

A reconciliation of the tax charge applicable to profit before tax using the statutory tax rate for Hong Kong to the tax expense at the Group's effective tax rate is as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	120,126	106,445	117,876
Applicable Hong Kong Profits Tax rate	17.5%	17.5%	17.5%
	HK$'000	*HK$'000*	*HK$'000*
Tax charge at Hong Kong Profits Tax rate	21,022	18,628	20,628
Effect of different and preferential tax rates applicable to other jurisdictions	(17,072)	(14,947)	(8,277)
Effect of non-taxable income	(674)	(2,448)	(2,640)
Effect of non-deductible expenses	2,119	73	124
Effect of unrecognised tax losses	1,284	1,368	869
Effect of other temporary differences not recognised	–	217	(758)
Effect of recognition of temporary differences not previously recognised	–	(108)	–
Effect of opening deferred tax balance resulting from a change in tax rate	(43)	–	–
Under/(over) provision of tax in prior years	196	(80)	(1,168)
Others	(314)	927	1,482
Tax charge for the year	6,518	3,630	10,260

10. DIVIDENDS

No dividend has been declared or paid by the Company since its date of incorporation. The dividends disclosed in the financial statements represent dividends declared and paid or proposed by certain subsidiaries of the Company to their then holding company prior to the Corporate Reorganisation.

The dividend rates and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this Financial Information.

11. 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 each of the Relevant Periods and on the assumption that 750,000,000 shares had been in issue throughout the Relevant Periods, comprising 650,000,000 shares in issue as at the date of this prospectus and 100,000,000 shares to be issued pursuant to the capitalisation issue as described more fully in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 23 September 2006" in section 3 of appendix V to this prospectus.

There were no dilutive potential ordinary shares during the Relevant Periods. Accordingly, no diluted earnings per share is presented.

12. INTANGIBLE ASSETS

	Goodwill	Trade-mark	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 April 2003	2,596	–	2,596
Exchange realignment	203	–	203
At 31 March 2004	2,799	–	2,799
Arising from acquisition of a business *(Note)*	–	472	472
At 31 March 2005	2,799	472	3,271
Exchange realignment	–	9	9
At 31 March 2006	2,799	481	3,280
Amortisation			
At 31 March 2003 and 2004	–	–	–
Amortisation during the year	–	12	12
At 31 March 2005	–	12	12
Amortisation during the year	–	48	48
At 31 March 2006	–	60	60
Net book value			
At 31 March 2004	2,799	–	2,799
At 31 March 2005	2,799	460	3,259
At 31 March 2006	2,799	421	3,220

Note: During the year ended 31 March 2005, the Group has acquired a business including a trademark (Note 26(a)), which is amortised to the income statement in accordance with the Group's accounting policies as stated in note 2(j) to the financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 April 2003	79,496	–	9,708	100,962	9,947	15,290	215,403
Exchange realignment	–	–	11	10	62	–	83
Additions	316	1,617	928	8,597	2,288	3,940	17,686
Disposals	–	–	(101)	(780)	(116)	(1,667)	(2,664)
Reclassification	–	–	73	42	(115)	–	–
At 31 March 2004	79,812	1,617	10,619	108,831	12,066	17,563	230,508
Exchange realignment	–	–	–	(2)	(13)	–	(15)
Additions	–	56,009	1,346	43,762	4,580	5,325	111,022
Government grant received for acquisition of property, plant and equipment	–	(2,830)	–	–	–	–	(2,830)
Acquisition of a business	7,103	–	–	8,971	157	286	16,517
Disposals	–	–	(13)	(132)	(452)	(1,126)	(1,723)
Reclassification	30,229	(30,229)	–	–	–	–	–
Surplus on revaluation upon reclassification to investment properties	2,588	–	–	–	–	–	2,588
Reclassification to investment properties	(4,569)	–	–	–	–	–	(4,569)
At 31 March 2005	115,163	24,567	11,952	161,430	16,338	22,048	351,498
Exchange realignment	2,165	472	226	2,888	240	357	6,348
Additions	2,417	66,241	871	30,642	6,937	6,127	113,235
Disposals	–	–	(2,210)	(3,360)	(1,762)	(1,775)	(9,107)
Disposal of subsidiaries	–	–	–	(29)	(77)	(257)	(363)
Reclassification	65,365	(90,079)	3,153	20,099	1,462	–	–
At 31 March 2006	185,110	1,201	13,992	211,670	23,138	26,500	461,611

13. PROPERTY, PLANT AND EQUIPMENT – Continued

	Buildings	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation							
At 1 April 2003	6,357	–	3,193	43,117	5,674	7,899	66,240
Exchange realignment	–	–	4	3	21	–	28
Charge for the year	4,143	–	1,190	7,806	1,286	2,729	17,154
Written back on disposals	–	–	(73)	–	(16)	(1,336)	(1,425)
Reclassification	–	–	13	9	(22)	–	–
At 31 March 2004	10,500	–	4,327	50,935	6,943	9,292	81,997
Exchange realignment	–	–	–	–	(7)	(1)	(8)
Charge for the year	4,292	–	614	10,348	1,882	3,211	20,347
Written back on disposals	–	–	(7)	(117)	(352)	(920)	(1,396)
Reclassification to investment properties	(1,269)	–	–	–	–	–	(1,269)
At 31 March 2005	13,523	–	4,934	61,166	8,466	11,582	99,671
Exchange realignment	230	–	42	844	105	150	1,371
Charge for the year	5,146	–	2,183	17,720	3,316	3,908	32,273
Written back on disposals	–	–	(2,203)	(1,820)	(1,682)	(1,210)	(6,915)
Disposal of subsidiaries	–	–	–	(1)	(2)	(7)	(10)
At 31 March 2006	18,899	–	4,956	77,909	10,203	14,423	126,390
Net book value							
At 31 March 2004	69,312	1,617	6,292	57,896	5,123	8,271	148,511
At 31 March 2005	101,640	24,567	7,018	100,264	7,872	10,466	251,827
At 31 March 2006	166,211	1,201	9,036	133,761	12,935	12,077	335,221

Certain property, plant and equipment are pledged to secure the bank borrowings of the Group as detailed in notes 23 and 29.

The cost of buildings of HK$3,337,000 as at 31 March 2004, 2005 and 2006 includes the cost of leasehold land which cannot practically be separated from the cost of buildings thereon. The land and buildings are held in Hong Kong under a medium term lease.

14. INVESTMENT PROPERTIES

	Leasehold land and buildings *HK$'000*
At fair value	
At 1 April 2003	8,772
Increase in fair value during the year	173
At 31 March 2004	8,945
Reclassification from land and building during the year	3,300
Increase in fair value during the year	3,055
At 31 March 2005	15,300
Exchange realignment	89
Increase in fair value during the year	1,830
At 31 March 2006	17,219

The investment properties comprise:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
At fair value:			
Leasehold land and buildings in Hong Kong under medium term leases	4,328	7,210	8,460
Leasehold land and buildings in the PRC under medium term leases	4,617	8,090	8,759
	8,945	15,300	17,219

One of the investment properties is pledged to secure bank borrowings of the Group as detailed in notes 23 and 29.

Investment properties at 31 March 2004 and 2005 were stated at fair value by reference to their then estimated market value.

The fair value of the investment properties at 31 March 2006 has been arrived at on the basis of a valuation carried out at that date by Messrs Sallmanns (Far East) Limited, independent professional surveyors and valuers not connected with the Group. The address of the valuers is 22nd Floor, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

15. LAND USE RIGHTS

	HK$'000
Cost	
At 1 April 2003	19,792
Additions	2,821
At 31 March 2004	22,613
Additions	5,125
Acquisition of a business	6,151
At 31 March 2005	33,889
Exchange realignment	651
At 31 March 2006	34,540
Amortisation	
At 1 April 2003	1,250
Amortisation during the year	405
At 31 March 2004	1,655
Amortisation during the year	510
At 31 March 2005	2,165
Exchange realignment	41
Amortisation during the year	612
At 31 March 2006	2,818
Net book value	
At 31 March 2004	20,958
At 31 March 2005	31,724
At 31 March 2006	31,722

The land use rights are held in the PRC under medium term lease of no longer than 50 years from the date of acquisition.

The land use rights of HK$15,214,000, HK$20,969,000 and HK$9,391,000 as at 31 March 2004, 2005 and 2006 respectively are pledged to secure bank borrowings of the Group as detailed in notes 23 and 29.

Up to the date of this report, the Group is still in the process of applying for the granted land use right titles for parcels of land with a gross carrying amount of HK$5,125,000 and HK$5,223,000 as at 31 March 2005 and 2006 respectively.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Investment in unlisted securities, less impairment	93	93	–
Investment in securities listed in Hong Kong, at fair value	–	1,672	1,216
	93	1,765	1,216
Market value of listed securities in Hong Kong	–	1,672	1,216

17. DEFERRED TAX ASSETS

The components of deferred tax assets/(liabilities) recognised in the balance sheets and movement during the Relevant Periods are as follows:

	Unutilised tax losses	**Impairment losses and allowances**	**Depreciation allowances**	**Revaluation of investment properties**	**Other temporary differences**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2003	66	714	1,173	683	167	2,803
(Charge)/credit to income statement	86	1,246	245	(23)	930	2,484
At 31 March 2004	152	1,960	1,418	660	1,097	5,287
Charge to equity	–	–	–	(388)	–	(388)
(Charge)/credit to income statement	168	2,591	19	(527)	(750)	1,501
At 31 March 2005	320	4,551	1,437	(255)	347	6,400
(Charge)/credit to income statement	(315)	1,572	(317)	(300)	324	964
At 31 March 2006	5	6,123	1,120	(555)	671	7,364

17. DEFERRED TAX ASSETS – Continued

As at respective balance sheet dates, the Group has the following unutilised tax losses available for offsetting against future taxable profits which have not been recognised as deferred tax assets in the financial statements.

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Tax losses expire in			
2006 – 2010	13,444	10,524	12,017
2011 to 2015	–	7,539	10,836
Unexpired tax losses	81	101	101
	13,525	18,164	22,954

The above tax losses have not been recognised as deferred tax assets as they are not probable to be utilised by the Group in the foreseeable future.

18. BILLS AND ACCOUNTS RECEIVABLE

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Gross accounts receivable	123,407	151,921	250,506
Less: Impairment loss	(16,013)	(25,812)	(32,475)
Accounts receivable, net	107,394	126,109	218,031
Bills receivable	33,788	18,848	29,684
Less: Balance due within one year included in current assets	(139,179)	(144,675)	(243,567)
Balance due after one year shown as non-current assets	2,003	282	4,148

Goods sold to customers are either made on cash on delivery or on credit. Customers in general are required to pay deposits upon purchases orders are placed, the remaining balances will be payable upon goods are delivered to customers. Some customers are granted a credit term with repayment period ranging from 1 month to 6 months. The Group also sells goods to certain customers with sales proceeds payable by instalments which normally range from 6 months to 12 months.

18. BILLS AND ACCOUNTS RECEIVABLE – Continued

The aging analysis of the gross accounts receivable based on invoice date is as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Balances with extended credit terms and/or receivable by instalments			
0 – 90 days	18,545	23,313	85,972
91 – 180 days	4,566	6,630	18,783
181 – 365 days	3,534	8,229	6,952
Over one year	4,927	6,282	5,311
	31,572	44,454	117,018
Balance with normal credit terms			
0 – 90 days	52,379	41,335	75,094
91 – 180 days	27,355	20,280	23,527
181 – 365 days	4,878	25,699	14,867
Over one year	7,223	20,153	20,000
	91,835	107,467	133,488
	123,407	151,921	250,506

The maturity of the bills receivable is generally between one to six months.

The carrying amounts of the bills and accounts receivable before impairment loss are denominated in the following currencies:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Renminbi ("RMB")	103,155	102,159	228,175
Hong Kong dollars	43,410	49,363	23,112
United States dollars	10,038	18,736	28,817
Other currencies	592	511	86
	157,195	170,769	280,190

19. INVENTORIES

	As at 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	83,142	122,701	111,687
Spare parts	6,812	7,740	2,997
Work in progress	42,853	52,440	38,237
Finished goods	37,563	65,634	70,091
	170,370	248,515	223,012
Less: Write down of inventory	(13,694)	(19,506)	(17,048)
	156,676	229,009	205,964

As at 31 March 2004, 2005 and 2006, the carrying amounts of inventories of HK$5,368,000, HK$9,823,000 and HK$9,741,000 respectively were stated at net realisable value. The remaining inventories were stated at cost.

The write down of inventories as percentage of total costs of inventories had been made against the following inventories.

	As at 31 March		
	2004	2005	2006
Inventories aged between one to two years	4.6%	2.9%	1.8%
Inventories aged over two years	3.4%	4.9%	5.8%
	8.0%	7.8%	7.6%

20. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Trade deposits	556	1,358	5,931
Sundry, rental and utility deposits	824	922	664
Advances to staff for business purpose	2,932	3,414	3,181
Value added tax receivable	1,424	2,604	2,646
Prepayment for proposed listing of the Company	-	5,286	5,600
Other prepayments	2,407	6,156	6,455
Sundry receivables	656	1,830	1,145
Other miscellaneous items	1,882	1,801	1,042
	10,681	23,371	26,664

The carrying amounts of other receivables, prepayments and deposits are denominated in the following currencies:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RMB	8,244	16,199	15,505
Hong Kong dollars	1,584	5,647	8,386
United States dollars	1	253	488
Other currencies	852	1,272	2,285
	10,681	23,371	26,664

21. BILLS AND ACCOUNTS PAYABLE

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Accounts payable	87,406	104,177	132,921
Bills payable	4,428	50,430	9,089
	91,834	154,607	142,010

Included in the bills and accounts payable as at 31 March 2004, 2005 and 2006 are payables arising from purchase of property, plant and equipment by the Group and on behalf of certain related companies amounting to HK$3,088,000, HK$41,954,000 and HK$8,946,000 respectively.

The aging analysis of the accounts payable based on invoice date is as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
0 – 90 days	74,834	80,485	112,923
91 – 180 days	10,188	17,262	13,102
181 – 365 days	935	4,254	4,526
Over one year	1,449	2,176	2,370
	87,406	104,177	132,921

The maturity date of the bills payable is generally between one to six months.

The carrying amounts of the bills and accounts payable are denominated in the following currencies:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RMB	68,667	96,333	110,188
Hong Kong dollars	16,602	13,637	20,457
United States dollars	2,970	12,716	3,695
Other currencies	3,595	31,921	7,670
	91,834	154,607	142,010

22. OTHER PAYABLES, DEPOSITS AND ACCRUALS

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other deposits	30,575	34,624	26,869
Accrued salaries, bonuses and staff benefits	13,608	15,151	18,288
Accrued sales commission	5,015	6,925	11,708
Value added tax payable	11,257	9,926	9,030
Payables for acquisition of property, plant and equipment	759	11,225	3,227
Outstanding consideration for acquisition of a business	–	7,245	2,064
Provision for a legal claim *(Note 28(b)(i))*	3,400	–	–
Other miscellaneous payables	2,076	8,471	12,782
	66,690	93,567	83,968

The carrying amounts of other payables, deposits and accruals are denominated in the following currencies:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RMB	45,624	76,541	67,095
Hong Kong dollars	12,079	11,196	7,852
United States dollars	8,497	5,401	8,585
Other currencies	490	429	436
	66,690	93,567	83,968

23. BANK BORROWINGS

The bank borrowings comprise:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Secured:			
Bank loans	48,884	108,058	169,240
Trust receipt loans	3,296	3,465	5,637
Bank overdrafts	2,075	1,063	4,592
	54,255	112,586	179,469
Unsecured:			
Bank loans	37,735	89,163	173,402
	91,990	201,749	352,871

23. BANK BORROWINGS – Continued

As at the respective balance sheet dates, the secured bank borrowings were secured by pledge of assets of the Group as detailed in note 29.

As at 31 March 2004, 2005 and 2006, secured and unsecured bank borrowings amounting to HK$19,808,000, HK$92,488,000 and HK$159,000,000 respectively were guaranteed by related entities, L.K. Industries Limited and/or Mr. Liu Siong Song, as mentioned in note 25(b).

The relevant banks have agreed in principle that the guarantees and undertakings given by the above related entities will be released and replaced by corporate guarantees and undertakings provided by the Company and/or other members of the Group upon the date of listing of the shares of the Company on the Stock Exchange.

The maturity of the bank borrowings is as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Repayable:			
Within one year	56,850	138,424	261,282
In the second year	32,328	26,763	40,083
In the third to fifth years inclusive	2,812	36,562	51,506
Over five years	–	–	–
	91,990	201,749	352,871
Less: Amount due within one year included in current liabilities	(56,850)	(138,424)	(261,282)
Amount due after one year shown as non-current liabilities	35,140	63,325	91,589

The carrying amounts of the bank borrowings are denominated in the following currencies:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RMB	70,755	104,717	185,385
Hong Kong dollars	6,996	86,726	157,395
Japanese yen	10,865	7,460	3,900
Other currencies	3,374	2,846	6,191
	91,990	201,749	352,871

23. BANK BORROWINGS – Continued

The bank borrowings comprise:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Fixed rate borrowings	70,755	104,717	165,192
Floating rate borrowings	21,235	97,032	187,679
	91,990	201,749	352,871

The interest rates of the Group's major bank borrowings are as follows:

	As at 31 March		
	2004	**2005**	**2006**
Fixed rate borrowings	5.04% to 5.49%	4.65% to 7.779%	5% to 7.5%
Floating rate borrowings	HIBOR plus a margin from 1.5% to 1.75% or SIBOR plus 1.75%	HIBOR plus a margin from 1% to 2.25%	HIBOR plus a margin from 1% to 2.25%

24. SHARE CAPITAL

The combined share capitals as at 31 March 2004, 2005 and 2006 represent the aggregate of the nominal value of the share capitals of the subsidiaries (Best Truth, World Force and Cyberbay) to be acquired and directly held by the Company and the share capital of LK(HK) to be acquired by Best Truth pursuant to the Corporate Reorganisation.

The authorised share capital and issued share capital of the Company as at 31 March 2005 and 2006 are HK$380,000 divided into 3,800,000 shares of HK$0.1 each and one nil paid share of HK$0.1 respectively.

25. RELATED PARTY TRANSACTIONS

(a) During the Relevant Periods, transactions or balances with the following parties are considered as related party transactions.

Name of party	Relationship
Girgio Industries Limited ("Girgio")	95% owned by Fullwit Profits Limited as trustee of The Liu Family Unit Trust for the ultimate benefit of Ms. Chong Siw Yin and her son and the daughter. The remaining 5% is owned by Mr. Liu Siong Song, the spouse of Ms. Chong Siw Yin
Full Power Development Limited ("Full Power")	49% owned by Ms. Chong Siw Yin and 51% owned by Fullwit Profits Limited
Supreme Technology Limited ("Supreme Technology")	Wholly-owned by Girgio
L.K. Industries Limited ("LKIL")	Wholly-owned by Supreme Technology
Supreme Mission Limited ("Supreme Mission)	Wholly-owned by Supreme Technology
Windeck Maschinen GmbH ("Windeck")	55% owned by Supreme Mission
Fairview Technology Limited ("Fairview Technology")	Wholly-owned by Supreme Technology
Asia Automation Limited ("Asia Automation")	50% owned by Fairview Technology up to 7 July 2005 80% owned by Fairview Technology from 8 July 2005 to 17 November 2005 Asia Automation was disposed of on 18 November 2005 by Fairview Technology
Rise Power Limited ("Rise Power")	Wholly-owned by Fairview Technology Rise Power was transferred to Mr. Liu Siong Song on 31 December 2005
Allied First Technologies Limited ("Allied First")	Wholly-owned by Fairview Technology
Gaoyao Hongtai Precision Die-Casting Co., Ltd. ("Gaoyao Hongtai")	40% owned by Broad Rich
Oriental Pan Pacific (Hong Kong) Limited ("OPP (HK)")	33.3% owned by Allied First
Ortal Pan Pacific Metalware Manufacturing (Shenzhen) Company Limited ("OPP (PRC)")	Wholly-owned by OPP (HK)
Solari Automation (Shenzhen) Ltd. ("Solari Automation")	Wholly-owned by Asia Automation which was disposed of on 18 November 2005
Shenzhen Sinomag Limited ("Shenzhen Sinomag")	90% owned by Allied First Shenzhen Sinomag was deregistered in July 2005
Sky Treasure and its 70% owned subsidiaries, Dragon Prosper and Shanghai Dragon Prosper	Sky Treasure is a wholly-owned subsidiary of the Company prior to its disposal to Fairview Technology on 30 March 2006

A director and beneficial shareholder of the Company, Ms. Chong Siw Yin, is in a position to exercise significant influence or control on the above companies.

25. RELATED PARTY TRANSACTIONS – Continued

(a) Continued

Name of party	Relationship
L.K. Machinery (China) Limited ("LK China") whose name was changed to Advance Tech Industries Limited on 10 July 2006	Wholly-owned by Mr. Liu Siong Song
Key Point Limited ("Key Point")	Wholly-owned by LK China
City Team Industrial Limited ("City Team")	Wholly-owned by LK China
Shanghai Arays Hardware Manufacturing Co. Ltd. ("Shanghai Arays")	Wholly-owned by LK China
Techno Star Limited ("Techno Star")	Wholly-owned by LK China
Country Well Limited ("Country Well")	Wholly-owned by LK China
Baotou Arays Wheel Co., Ltd. ("Baotou Arays")	80% owned by Key Point
Shanghai Chaosheng Mould Co. Ltd. ("Shanghai Chaosheng")	Wholly-owned by Techno Star
Goodlink Development Limited ("Goodlink")	Wholly-owned by Mr. Liu Siong Song
Shanghai L.K. Machinery Co. Ltd. ("LK Shanghai")	100% beneficially owned by Goodlink
Wheelfit Investment Limited ("Wheelfit")	50% owned by Mr. Liu Siong Song
Arays Auto USA, Inc. ("Arays Auto")	40% owned by Mr. Liu Siong Song 30% owned by the brother-in-law of Mr. Liu Siong Song
Rise Power	Wholly-owned by Mr. Liu Siong Song since 30 December 2005

Mr. Liu Siong Song, a former director of certain subsidiaries of the Company during the years ended 31 March 2004 and 2005 and the spouse of Ms. Chong Siw Yin, is in a position to exercise significant influence or control on the above companies.

