

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



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25th March, 2002

The Directors
Kenfair International (Holdings) Limited
Baron Capital Limited
Ka Wah Capital Limited
KGI Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Kenfair International (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st March, 2001 and the seven months ended 31st October, 2001 (the “Relevant Periods”) prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 25th March, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 20th December, 2001 for the purpose of acting as the holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation save for the acquisition on 7th March, 2002 of the entire issued share capital of Pro-Capital Investments Limited, a company incorporated in the British Virgin Islands, which is, at the date of this report, the holding company of the other subsidiaries set out in Section 1 below.

As at the date of this report, no audited financial statements have been prepared for the Company since its date of incorporation. The Company was newly incorporated after 31st October, 2001. We have, however, performed our own independent review of all relevant transactions of the Company since its date of incorporation and carried out such procedures as we consider necessary for inclusion of the financial information relating to the Company in this report.

For the purpose of this report, we have examined the audited financial statements of all the companies now comprising the Group for the Relevant Periods, or from their respective dates of incorporation where these are shorter periods, and have carried out such additional procedures as we consider necessary, in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

We have acted as auditors of all of the companies now comprising the Group for each of the Relevant Periods except as set out below:

Company	Financial Period	Auditors
Kenfair International Limited	Year ended 31st March, 1999	Messrs. Peter W.H. Ma & Co., Certified Public Accountants Hong Kong
Kenfair Publications Limited	Year ended 31st March, 1999	Messrs. Peter W.H. Ma & Co., Certified Public Accountants Hong Kong
Polonius Company Limited	Year ended 31st March, 1999	Messrs. Peter W.H. Ma & Co., Certified Public Accountants Hong Kong

The summaries of the combined results, movements in equity and cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31st March, 1999, 2000 and 2001 and 31st October, 2001 (the "Summaries") together with the notes thereto, set out in this report have been prepared from the audited financial statements or management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below. The directors of the respective companies of the Group are responsible for preparing these financial statements to give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the preparation of the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, on the basis of presentation set out in Section 1 below, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31st March, 1999, 2000, 2001 and 31st October, 2001.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements and management accounts of the companies now comprising the Group, include the combined results, balance sheets, movements in equity 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 from the respective dates of their incorporation where these are shorter periods. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/registered outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation	Issued and fully paid-up share capital	Equity interest attributable to the Group	Principal activities
Pro-Capital Investments Limited	British Virgin Islands 28th November, 2001	US\$50	100%	Investment holdings
Kenfair International Limited	Hong Kong 1st October, 1991	HK\$100	100%	Organising exhibitions and trade shows
Kenfair Publications Limited	Hong Kong 8th September, 1992	HK\$10	100%	Provision of advertising services and publication of trade show and exhibition booklets
Capital Harvest Assets Limited	British Virgin Islands 16th November, 2001	US\$20	100%	Investment holdings
Polonius Company Limited	Hong Kong 9th March, 1995	HK\$10	100%	Property holding
Kenfair International (Overseas) Limited	Hong Kong 6th August, 1999	HK\$10	100%	Organising exhibitions and trade shows

2. PRINCIPAL ACCOUNTING POLICIES

The report has been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, and under the historical cost convention. The principal accounting policies adopted by the Group in arriving at the financial information set out in this report are as follows:

(a) Revenue recognition

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

- (a) Participation fee income is derived from the letting of exhibition booths and the provision of decoration facilities for the exhibition booths and is recognised when the decoration facilities are provided and when the shows are held;
- (b) Entrance fee income is recognised based on cash receipts;

- (c) Administrative income is derived from the provision of value-added services such as travelling and accommodation arrangements to customers and is recognised when the services are rendered;
- (d) Advertising fee income earned from the publication of trade show and exhibition booklets is recognised when the trade show and exhibition booklets are published;
- (e) Internet advertising revenue is recognised rateably in the period in which the advertisement is displayed; and
- (f) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate of interest applicable.