Name of party	Relationship
Yin Fat Industrial Company Limited ("Yin Fat")	Wholly-owned by the brother and the sister-in-law of Mr. Liu Siong Song.

25. RELATED PARTY TRANSACTIONS – Continued

(b) During the Relevant Periods, particulars of significant transactions between the Group and related parties, which are considered by the directors carried out in the ordinary and usual course of the Group's business, are as follows:

		Year ended 31 March		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Discontinuing transactions				
Sales of machines and related accessories or provision of services to:	*(i)*			
Windeck		2,819	–	–
Key Point		–	4,151	–
LK Shanghai		–	5	–
OPP (HK)		6,734	–	2,519
OPP (PRC)		417	109	681
Baotou Arays		–	–	12,595
Gaoyao Hongtai		–	–	15,914
Shanghai Arays		1,029	5,285	1,184
		10,999	9,550	32,893
Purchases of materials and machines from:	*(i)*			
LK Shanghai		348	–	211
City Team		800	400	–
		1,148	400	211
Purchases of valves from:				
Shanghai Arays	*(i)*	1,431	1,725	1,368
Resales of equipment which were purchased on behalf of:	*(ii)*			
Baotou Arays		–	–	15,095
Shanghai Arays		–	22,243	1,446
Key Point		–	5,141	10,282
		–	27,384	26,823
Acquisition of investment securities from:	*(iii)*			
Allied First		–	1,881	–
Guarantees given by the Group for credit facilities granted to:	*(iv)*			
Shanghai Arays		–	27,300	39,000
Gaoyao Hongtai		–	–	11,538
		–	27,300	50,538

25. RELATED PARTY TRANSACTIONS – Continued

(b) Continued

	Notes	Year ended 31 March 2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*
Discontinuing transactions – continued				
Operating lease rentals received from:	*(v)*			
Yin Fat		–	142	425
Shanghai Dragon Prosper		–	–	10
		–	142	435
Operating lease rentals paid to:	*(v)*			
Arays Auto		–	120	120
Full Power		720	720	741
		720	840	861
Recharge of electricity fee to:				
Shanghai Arays	*(vi)*	–	272	2,750
Disposal of subsidiaries				
Sky Treasure, Dragon Prosper and Shanghai Dragon Prosper sold to Fairview Technology at nominal consideration	*26(b) and (vii)*	N/A	N/A	–
Amount of banking facilities of the Group guaranteed by:	*(vii)*			
LKIL		–	–	10,000
Mr. Liu Siong Song and LKIL		171,928	171,928	243,015
Mr. Liu Siong Song		109,000	114,000	119,708
		280,928	285,928	372,723
Continuing transactions				
Operating lease rentals received from:				
OPP (PRC)	*(v)*	839	406	513
Operating lease rentals paid to:				
Wheelfit Investment	*(v)*	1,116	1,116	1,116

25. RELATED PARTY TRANSACTIONS – Continued

(b) Continued

Notes:

(i) The sales and purchases were made at normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to independent third parties.

(ii) The equipment were purchased by the Group on behalf of the related parties and were resold to them upon delivery at cost except that equipment sold to Baotou Arays and Shanghai Arays during the year ended 31 March 2006 were sold at a profit of HK$2,780,000 (Note 5). The directors of the Company consider that the purchases and resales were not made at normal commercial terms.

(iii) The investment was acquired at a consideration approximate to its then fair value. The directors of the Company consider the acquisition was conducted at normal commercial terms and fair and reasonable.

(iv) The particulars of the amounts of credit facilities utilised by Shanghai Arays and Gaoyao Hongtai, which are guaranteed by the Group, are as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Credit facilities utilised by			
(a) Shanghai Arays	–	23,830	29,729
(b) Gaoyao Hongtai	–	–	–

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Maximum amount outstanding during the year			
(a) Shanghai Arays	–	23,830	33,351
(b) Gaoyao Hongtai	–	–	–

(a) The directors of the Company consider that the guarantee was not made at normal commercial terms.

(b) In order to finance the purchase of the Group's machines and related accessories during the year ended 31 March 2006, Gaoyao Hongtai has obtained a finance lease facility of approximately HK$11,538,000 from a financial institution for a forty-nine month period. In this connection, the Group has entered into a buy back guarantee agreement (the "Guarantee") with the financial institution to buy back the subject machines and accessories from it pursuant to a pre-determined buy back schedule covering the thirty-six month period. The directors of the Company consider that the terms of the Guarantee are made on normal commercial terms which are similar to other buy back guarantees given for the Group's independent customers and this kind of arrangement is common in the industry of the Group.

The Group has not incurred any liability for the purpose of fulfilling the guarantees given by the Group during the Relevant Periods.

(v) An independent professional surveyor and valuer has confirmed that the rentals were fair and reasonable and consistent with the prevailing market rents for similar premises in similar location.

(vi) The amount of electricity charges billed to Shanghai Arays is based on the unit of electricity used and unit rate prescribed by the relevant authority. The directors of the Company consider the electricity charges were made on normal commercial terms.

(vii) These transactions and the transactions referred to under items (ii) and (iv)(a) above were not made at normal commercial terms. Given that these related party transactions were not material to the overall operation or the financial results of the Group, the effect of such related party transactions would not distort the results for the Relevant Periods to the extent that the historical results of the Group are not reflective of its performance.

The directors have confirmed that the discontinuing transactions will discontinue before the date of listing of the shares of the Company on the Stock Exchange and the continuing transactions will continue after the listing of the shares of the Company on the Stock Exchange.

25. RELATED PARTY TRANSACTIONS – Continued

(b) Continued

In addition, the relevant banks have agreed in principle that the guarantees and undertakings given by Mr. Liu Siong Song and LKIL will be released and replaced by corporate guarantees and undertakings provided by the Company and/or other members of the Group upon the date of listing of the shares of the Company on the Stock Exchange.

The guarantee provided by the Group for Shanghai Arays was released on 30 June 2006.

The guarantee provided by the Group for Gaoyao Hongtai, which utilised the credit facilities to the extent of HK$11,538,000 in July 2006, was released on 21 September 2006.

(c) The particulars of the amounts due from related entities, which arose from transactions with and/or advances made to these entities, are as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from holding company			
Girgio	24	–	–
Amounts due from fellow subsidiaries			
Supreme Technology	1,069	1,172	–
LKIL	–	–	9,716
Supreme Mission	741	741	–
Fairview Technology	1,600	1,600	–
Rise Power	–	5	–
Allied First	4,237	2,563	–
Sky Treasure	–	–	–
Windeck	2,753	–	–
	10,400	6,081	9,716
Amounts due from related companies *(Note i)*			
Asia Automation	475	413	–
Solari Automation	707	1,274	–
Key Point	–	26,702	–
LK China	–	11,709	–
OPP (PRC)	2,114	3,406	4,561
OPP (HK)	2,598	2,565	2,328
Techno Star	–	780	–
LK Shanghai	6,273	6,069	5,695
Goodlink	10	10	–
Shanghai Arays	298	23,080	28,365
Baotou Arays	–	–	22,858
Country Well	–	–	9,000
Shanghai Chaosheng	–	–	73
Gaoyao Hongtai	–	–	13,029
	12,475	76,008	85,909

25. RELATED PARTY TRANSACTIONS – Continued

(c) Continued

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due from directors *(Note ii)*			
Mr. Cao Yang	361	–	–
Mr. Liu Zhao Ming	237	–	–
	598	–	–
Total	23,497	82,089	95,625
Less: Amounts due after one year included in non-current assets			
Amount due from holding company			
Girgio	24	–	–
Amounts due from fellow subsidiaries			
Supreme Technology	1,069	1,172	–
Supreme Mission	741	741	–
Fairview Technology	1,600	1,600	–
Rise Power	–	5	–
Allied First	4,237	2,563	–
	7,647	6,081	–
Amount due from a related company			
Asia Automation	475	413	–
	8,146	6,494	–
Amounts due within one year included in current assets	15,351	75,595	95,625

The balances due within one year are unsecured, interest free and repayable on demand. The balances due after one year are unsecured, interest free and with no fixed repayment terms.

The directors have confirmed that the balances due from related entities as at 31 March 2006 will be settled in full prior to the date of listing of the shares of the Company on the Stock Exchange.

25. RELATED PARTY TRANSACTIONS – Continued

(c) Continued

Notes:

(i) The maximum amounts due from related companies during the Relevant Periods are as follows:

	Maximum amount outstanding during the year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Name of related company			
Asia Automation	984	475	413
Solari Automation	707	1,274	1,346
Key Point	–	26,702	36,984
LK China	–	11,709	11,709
OPP (PRC)	3,114	3,768	4,966
OPP (HK)	2,605	2,598	5,089
Techo Star	–	780	3,900
LK Shanghai	6,273	6,592	7,299
Goodlink	10	10	10
Shanghai Arays	298	29,710	28,500
Baotou Arays	–	–	23,469
Country Well	–	–	9,000
Shanghai Chaosheng	–	–	92
Gaoyao Hongtai	–	–	13,029

(ii) The maximum amounts due from directors of the Company during the Relevant Periods are as follows:

	Maximum amount outstanding during the year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Name of director			
Mr. Cao Yang	430	361	–
Mr. Liu Zhao Ming	237	237	–

25. RELATED PARTY TRANSACTIONS – Continued

(d) The particulars of the amounts due to related entities, which arose from transactions with and/or advances from these related entities, are as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Amount due to holding company			
Girgio	–	146	109
Amounts due to fellow subsidiaries			
Shenzhen Sinomag	1,208	1,208	–
LKIL	44,977	54,469	–
	46,185	55,677	–
	46,185	55,823	109

The balances are unsecured, interest free and repayable on demand. The directors have confirmed that all balances due to related entities will be settled in full prior to the date of listing of the shares of the Company on the Stock Exchange.

(e) The remuneration of directors and other members of key management during the Relevant Periods was as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Short term benefits	13,533	9,746	12,396
Retirement fund contributions	244	179	187
	13,777	9,925	12,583

Note: Short term benefits mainly include salaries and allowances and bonuses.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a business

On 29 December 2004, the Group entered into an agreement to acquire a die-casting manufacturing business from a third party, Fuxin Northern Die-Casting Machinery Company Ltd., at a total consideration of approximately HK$43,869,000 (equivalent to approximately RMB46,500,000) which was satisfied by cash consideration of approximately HK$10,350,000 and liabilities of approximately HK$33,519,000 assumed by the Group. The consideration was determined by reference to the fair value of the acquired net assets of the business as at 31 October 2004 estimated by an independent valuer, Fuxin Tianheng Certified Public Accountants Co., Ltd.. The acquired business was injected to a new established wholly-owned subsidiary, LK (Fuxin), in the PRC.

The acquired business contributed revenue of HK$7,071,000 and sustained loss before taxation of HK$1,655,000 for the period from the date of acquisition to 31 March 2005. The acquired business sustained loss before taxation of HK$1,635,000 for the year ended 31 March 2006.

During the period from the date of acquisition to 31 March 2005, the business has resulted in net operating cash outflow of HK$4,049,000 and utilised HK$4,458,000 on investing activities.

If the acquisition had been completed on 1 April 2003, the Group's total revenue for the years ended 31 March 2004 and 2005 would have been approximately HK$640,354,000 and HK$704,108,000 respectively, and the profit for the years ended 31 March 2004 and 2005 would have been approximately HK$112,028,000 and HK$102,931,000 respectively. The proforma information, prepared from the unaudited financial statements of the acquired business, is for illustrative purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2003, nor is intended to be a projection of future results.

Details of the assets and liabilities acquired, and the resultant negative goodwill, are as follows:

	Acquiree's carrying amount	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	14,633	1,884	16,517
Land use right	13,673	(7,522)	6,151
Trademark	–	472	472
Inventories	15,628	–	15,628
Bills and accounts receivables	8,088	–	8,088
Other receivables, prepayments and deposits	889	–	889
Cash and bank balances	763	–	763
Bills and accounts payable	(4,465)	–	(4,465)
Other payables, deposits and accruals	(14,903)	–	(14,903)
Bank borrowings	(14,151)	–	(14,151)
	20,155	(5,166)	14,989
Negative goodwill			(4,639)
Total cash consideration			10,350

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT – Continued

(a) Acquisition of a business – Continued

	HK$'000
Analysis of the net outflow of cash and cash equivalents in respect of acquisition of the business during the year ended 31 March 2005:	
Total cash consideration payable	(10,350)
Outstanding cash consideration payable as at 31 March 2005	7,245
Cash consideration paid	(3,105)
Cash and bank balances acquired	763
	(2,342)

During the year ended 31 March 2006, the outstanding cash consideration to the extent of HK$5,181,000 was paid.

Except for the aforementioned acquisition of business, there were no acquisitions of business or companies during the Relevant Periods.

(b) Disposal of subsidiaries

On 30 March 2006, the Company disposed of its subsidiaries, Sky Treasure, Dragon Prosper and Shanghai Prosper (collectively "Sky Treasure Group") to a fellow subsidiary, Fairview Technology, as the business of Sky Treasure Group does not fit into the core business of the Group. Since Sky Treasure Group has sustained net liabilities, the Group disposed of Sky Treasure Group at a nominal consideration of HK$8, being the nominal value of the issued share capital of Sky Treasure, to Fairview Technology. Sky Treasure Group contributed revenue of HK$12,000 and sustained loss before taxation of HK$680,000 for the period from 1 April 2005 to 30 March 2006. The principal activities of Sky Treasure Group are trading and wholesale of energy saving equipment, water purifier, alloy wheels, health equipment, seal of containers, lottery balls and exercise equipment. Details of the assets and liabilities disposed of are set out below:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	–	–	353
Inventories	–	–	57
Bills and accounts receivables	–	–	6
Other receivables, prepayments and deposits	–	–	195
Cash and bank balances	–	–	247
Bills and accounts payable	–	–	(37)
Other payables, deposits and accruals	–	–	(429)
Amount due to holding company	–	–	(1,307)
Net liabilities	–	–	(915)
Gain on disposal	–	–	915
Total cash consideration	–	–	–
Analysis of the net outflow of cash and cash equivalents in respect of the disposal:			
Total cash consideration receivable	–	–	–
Cash and bank balances disposed of	–	–	(247)
	–	–	(247)

The cash flows of the subsidiaries up to their date of disposal on 30 March 2006 were insignificant to the Group.

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT – Continued

(c) Major non-cash transactions

During the years ended 31 March 2005 and 2006, construction in progress of HK$30,229,000 and HK$90,079,000 respectively were transferred to buildings, leasehold improvements, plant and machinery and furniture and fixtures upon completion of the construction or installation.

During the years ended 31 March 2004 and 2005, interim dividends of HK$45,000,000 and HK$40,000,000 respectively were set off against amount due to a fellow subsidiary.

27. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group is exposed to a variety of financial risks in its normal course of business, including interest rate risk, credit risk, liquidity risk and foreign exchange risk. These risks are mitigated by the Group's financial management policies and practices described below.

(i) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank deposits and bank borrowings. The bank deposits are interest bearing financial assets subject to interest rate risk, which are mainly short terms in nature. The bank borrowings are interest bearing financial liabilities subject to the interest rate risk. The interest rates of the Group's bank borrowings are set out in note 23 to the financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, management closely monitor the interest rate changes and will consider hedging significant exposure when necessary.

(ii) Credit risk

The Group has no significant concentrations of credit risk with exposure spread over a large number of counterparties and customers. The carrying amounts of bank balances, fixed deposits, bills and accounts receivable, amounts due from related entities and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group also has credit risk in connection with guarantees given by it for its customers as mentioned in note 28(a). The Group has a credit policy in place as described in notes 4 and 18 to minimise credit risk which is monitored on an ongoing basis. Bank balances and fixed deposits are placed with reputable banks.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as raising of loans and investment of surplus cash.

27. FINANCIAL RISK MANAGEMENT – Continued

(a) Financial risk factors – Continued

(iv) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. In addition, foreign currencies, mainly United States dollars and Japanese Yen, are required to settle some of the Group's purchases of raw materials. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group's bank and cash balances and pledged bank deposits are denominated in the following currencies.

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RMB	58,800	42,685	68,387
Hong Kong dollars	8,211	16,475	11,295
United States dollars	7,435	11,134	1,689
Other currencies	6,235	9,564	4,515
	80,681	79,858	85,886

The analysis of the Group's bills and accounts receivable, other receivables, prepayments and deposits, bills and accounts payable, other payables, deposits and accruals, and bank borrowings denominated in various currencies are set out in notes 18, 20, 21, 22 and 23 respectively. The Group's balances with related entities are mainly denominated in Hong Kong dollars or United States dollars.

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

(b) Fair value estimation

The directors of the Company consider the carrying amounts of the Group's significant financial assets and liabilities approximate their respective fair values as at 31 March 2004, 2005 and 2006 due to their short maturities and/or bearing interest rate not materially different from that of the market.

28. CONTINGENT LIABILITIES

(a) Guarantees

		As at 31 March		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
The amount of the outstanding loans granted by banks to customers to purchase the Group's products for which guarantees have been given by the Group to the banks	*(i)*	7,823	9,452	11,808
The amount of banking facilities utilised by a related company for which guarantee of HK$39,000,000 (2004: Nil, 2005: HK$27,300,000) has been given by the Group to a bank *(Note 25(b))*	*(ii)*	–	23,830	29,729
The amount of credit facility utilised by a related company for which guarantee of HK$11,538,000 has been given by the Group	*(iii)*	–	–	–
Guarantee given to a third party for due payment of legal fee by a fellow subsidiary	*(iv)*	200	–	–
Other guarantees	*(iv)*	1,971	855	–
		9,994	34,137	41,537

Notes

(i) As at 31 March 2004, 2005 and 2006, the Group provided guarantees to banks in respect of banking facilities up to the maximum amount of approximately HK$28,302,000, HK$28,302,000 and HK$43,269,000 granted to certain customers of the Group to purchase its products. Pursuant to the terms of the guarantees, the Group is required to deposit a portion of the sales proceeds received from customers with the banks as mentioned in note 29 (ii). Upon default in repayments by these customers, the Group is responsible to repay the outstanding loan principals together with accrued interest and related costs owed by the defaulted customers to the banks, and the Group is entitled to take over the legal title and possession of the related products. The Group's guarantee period starts from the dates of grant of the relevant bank loans and ends when these customers have fully repaid their bank loans.

The directors consider that in case of default in payments by customers, the net realisable value of the related products should be able to substantially cover the repayment of the outstanding loan principals together with the accrued interest and related costs. Provision has been made in the financial statements for the guarantees to the extent of the estimated liability to be borne by the Group.

(ii) It represents guarantee provided by the Group to a bank for banking facilities granted to Shanghai Arays. As the repayment was on schedule and risk of default in payment was remote, the directors consider no provision is required to be recognised in the financial statements for the guarantee. The guarantee was released on 30 June 2006.

28. CONTINGENT LIABILITIES – Continued

(a) Guarantees – Continued

Notes – Continued

(iii) During the year ended 31 March 2006, the Group entered into a buy back guarantee agreement with a financial institution in respect of a credit facility of approximately HK$11,538,000 granted to Gaoyao Hongtai to purchase the Group's products as mentioned in note 25 (b) (iv). As at 31 March 2006, Gaoyao Hongtai has not utilised the credit facilities. In July 2006, Gaoyao Hongtai fully utilised the credit facilities of approximately HK$11,538,000. As the repayment was on schedule and risk of default in payment was remote, the directors consider no provision for the guarantee is required to be recognised in the financial statements. This guarantee was released on 21 September 2006.

(iv) It represents various guarantees given by the Group in its normal course of business. The directors consider the risk of payments made by the Group is remote, and therefore no provision for the guarantees has been made in the financial statements.

(b) Legal claims

(i) During the year ended 31 March 2004, the Group received from a third party an additional claim of payment related to interest on the outstanding payment and related legal fees in connection with provision of consultancy services by the third party to the Group in prior year. As such, an additional provision for HK$3,400,000 has been made for the legal claim in the year ended 31 March 2004. During the year ended 31 March 2005, the legal case was settled with the overprovision of claim and accrued legal fee amounting to HK$3,564,000 written back in the income statement.

(ii) During the year ended 31 March 2006, a High Court action has been made against a subsidiary by an individual (the "Plaintiff") in relation to the compensation for injury in a traffic accident happened in December 2005 where the subject car was owned by the subsidiary. The court has ordered damages of approximately HK$1,531,000 to be paid to the Plaintiff, of which approximately HK$329,000 has been paid by the subsidiary. The directors, after taking legal advice, consider that the subsidiary should have a reasonable chance of success in appealing against the judgement and have filed an appeal on 22 May 2006. Accordingly, no provision for the damages that might eventually be payable by the subsidiary has been made in the financial statements. The appeal is still pending hearing at the date of this report.

29. PLEDGE OF ASSETS

(i) As at the respective balance sheet dates, the Group's banking facilities were secured by guarantees given by related parties as mentioned in note 25(b) and the following carrying amounts of the Group's assets:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Restricted bank balances	9,131	12,450	9,529
Buildings and construction in progress *(Note)*	60,553	64,203	77,814
Land use rights *(Note)*	15,214	20,969	9,391
Investment properties	3,085	5,400	6,100
Plant and machinery	21,168	23,117	20,836
	109,151	126,139	123,670

Note: Pursuant to a loan agreement, the Group is required to pledge certain of its land use rights and buildings with net book value of HK$63,778,000 and HK$60,758,000 as at 31 March 2004 and 2005 respectively to a bank. During the Relevant Periods, the relevant documents for enforcement of the charge on the assets had never been executed. The loan was fully repaid during the year ended 31 March 2006 and accordingly the land use rights and buildings were no longer required to be pledged.

(ii) The Group's also has restricted bank balances to the extent of HK$6,581,000, HK$6,577,000 and HK$10,922,000 as at 31 March 2004, 2005 and 2006 respectively pledged to banks for credit facilities granted to customers to purchase the Group's products as mentioned in note 28(a).

(iii) The Group's investments in certain subsidiaries with aggregate net asset value of HK$2,479,000, HK$29,976,000 and HK$74,236,000 as at 31 March 2004, 2005 and 2006 are pledged to a bank for banking facilities granted to the Group.

30. COMMITMENTS

(a) Capital commitments in respect of property, plant and equipment

The commitments made by the Group and on behalf of related companies are as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Authorised but not contracted for			
Related companies *(Note)*			
– Shanghai Arays	13,377	–	–
– Baotou Arays	15,209	–	–
	28,586	–	–
The Group	133,508	5,686	1,335
	162,094	5,686	1,335
Contracted but not provided for			
Related companies *(Note)*			
– Shanghai Arays	–	17,809	–
– Baotou Arays	–	23,483	–
	–	41,292	–
The Group	36,773	82,289	12,190
	36,773	123,581	12,190
	198,867	129,267	13,525

Note: Payments for acquisitions of property, plant and equipment on behalf of the related companies made by the Group have been accounted for as amounts due from related companies. The unsettled balances as at the balance sheet dates are included in the amounts due from related entities as shown in note 25(c) to the financial statements.

30. COMMITMENTS – Continued

(b) Other commitments

	As at 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Authorised but not contracted for			
Business project relating to development of automatic control device	–	–	9,615
Contracted but not provided for			
Research and development costs	4,245	3,491	3,558
Others	–	566	1,731
	4,245	4,057	5,289
	4,245	4,057	14,904

31. LEASE ARRANGEMENTS

The Group as lessee

During the Relevant Periods, the Group had paid operating lease rentals in respect of land and buildings as follows:

	Year ended 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease payments	3,243	4,104	4,258

As at the balance sheet dates, the Group had commitments under non-cancellable operating leases in respect of land and buildings which are due for payment as follows:

	As at 31 March		
	2004	2005	2006
	HK$'000	*HK$'000*	*HK$'000*
Leases payable:			
Within one year	1,148	2,640	2,258
In the second to fifth year inclusive	2,102	1,914	932
	3,250	4,554	3,190

The Group leases a number of properties under operating leases. The leases generally run for an initial period of one to five years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

31. LEASE ARRANGEMENTS – Continued

The Group as lessor

During the Relevant Periods, the Group had received operating lease rentals in respect of land and buildings and investment properties as follows:

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease payments	1,273	1,142	1,601

The Group leases out the investment properties and part of a factory building under operating leases. The leases generally run for an initial period of one to five years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases include contingent rentals.

As at the balance sheet dates, the Group had contracted with tenants under non-cancellable operating leases in respect of land and buildings which are receivable as follows:

	As at 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Leases receivable:			
Within one year	854	1,060	749
In the second to fifth year inclusive	1,686	942	729
	2,540	2,002	1,478

B. DIRECTORS' REMUNERATIONS

Under the current arrangement in force, the aggregate amount of remuneration of the directors of the Company payable for the year ending 31 March 2007 is estimated to be approximately HK$6,900,000.

C. ULTIMATE HOLDING COMPANY

At the date of this report, the directors consider the immediate and ultimate holding company of the Company to be Girgio, a company incorporated in the British Virgin Islands.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2006:

(a) The companies now comprising the Group underwent a reorganisation on 23 September 2006 in preparation for the listing of the Company's shares on the Stock Exchange. In this connection, the Company has alloted 649,999,999 shares in exchange for the issued shares of the subsidiaries acquired by the Company. After the allotment, the Company's issued share capital increased to HK$65,000,000 divided into 650,000,000 shares of HK$0.1 each. Further details of the reorganisation are set out in the paragraph headed "Corporate Reorganisation" in section 4 of appendix V to this prospectus.

D. SUBSEQUENT EVENTS – Continued

(b) Pursuant to the written resolutions of the sole shareholder of the Company and the directors' resolutions both passed on 23 September 2006 , the rules of the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") were approved and adopted and the directors were authorised, at their own discretion, to grant options to subscribe for shares of the Company thereunder. Accordingly, share options granted under the Pre-IPO Share Option Scheme for a total of 36,800,000 shares of the Company were conditionally granted to certain directors and employees. The subscription price of the shares is equal to 60% of the offer price per share under the placing and public offer of the Company's shares on the Stock Exchange. Only employees, executive directors, non-executive directors and independent non-executive directors of the Group are eligible for the grant of options under the Pre-IPO Share Option Scheme. Save for options which have been conditionally granted, no further options will be granted as the right to do so has ended on the day on which this prospectus of the Company is registered with the Registrar of Companies in Hong Kong. The options granted under the Pre-IPO Share Option Scheme will not be exercised within the first six months of the date of listing of the Company's shares on the Stock Exchange. The fair value of these granted options will be amortised into the Group's income statement over the vesting periods.

(c) On 30 June 2006, the guarantee given by the Group for Shanghai Arays as mentioned in note 25(b) was released.

(d) In July 2006, Gaoyao Hongtai utilised the credit facilities to the extent of HK$11,538,000 which is guaranteed by the Group as mentioned in note 25(b). The guarantee was released on 21 September 2006.

(e) The proposed final dividend of a subsidiary, LK(HK), amounting to HK$43 million in respect of the year ended 31 March 2006 was approved by its then shareholders and will be settled by way of setting off against the amounts due from related entities prior to the date of listing of the Company's shares on the Stock Exchange.

(f) The Group has amended the contracted rentals and/or the lease terms of the lease agreements (that will continue after the listing of the Company' shares on the Stock Exchange) with each of OPP (PRC) as tenant and Wheelfit as landlord as mentioned in note 25(b). An independent professional surveyor and valuer has confirmed that the above rentals are fair and reasonable and consistent with the prevailing market rents for similar premises in similar location. After amendment of the lease terms, the lease agreements with OPP (PRC) and Wheelfit will expire on 31 December 2006 and 31 August 2008 respectively.

E. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,
BDO McCabe Lo Limited
Certified Public Accountants, Hong Kong
Lesley Yeung Kit Kam
Practising Certificate Number P04342

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules, is set out here to illustrate the effect of the Share Offer on (i) the unaudited pro forma adjusted net tangible assets of the Group as if it had taken place on 31 March 2006; and (ii) unaudited pro forma earnings per Share for the year ended 31 March 2006 as if it had taken place on 1 April 2005.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group and the earnings per Share of the Group following the Share Offer.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets attributable to equity holders of the Company as at 31 March 2006, as shown in the accountants' report, the text of which is set out in appendix I to this prospectus and adjusted as follows:

	Audited combined net tangible assets attributable to equity holders of the Company as at 31 March 2006 *HK$'000* *(Note 1)*	**Add: Estimated net proceeds from the Share Offer** *HK$'000* *(Note 2)*	**Unaudited pro forma adjusted net tangible assets** *HK$'000*	**Unaudited pro forma adjusted net tangible assets per Share** *HK$* *(Note 3)*
Based on the offer price of HK$0.91 per share, being the lowest price of the price range	470,722	202,500	673,222	0.67
Based on the offer price of HK$1.02 per share, being the mid price of the price range	470,722	230,000	700,722	0.70
Based on the Offer Price of HK$1.13 per Share, being the highest price of the price range	470,722	257,500	728,222	0.73

Notes:

1. The audited combined net tangible assets as at 31 March 2006 is arrived at after deduction of the intangible assets of HK$3,220,000 from the net assets of HK$473,942,000 as at 31 March 2006.

   The land use rights are accounted for as operating lease under Hong Kong Accounting Standard 17 "Leases" and are treated as prepaid lease payment. Accordingly, land use rights of HK$31,722,000 as at 31 March 2006 do not meet the definition of an intangible asset and are included in net tangible assets above.

   The deferred tax assets are accounted for under Hong Kong Accounting Standard 12 "Income Taxes". Accordingly, deferred tax assets of HK$7,364,000 as at 31 March 2006 do not meet the definition of an intangible asset and are included in net tangible assets above.

2. The estimated net proceeds from the Share Offer is based on the Offer Price of HK$0.91, HK$1.02 and HK$1.13 per Share, after deduction of the underwriting fees and related expenses payable by the Company, and takes no account of any Shares which may be allotted and issued pursuant to the Over-allotment Option and any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or Shares which may be allotted and issued or purchased by the Company pursuant to the general mandate for allotment and issue or purchase of Shares referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 23 September 2006" in section 3 of appendix V to this prospectus.

3. The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the preceding paragraph and on the basis of the total 1,000,000,000 Shares to be in issue immediately after the completion of the Share Offer without taking into account the proposed final dividend of a subsidiary of the Company amounting to HK$43,000,000 in respect of the year ended 31 March 2006 which was subsequently approved by its then shareholders.

4. The Group's property interests at 31 July 2006 were valued by Sallmanns (Far East) Limited ("Sallmanns") and the valuation report in respect of which is set out in appendix III to this prospectus. Comparing the valuation amount of HK$150,490,000 as at 31 July 2006 to the corresponding unaudited carrying value of the Group's property interests as at 31 July 2006, there was an net revaluation deficit before income taxes, of HK$16,351,000 which has not be included in the above net tangible assets of the Group. The net deficit to the extent of HK$16,262,000 attributable to leasehold land and buildings will not be recognised in the Group's financial statements for the year ending 31 March 2007 as it is the Group's policy to state its lease premium for land and buildings at cost less accumulated depreciation and amortisation and any impairment loss in accordance with Hong Kong Accounting Standards 17 and 16, rather than at revalued amounts. The revaluation deficit does not result in recognition of impairment loss as the recoverable amount (i.e. value in use) of the land and buildings is higher than their carrying value. If such revaluation deficit was incorporated in the Group's financial statements for the year ending 31 March 2007, depreciation charge in respect of leasehold land and buildings will be reduced by approximately HK$1,074,000 per annum.

B. UNAUDITED PRO FORMA EARNINGS PER SHARE

The unaudited pro forma earnings per Share has been prepared, on the basis of the notes set out below, to illustrate the effect of the Share Offer on the Group's earnings per Share for the year ended 31 March 2006 as if it had taken place on 1 April 2005. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial results of the Group.

Audited combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 *(Note 1)*	HK$107,616,000
Unaudited pro forma basic earnings per Share for the year ended 31 March 2006 *(Note 2)*	HK10.8 cents
Unaudited pro forma diluted earnings per Share taking into account the Pre-IPO Options granted *(Note 3)*	HK10.4 cents

Notes:

1. The audited combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 is extracted from the accountants' report set out in appendix I to this prospectus.

2. The unaudited pro forma basic earnings per Share is calculated by dividing the combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 by the total of 1,000,000,000 Shares assuming that the Shares in issue at the date of this prospectus and the Share Offer had been in issue on 1 April 2005 but without taking account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Option Scheme.

3. The calculation of unaudited pro forma diluted earnings per Share is calculated by dividing the combined net profit attributable to equity holders of the Company for the year ended 31 March 2006 by the total of 1,036,800,000 Shares assuming that the Shares in issue at the date of this prospectus and the Share Offer had been in issue on 1 April 2005 and the Pre-IPO Options granted pursuant to the Pre-IPO Share Option Scheme were exercised in full on 1 April 2005. It is also assumed that all Shares under the Pre-IPO Share Option Scheme being issued at no consideration. This has not considered the proceeds that will be received under exercise of the Pre-IPO Options granted under the Pre-IPO Share Option Scheme and hence has not considered the impact of fair value of the Shares on computation of number of dilutive potential shares. The Directors consider it is impracticable to estimate the fair value of Shares prior to its listing.

4. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2006.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from BDO McCabe Lo Limited, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Group.

BDO

BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 2239

德豪嘉信會計師事務所有限公司
香港
干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 二二三九

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF L.K. TECHNOLOGY HOLDINGS LIMITED

We report on the unaudited pro forma financial information of L.K. Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Sections A and B under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Earnings Per Share" in appendix II of the prospectus (the "Prospectus") dated 29 September 2006 issued in connection with the placing and public offer of the shares (the "Share Offer") of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors for illustrative purposes only, to provide information about how the Share Offer might have affected the financial information of the Group. The basis of preparation of the unaudited pro forma financial information is set out in appendix II to this prospectus.

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 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom 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 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 Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma information has been prepared on the basis set out in Sections A and B of appendix II of this prospectus and is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2006 or any future date and the earnings per share of the Group for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
BDO McCabe Lo Limited
Certified Public Accountants, Hong Kong
Lesley Yeung Kit Kam
Practising Certificate Number P04342

Hong Kong, 29 September 2006

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 31 July 2006 of the property interests of the Group. As described in section "Documents Available for Inspection" in appendix VI, a copy of the full valuation report will be made available for public inspection.

Sallmanns

Corporate valuation and consultancy

www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

29 September 2006

The Board of Directors
L.K. Technology Holdings Limited
Unit A on 8th Floor
Mai Wah Industrial Building
Nos. 1–7 Wah Sing Street
Kwai Chung
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which L.K. Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), Hong Kong, Taiwan, Canada and the United States, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property interests as at 31 July 2006 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests in Group I and property no. 7 in Group III by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

We have valued the properties in Group II, portion of property no. 5 in Group III and Group IV by the investment method by taking into account the net rental incomes of the properties derived from the existing tenancies with due allowance for the reversionary values of the properties.

Where, due to the nature of the buildings and structures of the property interests in the PRC, there are no market sales comparables readily available, the remaining property interests in Group III have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group V, VI, VII, VIII and IX, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the interests of those property interests of the Group in Hong Kong held under the Government Leases expiring before 30 June 1997, we have taken account of the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited except for those in respect of which a waiver has been applied in respect of Rule 5.06(1) and Rule 5.06(2) and paragraph 3(a) of Practice Note 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, letting, and all other relevant matters.

We have been shown copies of various title documents relating to the properties in the PRC and have caused searches to be made at the Hong Kong Land Registries in respect of Hong Kong properties. However, we have not searched the original documents to verify the existing titles to the property interests in the PRC or any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied on the advice given by the Company's PRC legal adviser – Jingtian & Gongcheng, concerning the validity of the Group's titles to the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property interests. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property interests are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars. The exchange rate adopted in our valuations is approximately HK$1 = RMB1.03 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 23 years' experience in the valuation of properties in the PRC and 26 years of property valuation experience in Hong Kong, the United Kingdom, Canada, United States and the Asia-Pacific region (including Taiwan).

SUMMARY OF VALUES

GROUP I – PROPERTY INTEREST HELD AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
1.	Unit A on 8th Floor and Car Parking Space No. 29 on 1st Floor Mai Wah Industrial Building Nos. 1-7 Wah Sing Street Kwai Chung New Territories Hong Kong	3,750,000
	Sub-total:	3,750,000

GROUP II – PROPERTY INTERESTS HELD BY THE GROUP FOR INVESTMENT PURPOSE IN HONG KONG

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
2.	Unit 1106 on Level 11 of Tower II Metroplaza No. 223 Hing Fong Road Kwai Chung New Territories Hong Kong	6,100,000
3.	Factory Unit Nos. 1102 and 1104 on 11th Floor Tsuen Wan Industrial Centre Nos. 220-248 Texaco Road Tsuen Wan New Territories Hong Kong	2,360,000
	Sub-total:	8,460,000

GROUP III – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
4.	Three parcels of land, various buildings and structures located at Guangfu Road, Tongle Village An Le Economic Co-operative Association Shimowei and Yuechangyuan Yiu Chang District Dongshen Town Zhongshan City The PRC	9,020,000
5.	Two parcels of land, various buildings and structures located beside south of the Jihe Highway L.K. Industrial Zone Qinghu Village Longhua Town Baoan District Shenzhen The PRC	72,120,000
6.	Three parcels of land, various buildings and structures located at No. 42 Minyi Road Xinqiao Development Zone Songjiang District Shanghai The PRC	17,750,000
7.	Units 2304 on Level 23 Zhenyuan Building No. 2052 Zhongshan Road North Putuo District Shanghai The PRC	1,120,000
8.	A parcel of land, various buildings and structures located at No. 18 North Yanshanhe Road Beilun District Ningbo City The PRC	No commercial value
9.	A parcel of land, various buildings and structures located at No. 306 Haixin Road Taiping District Fuxin City Liaoning Province The PRC	29,600,000
	Sub-total:	129,610,000

GROUP IV – PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
10.	Units 2301-2303, 2305-2310 on Level 23 Zhenyuan Building No. 2052 Zhongshan Road North Putuo District Shanghai The PRC	5,170,000
11.	1st floor and portion of 2nd floor of No. 4 Factory Building and 9 apartment units of No. 1 Dormitory Building located at Jihua Industrial Area Buji Town Longgang District Shenzhen The PRC	3,500,000
	Sub-total:	8,670,000

GROUP V – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
12.	Unit A on G/F Mai Wah Industrial Building Nos. 1-7 Wah Sing Street Kwai Chung New Territories Hong Kong	No commercial value
13.	House K with Garden, Flat-roof and Carport Lakeview Garden No. 21 Yau On Street Shatin New Territories Hong Kong	No commercial value
	Sub-total:	Nil

GROUP VI – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
14.	2 sales offices and 12 liaison points in various cities in the PRC (rented by Shanghai Atech Machinery Co. Ltd.)	No commercial value
15.	4 sales offices and 2 liaison points in various cities in the PRC (rented by Zhongshan L.K. Machinery Co. Ltd.)	No commercial value
16.	3 liaison points in various cities in the PRC (rented by Ningbo L.K. Technology Co. Ltd.)	No commercial value
17.	2 liaison points in various cities in the PRC (rented by Ningbo L.K. Machinery Co. Ltd.)	No commercial value
18.	6 sales offices in various cities in the PRC (rented by Shenzhen Leadwell Technology Co. Ltd.)	No commercial value
19.	2 sales offices and 1 liaison point in various cities in the PRC (rented by L.K. Machinery (Shenzhen) Co. Ltd.)	No commercial value
20.	5 liaison points in various cities in the PRC (rented by Fu Xin L.K. Northern Machinery Co. Ltd.)	No commercial value
	Sub-total :	Nil

GROUP VII – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN CANADA

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
21.	Unit Nos. 6, 7 and 8 located at No. 210 Brunel Road City of Mississauga County of Peel Ontario Canada	No commercial value
	Sub-total:	Nil

GROUP VIII – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN UNITED STATES

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
22.	An office in the Building at 8436 Homestead Zeeland Michigan 49464 United States	No commercial value
	Sub-total:	Nil

GROUP IX – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN TAIWAN

No.	Property	Capital value in existing state as at 31 July 2006 *HK$*
23.	Unit A4 on 5th Floor Kaohsiung Commercial Building No. 502 Jiu Ru Yi Road Kaohsiung City Taiwan	No commercial value
24.	Unit A on 8th Floor No. 52 of Alley 646 Jin Ma Road Section 3 Xi Shi Avenue No. 5 Lin Changhua City Changhua County Taiwan	No commercial value
25.	A warehouse located at No. 18 of Alley 171 Zhongxin Road Section 1 Wugu Village Taipei County Taiwan	No commercial value
	Sub-total:	Nil
	Total:	150,490,000

VALUATION CERTIFICATE

GROUP I – PROPERTY INTEREST HELD AND OCCUPIED BY THE GROUP IN HONG KONG

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
1.	Unit A on 8th Floor and Car Parking Space No. 29 on 1st Floor Mai Wah Industrial Building Nos. 1-7 Wah Sing Street Kwai Chung New Territories Hong Kong 19/1282nd shares of and in Kwai Chung Town Lot Nos. 118 and 119	The property comprises a unit on 8th floor and a car parking space on 1st floor of a 23-storey industrial building completed in 1974. The industrial unit has a gross area of approximately 5,499 sq.ft. (510.9 sq.m.). The property is held under two Government Leases for a term of 99 years commencing from 1 July 1898 less the last 3 days thereof which has been statutorily extended till 30 June 2047. The current Government rent is an amount equal to 3% of the rateable value per annum.	The property is currently occupied by the Group for industrial and ancillary office and car parking purposes.	3,750,000

Notes:

1. The owner of the property is L.K. Machinery Company Limited, a wholly-owned subsidiary of the Company, and registered vide Memorial No. TW972909 dated 15 August 1994. As advised by the Company, the property was purchased from an independent third party.

2. The property is subject to and with the benefit of a Deed of Mutual Covenant vide Memorial No. TW118934 dated 31 December 1974.

3. The property is subject to an Occupation Permit No. N.T. 142/74 dated 28 October 1974.

4. The property is subject to a Legal Charge in favour of Kwong On Bank Limited (now named as DBS Bank (Hong Kong) Limited, the successor Bank of the said Kwong On Bank Limited by virtue of the Dao Heng Bank Limited (Merger) Ordnance, Chapter 1172 of the Laws of Hong Kong) vide Memorial No. TW972910 dated 15 August 1994.

5. L.K. Machinery Company Limited has shown a good title to the property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

VALUATION CERTIFICATE

GROUP II – PROPERTY INTERESTS HELD BY THE GROUP FOR INVESTMENT PURPOSE IN HONG KONG

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
2.	Unit 1106 on Level 11 of Tower II Metroplaza No. 223 Hing Fong Road Kwai Chung New Territories Hong Kong 20/31000th shares of and in Kwai Chung Town Lot No. 395	The property comprises a unit on 11th floor of a 42-storey office and commercial building completed in 1992. The property has a gross floor area of approximately 1,606 sq.ft. (149.2 sq.m.). The property is held under a Government Lease for a term commencing from 14 February 1989 and expiring on 30th June 2047. The current Government rent is an amount equal to 3% of the rateable value per annum.	The property is currently leased to an independent third party for a term of 2 years expiring on 8 June 2008 at a current monthly rent of HK$25,000 exclusive of rates, Government rent and management fee, with a rent free period from 9 June 2006 to 24 July 2006 and is occupied for office purpose.	6,100,000

Notes:

1. The owner of the property is L.K. Machinery Company Limited, a wholly-owned subsidiary of the Company, and registered vide Memorial No. TW922102 dated 31 August 1993. As advised by the Company, the property was purchased from an independent third party.