(b) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(c) Fixed assets and depreciation

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

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

Land	Over the lease terms
Buildings	5%
Leasehold improvements	Over the lease terms
Furniture and equipment	20%
Fixtures and fittings	33 $\frac{1}{3}$ %
Computer equipment	25%
Motor vehicle	33 $\frac{1}{3}$ %

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

(d) Subsidiaries

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

(e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(f) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(g) Foreign currencies

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

(h) Related parties

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

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

(j) Cash equivalents

For the purpose of the combined cash flow statements, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(k) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of its employees. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully in the employees when contributed into the MPF Scheme.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods prepared on the basis set out in Section 1 above:

	Notes	Year ended 31st March,			Seven months ended
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	31st October, 2001 HK\$'000
TURNOVER	(a)	53,949	101,431	150,333	145,195
Other income	(a)	–	–	–	300
Interest income	(a)	304	293	904	465
Advertising and promotion expenses		(9,060)	(7,763)	(11,647)	(7,155)
Agency commission		(175)	(11,112)	(8,786)	(9,061)
Depreciation		(974)	(1,301)	(2,800)	(1,920)
Operating lease rentals		(9,963)	(13,124)	(20,242)	(17,370)
Staff costs		(11,195)	(13,908)	(24,103)	(19,281)
Other operating expenses		(12,440)	(15,675)	(34,881)	(24,284)
PROFIT FROM OPERATING ACTIVITIES	(b)	10,446	38,841	48,778	66,889
Finance costs	(c)	(417)	(355)	(435)	(331)
PROFIT BEFORE TAX		10,029	38,486	48,343	66,558
Tax	(e)	(1,496)	(6,166)	(8,797)	(11,208)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>8,533</u>	<u>32,320</u>	<u>39,546</u>	<u>55,350</u>
Dividends	(f)	<u>(8,600)</u>	<u>(25,000)</u>	<u>(51,000)</u>	<u>(34,500)</u>
Earnings per share	(g)				
– Basic, cents		<u>6</u>	<u>22</u>	<u>27</u>	<u>38</u>

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses for the three years ended 31st March, 1999, 2000, 2001 and the seven months ended 31st October, 2001. Accordingly, no combined statements of recognised gains and losses are presented.

Notes:

(a) Turnover and revenue

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Participation fee income	53,258	99,828	147,218	141,202
Entrance fee income	235	255	1,029	874
Administrative income	–	696	276	–
Advertising fee income	456	652	1,810	3,119
Turnover	<u>53,949</u>	<u>101,431</u>	<u>150,333</u>	<u>145,195</u>
Other income (<i>see note h</i>)	–	–	–	300
Interest income	304	293	904	465
Total revenue	<u>54,253</u>	<u>101,724</u>	<u>151,237</u>	<u>145,960</u>

Turnover represents the participation fee income, entrance fee income, administrative income and advertising fee income earned from exhibitions and trade shows, and net of output value added tax (31st October, 2001: nil; 31st March, 2001: HK\$2,375,805; 31st March, 2000 and 1999: nil) accrued at 17.5% of the gross income generated from the exhibition and show held in the United Kingdom. Value added tax has not been accounted for in the turnover for the seven months ended 31st October, 2001 as the United Kingdom show is to be held in February 2002 and no turnover relating to the United Kingdom show was recognised for the seven months ended 31st October, 2001.

The geographical analysis of turnover of the Group during the Relevant Periods disclosed pursuant to the requirements of the Listing Rules is analysed below:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	53,949	101,431	136,707	145,195
United Kingdom	–	–	13,626	–
	<u>53,949</u>	<u>101,431</u>	<u>150,333</u>	<u>145,195</u>

As the Group's turnover is solely attributable to organising trade shows and exhibitions, no analysis of the Group's turnover by principal activities is provided.

(b) Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	974	1,301	2,800	1,920
Operating lease rentals for land and buildings (*)	9,963	13,124	20,242	17,370
Auditors' remuneration:				
– Current year's provision	52	300	400	–
– Last year's underprovision	–	–	150	–
	<u>52</u>	<u>300</u>	<u>550</u>	<u>–</u>
Directors' remuneration:				
– fees	–	–	–	–
– emoluments	2,208	689	4,884	2,865
Staff costs, including directors' remuneration	11,195	13,908	24,103	19,281
Exhibition development cost written off (**)	–	–	6,000	–
Loss on disposal/write-off of fixed assets	–	–	11	209
Impairment of medium term leasehold land and buildings (***)	–	–	–	3,796
	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,796</u>

* The amount included rentals paid for the venue of an exhibition and trade show held in the United Kingdom, net of input value added tax of HK\$640,705 accrued at 17.5% of gross rental expenses for the year ended 31st March, 2001. As the show in the United Kingdom commenced in the year ended 31st March, 2001, no input value added tax was netted off in the gross rental paid during the years ended 31st March, 2000 and 31st March, 1999. During the seven months ended 31st October, 2001, no rental expenses related to the trade show in the United Kingdom were recorded in the profit and loss account as the United Kingdom show had not yet been held.