2. The property is subject to and with the benefit of a Deed of Mutual Covenant vide Memorial No. TW859065 dated 16 September 1992 and also subject to and with the benefit of a Sub-Deed of Mutual Covenant vide Memorial No. 859066 dated 16 September 1992.

3. The property is subject to an Occupation Permit No. NT 162/92 vide Memorial No. TW872787 dated 30 December 1992.

4. The property is subject to a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. TW1405984 dated 18 May 2001.

5. According to a tenancy agreement dated 16 June 2006, the property is leased to an independent third party for a term of 2 years commencing from 9 June 2006 and expiring on 8 June 2008 at a current monthly rent of HK$25,000 exclusive of rates, Government rent and management fee, with a rent free period from 9 June 2006 to 24 July 2006. The tenancy agreement has been duly stamped and is valid and enforceable against the parties thereto under the laws of Hong Kong.

6. L.K. Machinery Company Limited has shown a good title to the property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
3.	Factory Unit Nos. 1102 & 1104 on 11th Floor Tsuen Wan Industrial Centre Nos. 220-248 Texaco Road Tsuen Wan New Territories Hong Kong 2/414th shares of and in Tsuen Wan Town Lot No. 24	The property comprises 2 units on 11th floor of a 26-storey industrial building completed in 1980. The property has a total gross area of approximately 5,884 sq.ft. (546.6 sq.m.). The property is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 which has been statutorily extended till 30 June 2047. The current Government rent is an amount equal to 3% of the rateable value per annum.	The property is currently leased to an independent third party for a term of 3 years expiring on 30 November 2008 at a current monthly rent of HK$19,500 inclusive of management fee, Government rent and rates and is occupied for storage purpose.	2,360,000

Notes:

1. The owner of unit no. 1102 is L.K. Machinery Company Limited, a wholly-owned subsidiary of the Company, and registered vide Memorial No. TW490144 dated 4 January 1988. As advised by the Company, the property was purchased from an independent third party.

2. The owner of unit no. 1104 is L.K. Machinery Company Limited and registered vide Memorial No. TW415256 dated 20 November 1986. As advised by the Company, the property was purchased from an independent third party.

3. The property is subject to and with the benefit of a Deed of Mutual Covenant vide Memorial No. TW216519 dated 13 April 1981.

4. The property is subject to an Occupation Permit No. N.K. 170/80 dated 19 December 1980.

5. According to a tenancy agreement dated 25 November 2005, the property is leased to an independent third party for a term of 3 years commencing from 1 December 2005 and expiring on 30 November 2008 at a current monthly rent of HK$19,500 inclusive of management fee, Government rent and rates.

6. L.K. Machinery Company Limited has shown a good title to the property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

VALUATION CERTIFICATE

GROUP III – PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
4.	Three parcels of land, various buildings and structures located at Guangfu Road, Tongle Village An Le Economic Co-operative Association Shimowei and Yuechangyuan Yiu Chang District Dongshen Town Zhongshan City The PRC	The property comprises three parcels of land with a total site area of approximately 21,184.06 sq.m. The property also comprises 7 buildings and various ancillary structures completed in various stages between 1986 and 2004. The total gross floor area of the buildings is approximately 14,938 sq.m. The buildings mainly include industrial workshops and a dormitory building. The structures mainly include boundary walls and roads, etc. The land use rights of the property were granted for terms expiring between 19 July 2042 and 14 October 2054.	The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.	9,020,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (Zhuan) Zi Di No. 09970098 dated 19 May 1997 issued by the People's Government of Zhongshan City, the land use rights of a parcel of land with a site area of approximately 9,804.61 sq.m. were granted to Zhongshan L.K. Machinery Co. Ltd. (中山力勁機械有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 19 July 2042 for industrial use.

2. Pursuant to the Exchange Agreement of the Construction Land User Rights dated 2 January 2003 entered into between Zhongshan L.K. Machinery Co. Ltd. and (中山市東升鎮建設發展總公司) (Zhongshan Dongsheng Town Construction Development Head Company) , an independent third party, Zhongshan L.K. Machinery Co. Ltd. exchanged a parcel of land with a site area of approximately 7,447.68 sq.m. with the State-owned Land Use Rights Certificate - Zhong Fu Guo Yong (Zhuan) Zi Di No. 09970097 dated 19 May 1997 issued by the People's Government of Zhongshan City with a parcel of land with a site area of approximately 8,306.65 sq.m. owned by Zhongshan Dongsheng Town Construction Development Head Company.

3. Pursuant to a State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (2004) Di No. 090227 dated 20 April 2004 issued by the People's Government of Zhongshan City, the land use rights of a parcel of land with a site area of approximately 8,306.65 sq.m. were granted to Zhongshan L.K. Machinery Co. Ltd. for a term of 50 years expiring on 19 April 2054 for industrial uses.

4. Pursuant to a State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (2004) Di No. 090483 dated 15 October 2004 issued by the People's Government of Zhongshan City, the land use rights of a parcel of land with a site area of approximately 3,072.8 sq.m. were granted to Zhongshan L.K. Machinery Co. Ltd. for a term of 50 years expiring on 14 October 2054.

5. Pursuant to two Real Estate Title Certificates – Yue Fang Di Zheng Zi Di Nos. 1747518 and 1747519 issued by the People's Government of Zhongshan City both dated 15 March 1999, 4 buildings with a total gross floor area of approximately 6,510 sq.m. are owned by Zhongshan L.K. Machinery Co. Ltd. (中山力勁機械有限公司).

6. Pursuant to a Construction Land Planning Permit – No. 0550003000459 issued by the Planning Bureau of Zhongshan City, the construction of 3 buildings with a total gross floor area of approximately 8,428 sq.m. have been approved for construction on the land of 8,306.66 sq.m.

7. Pursuant to a Construction Works Planning Permit – No. 0520004000194 issued by the Planning Bureau of Zhongshan City, 3 buildings with a total planned gross floor area of 8,751 sq.m. have been approved for construction on the subject land.

8. Pursuant to two Construction Works Commencement Permits – Nos. M(2004)031 and M(2004)032 issued by the Construction Bureau of Zhongshan City, permission by the relevant local authority was given to begin construction on 15 April 2004.

9. The property is subject to a mortgage agreement dated 1 March 2004 in favour of Bank of Communications, Zhongshan City Branch (交通銀行中山市分行) at a consideration of RMB5,000,000 (equivalent to approximately HK$4,854,000).

10. In the valuation of this property, we have not attributed any commercial value to 3 buildings with a gross floor area of approximately 8,428 sq.m. which is yet to obtain any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the building as at the date of valuation would be HK$12,300,000 assuming relevant title certificates have been obtained and the buildings could be freely transferred. These buildings are under completion certification.

11. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

    i. the land use rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group; and

    ii. the property is legally owned by the Group. After completion certification, there will be no material legal impediment for the Group to apply for the title certificates.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
5.	Two parcels of land, various buildings and structures located beside south of the Jihe Highway L.K. Industrial Zone Qinghu Village Longhua Town Baoan District Shenzhen City The PRC	The property comprises two parcels of land with a total site area of approximately 56,343.71 sq.m. The property also comprises 4 buildings and various ancillary structures completed in various stages between 2004 and 2005. The total gross floor area of the buildings is approximately 53,203.88 sq.m. The buildings mainly include industrial workshops, warehouse and a dormitory building. The structures mainly include boundary walls and roads, etc. The land use rights of the property were granted for terms all expiring on 15 July 2051.	The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes, except for 1st floor and 2nd floor of Block 2 Warehouse (Stage II) and 10 dormitory units which are currently rented to a connected party for different terms at a total monthly rent of RMB48,722.7 (equivalent to approximately HK$47,300) exclusive of management fees, water and electricity charges.	72,120,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di No. 5000051063 dated 6 August 2001 issued by the Government of Shenzhen City, the land use rights of a parcel of land (no. A829-0043) with a site area of approximately 56,343.40 sq.m. were granted to L.K. Machinery (Shenzhen) Co. Ltd. (力勁機械(深圳)有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years expiring on 15 July 2051 for industrial use.

2. Pursuant to the following Real Estate Title Certificates – Shen Fang Di Zi Di Nos. 5000116541 dated 19 April 2004 and Shen Fang Di Zi Di Nos. 5000119831, 5000119832, 5000119834, 5000119835, 5000119837, 5000119839, 5000119840, 5000119841, 5000119843, 5000119844, 5000119845, 5000119847, 5000119848 and 5000119852 all dated 19 May 2004 issued by the People's Government of Zhongshan City, the land parcel (no. A829-0043) has been sub-divided into two land parcels (nos. A829-0049 and A829-0050) with a site area of approximately 10,104.6 sq.m. and 46,239.11 sq.m. respectively, the land use rights of these two parcels of land were granted to L.K. Machinery (Shenzhen) Co. Ltd. for a term of 50 years expiring on 15 July 2051.

3. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di No. 5000116541 dated 19 April 2004 issued by the People's Government of Zhongshan City, the subject land (no. A829-0049) is sub-divided from the land (no. A829-0043) at a consideration of RMB1,216,228 (equivalent to approximately HK$1,180,000). The maximum permitted gross floor area to be built on the land is 13,119 sq.m., of which 12,799 sq.m. gross floor area is designated for warehouse uses and the remaining 320 sq.m. gross floor area is designated for ancillary facilities uses. No boundary walls are allowed to be built in between two parcels of land and the emergency vehicular access should be used commonly by the subject land and the contiguous land parcel (no. A824-0050).

4. Pursuant to 14 Real Estate Title Certificate – Shen Fang Di Zi Di Nos. 5000119831, 5000119832, 5000119834, 5000119835, 5000119837, 5000119839, 5000119840, 5000119841, 5000119843, 5000119844, 5000119845, 5000119847, 5000119848 and 5000119852 all dated 19 May 2004 issued by the People's Government of Zhongshan City, the subject land (no. A829-0050) is sub-divided from the land (no. A829-0043) at a consideration of RMB4,095,305.48 (equivalent to approximately HK$3,976,000) and 3 buildings with a total gross floor area of approximately 43,302.26 sq.m. are owned by L.K. Machinery (Shenzhen) Co. Ltd. No boundary walls are allowed to be built in between two parcels of land and the emergency vehicular access should be used commonly by the subject land and the contiguous land parcel (no. A829-0049).

5. Pursuant to two tenancy agreements, the 1st floor and 2nd floor of Block 2 Warehouse (Stage II) with a gross floor area of approximately 2,911.03 sq.m. are leased to Ortal Pan Pacific Metalware Manufacturing (Shenzhen) Company Limited, a connected party of the Group, for terms commencing from 1 April 2004 and 1 January 2005 and both expiring on 31 December 2007 at a total monthly rent of RMB43,712.7 (equivalent to approximately HK$42,400), exclusive of all outgoings.

6. Pursuant to six tenancy agreements dated 15 March 2006, 10 dormitory units 206, 207, 208, 209, 210, 212, 301, 302, 303 and 312 with a total gross floor area of approximately 330 sq.m. are leased to Ortal Pan Pacific Metalware Manufacturing (Shenzhen) Company Limited, a connected party of the Group, for various terms of 1 year commencing between 7 December 2005 and 9 April 2006 and expiring between 6 February 2007 and 8 April 2007 at a total monthly rent of RMB5,010 (equivalent to approximately HK$4,860), exclusive of all outgoings.

7. In the valuation of this property, we have not attributed any commercial value to a building with a gross floor area of approximately 9,901.62 sq.m. which has not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the building as at the date of valuation would be HK$17,300,000 assuming relevant title certificates have been obtained and the building could be freely transferred. This building is under completion certification.

8. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the land use rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group;

   ii. the property is legally owned by the Group. After completion certification, there will be no material legal impediment for the Group to apply for the title certificates;

   iii. the tenancy agreements are valid, binding and enforceable under the PRC laws; and

   iv. pursuant to a tenancy termination agreement dated 12 September 2006, the tenancy agreements mentioned in notes 5 and 6 will be terminated on 31 December 2006.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
6.	Three parcels of land, various buildings and structures located at No.42 Minyi Road Xinqiao Development Zone Songjiang District Shanghai The PRC	The property comprises 3 parcels of land with a site area of approximately 23,590 sq.m. The property also comprises 10 buildings and various ancillary structures completed in various stages between 1997 and 2005. The total gross floor area of the buildings is approximately 17,274 sq.m. The buildings mainly include a workshop and its extension, a warehouse and ancillary office, two dormitory buildings, a pump room, a transformer room and 2 guardhouses. The structures mainly include a car shed, boundary walls and roads, etc. The land use rights of the property were granted for various terms expiring between 14 August 2045 and 21 May 2054.	The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.	17,750,000

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Shi Zi (2000) Di No. 003926 dated 28 June 2000 issued by the Shanghai Housing and Land Resources Administration Bureau, the land use rights of a parcel of land with a site area of approximately 10,729 sq.m. which have been granted for a term of 50 years expiring on 14 August 2045 and 6 buildings with a total gross floor area of approximately 6,671 sq.m. are vested in Shanghai Atech Machinery Co. Ltd., a wholly-owned subsidiary of the Company.

2. Pursuant to 2 State-owned Land Use Rights Grant Contracts – Hu Song Fang Di (2002) Chu Rang He Tong Zi Di No. 19 dated 6 February 2002 and Hu Song Fang Di (2004) Chu Rang He Tong Zi Di No. 76 dated 16 March 2004 entered into between the Housing and Land Administration Bureau of Songjiang District of Shanghai and Shanghai Atech Machinery Co. Ltd., the land use rights of 2 parcels of land with a total site area of approximately 12,861 sq.m. have been granted to Shanghai Atech Machinery Co. Ltd. for terms of 50 years for industrial use at a total consideration of RMB1,335,564 (equivalent to approximately HK$1,297,000).

3. Pursuant to 2 Shanghai Certificates of Real Estate Ownership – Hu Fang Di Song Zi (2002) Di No. 004278 dated 29 April 2002 and Hu Fang Di Song Zi (2004) No. 017761 dated 22 July 2004 issued by the Shanghai Housing and Land Resources Administration Bureau, the land use rights of 2 parcels of land with a total site area of approximately 12,861 sq.m. have been granted to Shanghai Atech Machinery Co. Ltd. for terms of 50 years expiring on 14 April 2052 and 21 May 2054 respectively for industrial use.

4. Pursuant to 2 Construction Works Planning Permit – Hu Jian Song Gui (2004) No. 0467 dated 20 August 2004 and Hu Jian Song (2006) No. 17060228F00536 dated 28 February 2006 issued by the Planning Administration Bureau of Songjiang District of Shanghai, construction works of 4 buildings with a total gross floor area of 10,603 sq.m. have been permitted.

5. Pursuant to 2 Construction Works Commencement Permit - No. 04Y1SJ0065D01 dated 12 October 2004 and No. 0502SJ0139D01 dated 11 August 2005 issued by the Construction and Administration Bureau of Songjiang District of Shanghai, the commencement of construction works has been permitted.

6. In the valuation of this property, we have not attributed any commercial value to 4 buildings a total gross floor area of approximately 10,603 sq.m. which are yet to obtain any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be HK$21,600,000 assuming relevant title certificates have been obtained and the buildings could be freely transferred. These buildings are under completion certification.

7. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the land use rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group; and

   ii. the property is legally owned by the Group. After completion certification, there will be no material legal impediment for the Group to apply for the title certificates.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
7.	Units 2304 on Level 23 Zhenyuan Building No. 2052 Zhongshan Road North Putuo District Shanghai The PRC	The property comprises an office unit on level 23 of a 27-storey (including 2 basement levels) office building completed in about 2000. The property has a gross floor area of approximately 143.60 sq.m.	The property is currently occupied by the Group for office purpose.	1,120,000

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Pu Zi 2004 Di No. 024397 dated 8 June 2004 issued by the Shanghai Housing and Land Resource Administration Bureau, the land use rights and the building ownership rights of level 23 with a gross floor area of approximately 812.49 sq.m. are vested in Shanghai Atech Machinery Co. Ltd., a wholly-owned subsidiary of the Company. As advised by the Company, the property was purchased from an independent third party.

2. The remaining portion of level 23 is held by the Group for investment purpose and is included in Group IV under the Property interests held for investment by the Group in the PRC (Property No. 10).

3. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the land use rights and building ownership rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
8.	A parcel of land, various buildings and structures located at No. 18 North Yanshunhe Road Beilun District Ningbo City The PRC	The property comprises a parcel of land with a site area of approximately 58,600 sq.m. The property also comprises 10 buildings and various ancillary structures completed in 2005. The buildings have a total gross floor area of approximately 28,375 sq.m. The buildings include an office building, 4 workshops, 2 dormitory buildings, 2 guardhouses and a transformer room. The structures mainly include boundary walls and roads, etc. The land use rights of the property were granted for a term of 50 years commencing from the commencement date of the relevant Land Use Rights Certificate for industrial uses.	The property is currently occupied by the Group for industrial, ancillary office and dormitory purposes.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract – Lun Kai Tu Chu He (2004) No. 4809970097 dated 8 July 2004 entered into between the Land Resources Bureau of Beilun District, Ningbo City and Ningbo L. K. Technology Co. Ltd. (寧波力勁科技有限公司), a wholly-owned subsidiary of the Company, the land use rights of a parcel of land with a site area of approximately 58,600 sq.m. were granted to Ningbo L. K. Technology Co. Ltd. for a term of 50 years commencing from the commencement date of the relevant Land Use Rights Certificate for industrial uses at a consideration of RMB10,548,000 (equivalent to approximately HK$10,240,800).

2. Pursuant to the abovementioned State-owned Land Use Rights Grant Contract, the maximum plot ratio shall not exceed 1.5 and the minimum plot ratio shall not less than 0.6. The site coverage should be within 45%-55% and the site coverage of administration and office buildings together with dormitories and ancillary facilities should not exceed 7%. A minimum of 20% of the site area should be designated for landscaping uses.

3. Pursuant to a Construction Land Use Planning Permit – (2004) Zhe Gui (Di) Zheng No. 0204216 dated 21 July 2004 issued by the Planning Bureau of Ningbo City, Beilun Branch, construction land use of the subject site has been permitted.

4. Pursuant to a Construction Works Planning Permit – (2004) Zhe Gui (Jian) Zheng No. 0204357 dated 10 October 2004 issued by the Planning Bureau of Ningbo City, Beilun Branch, construction works on the subject site has been permitted.

5. Pursuant to a Construction Works Commencement Permit - No. 330206200410220301 dated 8 December 2004 issued by the Construction Bureau of Beilun District of Ningbo City, the commencement of construction works has been permitted.

6. In the valuation of this property, we have not attributed any commercial value to the property with a total gross floor area of approximately 28,375 sq.m. which is yet to obtain any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be HK$43,400,000 assuming relevant title certificates have been obtained and the buildings could be freely transferred. The property is under completion certification.

7. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

    i. Ningbo L. K. Technology Co. Ltd. has paid the first phase of land grant premium and the State-owned Land Use Rights Grant Contract is legally valid, binding and enforceable on contracted parties and is projected by the PRC laws;

    ii. Ningbo L. K. Technology Co. Ltd. can obtain the State-owned Land Use Rights Certificate upon paying the second phase of the land grant premium; and

    iii. Ningbo L. K. Technology Co. Ltd. has obtained the Construction Land Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit in accordance with the PRC regulations. The construction and development of the property complies with relevant building laws and regulations of the PRC and there will be no material legal impediment for the Group to apply for the title certificates after completion certification.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
9.	A parcel of land, various buildings and structures located at No. 306 Haixin Road, Taiping District Fuxin City Liaoning Province The PRC	The property comprises a parcel of land with a site area of approximately 81,532 sq.m. The property also comprises 24 buildings and various ancillary structures completed in various stages between 1965 and 1996. The buildings have a total gross floor area of approximately 15,935.25 sq.m. The buildings mainly include industrial buildings, boiler room, transformer room, warehouse, office building and dormitory, etc. The structures mainly include boundary walls, shed and wells, etc. The land use rights of the property were granted for a term of 50 years expiring on 10 January 2049 for industrial use.	The property is currently occupied by the Group for industrial, staff quarter and ancillary office purposes.	29,600,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Fu Xin Guo Yong (2005) Zi Di No. 0009 issued by the Land Resources Bureau of Fuxin City dated 28 April 2005, the land use rights of a parcel of land with a site area of approximately 81,532 sq.m. were granted to Fu Xin L.K. Northern Machinery Company Limited (阜新力勁北方機械有限公司), a wholly-owned subsidiary of the Company.

2. Pursuant to 15 Building Ownership Certificates – Nos. 101-12-10, 101-12-11, 101-12-12, 101-12-16, 101-12-19, 101-12-20, 101-12-23, 101-12-24, 101-12-37 to 101-12-43, issued by the People's Government of Fuxin City dated between 22 March 2005 and 24 March 2005, 15 buildings with a total gross floor area of approximately 14,202.77 sq.m. are vested in Fu Xin L.K. Northern Machinery Company Limited.

3. In the valuation of this property, we have not attributed any commercial value to 9 buildings with a total gross floor area of approximately 1,732.48 sq.m. which have not obtained any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be HK$560,000 assuming relevant title certificates have been obtained and the buildings could be freely transferred. As advised by the Group, these buildings are immaterial to the business operation.

4. Pursuant to a mortgage contract dated 9 November 2005, the property (including the buildings and land only) is subject to a mortgage in favour of The Commercial Bank of Fuxin City as security for a loan with maximum amount of RMB30,000,000 (equivalent to approximately HK$29,126,000) granted to Fu Xin L.K. Northern Machinery Company Limited for a mortgage period from 11 November 2005 to 11 November 2008.

5. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the land use rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group; and

   ii. the property is legally owned by the group.

VALUATION CERTIFICATE

GROUP IV – PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
10.	Units 2301-2303, 2305-2310 on Level 23 Zhenyuan Building No. 2052 Zhongshan Road North Putuo District Shanghai The PRC	The property comprises 9 office units on level 23 of a 27-storey (including 2 basement levels) office building completed in about 2000. The property has a total gross floor area of approximately 668.89 sq.m.	The property is currently rented to two independent third parties and a connected party for different terms at a total monthly rent of RMB33,900 (equivalent to approximately HK$32,900), exclusive of management fees, water and electricity charges and is occupied for office purpose.	5,170,000

Notes:

1. Pursuant to a Shanghai Certificate of Real Estate Ownership – Hu Fang Di Pu Zi 2004 Di No. 024397 dated 8 June 2004 issued by the Shanghai Housing and Land Resource Administration Bureau, the land use rights and the building ownership rights of level 23 with a gross floor area of approximately 812.49 sq.m. are vested in Shanghai Atech Machinery Co. Ltd., a wholly-owned subsidiary of the Company. As advised by the Company, the property was purchased from an independent third party.

2. Pursuant to a tenancy agreement entered into between Shanghai Atech Machinery Co. Ltd. (the "lessor") and 上海法樂生物科技有限公司 (Shanghai Fale Biotechnology Company Ltd.) (the "lessee"), an independent third party, units 2301-03 with a total gross floor area of 269.59 sq.m. are leased to the lessee for a term expiring on 31 March 2007 at a monthly rent of RMB13,900 (equivalent to approximately HK$13,500) exclusive of management fees, water and electricity charges.

3. Pursuant to a tenancy agreement entered into between Shanghai Atech Machinery Co. Ltd. (the "lessor") and 上海神州風采投資管理有限公司 (Shanghai Shenzhou Fengcai Investment Management Company Ltd.) (the "lessee"), an independent third party, units 2305, 2307-2310 with a total gross floor area of 322.15 sq.m. are leased to the lessee for a term expiring on 29 February 2008 at a monthly rent of RMB16,500 (equivalent to approximately HK$16,020) exclusive of management fees, water and electricity charges.

4. Pursuant to a tenancy agreement entered into between Shanghai Atech Machinery Co. Ltd. (the "lessor") and Shanghai Dragon Prosper Trading Limited (上海昌唯龍商貿有限公司) (the "lessee"), a connected party of the Group, unit 2306 with a gross floor area of 77.15 sq.m. is leased to the lessee for a term of 1 year expiring on 31 December 2006 at a monthly rent of RMB3,500 (equivalent to approximately HK$3,400) exclusive of management fees, water and electricity charges.

5. The remaining portion of level 23 is occupied by the Group for office use and is included in Group under the Property interests held and occupied by the Group in the PRC (Property No. 7).

6. We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the tenancy agreement is valid, binding and enforceable under the PRC laws;

   ii. pursuant to a Shanghai Certificate of Real Estate Ownership dated 8 June 2004, Shanghai Atech Machinery Co. Ltd. is the registered owner of the property and has the legal right to lease the property;

   iii. the existing use of the property is in compliance with the prescribed use under the PRC laws;

   iv. the Group is in the process of registering the tenancy agreements;

   v. the property is not subject to mortgage or any other material encumbrances;

   vi. pursuant to a tenancy termination agreement dated 14 September 2006, the tenancy agreement mentioned in note 4 will be terminated on 1 October 2006; and

   vii. according to Article 13 of Provisions of Municipality on House Tenancy Administration (1995), a registration and archival filing system shall be implemented for house tenancy. But the Provisions do not have penalty for unregistered house tenancy. The unregistration of the existing tenancy agreements will not incur penalty or liabilities on the part of the Group.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
11.	1st floor and portion of 2nd floor of No. 4 Factory Building and 9 apartment units of No. 1 Dormitory Building located at Jihua Industrial Area Buji Town Longgang District Shenzhen The PRC	The property comprises the whole of 1st floor and portion of 2nd floor of a 5-storey industrial building and 9 apartment units from 1st to 7th floors of a 7-storey dormitory building completed in about 1991. The property has a total gross floor area of approximately 3,251.95 sq.m. The land use rights of the property were granted for a term of 50 years expiring on 14 April 2049.	The property is currently leased to Yin Fat Industrial Company Limited, a connected party (Yin Fat Industrial Company Limited is wholly-owned by Mr. Liu's brother and his spouse. Mr. Liu is an associate of the Controlling Shareholder), on monthly basis at a monthly rent of RMB37,576.8 (equivalent to approximately HK$36,480) exclusive of all outgoings and is occupied for industrial, ancillary office and dormitory purposes.	3,500,000

Notes:

1. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di No. 6000023175 dated 1 December 1999 issued by the People's Government of Shenzhen City, the land use rights and building ownership rights of a portion of the property (1st floor and portion of 2nd floor of No. 4 Factory Building) with a gross floor area of approximately 2,495.86 sq.m. are vested by L.K. Machinery (Shenzhen) Co. Ltd. (力勁機械(深圳)有限公司), a wholly-owned subsidiary of the Company.

2. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di No. 6000023176 dated 1 December 1999 issued by the People's Government of Shenzhen City, the land use rights and building ownership rights of the remaining portion of the property (9 apartment units) with a gross floor area of approximately 756.09 sq.m. are vested in L.K. Machinery (Shenzhen) Co. Ltd.

3. As advised by the Company, the property was purchased from an independent third party.

4. We have been provided with the legal opinion to the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:

   i. the tenancy agreement is valid, binding and enforceable under the PRC laws;

   ii. the land use rights of the property are legally owned by the Group and can be transferred, sublet or mortgaged freely by the Group;

   iii. the Group has the legal right to lease the property;

   iv. the existing use of the property is in compliance with the prescribed use under the PRC laws;

   v. the Group is in the process of registering the tenancy agreement;

   vi. the property is not subject to mortgage or any other material encumbrances;

   vii. pursuant to a tenancy termination agreement dated 12 September 2006, the tenancy agreement will be terminated on 1 October 2006; and

   viii. according to Article 13 of Provisions of Municipality on House Tenancy Administration (1995), a registration and archival filing system shall be implemented for house tenancy. But the Provisions do not have penalty for unregistered house tenancy. The unregistration of the existing tenancy agreement will not incur penalty or liabilities on the part of the Group.

VALUATION CERTIFICATE

GROUP V – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN HONG KONG

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
12.	Unit A on G/F Mai Wah Industrial Building Nos. 1-7 Wah Sing Street Kwai Chung New Territories Hong Kong	The property comprises a unit on ground floor of a 23-storey industrial building completed in 1974. The property has a saleable area of approximately 12,104 sq.ft. (1,124.5 sq.m.). The property is rented to L.K. Machinery Company Limited, a wholly-owned subsidiary of the Company, from Wheelfit Investment Limited, a connected party of the Group, for a term of 2 years commencing from 1 September 2004 and expiring on 31 August 2006, and the tenancy has been renewed for a term of 2 years until 31 August 2008 at a current monthly rent of HK$93,000, exclusive of rates, management fee, water and electricity charges.	The property is currently occupied by the Group for industrial and ancillary office purposes.	No commercial value
13.	House K with Garden, Flat-roof and Carport Lakeview Garden No. 21 Yau On Street Shatin New Territories Hong Kong	The property comprises a detached house completed in 1994. The property has a gross floor area of approximately 2,353 sq.ft. (218.6 sq.m.) with a garden area of 1,798 sq.ft. (167.04 sq.m.) The property is rented to L.K. Machinery Co. Ltd, a wholly-owned subsidiary of the Company, from Full Power Development Limited, a connected party of the Group, for a term of 5 years commencing from 1 September 2000 and expiring on 31 August 2005 at a monthly rent of HK$60,000, exclusive of water and electricity charges. The tenancy had been extended for a further term of 1 year from 1 September 2005 to 31 August 2006 at a monthly rent of HK$63,000, exclusive of water and electricity charges. As confirmed by the Company, the tenancy was not renewed by the Company after the tenancy had been expired on 31 August 2006.	The property was occupied by the Group for residential purposes as at the date of valuation.	No commercial value

VALUATION CERTIFICATE

GROUP VI – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
14. 2 sales offices and 12 liaison points in various cities in the PRC (rented by Shanghai Atech Machinery Co. Ltd.)	The property comprises 2 sales offices and 12 liaison points in the PRC. Details of the areas of the sales offices and liaison points are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Sales offices — 302.01 Liaison points — 1,271.00 Total: — 1,573.01 The property is rented to Shanghai Atech Machinery Co., Ltd. ("Shanghai Atech"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 1 September 2008 at a total monthly equivalent rent of approximately RMB18,986.67.	The property is currently occupied by the Group for sales offices and liaison points purposes.	No commercial value
15. 4 sales offices and 2 liaison points in various cities in the PRC (rented by Zhongshan L.K. Machinery Co. Ltd.)	The property comprises 4 sales offices and 2 liaison points in the PRC. Details of the areas of the sales offices and liaison points are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Sales offices — 371.60 Liaison points — 178.00 Total: — 549.60 The property is rented to Zhongshan L.K. Machinery Co. Ltd. ("LK (Zhongshan)"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 31 July 2009 at a total monthly equivalent rent of approximately RMB19,811.	The property is currently occupied by the Group for sales offices and liaison points purposes.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
16. 3 liaison points in various cities in the PRC (rented by Ningbo L.K. Technology Co. Ltd.)	The property comprises 3 liaison points in the PRC. Details of the areas of the liaison points are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Liaison points — 330.99 The property is rented to Ningbo L.K. Technology Co. Ltd. ("LK Tech (Ningbo)") , a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 1 October 2008 at a total monthly equivalent rent of approximately RMB3,666.67.	The property is currently occupied by the Group for liaison points purpose.	No commercial value
17. 2 liaison points in various cities in the PRC (rented by Ningbo L.K. Machinery Co. Ltd.)	The property comprises 2 liaison points in the PRC. Details of the areas of the liaison points are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Liaison points — 286.37 The property is rented to Ningbo L.K. Machinery Co. Ltd. ("LK (Ningbo)"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 15 January 2009 at a total monthly equivalent rent of approximately RMB2,800.	The property is currently occupied by the Group for liaison points purpose.	No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
18. 6 sales offices in various cities in the PRC (rented by Shenzhen Leadwell Technology Co. Ltd.)	The property comprises 6 sales offices in the PRC. Details of the areas of the sales offices are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Sales offices — 924.07 The property is rented to Shenzhen Leadwell Technology Co. Ltd. ("SZ Leadwell"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 5 October 2008 at a total monthly equivalent rent of approximately RMB21,700.	The property is currently occupied by the Group for sales offices purpose.	No commercial value
19. 2 sales offices and 1 liaison point in various cities in the PRC (rented by L.K. Machinery (Shenzhen) Co. Ltd.)	The property comprises 2 sales offices and 1 liaison point in the PRC. Details of the areas of the sales offices and liaison point are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Sales offices — 266.00 Liaison point — 168.30 Total: — 434.30 The property is rented to L.K. Machinery (Shenzhen) Co. Ltd. ("LK (Shenzhen)"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 30 April 2007 at a total monthly equivalent rent of approximately RMB8,870.	The property is currently occupied by the Group for sales offices and liaison points purposes.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
20.	5 liaison points in various cities in the PRC (rented by Fu Xin L.K. Northern Machinery Co. Limited)	The property comprises 5 liaison points in the PRC. Details of the areas of the liaison points are summarized as follows: **Use** — **Gross Floor Area** *(sq.m.)* Liaison points — 750.39 The property is rented to Fu Xin L.K. Northern Machinery Co. Limited ("LK (Fuxin)"), a wholly-owned subsidiary of the Company, from various parties for various terms with the latest expiry date on 22 April 2007 at a total monthly equivalent rent of approximately RMB23,650.	The property is currently occupied by the Group for liaison points purpose.	No commercial value

Note:

1. Regarding property nos. 14 to 20, we have been provided with the legal opinion to the property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

   i. 20 of the sales offices and liaison points are residential flats but used as office. There are no clear regulations on this aspect. The sales offices have been legally registered which reflects that the relevant local industrial and commerce administrative departments permit the use of residential flats in residential building for business operation and will not have unfavourable legal consequences;

   ii. Out of the 14 sale offices and 25 liaison points, landlords of the 14 sales offices have obtained proper title to these properties and have the legal rights to lease out these properties. Therefore the lease agreements are valid, binding and enforceable under the PRC laws. For the 25 liaison points, title certificates of them have not been provided by the landlords;

   iii. For those properties without proper title certificates, the landlords' ownership of the properties and rights to lease the properties cannot be determined, so the validity of the lease agreements is uncertain. But the Group can claim for any loss arising from defective title from the relevant landlords;

   iv. The Group is in the process of registering the tenancy agreements; and

   v. 14 sales offices are not subject to mortgage or any other material encumbrances.

VALUATION CERTIFICATE

GROUP VII – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN CANADA

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
21.	Unit Nos. 6, 7 and 8 located at No. 210 Brunel Road City of Mississauga County of Peel Ontario Canada	The property comprises 3 units of an 1-storey industrial building completed in about 1990s. The total gross floor area of the property is approximately 1,270.22 sq.m. The property is currently rented to Quantum Machinery International Inc. from an independent third party, for a term of 45 months commencing from 1 September 2004 and expiring on 31 May 2008 at a monthly rent of CDN7,318.27 exclusive of all other outgoings.	The property is currently occupied by the Group for operation of sales, distribution, demonstration of machines and ancillary office purposes.	No commercial value

Notes:

1. Quantum Machinery International Inc. is a wholly-owned subsidiary of the Company.

2. The registered owner of the property is Prombank Investment Limited.

3. Pursuant to a lease agreement entered into between Quantum Machinery International Inc. (the "lessee") and Prombank Investment Limited (the "lessor"), an independent third party dated 14 June 2004 (the "Lease Agreement"), the property is leased to the Group for a term of 45 months commencing on 1 September 2004 and expiring on 31 May 2008 at a monthly rent of CDN7,318.27 exclusive of relevant tax, water, electricity charges and other outgoings.

4. Our valuation conclusion is reached having regard to the valuation report undertaken by Wed Wojas, a qualified professional in real estate who has 27 years of valuation experience in respect of the properties in the Canada and is an Accredited Appraiser of the Canadian Institute (AACI).

5. We have been provided with the legal opinion to the property interests by the Company's Canada legal adviser, which contains, inter alia, the following:

   (i) the lessor is the registered owner of the property and is legally entitled to grant a lease of the Property to the lessee; and

   (ii) the Lease Agreement has been duly executed by the lessor and the lessee and is legally valid and binding on the lessor and the lessee.

VALUATION CERTIFICATE

GROUP VIII – PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN UNITED STATES

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
22.	An office in the Building at 8436 Homestead Zeeland Michigan 49464 United States	The property comprises an office unit of a 2-storey office building completed in about 1998. The property has a gross floor area of approximately 300 sq.ft. (27.87 sq.m.) The property is rented to L.K. Machinery, Inc. from an independent third party on monthly basis at a monthly rent of USD400 exclusive of all other outgoings.	The property is currently occupied by the Group for sales, distribution, demonstration of machines and ancillary office purposes.	No commercial value

Notes:

1. L.K. Machinery, Inc. is a wholly-owned subsidiary of the Company.

2. The registered owner of the property is Dunlap Development LLC.

3. Pursuant to a lease agreement entered into between L.K. Machinery, Inc. (the "lessee") and an independent third party dated 15 May 2006 (the "Lease Agreement"), the property is leased to the Group on a month-to-month basis, at a monthly rent of USD400.00, exclusive of operating costs, receptionist fee and the use of the common conference room at a monthly rate of USD125.00, USD50.00 and USD35.00 respectively.

4. Our valuation conclusion is reached having regard to the valuation report undertaken by Laurence G. Allen, a qualified professional in real estate who has 33 years of valuation experience in respect of the properties in the US and is a Member of the Appraisal Institute (MAI).

5. We have been provided with the legal opinion to the property interests by the Company's U.S. legal adviser, which contains, inter alia, the following:

   (i) the Lease Agreement has been duly authorized by all requisite corporate action, executed and delivered by L.K. Machinery, Inc.;

   (ii) L.K. Machinery, Inc. has the corporate power to execute, deliver and perform the Lease Agreement.; and

   (iii) the Lease Agreement constitutes the valid and binding obligation of L.K. Machinery, Inc. enforceable in accordance with its terms.

VALUATION CERTIFICATE

GROUP IX – PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN TAIWAN

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
23.	Unit A4 on 5th Floor, Kaohsiung Commercial Building No. 502 Jiu Ru Yi Road Kaohsiung City Taiwan	The property comprises an office unit on 5th floor of a 30-storey building completed in about 1994. The property has a gross floor area of approximately 35.02 ping (115.77 sq.m.). The property is rented to L.K. Machinery Corp. from an independent third party for a term of 1 year commencing from 1 November 2005 and expiring on 31 October 2006 at a monthly rent of TWD17,510 exclusive of all other outgoings.	The property is currently occupied by the Group for sale office purpose.	No commercial value

Notes:

1. L.K. Machinery Corp. (力勁機械股份有限公司) is a wholly-owned subsidiary of the Company.

2. Pursuant to a lease agreement entered into between L.K. Machinery Corp. (the "lessee") and an independent third party (the "lessor") dated 2 September 2005 (the "Lease Agreement"), the property is leased to the Group for a term of 1 year commencing from 1 November 2005 and expiring on 31 October 2006 at a monthly rent of TWD17,510, exclusive of all outgoings.

3. Our valuation conclusion is reached having regard to the valuation report undertaken by 林文宏 (Lin Ming Hong), a qualified professional in real estate who has 13 years of valuation experience in respect of the properties in Taiwan and is a certified appraiser in Taiwan.

4. We have been provided with the legal opinion to the property interests by the Company's Taiwan legal adviser, which states that in so far as the written terms and conditions of the Lease Agreement are concerned, L.K. Machinery Corp. does not violate the relevant Republic of China laws and regulations.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
24.	Unit A on 8th Floor, No. 52 of Alley 646 Jin Ma Road Section 3 Xi Shi Avenue No. 5 Lin Changhua City Changhua County Taiwan	The property comprises an office unit on 8th floor of a 10-storey building completed in about 1992. The property has a gross floor area of approximately 34.8 ping (115.04 sq.m.). The property is rented to L.K. Machinery Corp. from an independent third party for a term of 1 year commencing from 1 October 2004 and expiring on 30 September 2005 at a monthly rent of TWD6,600 exclusive of all other outgoings. The existing lease continues on monthly basis at the same rent.	The property is currently occupied by the Group for sale office purposes.	No commercial value

Notes:

1. L.K. Machinery Corp. (力勁機械股份有限公司) is a wholly-owned subsidiary of the Company.

2. Pursuant to a lease agreement (the "Lease Agreement") entered into between L.K. Machinery Corp. (the "tenant") and an independent third party (the "lessor") dated 27 October 2004, the property is leased to L.K. Machinery Corp. for a term of 1 year commencing from 1 October 2004 and expiring on 30 September 2005 at a monthly rent of TWD6,600 exclusive of all outgoings. The Lease Agreement has expired but the term shall continue on a monthly basis for an indefinite period subject to the same terms of the Lease Agreement and the Republic of China laws.

3. Our valuation conclusion is reached having regard to the valuation report undertaken by 林金生 (Lin Jin Sheng), a qualified professional in real estate who has 12 years of valuation experience in respect of the properties in Taiwan and is a certified appraiser in Taiwan.

4. We have been provided with the legal opinion to the property interests by the Company's Taiwan legal adviser, which states that in so far as the written terms and conditions of the Lease Agreement are concerned, L.K. Machinery Corp. does not violate the relevant Republic of China laws and regulations.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2006 *HK$*
25.	A warehouse located at No. 18 of Alley 171 Zhongxin Road Section 1 Wugu Village Taipei County Taiwan	The property comprises a 1-storey building completed in about 2006. The property has a gross floor area of approximately 98 ping (323.97 sq.m.). The property is rented to L.K. Machinery Corp. from an independent third party for a term commencing from 5 July 2006 and expiring on 4 February 2007 at a monthly rent of TWD45,000 exclusive of all other outgoings.	The property is currently occupied by the Group for storage purposes.	No commercial value

Notes:

1. L.K. Machinery Corp. (力勁機械股份有限公司) is a wholly-owned subsidiary of the Company.

2. Pursuant to a lease agreement entered into between L.K. Machinery Corp. (the "tenant") and an independent third party (the "lessor") dated 5 July 2006 (the "Lease Agreement"), the property is leased to L.K. Machinery Corp. for a term commencing from 5 July 2006 and expiring on 4 February 2007 at a monthly rent of TWD45,000 exclusive of all outgoings.

3. Our valuation conclusion is reached having regard to the valuation report undertaken by 林金生 (Lin Jin Sheng), a qualified professional in real estate who has 12 years of valuation experience in respect of the properties in Taiwan and is a certified appraiser in Taiwan.

4. We have been provided with the legal opinion to the property interests by the Company's Taiwan legal adviser, which states that in so far as the written terms and conditions of the Lease Agreement are concerned, L.K. Machinery Corp. does not violate the relevant Republic of China laws and regulations.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18th August 2004 under the Companies Law. The Memorandum of Association (the "Memorandum") and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the function of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 23 September 2006. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) 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 by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) 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 equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary and usual course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary and usual course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 7 September 2004.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 18 August 2004. The Company has established a principal place of business in Hong Kong at Unit A, 8th Floor, Mai Wah Industrial Building, 1-7 Wah Sing Street, Kwai Chung, New Territories, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 12 September 2006. In connection with such registration, Ms. Chong and Mr. Chung Yuk Ming have been appointed as the authorised representatives of the Company for the acceptance of service of process and any notices served on the Company in Hong Kong. As the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability, its operation is governed by the Companies Law and its constitution which comprises a memorandum of association and the Articles. A summary of various parts of the constitution and relevant aspects of the company laws of the Cayman Islands is set out in appendix IV to this prospectus.

2. Changes in share capital

(a) As at the date of incorporation of the Company, its initial authorised share capital was HK$380,000 divided into 3,800,000 Shares of HK$0.10 each.

(b) Pursuant to the first meeting of the sole director of the Company held on 24 August 2004, 1 Share of HK$0.10 was allotted and issued nil paid ("Nil Paid Share") to a subscriber and the Nil Paid Share was transferred to Ms. Chong on the same day.

(c) Pursuant to the written resolutions of the sole shareholder of the Company passed on 16 September 2006, the authorised share capital of the Company was increased from HK$380,000 to HK$300,000,000 by the creation of an additional 2,996,200,000 Shares of HK$0.10 each.