** During the year ended 31st March, 2000, Kenfair International Limited ("KIL") entered into an agreement with an employee of the Group (the "Employee") pursuant to which KIL agreed to jointly organise and operate, together with the Employee, trade shows and exhibitions to be held in Europe for the participation of exhibitors and visitors interested in toys, gifts and premium items ("Exhibitions"). KIL is entitled to 51% whereas the Employee is entitled to 49% of the net profit generated from the Exhibitions.

Subsequently, pursuant to an agreement on 15th July, 2000 and a supplemental agreement dated 5th March, 2001 entered into among KIL, Kenfair International (Overseas) Limited and the Employee, the Employee transferred and assigned his rights, privileges and interests in relation to the Exhibitions at a consideration of HK\$6,000,000 to the Group. In the opinion of the directors, as the future economic benefits in relation to the Exhibitions to be held in Europe were uncertain, the amount of HK\$6,000,000 was written off as exhibition development cost to the profit and loss account for the year ended 31st March, 2001.

*** Impairment of medium term leasehold land and buildings was determined by the directors with reference to an independent professional valuation as at 31st December, 2001. In the opinion of the directors, there was no material difference between the estimated recoverable amount of these fixed assets as at 31st October, 2001 and the aforesaid valuation as at 31st December, 2001.

The geographical analysis of the profit/(loss) from operating activities of the Group during the Relevant Periods disclosed pursuant to the requirements of the Listing Rules is analysed below:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October,
	HK\$'000	HK\$'000	HK\$'000	2001
Hong Kong	10,446	38,901	53,636	66,835
United Kingdom	–	(60)	(4,858)	54
	<u>10,446</u>	<u>38,841</u>	<u>48,778</u>	<u>66,889</u>

As the Group's operating profits are attributable solely to organising trade shows and exhibitions, no analysis of the Group's operating profit by principal activities is provided.

Details of directors' emoluments are as follows:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October,
	HK\$'000	HK\$'000	HK\$'000	2001
Fees	–	–	–	–
Basic salaries and allowances	2,208	689	4,875	2,844
Retirement benefits	–	–	9	21
	<u>–</u>	<u>–</u>	<u>9</u>	<u>21</u>

The number of directors whose emoluments fell within the designated bands are as follows:

	Number of directors			Seven months ended
	Year ended 31st March,			31st October,
	1999	2000	2001	2001
Nil to HK\$1,000,000	2	3	–	3
HK\$1,500,001 to HK\$2,000,000	–	–	3	–
HK\$2,000,001 to HK\$2,500,000	1	–	–	–
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

The remuneration for the year ended 31st March, 2001 and the seven months ended 31st October, 2001 disclosed above does not include the estimated monetary value of residential accommodation provided to a director of the Group in respect of a property previously owned by the same director and sold to the Group during the year ended 31st March, 2001. The estimated monetary value of such residential accommodation provided to the director, not charged to the profit and loss account, was approximately HK\$160,000 and HK\$420,000, for the year ended 31st March, 2001 and the seven months ended 31st October, 2001, respectively.

The five highest paid individuals included 1, 0, 3 and 3 directors during the years ended 31st March, 1999, 31st March, 2000, and 31st March, 2001 and the seven months ended 31st October, 2001 and the information relating to their emoluments has been disclosed above. Details of the emoluments paid to the remaining 4, 5, 2 and 2 non-director highest paid individuals during the Relevant Periods are as follows:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October,
	HK\$'000	HK\$'000	HK\$'000	2001
Basic salaries and allowances	3,750	5,219	3,003	1,214
Retirement benefits	–	–	6	14
	<u>–</u>	<u>–</u>	<u>6</u>	<u>14</u>

The number of the above remaining non-director highest paid individuals whose remuneration fell within the designated bands are as follows:

	Number of employees			Seven months ended 31st October, 2001
	Year ended 31st March,			
	1999	2000	2001	
Nil to HK\$1,000,000	2	3	–	2
HK\$1,000,001 to HK\$1,500,000	2	2	–	–
HK\$1,500,001 to HK\$2,000,000	–	–	2	–
	<u>4</u>	<u>5</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(c) **Finance costs**

	Year ended 31st March,			Seven months ended 31st October, 2001
	1999	2000	2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans	<u>417</u>	<u>355</u>	<u>435</u>	<u>331</u>

(d) **Retirement benefits costs**

The Group charged mandatory provident fund contributions of HK\$110,000 and HK\$275,000 to the profit and loss account for the year ended 31st March, 2001 and the seven months ended 31st October, 2001, respectively. These costs are included in "Staff costs, including directors' remuneration" in note 3(b).