(d) Following a call on the Nil Paid Share on 23 September 2006 by the Company, Ms. Chong has fully paid up the Nil Paid Share which was credited as fully paid for cash at par on the same day.

(e) Immediately upon completion of the Share Offer but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, 1,000,000,000 Shares will be issued fully paid or credited as fully paid and 2,000,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 1,037,500,000 Shares will be issued fully paid or credited as fully paid and 1,962,500,000 Shares will remain unissued. Other than pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

(f) Save for the aforesaid and as mentioned in "Written resolutions of the sole shareholder of the Company passed on 23 September 2006" below, there has been no other alteration in the share capital of the Company since its incorporation.

3. Written resolutions of the sole shareholder of the Company passed on 23 September 2006

Pursuant to the written resolutions of the sole shareholder of the Company passed on 23 September 2006:

(a) the Company approved and adopted the Articles;

(b) conditional on the same conditions as stated in the section headed "Conditions of the Share Offer" under the section headed "Structure and Conditions of the Share Offer" in this prospectus having been satisfied:

(i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer and any Shares which may be required to be issued if the Over-allotment Option is exercised;

(ii) the rules of the Pre-IPO Share Option Scheme was approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot and issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options granted under the Pre-IPO Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme;

(iii) the Pre-IPO Share Option Scheme was approved and the Directors were authorized to allot and issue Shares pursuant to the exercise of the Pre-IPO Share Option;

(iv) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and

(v) the Share Option Scheme was approved and the Directors were authorized to allot and issue Shares pursuant to the exercise of the Share Option.

(c) conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, an amount of HK$10,000,000 standing to the credit of the share premium account of the Company was directed to be capitalised and applied to pay up in full at par a total of 100,000,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on the date of this prospectus, or as they may direct, in proportion to their then existing shareholdings in the Company and the Directors were authorised to issue such Shares;

(d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of any options under the Pre-IPO Share Option Scheme or the Share Option Scheme or any other share option scheme of the Company or any shares of the Company allotted in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles or pursuant to a specific authority granted by the shareholders of the Company or pursuant to the Share Offer or the exercise of the Over-allotment Option, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; and

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting;

(e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; and

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

(f) the general unconditional mandate mentioned in sub-paragraph (e) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

4. Corporate Reorganisation

The companies comprising the Group underwent a corporate reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on the Stock Exchange. Following the reorganisation set out below, the Company became the holding company of the Group. The reorganisation involved the following steps:

Incorporation of the Company

(i) On 18 August 2004, the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability with an initial authorised share capital of HK$380,000 divided into 3,800,000 Shares of HK$0.10 each. On 24 August 2004, the Nil Paid Share was allotted and issued to a subscriber and was transferred to Ms. Chong on the same day. On 16 September 2006, the authorised share capital of the Company was increased to HK$300,000,000 divided into 3,000,000,000 Shares. Following a call on the Nil Paid Share on 23 September 2006 by the Company, Ms. Chong has fully paid up the Nil Paid Share which was credited as fully paid for cash at par.

Incorporation of operating companies

(ii) On 9 July 1985, LK(HK) was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000,000 divided into 10,000,000 shares of HK$1.00 each since 9 February 1998.

(iii) On 27 March 1997, LKIL was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(iv) On 27 March 1997, Girgio was incorporated in the BVI with limited liability and is owned as to 5% by Mr. Liu and 95% by Fullwit since 3 May 2003, in its capacity as trustee of The Liu Family Unit Trust. Fullwit is a company incorporated in the BVI with limited liability and is wholly-owned by Ms. Chong.

(v) On 4 January 2000, Gold Millennium was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(vi) On 15 March 2000, Supreme Mission was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(vii) On 12 July 2000, Supreme Technology was incorporated in Bermuda with limited liability and an authorised share capital of HK$30,000,000 divided into 300,000,000 shares of HK$0.10 each since 9 October 2000.

(viii) On 23 September 2000, Cyberbay was incorporated in Singapore with limited liability and an issued share capital of S$2.00 divided between 2 ordinary shares of S$1.00 each.

(ix) On 10 June 2004, Best Truth was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(x) On 6 August 2004, Sky Treasure was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(xi) On 18 October 2004, Lucky Prosper was incorporated in Hong Kong with limited liability and an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each.

(xii) On 18 January 2005, World Force was incorporated in the BVI with limited liability and an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(xiii) On 24 April 2006, LK (Delaware) was incorporated in Delaware, U.S. with limited liability and an authorised share capital of US$10 divided into 1,000 shares of US$0.01 each.

Reorganisation of companies

(xiv) On 30 March 2006, the Company transferred 1 share in Sky Treasure to Fairview Technology at par value.

(xv) On 23 September 2006, LKIL as transferor and Best Truth as transferee entered into a share exchange deed for the transfer of the entire issued share capital of LK(HK), i.e. 10,000,000 shares in LK(HK), whereby Best Truth allotted and issued 1 new share to LKIL in exchange for all the shares in LK(HK).

(xvi) On 23 September 2006, Ms. Chong as transferor, LKIL as transferee and Supreme Technology entered into a share exchange deed for the transfer of the entire issued share capital of the Company, i.e. 1 Share in the Company, whereby LKIL allotted and issued 1 new share to Ms. Chong in exchange for the 1 Share in the Company. Ms. Chong directed LKIL to allot and issue such share to Supreme Technology in consideration of a promissory note in the amount of HK$1 issued by Supreme Technology.

(xvii) On 23 September 2006, LKIL as transferor, the Company as transferee and Girgio, Mr. Liu and Ms. Chong together as warrantors entered into a share exchange deed for the transfer of the entire issued share capital of Best Truth, i.e. 2 shares in Best Truth, whereby the Company allotted and issued 649,999,997 new Shares, credited as fully paid to LKIL and credited as fully paid at par the one fully paid Share in issue held by LKIL in exchange for the 2 shares in Best Truth.

(xviii) On 23 September 2006, LKIL as transferor and Girgio as transferee entered into a share exchange deed for the transfer of the entire issued share capital of the Company, i.e. 649,999,998 Shares in the Company, in consideration of a promissory note in the amount of HK$473,942,000 issued by Girgio to LKIL.

(xix) On 23 September 2006, Supreme Technology as transferor, the Company as transferee and Girgio entered into a share exchange deed for the transfer of the entire issued share capital of World Force, i.e. 1 share in World Force, whereby the Company allotted and issued 1 new Share, credited as fully paid, to Supreme Technology in exchange for the 1 share in World Force. Supreme Technology directed the Company to allot and issue such 1 Share to Girgio in consideration of a promissory note in the amount of HK$8 issued by Girgio to Supreme Technology.

(xx) On 23 September 2006, Supreme Mission as transferor, the Company as transferee and Girgio entered into a share exchange deed for the transfer of the entire issued share capital of Cyberbay, i.e. 2 shares in Cyberbay, whereby the Company allotted and issued 1 new Share, credited as fully paid, to Supreme Mission in exchange for all the shares in Cyberbay. Supreme Mission directed the Company to allot and issue such 1 Share to Girgio in consideration of a promissory note in the amount of S$2 issued by Girgio to Supreme Mission.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in appendix I to this prospectus. In addition to the alterations described in paragraph 4 of this appendix, the following changes in share capital of each of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

On 9 June 2005, the registered share capital of LK(Taiwan) was increased from NTD3,000,000 to NTD11,000,000.

Save as disclosed herein and in paragraph 4 of this appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its Shares

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its Shares.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of the sole shareholder of the Company passed on 23 September 2006, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising the Directors to exercise all the powers of the Company to purchase on the Stock Exchange, or any other stock exchange on which the Shares of the Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of the Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by law or the Articles to be held, and when the Repurchase Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by the Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or out of the Company's share premium account before or at the time the shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit a company from knowingly repurchasing its shares on the Stock Exchange from a "connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or an associate of any of them and a connected person shall not knowingly sell shares to the company.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue after completion of the Share Offer (assuming that the Over-allotment Option is not exercised) and on the basis of 1,037,500,000 Shares in issue after completion of the Share Offer (assuming that the Over-allotment Option is exercised in full) could accordingly result in up to 100,000,000 Shares and 103,750,000 Shares respectively being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing the Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(e) General

None of the Directors or, to the best of the knowledge of the Directors having made all reasonable enquiries, none of their associates, has any present intention if the Repurchase Mandate is exercised to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Companies Law and any other applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. On the basis of 1,000,000,000 Shares in issue and Girgio is deemed to be interested in 750,000,000 Shares (representing approximately 75%) in the total issued share capital of the Company immediately after the completion of the Share Offer (and taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any exercise of options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), the exercise in full of the Repurchase Mandate by the Company, assuming that there is no change in the number of Shares held by Girgio, would result in the shareholding interest of Girgio in the Company being increased to approximately 83.3%. Accordingly, in case the Directors are aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate, the Company will comply with all the applicable takeover and disclosure requirements under the Takeovers Code and the Listing Rules, where applicable.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No Connected Person has notified the Company that he has a present intention to sell the Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

7. Property Interests

The Group has leased 39 property interests in the PRC from Independent Third Parties. In valuing the property interests in relation to these leased properties, the Company has applied (a) to the SFC for an exemption under section 342A of the Companies Ordinance from strict compliance with sub-paragraph (2) of Paragraph 34 of the Third Schedule to the Companies Ordinance ("Paragraph 34(2)") as required under section 342(1) of the Companies Ordinance; and (b) to the Stock Exchange for a waiver from strict compliance with the requirements of (i) Rule 5.01, Rule 5.06(1) and Rule 5.06(2) of the Listing Rules ("Rule 5.01", "Rule 5.06(1) and Rule 5.06(2)" respectively); and (ii) Paragraph 3(a) of the Practice Note 16 of the Listing Rules ("PN16 Paragraph 3(a)").

Under Paragraph 34(2) and Rule 5.01, the Company is required to include in this prospectus in relation to the proposed listing a valuation report with respect to the Group's interests in land and buildings. Each of Paragraph 34(2) and Rule 5.06(1) of the Listing Rules requires certain particulars to be included in the valuation report in respect of each property. Rule 5.06(2) of the Listing Rules requires disclosure of details of rentals of such property as where the property is not in the process of being developed. Under PN16 Paragraph 3(a), the Company is also required to set out full valuation reports in respect of properties legally and beneficially owned by the Company in this prospectus.

Sallmanns (Far East) Limited ("**Sallmanns**"), the independent property valuer engaged by the Company, has estimated that a full valuation report (the "**Full Report**") of all property interests of the Group prepared in full compliance with Paragraph 34(2), Rule 5.01, Rule 5.06(1), Rule 5.06(2), and PN 16 Paragraph 3(a) of the Listing Rules will consist of over 50 pages of the English text and the same number of pages of Chinese text of this prospectus.

The Group is principally engaged in the design, manufacture and sale of die-casting machines and plastic injection moulding machines. It has 13 property interests in Hong Kong and the PRC. The Group also has 1 property interest in Canada, 1 property interest in the U.S. and 3 property interests in Taiwan respectively. The Group has property interests in 39 properties rented and occupied by the Group in the PRC, comprising 14 sales offices and 25 liaison points leased from independent third parties and which are dispersed in various cities in the PRC, all of which have no commercial value. The 14 sales offices and 25 liaison points have been established to facilitate and carry out sales activities by helping to extend the Group's sales network coverage and to provide after sales service to its customers. They are located at major PRC cities within close proximity of the potential and/or existing customers to facilitate sales and to ensure that the customer service staff from the Group's manufacturing subsidiaries can provide training, technical advice and after sales services to customers effectively. It is estimated that the inclusion of a Full Report with valuation certificates of every such rental property will take up about 50 pages in this prospectus (the inclusion of a 50 page valuation report in this prospectus would seem out of proportion considering that this prospectus only consists of approximately 360 pages). Given the volume of information regarding the Group's rental property interests is likely to be of little interest or distracting to the potential investors, the Directors believe that the inclusion of individual valuation certificate of each such rental property in the PRC with no commercial value in this prospectus would be unduly burdensome in the circumstances.

Instead of setting out full details of each rented property, the Company proposes to present only summary information of all property interests rented and occupied by the Group in the PRC by way of a list of such property interests categorized into 7 groups on the basis of each group providing after sales services to customers for a subsidiary of the Group as disclosed in summary form, while all other property interests will be set out in full compliance with Paragraph 34(2), Rule 5.01, Rule 5.06(1), Rule 5.06(2) and PN16 Paragraph 3(a) in this prospectus.

A statement that the Full Report including the full text of the letter, summary of valuations and valuation certificates relating to the properties of the Group prepared by Sallmanns will be made available for public inspection has been included in this prospectus (see page III-1 of this prospectus).

The SFC has granted an exemption under section 342A of the Companies Ordinance and the Stock Exchange has granted a waiver from the strict compliance with Rule 5.01, Rules 5.06(1), Rule 5.06(2) and PN 16 Paragraph 3(a), subject to the following conditions:

(a) the Full Report in full compliance with all the requirements under Paragraph 34 will be made available for public inspection in accordance with the section headed "Documents available for inspection" in appendix VI to this prospectus;

(b) the valuation report of the Company's interests in the other land and buildings in full compliance with all the requirements under Paragraph 34, be included in this prospectus in the same form and manner as set out in appendix III to this prospectus;

(c) the summary valuation report with valuation certificates of the 39 properties rented and occupied by the Group in the PRC, prepared on the basis of the Full Report, will be included in this prospectus in the same form and manner as set out in appendix III to this prospectus; and

(d) this prospectus must set out particulars of the exemption.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

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

(a) a deed of indemnity dated 25 September 2006 entered into by Fullwit as trustee of The Liu Family Unit Trust, Girgio, Mr. Liu and Ms. Chong in favour of the Company and its subsidiaries containing the indemnities referred to in the paragraph headed "Indemnities in respect of estate duty, tax, properties and litigations" in this appendix V;

(b) a share exchange deed dated 23 September 2006 entered into by LKIL as transferor and Best Truth as transferee for the transfer of the entire issued share capital of LK(HK) for such consideration as mentioned in paragraph 4(xv) of this appendix V;

(c) a share exchange deed dated 23 September 2006 entered into by Ms. Chong as transferor, LKIL as transferee and Supreme Technology for the transfer of the entire issued share capital of the Company for such consideration as mentioned in paragraph 4(xvi) of this appendix V;

(d) a share exchange deed dated 23 September 2006 entered into by LKIL as transferor, the Company as transferee and Girgio, Mr. Liu and Ms. Chong together as warrantors for the transfer of the entire issued share capital of Best Truth for such consideration as mentioned in paragraph 4(xvii) of this appendix V;

(e) a share exchange deed dated 23 September 2006 entered into by LKIL as transferor and Girgio as transferee for the transfer of the entire issued share capital of the Company for such consideration as mentioned in paragraph 4(xviii) of this appendix V;

(f) a share exchange deed dated 23 September 2006 entered into by Supreme Technology as transferor and the Company as transferee and Girgio for the transfer of the entire issued share capital of World Force for such consideration as mentioned in paragraph 4(xix) of this appendix V;

(g) a share exchange deed dated 23 September 2006 entered into by Supreme Mission as transferor and the Company as transferee and Girgio for the transfer of the entire issued share capital of Cyberbay for such consideration as mentioned in paragraph 4(xx) of this appendix V; and

(h) the Underwriting Agreement.

2. Intellectual property rights

As at the Latest Practicable Date, the Group has obtained/applied for the following trademarks or patents in the PRC and Hong Kong:

(a) Trademark

Registered Trademarks:

Trademark	Registrant	Place of Registration	Registration No.	Validity Period
1. *(Note 1)*	LK (Shenzhen)	The PRC	1705641	28 Jan 2002 to 27 Jan 2012
2. *(Note 1)*	LK (Zhongshan)	The PRC	3042190	7 Jul 2003 to 6 Jul 2013

Trademark	Registrant	Place of Registration	Registration No.	Validity Period
3. (Note 1)	LK (Shenzhen)	The PRC	1554814	14 Apr 2001 to 13 Apr 2011
4. (Note 2)	LK (Shenzhen)	The PRC	3197118	14 Jan 2004 to 13 Jan 2014
5. (Note 3)	Supreme Technology	Hong Kong	200212851	18 Dec 2000 to 18 Dec 2007
6. (Note 3)	LK (HK)	Hong Kong	199910575	25 Feb 1998 to 25 Feb 2015
7. (Note 4)	LK (Fuxin)	The PRC	1005265	14 May 1997 to 13 May 2007

Application for trademark registration:

Trademark	Applicant	Place of Application	Date of Application	Application No.
1. 领 威 (Note 5)	SZ Leadwell	The PRC	20 October 2004	4318931

Notes:

1. Class 7, covering goods including plastic injection moulding machines, cold chamber die-casting machines, hot chamber die-casting machines.

2. Class 7, covering goods including safety door components, material injection oil pump components, pinned hydraulic pump components, machine adjustment components, screw and barrel components for the use in die-casting machines; plastic injection back block components for the use in plastic injection moulding machines; plastic injection hydraulic tank components.

3. Class 7, covering goods including plastic injection moulding machines, hot chamber and cold chamber die-casting machines, programmable controlled and automatic precise injection die-casting machines; parts and fittings for all the aforesaid goods.

4. Class 7, covering goods including die-casting machines.

5. Class 7.

(b) Patents

Registered Patents:

Description	Registered Owner	Place of Registration	Patent No.	Validity Period
1. Appearance design for DCC1600M die-casting machine	LK (Shenzhen)	The PRC	ZL02324889.0	22 Apr 2002 to 21 Apr 2012
2. Appearance design for DC160M die-casting machine	LK (Shenzhen)	The PRC	ZL02324890.4	22 Apr 2002 to 21 Apr 2012
3. Appearance design for PT130C plastic injection moulding machine	LK (Shenzhen)	The PRC	ZL02324969.2	26 Apr 2002 to 25 Apr 2012
4. Appearance design for PT650H plastic injection moulding machine	LK (Shenzhen)	The PRC	ZL02326383.0	23 May 2002 to 22 May 2012
5. Appearance design for DC100 die-casting machine	LK (Shenzhen)	The PRC	ZL02326122.6	21 May 2002 to 20 May 2012
6. Appearance design for DCC800U die-casting machine	LK (Shenzhen)	The PRC	ZL02324887.4	22 Apr 2002 to 21 Apr 2012
7. Appearance design for DCC500C die-casting machine	LK (Shenzhen)	The PRC	ZL02326384.9	23 May 2002 to 22 May 2012
8. Practical new model for the device of on-off screw nut	LK (Shenzhen)	The PRC	ZL02271317.4	20 Jun 2002 to 19 Jun 2012
9. Practical new model for the clamping unit of direct clamp plastic injection moulding machine	LK (Shenzhen)	The PRC	ZL02271320.4	20 Jun 2002 to 19 Jun 2012
10. Practical new model for the transformation device between normal pressure and intensified pressure	LK (Shenzhen)	The PRC	ZL02271319.0	20 Jun 2002 to 19 Jun 2012
11. Practical new model for the fast injection hydraulic control device	LK (Shenzhen)	The PRC	ZL02271640.8	8 Jul 2002 to 7 Jul 2012
12. Practical new model for the transporting device of cooling water being applied for plastic injection mould	LK (Shenzhen)	The PRC	ZL02272630.6	19 Aug 2002 to 18 Aug 2012

Description	Registered Owner	Place of Registration	Patent No.	Validity Period
13. Practical new model for the rotation device being applied for plastic injection mould	LK (Shenzhen)	The PRC	ZL02272628.4	19 Aug 2002 to 18 Aug 2012
14. Practical new model for the pressure accelerating device used in hydraulic tank	LK (Shenzhen)	The PRC	ZL02271321.2	20 Jun 2002 to 19 Jun 2012
15. Practical new model for the hydraulic control device for removing uneven edges	LK (Shenzhen)	The PRC	ZL02272629.2	19 Aug 2002 to 18 Aug 2012
16. Practical new model for heating device of injection point of die-casting machine	SZ Leadwell	The PRC	ZL02282478.2	4 Nov 2002 to 3 Nov 2012
17. Practical new model for the pressure accelerating device used in hydraulic tank	Shanghai Atech	The PRC	ZL02279934.6	27 Nov 2002 to 26 Nov 2012
18. Practical new model for the clamping unit of direct clamp plastic injection moulding machine	SZ Leadwell	The PRC	ZL02293573.8	25 Dec 2002 to 24 Dec 2012
19. Practical new model for the sealed rotating injection oil tank of the plastic injection moulding machine	SZ Leadwell	The PRC	ZL03240188.4	5 Mar 2003 to 4 Mar 2013
20. Practical new model for the clamping unit of direct clamp plastic injection moulding	SZ Leadwell	The PRC	ZL03240025.X	4 Mar 2003 to 3 Mar 2013
21. Appearance design for hot chamber die-casting machines	SZ Leadwell	The PRC	ZL200330119598.9	18 Dec 2003 to 17 Dec 2013
22. Appearance design for injection and hydraulic system of cold chamber die-casting machine	SZ Leadwell	The PRC	ZL200330119595.5	18 Dec 2003 to 17 Dec 2013
23. Practical new model for two platens clamping mechanic structure	SZ Leadwell	The PRC	ZL200420000712.5	12 Jan 2004 to 11 Jan 2014

Description	Registered Owner	Place of Registration	Patent No.	Validity Period
24. Practical new model for improved clamping mechanic structure	SZ Leadwell	The PRC	ZL200420000713.X	12 Jan 2004 to 11 Jan 2014
25. Practical new model for electric ruler signal router	SZ Leadwell	The PRC	ZL200420094021.6	10 Oct 2004 to 9 Oct 2014
26. Practical new model for electric installation system	SZ Leadwell	The PRC	ZL200420118184.3	30 Nov 2004 to 29 Nov 2014

Applications for patent registrations:

Description	Applicant	Place of Application	Date of Application	Application No.
1. Practical new model for pressurised injection system for die-casting machine	SZ Leadwell	The PRC	24 Oct 2005	200520066370.1
2. Invention for pressurised injection system and control methods for die-casting machine	SZ Leadwell	The PRC	28 Nov 2005	200510101929.4

The expected dates of obtaining the registrations for the above patent applications will be approximately two years from their respective date of application.

(c) Software Copyrights

Description	Registered Owner	Place of Registration	Copyright No.	Validity Period
1. Copyright of computer software for the cold chamber die-casting machine control system V1.0	LK (Shenzhen)	The PRC	2002SR3568	30 Nov 2001 to 31 Dec 2051
2. Copyright of computer software for the hot chamber die-casting machine control system V1.0	LK (Shenzhen)	The PRC	2002SR3893	30 Nov 2001 to 31 Dec 2051
3. Copyright of computer software for the control of die-casting machine V1.0	Shanghai Atech	The PRC	2003SR8049	30 Nov 2001 to 31 Dec 2051
4. Copyright for the control system V1.0 for cold chamber die-casting machine	SZ Leadwell	The PRC	2004SR00712	18 Mar 2003 to 31 Dec 2053

Description	Registered Owner	Place of Registration	Copyright No.	Validity Period
5. Copyright for real time control system V1.0 for die-casting machine	SZ Leadwell	The PRC	2005SR11133	15 Jul 2005 to 31 Dec 2055
6. The registration of software product for die-casting machine control system V2.1	SZ Leadwell	The PRC	DGY-2002-0240	6 Mar 2003 to 5 Mar 2008
7. The registration of software product for hot chamber die-casting machine control system V2.3	SZ Leadwell	The PRC	DGY-2003-0225	3 Apr 2003 to 2 April 2008
8. The registration of software product for cold chamber die-casting machine control system V2.3	SZ Leadwell	The PRC	DGY-2003-0224	3 Apr 2003 to 2 April 2008

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Disclosure of interests of Directors

Immediately following the completion of the Share Offer and the Capitalisation Issue but taking no account of the exercise of the Over-allotment Option and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, 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 any of its associated corporations (within the meaning of the SFO) which, once the Shares are listed on the Stock Exchange, will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange, will be as follows:

Name of Director	Name of company	Number of Shares	Approximate percentage which the long/short position in shares represents to the issued share capital of such class of shares of the Company/ associated corporation on Listing Date	Capacity
Chong Siw Yin	the Company	750,000,000 (1) long position	75% (1)	See Note 1
Chong Siw Yin	the Company	3,000,000 (2) long position	0.3% (2)	Beneficial owner
		37,500,000 (3) short position	3.75% (3)	
Cao Yang	the Company	3,000,000 (2) long position	0.3% (2)	Beneficial owner
Liu Zhao Ming	the Company	3,000,000 (2) long position	0.3% (2)	Beneficial owner
Chung Yuk Ming	the Company	3,000,000 (2) long position	0.3% (2)	Beneficial owner

Notes:

1. These 750,000,000 Shares are owned by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. The Liu Family Unit Trust is therefore deemed interested in the Shares held by Girgio. Fullwit is wholly-owned by Ms. Chong. Besides deemed interested in the Shares held by Girgio through Fullwit, Ms. Chong being the spouse of Mr. Liu is also deemed interested in the Shares held by Mr. Liu.

2. Such interest in Shares is held pursuant to options granted under the Pre-IPO Share Option Scheme, details of which are described in the paragraph headed "Pre-IPO Share Option Scheme" in this appendix.

3. The short position of the 37,500,000 Shares arises as a result of the entering into of the Stock Borrowing Agreement by Girgio.

(b) Disclosure of interests of Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer (taking no account of the exercise of the Over-allotment Option) and the Capitalisation Issue, and taking no account of any Shares which may be taken up under the Share Offer and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of the Company) will have interests or short positions in the Shares or the underlying Shares which will be required to be disclosed to the Company pursuant to Divisions 2 and 3 of

Part XV of the SFO or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of Shares	Approximate percentage which the long/short position in Shares represents to the issued share capital of such class of shares of the Company on Listing Date	Capacity
Girgio *(1) and (5)*	750,000,000 long position	75%	Beneficial owner
	37,500,000 Short Position	3.75%	
Ms. Chong *(1) and (5)*	750,000,000 long position	75%	See relevant Note(s) below
	37,500,000 Short Position	3.75%	
Mr. Liu *(2)*	750,000,000 long position	75%	See relevant Note(s) below
Fullwit *(1) and (5)*	712,500,000 long position	71.25%	See relevant Note(s) below
	37,500,000 Short Position	3.75%	
The Liu Family Unit Trust *(1) and (3)*	712,500,000 long position	71.25%	Interest of a trust entity
The Liu Family Trust *(4)*	712,500,000 long position	71.25%	Interest of a trust entity

Notes:

1. These 750,000,000 Shares are owned by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. The Liu Family Unit Trust is therefore deemed interested in the Shares held by Girgio. Fullwit is wholly-owned by Ms. Chong. Besides deemed interested in the Shares held by Girgio through Fullwit, Ms. Chong being the spouse of Mr. Liu is also deemed interested in the Shares held by Mr. Liu.

2. Mr. Liu is the spouse of Ms. Chong and deemed interested in the Shares held by Ms. Chong. Besides, Mr. Liu holds 5% interest in Girgio.

3. The Liu Family Unit Trust was established by Mr. Liu on 22 February 2002, of which the units in issue are owned as to 99.9% by HSBC International Trustee Limited as trustee of The Liu Family Trust and as to 0.1% by Ms. Chong in her personal interest.

4. The Liu Family Trust was established by Mr. Liu on 22 February 2002 as an irrevocable discretionary trust for the benefit of Ms. Chong and the children of Mr. Liu and Ms. Chong. HSBC International Trustee Limited as trustee of The Liu Family Trust owns 99.9% of the units issued under The Liu Family Unit Trust and Ms. Chong owns 0.1%, and therefore they have an aggregate indirect interest of approximately 71.18% and 0.07% respectively in the issued share capital of the Company immediately following the completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised). Under the relevant trust deed, HSBC International Trustee Limited is generally subject to fiduciary duties in accordance with law.

Clause 12 of The Liu Family Unit Trust provides that HSBC International Trustee Limited as unitholder will be entitled to receive income and, upon termination of The Liu Family Unit Trust, to receive distributions in accordance with the Unit Trust Deed. However, HSBC International Trustee Limited as unitholder shall not have beneficial or other interest in any particular asset or part of the trust property, nor any right to exercise any of the rights, power or privileges in respect of any of the property forming part of the trust property, nor any right to require the transfer to him of any of the assets or property which from time to time constitute that trust property, nor any right to interfere with or to question the exercise or non-exercise by Fullwit in accordance with this trust of its rights and power in dealing with that trust property or any part thereof. Hence, save for being an unitholder of the units in issue and trustee of The Liu Family Trust, HSBC International Trustee Limited is neither a shareholder of the Company, Girgio nor Fullwit, and therefore does not have any direct interest in or control over the Company. HSBC International Trustee Limited as unitholder only has an economic interest under The Liu Family Unit Trust in the form of entitlement to receive income and distributions as set out in The Liu Family Unit Trust. In addition, HSBC International Trustee Limited as unitholder is not entitled to claim any interest in any of the particular asset or property held by Fullwit as trustee of The Liu Family Unit Trust. In this respect, HSBC International Trustee Limited as unitholder does not have any beneficial interest in the trust property, nor any right to exercise any of the rights, powers or privileges in respect of any of the trust property, to require the transfer to it of any of the trust property, to interfere with or to question the exercise or non-exercise by Fullwit as trustee of The Liu Family Unit Trust in accordance with the Unit Trust Deed of Fullwit's rights and powers in dealing with the trust property. As such, HSBC International Trustee Limited as unitholder does not have any control or influence over Fullwit as trustee of The Liu Family Unit Trust nor, for that matter, over Ms. Chong as sole shareholder of Fullwit and Girgio as the controlling shareholder of the Company. HSBC International Trustee Limited is therefore not capable of directing Girgio to acquire or dispose of any of the Shares nor Fullwit to acquire or dispose of any of its shares in Girgio nor Ms. Chong to acquire or dispose of any of her shares in Fullwit. HSBC International Trustee Limited as unitholder will have the right to monitor the performance of Fullwit to the effect that HSBC International Trustee Limited can compel Fullwit as trustee to administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed. Such right of HSBC International Trustee Limited as unitholder to ensure that Fullwit as trustee acts in observance of the terms of the Unit Trust Deed is basically a monitoring function and by no means empowers HSBC International Trustee Limited as unitholder to interfere or influence the exercise by Fullwit of its rights and powers in accordance with the wishes of HSBC International Trustee Limited. HSBC International Trustee Limited as unitholder may only exercise such right when Fullwit as trustee does not administer The Liu Family Unit Trust in accordance with the terms of the Unit Trust Deed.

Clause 13 of The Liu Family Unit Trust provides that the trust property shall be managed by Fullwit as trustee of The Liu Family Unit Trust for the benefit of HSBC International Trustee Limited and Ms. Chong as unitholders with full and complete power of management. Girgio, being beneficial owner of 750,000,000 Shares is entitled to 75% of the voting power of the Company.

5. The short position of the 37,500,000 Shares arises as a result of the entering into the Stock Borrowing Agreement by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. Fullwit is wholly-owned by Ms. Chong.

2. Particulars of Directors' service contracts

(a) Each of Ms. Chong, Mr. Cao Yang, Mr. Liu Zhao Ming and Mr. Chung Yuk Ming, being all the executive Directors, has entered into a service agreement with the Company for an initial term of three years commencing from 16 October 2006, until terminated by not less than six months' notice in writing served by either party on the other.

(b) Each of the executive Directors is entitled to a basic annual salary which will be reviewed and determined at the discretion of the board of Directors after such executive Director has completed 12 months of service. Each of the Executive Directors is also entitled to an additional payment of one-month salary payable either in full upon the completion of 12 months of service or on a pro-rata basis upon the completion of his service for a month or a certain number of months within a period of 12 months.

(c) Each of the executive Directors is also entitled to a discretionary bonus to be determined by the Board by reference to the audited consolidated net profits of the Group after taxation and minority interests (the "Net Profits") provided that the aggregate amount of discretionary bonuses payable to all executive Directors of the Company in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year.

(d) Each of Dr. Low Seow Chay, Dr. Hon. Lui Ming Wah, *SBS, JP*, Mr. Tsang Yiu Keung, Paul, Mr. Chan Wah Tip, Michael and Mr. Liu Chee Ming have been appointed by the Company as an independent non-executive Director for a term of three years commencing on 4 September 2004, 4 September 2004, 4 September 2004, 24 September 2004 and 20 December 2004 respectively. Each of the independent non-executive Directors or the Company may terminate the appointment at any time during the three-year term by giving the other party at least three months' notice in writing.

(e) Save as disclosed in this prospectus, no Director has entered into any service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

(a) The aggregate amount of remuneration paid to the Directors by the Group in respect of the three years ended 31 March 2006 were approximately HK$4,953,000, HK$5,141,000 and HK$6,865,000 respectively.

(b) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31 March 2007 will be approximately HK$6.9 million.

4. Agency fees or commission received

No agency fee, discounts, brokerages, commissions or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of the Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under note 25 to the accountants' report set out in appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

(a) none of the experts named in the paragraph headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(b) none of the experts named in the paragraph headed "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(c) taking no account of Shares which may be taken up under the Share Offer (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option) or Shares to be issued pursuant to options which may be granted under the Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Share Offer, have any interest in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group; and

(d) none of the expert of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which, once the Shares are listed on the Stock Exchange, will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange.

(e) none of the experts named in the paragraph headed "Consents of experts" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(f) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group.

1. Terms of the Share Option Scheme

The terms of the Share Option Scheme conditionally approved by a written resolution of the sole shareholder of the Company dated 23 September 2006, subject to certain conditions as referred to in paragraph (w) in this section, are as follows:

(a) Grant of options

Subject to the terms of the Share Option Scheme, the board of Directors may, at its absolute discretion, invite any employees (whether full time or part time), any executive directors, any non-executive directors, any independent non-executive directors, or any consultant, suppliers or customers of the Group ("Participants") to take up options to subscribe for Shares at a price calculated in accordance with paragraph (b) below.

An offer of the grant of an option shall be made to Participants by letter in such form as the Board may from time to time determine and shall remain open for acceptance by the Participant concerned for a period of 30 days from the date upon which the offer of the grant of option is made ("Date of Grant") provided that no such offer shall be open for acceptance after the 10th anniversary of the Listing Date or after the Share Option Scheme has been terminated.

A non-refundable nominal consideration of HK$10.00 is payable by the grantee upon acceptance of an option. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Participant together with the said consideration of HK$10.00 is received by the Company. Any offer of the grant of an option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in such number of Shares as represents a board lot for the time being for the purpose of trading on the Stock Exchange or an integral multiple thereof.

(b) Price of Shares

The subscription price for Shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the Date of Grant of the option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the Date of Grant, which must be a business day; and (iii) the nominal value of the Shares on the date of exercise of the option. The Date of Grant is the business day on which the Directors resolve to make an offer of the option provided such offer is accepted within 30 business days of the date of the offer. For the purpose of calculating the exercise price where an issuer has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing.

(c) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined on the date of offer of grant of option and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the Date of Grant, subject to the provisions for early termination thereof. An option may not be exercised after the expiry of 10 years from the Date of Grant. The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to), if appropriate the minimum period for which an option must be held or may be exercised. All of the options must be held for a period of six months (the "Six-Months Period") from the Date of Grant of the option and no option may be exercised within the Six-Months Period.

An option may be exercised in whole or in part by the grantee giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given.

(d) Performance targets

The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to) a performance target (as determined by the Board from time to time) which must be achieved before an option can be exercised.

(e) Maximum number of Shares

(aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme(s) of the Group, if this will result in such 30% limit being exceeded.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share options scheme(s)) to be granted under the Share Option Scheme and any other share option scheme(s) of the Group must not in aggregate exceed 100,000,000 Shares, being 10% of the Shares in issue on the Listing Date (the "Scheme Mandate Limit").

(cc) Subject to (aa) above and without prejudice to (dd) below, the Company may seek approval by its shareholders in general meeting for "refreshing" the Scheme Mandate Limit (a circular containing the information required by the Listing Rules must be dispatched to shareholders of the Company for that purpose) provided that the total number of Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share options scheme) previously granted under the Share Option Scheme and any other share option scheme(s) will not be counted.

(dd) Subject to (aa) above and without prejudice to (cc) above, the Company may seek separate approval of the shareholders of the Company in general meeting to grant options beyond the Scheme Mandate Limit to Participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the shareholders containing a generic description of the specified Participants, the number and terms of options to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(f) Maximum entitlement of each Participant

The total number of Shares issued and which may fall to be issued on the exercise of options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding options) to each Participant shall not exceed 1% of the total issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the approval of the shareholders of the Company in general meeting with such Participant and his associates abstaining from voting. In such event, the Company must send a circular to the shareholders containing the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant), the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4). The number and terms (including the subscription price) of the options to be granted (and options previously granted to such Participant) must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such further grant should be taken as the Date of Grant for the purpose of calculating the subscription price under paragraph (b) above.

The exercise of any option shall be subject to the shareholders of the Company in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto the Board shall make available sufficient authorised but unissued share capital of the Company to meet subsisting requirements on the exercise of options.

(g) Restrictions on the time of grant of options

Grant of options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

The Directors may not grant any option to a Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in the Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(h) Rights are personal to grantees

An option is personal to the grantee and shall not be assignable. An option shall not be sold, transferred, charged, mortgaged, encumbered or created with any interest in favour of any third party.

(i) Rights on dismissal or ceasing employment

If the grantee of an option ceases to be a Participant for any reason other than his ill-health, injury, disability, retirement or death or the employment of the grantee ceases on one or more of the grounds of serious misconduct, bankruptcy, insolvency, arrangement or composition with his creditors generally or conviction of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment under the grantee's employment/service contract with the Group, at common law or pursuant to any applicable laws, his option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date of cessation of his employment.

(j) Rights on ill-health, injury, disability, death or retirement

If the grantee of an option ceases to be a Participant by reason of his ill-health, injury, disability or death or by reason of retirement in accordance with his contract of employment or upon expiration of his term of directorship before exercising the options in full and none of the events which would be ground for termination of his employment under paragraph (i) above occurs, the grantee or his legal personal representative(s) (as the case may be) may exercise the option in full (to the extent not already exercised) or to the extent specified in the notice to exercise such option within a period of 12 months after he so ceases or the expiration of the relevant option period of the relevant options, whichever is the earlier, provided that any option not so exercised shall lapse at the end of such period and shall not be exercisable.

(k) Rights on voluntary resignation or employing company ceasing to be a member of the Group

If the grantee of an option ceases to be a Participant by reason of voluntary resignation or by reason of his employing company ceasing to be a member of the Group and none of the events which would be ground for termination of his employment under paragraph (i) above occurs, the grantee may exercise the option in full (to the extent not already exercised) or to the extent specified in the notice to exercise such option on or before the last actual working day with the Group or the relevant Company in the Group, whether salary is paid in lieu of notice or not or the expiration of the relevant option period, whichever is the earlier, provided that any option not so exercised shall lapse after such last actual working day;

(l) Cancellation of options

Any options granted but not exercised may be cancelled if the grantee agrees and such cancellation must be approved by the Board. The issue of new options to the same grantee may only be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the Scheme Mandate Limit referred to in paragraph (e) above. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

(m) Effect of alterations to share capital

In the event of any alteration in the capital structure of the Company while any option may become or remain exercisable whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made in (i) the number of Shares subject to any option already granted and/or (ii) the subscription price per Share as an independent financial adviser or the auditors for the time being of the Company must confirm in writing any adjustment must give a Participant the same proportion of the issued share capital of the Company to which he was entitled before such alteration, provided that any such adjustment shall be made in compliance with Rule 17.03(13) of the Listing Rules and the note thereto as interpreted in accordance with the Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Rule 23.03(13) and the Note Immediately After the Rule attached to the letter of the Stock Exchange dated 5 September 2005 to all issuers with respect to share option schemes and any supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time, and that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value and/or to the advantage in respect of the grantee without specific prior shareholders' approval. In respect of any such adjustments other than those made on a capitalisation issue, an independent financial adviser or the auditors for the time being of the Company must confirm with the Directors in writing that such adjustments satisfy the aforesaid requirements.

(n) Rights on a general offer

In the event of a general offer (other than by way of a scheme of arrangement referred to below) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert (as defined in the Takeovers Code) with the offeror) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee (or his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised or to the extent specified in the notice of exercise of such option) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date or as soon as after it dispatches such notice to each member of the Company give notice thereof to all grantees and each grantee (or his legal personal representatives provided none of the events which would be ground for termination of his employment under paragraph (i) above occurs) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than 7 business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price in respect of the relevant options in respect of which notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee credited as fully paid.

(p) Rights on a reconstruction, compromise or arrangement

If an application is made to the court (otherwise than where the Company is being voluntarily wound up) pursuant to the Companies Ordinance in connection with a proposed compromise or arrangement between the Company or creditors (or any class of them) or between the Company and its members (or any class of them), the grantee may by notice in writing to the Company within 21 days after the date of such application, exercise the option in full (to the extent not already exercised) or to the extent specified in such notice. If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to all grantees on the same date as it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his legal personal representative (s)) may until the expiry of the period commencing from such date and ending on the earlier of (i) the date falling 2 calendar months thereafter or (ii) the date on which such compromise or arrangement is sanctioned by the court exercises any of his options whether in full or in part, but the exercise of any option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme.

(q) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of the Company for the time being in force and as amended from time to time and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment upon exercise of the option and accordingly will entitle the holders to participate in all dividends and other distributions paid or made on or after the date of allotment other than any dividends and other distributions previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment.

Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, reclassification or reduction of the share capital of the Company from time to time.

(r) Duration and administration of the Share Option Scheme

The Share Option Scheme has been adopted for a period of 10 years commencing from 23 September 2006 being the date the Company conditionally adopted the Share Option Scheme, after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. The Share Option Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided therein) shall be final and binding on all parties.

(s) Grant of options to connected persons or any of their associates

(aa) Any grant of options to a connected person or its associates must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

(bb) Where options are proposed to be granted to a connected person and if such grant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant to such person representing in aggregate over 0.1% of all the Shares in issue for the time being and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, then the proposed grant must be subject to the approval of shareholders of the Company in general meeting taken on a poll. The Company must send a circular to the shareholders of the Company. All connected persons of the Company must abstain from voting in favour as such general meeting. Pursuant to Rule 13.39(4) of the Listing Rules, any vote taken at the meeting to approve the grant of such options must be taken on a poll. The Company must also comply with the requirements under Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates must be approved by the shareholders of the Company in general meeting.

A shareholders' circular must be prepared by the Company explaining the proposed grant and must contain the following information: (i) details of the number and terms (including the subscription price) of the options to be granted to each Participant, which must be fixed before the relevant shareholders' approval, and the date of Board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the exercise price (where an issuer has been listed for less than five business days, for the purpose of calculating the exercise price, the new issue price shall be used as the closing price for any business day falling within the period before listing), (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) to independent shareholders on whether or not to vote in favour of the proposed grant, (iii) the information required under Rules 17.02(2)(c) and (d) of the Listing Rules, (iv) the disclaimer required under Rule 17.02(4) of the Listing Rules and (v) the information required under Rule 2.17 of the Listing Rules.

(t) Lapse of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the relevant option period;

(ii) the determination of the Board or the expiry of the periods or dates referred to in paragraphs (i), (j), (k), (n), (o) and (p);

(iii) subject to paragraph (o), the date of the commencement of the winding-up of the Company;

(iv) subject to paragraph (p), the proposed compromise or arrangement becoming effective;

(v) the date on which the grantee ceases to be a Participant by reason of the termination of his employment on any one or more of the grounds under paragraph (i), and

(vi) the date on which the grantee commits a breach of paragraph (h).

(u) Termination

The Company by ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

Details of the options granted, including options exercised or outstanding, and, if applicable, options that become void or non-exercisable as a result of termination under the Share Option Scheme shall be disclosed in the circular to shareholders seeking approval of establishing any new option scheme after such termination.