(e) **Tax**

Hong Kong profits tax has been provided at the rate of 16% for the three years ended 31st March, 2001 and the seven months ended 31st October, 2001, on the estimated assessable profits arising in Hong Kong during those periods.

	Year ended 31st March,			Seven months ended 31st October, 2001
	1999	2000	2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group:				
Current year/period	1,517	4,831	8,209	12,790
Overprovision in prior years	(140)	–	(112)	–
Deferred tax charge/(credit) (note 4(d))	<u>119</u>	<u>1,335</u>	<u>700</u>	<u>(1,582)</u>
Tax charge for the year/period	<u>1,496</u>	<u>6,166</u>	<u>8,797</u>	<u>11,208</u>

(f) **Dividends**

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividends paid or declared by the Company's subsidiary to its then shareholders during each of the Relevant Periods are as follows:

	Year ended 31st March,			Seven months ended
	1999	2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Kenfair International Limited	<u>8,600</u>	<u>25,000</u>	<u>51,000</u>	<u>34,500</u>

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

(g) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 144,000,000 shares were deemed to have been issued, comprising 60,000,000 shares in issue as at the date of the Prospectus and 84,000,000 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 18th March, 2002" in Appendix V to the Prospectus.

No diluted earnings per share have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

(h) Related party transactions

The Group had the following material transactions with the related parties during the Relevant Periods:

	Notes	Year ended 31st March,			Seven months ended
		1999	2000	2001	31st October, 2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Purchase of a director's quarter from a related company	(i)	–	–	15,200	–
Disposal of a motor vehicle to a director	(ii)	<u>–</u>	<u>–</u>	<u>293</u>	<u>–</u>

(i) A director's quarter was purchased at open market value from Top Victory Enterprises Development Limited, in which Mr. Cheung Shui Kwai, a director of the Group, has beneficial interest as a shareholder and director.

(ii) The motor vehicle was disposed of to Mr. Cheung Shui Kwai at net book value as at the disposal date.

On 31st March, 2000, KIL, a subsidiary of the Group, entered into a consultancy agreement (the "Consultancy Agreement") with an independent third party (the "Consultant") pursuant to which the Consultant agreed to provide various business and financial advisory services to the Group in preparation for the proposed listing of the Group on a recognised stock exchange. The Group paid HK\$500,000 to the Consultant under the Consultancy Agreement during the year ended 31st March, 2001.

On 19th January, 2001 and 20th March, 2001, Mr. Ip Ki Cheung and Mr. Cheung Shui Kwai (the "Directors" together with KIL known as the "Kenfair Parties") and KIL and the Consultant entered into two further agreements (the "Project Agreements", together with the Consultancy Agreement, the "Agreements") pursuant to which the Consultant agreed to provide various professional services to the Kenfair Parties in connection with the disposal of some or all of the interests of the Directors in the share capital of KIL to a company listed on the Alternative Investment Market board (the "LondonCo") in London for obtaining control of the LondonCo and thereafter in arranging the listing of the shares of the LondonCo on the main board of the London Stock Exchange. The Group paid a total of HK\$4,700,000 under the Project Agreements during the year ended 31st March, 2001. The total amount paid by the Group to the Consultant during the year ended 31st March, 2001 was HK\$5,200,000 under the Agreements. The Group charged HK\$300,000 to the profit and loss account for the year ended 31st March, 2001 and the remaining HK\$4,900,000 was recorded under prepayments, deposits and other receivables as at 31st March, 2001.