(v) General

The Company will comply with the relevant statutory requirements and the Listing Rules from time to time in force on a continuing basis in respect of the Share Option Scheme and any other schemes of the Company.

The decision of the Directors in any disputes relating to an option or matter relating to the Share Option Scheme shall be final and binding.

(w) Miscellaneous

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the commencement of dealing in the Shares on the Stock Exchange.

(bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the prior approval of the shareholders of the Company in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted under the Share Option Scheme must be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The amended terms of the Share Option Scheme must comply with the relevant requirements of Chapter 17 of the Listing Rules from time to time in force.

(ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the shareholders of the Company in general meeting.

2. Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, amounting to 100,000,000 Shares, representing 10% of the Shares in issue on the Listing Date.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the

Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, amounting to 100,000,000 Shares, representing 10% of the Shares in issue on the Listing Date.

(iii) Grant of option

As at the date of this prospectus, no option has been granted or agreed to be granted pursuant to the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the subscription price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. PRE-IPO SHARE OPTION SCHEME

Summary of terms of the Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group. The principal terms of the Pre-IPO share Option Scheme, conditionally approved by a written resolution of the sole shareholder of the Company passed on 23 September 2006 (subject to similar conditions as referred to in paragraph (w) of the subsection headed "Terms of the Share Option Scheme" in this appendix), are substantially the same as the terms of the Share Option scheme except that:

(a) the subscription price for the Shares shall be equal to 60% of the Offer Price as finally determined under the Price Determination Agreement;

(b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 36,800,000 Shares and there are no similar requirements on granting options to connected persons as summarised in paragraph 1(s) of the section headed "Share Option Scheme" above;

(c) only employees, executive directors, non-executive directors and independent non-executive directors of the Group are eligible for the grant of options under the Pre-IPO Share Option Scheme;

(d) save for options which have been conditionally granted (see below), no further options will be granted as the right to do so has ended on the day on which this prospectus is registered with the Registrar of Companies in Hong Kong;

(e) the options granted under the Pre-IPO Share Option Scheme will not be exercised within the first six months of the Listing Date;

(f) the grantees will not exercise any option as a result of which the Company will not be able to comply with the public float requirement of the Listing Rules; and

(g) each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be subject to the following restrictions on the exercise of the options granted to him/her:

Period (as from the day on which the Shares commence trading on the Stock Exchange)	Maximum cumulative percentage of the Shares under option exercisable by the grantee
first 6 months	0%
second 6 months	33%
third 6 months	66%
for the remaining option period	100%

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

Upon the completion of the Share Offer and the Capitalisation Issue and assuming that all of the outstanding options granted under the Pre-IPO Share Option Scheme were exercised in full upon the Listing, the respective shareholding interests of Girgio and the public (excluding the participants of the Pre-IPO Share Option Scheme) would be reduced from approximately 75% and 25% of the issued share capital of the Company prior to the issue of Shares pursuant to the exercise of such options to approximately 72.34% and 24.11% of the issued share capital of the Company as enlarged by the issue of Shares pursuant to the exercise of such options granted under the Pre-IPO Share Option Scheme, taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or any Shares which may be issued by the Company pursuant to the general mandate as described on page V-4 of this prospectus. The Pre-IPO Share options are not exercisable within the first six months immediately after the Listing Date. The grantees of the Pre-IPO Share Option Scheme will not exercise any Pre-IPO Share options if, as a result of such action, the Company will not be able to comply with the public float requirements of the Listing Rules.

In the event that the options granted under the Pre-IPO Share Option Scheme are exercised in full or in part, the earnings per Share and the shareholding interests of the then existing Shareholders would be diluted.

Outstanding options granted

As at the date of this prospectus, options to subscribe for an aggregate of 36,800,000 Shares (representing approximately 3.68 per cent. of the total issued share capital of the Company immediately after the Share Offer and Capitalisation Issue) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. Particulars of the outstanding options conditionally granted under the Pre-IPO Share Option Scheme to the directors and employees of the Group are set out below:

Name of grantee	Position held in the Group	Date of joining the Group	Address	Number of Shares subject to options granted
Ms. Chong	Chairperson and executive Director	17 March 1988	House K, Lakeview Garden, 21 Yau On Street, Shatin, New Territories, Hong Kong	3,000,000
Mr. Cao Yang	Chief Executive Officer and executive Director	21 December 1991	Unit 1103, Shuang Yu Block, Lu Feng Cui Yuan, Luohu District, Shenzhen, The PRC	3,000,000
Mr. Liu Zhao Ming	Executive Director	13 February 1992	Units 20B and C, Block A3, Wei Lan Hai An, Hou Hai Avenue, Nanshan District, Shenzhen, The PRC	3,000,000
Mr. Chung Yuk Ming	Executive Director	1 February 2001	46E, Block 8, East Point City, Tseung Kwan O, Kowloon, Hong Kong	3,000,000
Mr. Lai Hau Yin	Financial Controller and Company Secretary	23 September 2002	Flat D, 32/F., Tower 2, Greenfields, 1 Fung Kam Street, Yuen Long, New Territories, Hong Kong	2,000,000
Mr. Wang Xin Liang	General Manager of LK (Ningbo) and LK Tech (Ningbo)	26 July 1993	No. 18 North Yanshanhe Road, Beilun District, Ningbo, The PRC	2,000,000

Name of grantee	Position held in the Group	Date of joining the Group	Address	Number of Shares subject to options granted
Mr. Li Pin Zhang	General Manager of Shanghai Atech	1 January 1991	Room 502, Block 33, Xin De Garden, No. 439 New South Street, Xin Qiao Town, Song Jiang District, Shanghai City, The PRC	2,000,000
Mr. Tse Siu Sze	General Manager of LK (Zhongshan)	2 July 1990	Flat 2, 23/F., Shing Kwan House, Tin Shing Court, Tin Shui Wai, New Territories, Hong Kong	2,000,000
Mr. Te Yi Ming	Sales Controller, South China	8 March 1989	Flat C, 1/F., Block 2, Chelsea Heights, Shek Pai Tau Path, Tuen Mun, New Territories, Hong Kong	2,000,000
Mr. Yang Yi Zhong	Chief Internal Auditor	1 November 1999	5/F., Guo Tai Tai, Guo Zhan Yuan, Bu Ji, Shenzhen, The PRC	1,000,000
Mr. Wen Hao	Finance Manager of LK (Shenzhen)	17 October 1997	13E, Block 6, Yu De Jia Garden, Nanshan District, Shenzhen, The PRC	500,000
Mr. Hu Bo	Deputy Finance Manager of LK (Zhongshan)	12 June 1998	Guang Fu Road, Dongsheng Town, Zhongshan, Guangdong, The PRC	500,000
Ms. Li Li	Deputy Finance Manager of Shanghai Atech	3 July 1998	Room 602, Block 2, Xin De Garden, No. 439 New South Street, Xin Qiao Town, Song Jiang District, Shanghai City, The PRC	500,000
Mr. Jiang Guo Wen	Deputy Finance Manager of LK Tech (Ningbo)	10 March 1998	No. 18 North Yanshanhe Road, Beilun District, Ningbo, The PRC	500,000

Name of grantee	Position held in the Group	Date of joining the Group	Address	Number of Shares subject to options granted
Mr. Hong Ka Kei	Chief Accountant	17 August 2005	27D, Block 1, Tung Chung Crescent, Lantau, Hong Kong	700,000
Ms. Tsui Kam Tai	Accountant	16 February 1997	Flat E, 6/F, Block 2, Discovery Park, Tsuen Wan, N.T., Hong Kong	500,000
Mr. Shing Siu Cheung	Accountant	27 July 2004	Flat D, 12/F, Yue Fung Building, 59 On Ning Road, Yuen Long, N.T., Hong Kong	500,000
Ms. Wong Pui Chun	General Manager of LK (HK)	10 April 2006	28th Floor, Block B, Flat 8, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong	600,000
Mr. Dong Jian Guo	General Manager of LK (Fuxin)	22 July 1994	No. 204, Dwelling of Agricultural, Bank of China, Kaituo Road, Dongyuan Uptown, Xihe District, Fuxin City, Liaoning Province, The PRC	1,000,000
Ms. Zhao Feng Qin	Finance Manager of LK (Fuxin)	5 June 2000	No. 307 of the 15# Building Dwelling of the Industrial and Commercial Bank of China, Sihe Road, Xihe District, Fuxin City, Liaoning Province, The PRC	400,000
Mr. Li Zhi Gang	Deputy Internal Audit Manager	14 October 2002	L.K. Industrial Zone, Qinghu Village, Longhua Town, Bao'an District, Shenzhen, The PRC	400,000
Mr. Xu Nian Sheng	Technical Training Controller	26 October 1996	Room 302, Block 5, TV Station Dormitory, Yijing Road, Luohu District, Shenzhen, The PRC	500,000
Mr. Hu Guo Zhen	Deputy General Manager of SZ Leadwell	7 September 1994	6A-406, Shiji Chuncheng (Century's Spring City), Longhua Town, Bao'an District, Shenzhen, The PRC	500,000
Mr. Zhou Wan Chang	Deputy General Manager of LK (Zhongshan)	4 May 1994	6A-501, Shiji Chuncheng (Century's Spring City), Longhua Town, Bao'an District, Shenzhen, The PRC	500,000

Name of grantee	Position held in the Group	Date of joining the Group	Address	Number of Shares subject to options granted
Mr. He Yong Zhong	Deputy General Manager of Shanghai Atech	30 May 2000	No.10-04, Dingxiang Garden, Wanke New City, Xin Yi Bai Road, Northern City District, Tianjin, The PRC	500,000
Mr. Hu Zao Ren	Deputy General Manager of Shanghai Atech	20 April 1995	No. 7 Hongshi Zhilu, Longxi Town, Yubei District, Chongqing, The PRC	500,000
Mr. Yan Ya Ming	Deputy General Manager of LK Tech (Ningbo)	9 July 2001	No. 18 North Yanshanhe Road, Beilun District, Ningbo, The PRC	500,000
Mr. Chan Kwok Keung	Engineering Manager of LK(HK)	1 December 1998	Room 11, 5/F., Southern Garden, No. 2 O'Brien Road, Wanchai, Hong Kong	500,000
Mr. Sun Meng	Assistant to CEO	5 April 2006	L.K. Industrial Zone, Qinghu Village, Longhua Town, Bao'an District, Shenzhen City, The PRC	300,000
Mr. Ng Chi Keung, Walter	Overseas Sales & Marketing Manager of LK (HK)	19 October 1999	G/F, Block C, Tourmaline Villa, Cheung Po, Pat Heung, Yuen Long, New Territories, Hong Kong	300,000
Ms. Tung Fun Fong	Deputy Marketing Manager	22 April 1996	Flat H, 1/F, Block 6, Lyewood Court, Kingswood Villas, Tin Shui Wai, New Territories, Hong Kong	300,000
Mr. Yang Ren Qi	Marketing Manager	15 March 1995	L.K. Industrial Zone, Qinghu Village, Longhua Town, Bao'an District, Shenzhen City, The PRC	300,000
Mr. Lin Kai Wai	Deputy Sales Controller of LK (HK)	5 March 1997	Rm 1316A, 13/F, Shing Choi House, Ting Sing Court, Tin Shui Wai, New Territories, Hong Kong	300,000
Mr. Bai Mao Lin	Marketing Manager, South China	29 April 2004	26F, Lixiang House, Fanshen Village, Bao'an District, Shenzhen City, The PRC	300,000

Name of grantee	Position held in the Group	Date of joining the Group	Address	Number of Shares subject to options granted
Mr. Chen Dong Bo	Deputy Marketing Manager of LK (Zhongshan)	14 October 2004	Guang Fu Road, Dongsheng Town, Zhongshan, Guangdong, The PRC	200,000
Mr. Wu Sheng Jiang	Marketing Manager of LK (Ningbo)	5 July 1996	Room 204, Block 12, Dongfang (Oriental) Garden, Xinqi Town, Beilun District, Ningbo, The PRC	300,000
Mr. Xia Jian Guo	Sales Controller of LK (Fuxin)	28 September 2001	No. 306 Haixin Road, Taiping District, Fuxin City, Liaoning Province, The PRC	300,000
Mr. Zhu Ming Sheng	Marketing Manager, Shanghai Atech	5 April 1992	42 Min Yi Road, Xin Qiao Development Area, Song Jiang District, Shanghai, The PRC	300,000
Mr. Huang Wei Hong	Sales Manager of LK (Ningbo)	15 August 1999	Room 104, Block 15, Dongfang (Oriental) Garden, Xinqi Town, Beilun District, Ningbo, The PRC	300,000
Mr. Yau Wing Fung	Group Marketing Controller (Plastic Injection Moulding Machines)	12 January 2006	Flat B, 1/F., 24 Fa Po Street, Yau Yat Chuen, Kowloon, Hong Kong	300,000
Ms. Deng Wan Cai	Deputy Marketing Manager, Shanghai Atech	16 March 1999	42, Min Yi Road, Xin Qiao Development Area, Song Jiang District, Shanghai, The PRC	200,000
Ms. Ke Ai Rong	Sales Manager of LK (Zhongshan)	1 April 1997	Room 205, No. 23 Cui Bao Road, West District, Zhongshan, The PRC	300,000
Mr. Lam Yeung Fan	Corporate Development Manager	9 June 2005	Flat D, 6/F, Block 2, Vianne Cove, Tin Shui Wai, New Territories, Hong Kong	200,000

The outstanding options granted under the Pre-IPO Share Option Scheme to the Directors and employees are 12 million Shares and 24.8 million Shares respectively.

F. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

None of the experts named in the paragraph headed "Consents of experts" this appendix has any direct or indirect interest in the promotion of the Group or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years preceding the date of this prospectus.

None of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.

G. OTHER INFORMATION

1. Indemnities in respect of estate duty, tax, properties and litigations

Girgio, Fullwit, Mr. Liu and Ms. Chong (collectively, the "Indemnifiers") have entered into a Deed of Indemnity in favour of the Group (being material contract item (a) referred to in the paragraph headed "Summary of material contracts" of this appendix) dated 25 September 2006 to jointly and severally provide (conditional on the Share Offer becoming unconditional in accordance with the section headed "Conditions of the Share Offer" in this prospectus on or before 29 October 2006 or such later date as mentioned in the section headed "Conditions of the Share Offer" in this prospectus) indemnities in favour of the Group in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any member of the Group on or before the date on which the Share Offer becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Hong Kong or the BVI.

Under the Deed of Indemnity, each of the Indemnifiers has also given indemnities to the Company in relation to taxation which might be payable by any member of the Company in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional, save in the below circumstances only where (i) provision has been made for such taxation in the audited accounts of each member of the Group for the period ended 31 March 2006 (ii) to the extent such provision or reserve made for such taxation in the audited accounts is established to be an over-provision or an excessive reserve; (iii) such taxation arises in any period commencing on or after 1 April 2006 unless the liability for such taxation arises as a result of any act or omission of or to any transaction voluntarily effected by any member of the Group with the prior consent or agreement of the Indemnifiers, otherwise than in the course of normal day to day trading operations on or before 31 March 2006; and (iv) such taxation arises or is incurred as a result of any increase in tax rates or change in any law relating to taxation or interpretation of such law having retrospective effect coming into force after the date on which the Share Offer becomes unconditional.

Under the Deed of Indemnity, each of the Indemnifiers has also given indemnity in favour of the Group that it will indemnify and at all times keep indemnified any of the Group members against any fees, costs, expenses, claims, losses, liabilities, penalties and proceedings which may be incurred or suffered by any of the Group members as a result of:

(a) the failure to obtain the land use right certificates in respect of the property numbered 8 in appendix III to this prospectus;

(b) the failure to obtain the land use right certificate and/or real estate ownership certificates of any of the properties numbered 4 to 11 (both inclusive) in appendix III to this prospectus or the title of any of such properties not being good and/or marketable or being subject to undisclosed encumbrances, arising from any default, act or omission of the Group members or any of them and/or the Indemnifiers committed or omitted at any time prior to the Listing Date; or

(c) non-compliance with the user clause in the occupation permit, the government grant and the deed of mutual covenant applicable to any of the relevant properties.

The above indemnity in respect of the properties ("PRC Owned Properties") referred to above shall not apply if such failure of the Group members or any of them to obtain the relevant land use right certificates and/or real estate title certificates is on account of any one or more of the following reasons:

(a) the disposal and/or sale of the Group of the relevant property;

(b) the Group fails or refuses to perform or breaches its obligations under the relevant land grant or purchase contract pursuant to which it derives its title to and/or interest in the relevant property at any time after the Listing Date;

(c) any requisition or resumption of the relevant property or part thereof by the PRC governmental authorities in accordance with applicable laws and regulations, otherwise than as a result of the default committed by the Group; or

(d) the breach by the relevant governmental authorities or, as the case may be, the vendor of its obligations under the relevant land grant or purchase contract pursuant to which the Group derives its title to and/or interest in the relevant property.

Each of the Indemnifiers has jointly and severally given indemnity in favour of the Group that it will indemnify and at all times keep indemnified each of the Group members against any fees, costs, expenses, claims, losses of profits, benefits or other commercial advantages, liabilities, penalties and proceedings which may be incurred or suffered by any of the Group members as a result of the Group members being evicted from any of the properties numbered 12 to 20 (both inclusive) in appendix III to this prospectus or as a result of any invalidity, unenforceability, non-registration, variation or termination of any of the tenancy agreements in respect of such properties (other than a termination occurring as a result of the expiration of the lease term set out in the relevant tenancy agreement), the non-compliance with the user clause in the occupation permit, the government grant and the deed of mutual covenant applicable to this property or as a result of the failure on the part of the landlord of this property to obtain the written consent from the mortgagee of this property for the letting of this property to the Group members.

Each of the Indemnifiers has jointly and severally undertaken to indemnify and keep indemnified on demand each of the Group members against any loss, liability, damages, claims, fines, penalties, orders, expenses and costs or loss of profits, benefits or other commercial advantages (collectively, the "Proceedings Losses") suffered by any of the Group members as a result of or in connection with any outstanding litigation, claim, action, prosecution, arbitration, mediation, alternative dispute resolution or other similar proceedings to which any of the Group members is a party as at the date of the deed of indemnity or the date of this prospectus and whether resulting from an award, judgment or finding or from a negotiated settlement or otherwise, provided that such indemnity shall not apply to the extent that (a) the Proceedings Losses have been paid and recorded the audited accounts of any of the Group members up to 31 March 2006 or (b) provision has been made for the Proceedings Losses in the audited accounts of any of the Group members up to 31 March 2006.

2. Litigation

Save as disclosed in this prospectus, no member of the Group is involved in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

3. Sponsor

The Sponsor has, on behalf of the Company, made an application to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein, and any Shares which may fall to be issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme.

4. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US$2,500 equivalent to HK$19,500 and are payable by the Company.

5. Promoter

The promoter of the Company is Ms. Chong. Save as disclosed in Section A of this appendix V, no cash, securities or other benefit were paid, allotted or given by the Company within the two years immediately preceding the date of this prospectus, or are proposed to be paid, allotted or given to the promoter.

6. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus and/or whose names are included in this prospectus are as follows:

Name	Qualification
Taifook Capital Limited	Licensed corporation for Type 6 regulated activities under the SFO
BDO McCabe Lo Limited	Certified public accountants
Jingtian & Gongcheng	PRC attorneys-at-law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Sallmanns (Far East) Limited	Professional surveyors and valuers
Dorsey & Whitney LLP	U.S. attorneys-at-law
Teresa Lo	Canada barrister and solicitor
Lee and Li	Taiwan attorneys-at-law
P. C. Woo & Co.	A firm of Hong Kong solicitors

7. Consents of experts

Each of Taifook Capital Limited, BDO McCabe Lo Limited, Jingtian & Gongcheng, Conyers Dill & Pearman, Sallmanns (Far East) Limited, Dorsey & Whitney LLP, Teresa Lo, Lee and Li and P. C. Woo & Co. has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions or letters or reports included herein in the form and context in which they respectively appear.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) The Cayman Islands

Under the present law of the Cayman Islands, transfers and other dispositions of Shares are exempt from the Cayman Islands stamp duty.

(c) Consultation with professional adviser

Intending holders of Shares are recommended to consult their professional adviser if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid for cash or for a consideration other than cash;

(b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) no founder shares, management shares or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(d) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and

(e) the Directors confirm that since 31 March 2006, there has been no material adverse change in the financial or trading position or prospects of the Group.

None of the persons named in the paragraph headed "Consents of experts" in the section headed "Other information" in this appendix:

(i) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(ii) has any right or option, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

No companies within the Group are presently listed on any stock exchange or traded on any trading system.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus. In this respect, the Group has not experienced any material production disruptions due to the shortfall in electricity supply up to the Latest Practicable Date.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the WHITE, PINK and YELLOW application forms, the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business" in appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of P. C. Woo & Co. at 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours up to and including 16 October 2006:

(a) the memorandum of association of the Company and the Articles;

(b) the accountants' report on the Company prepared by BDO McCabe Lo Limited, the text of which is set out in appendix I to this prospectus;

(c) such audited financial statements as have been prepared for the companies comprising the Group for each of the three financial years ended 31 March 2006;

(d) the comfort letter on unaudited pro forma financial information of the Group issued by BDO McCabe Lo Limited, the text of which are set out in appendix II to this prospectus;

(e) the full valuation report including the full text of the letter, summary of valuations and valuation certificates relating to the properties of the Group prepared by Sallmanns (Far East) Limited;

(f) the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business" in appendix V to this prospectus;

(g) the service contracts referred to in the paragraph headed "Particulars of Directors' service contracts" in the section headed "Further information about directors, management and staff" in appendix V to this prospectus;

(h) the rules of the Pre-IPO Share Option Scheme;

(i) the rules of the Share Option Scheme;

(j) the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in appendix V to this prospectus;

(k) the legal opinions issued by the Company's legal adviser as to PRC law, U.S. law, Taiwan law and Canada law;

(l) the property title reports issued by the Company's legal adviser as to Hong Kong law;

(m) the Companies Law; and

(n) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in appendix IV to this prospectus.