Subsequently, during the seven months ended 31st October, 2001, the management of the Group resolved to seek a proposed listing of the Shares of the Company on The Stock Exchange of Hong Kong Limited. Accordingly, the Kenfair Parties were under discussion with the Consultant for the termination of the services provided by the Consultant under the Agreements. The Directors were also under discussion with KIL in respect of an indemnity from the Directors to KIL for any loss under the Agreements. Pursuant to a deed of termination and release dated 28th December, 2001 entered into among the Kenfair Parties and the Consultant (the "Deed"), the parties thereto agreed, inter alia, to terminate the Agreements and release one another from all liabilities under the Agreements and the Directors jointly and severally undertook to indemnify KIL against any loss under the Agreements and in consideration for which the Consultant agreed to refund an amount of HK\$2,200,000 to the Kenfair Parties. Accordingly, the sum of HK\$5,200,000 previously paid by the Group during the year ended 31st March, 2001 was fully indemnified by the Directors and the Group recorded a receivable of HK\$5,200,000 from the Directors during the seven months ended 31st October, 2001, which was settled prior to 31st October, 2001 through an offset against dividend payable of HK\$17,250,000 and HK\$10,350,000 to Mr. Ip Ki Cheung and Mr. Cheung Shui Kwai, respectively, who were also shareholders of KIL. As a result of the indemnity noted above, the Group recorded the reversal of HK\$300,000 previously charged to the profit and loss account as other income during the seven months ended 31st October, 2001.

The directors of the Company have confirmed that these related party transactions will not continue in the future after the Company's shares are listed on The Stock Exchange of Hong Kong Limited.

4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section 1 above.

		1999	31st March, 2000	2001	31st October, 2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS					
Fixed assets	<i>(a)</i>	7,345	7,840	26,717	20,991
CURRENT ASSETS					
Due from directors	<i>(b)</i>	16,557	33,034	–	–
Prepayments, deposits and other receivables		5,393	9,506	13,574	20,585
Cash and bank balances		3,205	3,643	21,822	25,374
		<u>25,155</u>	<u>46,183</u>	<u>35,396</u>	<u>45,959</u>
CURRENT LIABILITIES					
Due to directors	<i>(b)</i>	–	–	143	566
Tax payable		2,781	3,693	3,474	16,264
Deferred revenue		–	–	1,976	–
Deposits received in advance		26,463	37,873	47,867	9,305
Trade payables		–	–	–	13,303
Other payables and accrued liabilities		338	1,042	1,173	1,007
Interest-bearing bank borrowings	<i>(c)</i>	158	172	397	472
		<u>29,740</u>	<u>42,780</u>	<u>55,030</u>	<u>40,917</u>
NET CURRENT ASSETS/ (LIABILITIES)		(4,585)	3,403	(19,634)	5,042
TOTAL ASSETS LESS CURRENT LIABILITIES		2,760	11,243	7,083	26,033
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	<i>(c)</i>	3,480	3,308	9,902	9,584
Deferred tax	<i>(d)</i>	119	1,454	2,154	572
		<u>3,599</u>	<u>4,762</u>	<u>12,056</u>	<u>10,156</u>
		<u><u>(839)</u></u>	<u><u>6,481</u></u>	<u><u>(4,973)</u></u>	<u><u>15,877</u></u>
REPRESENTED BY:					
Combined shareholders' equity	<i>(f)</i>	<u><u>(839)</u></u>	<u><u>6,481</u></u>	<u><u>(4,973)</u></u>	<u><u>15,877</u></u>

Notes:

(a) Fixed assets

	As at 31st March, 1999		
	Cost	Accumulated depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold land and buildings	6,587	649	5,938
Leasehold improvements	–	–	–
Furniture and equipment	1,008	490	518
Fixtures and fittings	856	554	302
Computer equipment	–	–	–
Motor vehicle	880	293	587
	<u>9,331</u>	<u>1,986</u>	<u>7,345</u>
	As at 31st March, 2000		
	Cost	Accumulated depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold land and buildings	6,587	879	5,708
Leasehold improvements	–	–	–
Furniture and equipment	1,943	830	1,113
Fixtures and fittings	1,718	992	726
Computer equipment	–	–	–
Motor vehicle	880	587	293
	<u>11,128</u>	<u>3,288</u>	<u>7,840</u>
	As at 31st March, 2001		
	Cost	Accumulated depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold land and buildings	22,378	1,306	21,072
Leasehold improvements	628	126	502
Furniture and equipment	2,854	1,334	1,520
Fixtures and fittings	1,851	1,603	248
Computer equipment	4,500	1,125	3,375
Motor vehicle	–	–	–
	<u>32,211</u>	<u>5,494</u>	<u>26,717</u>
	As at 31st October, 2001		
	Cost	Accumulated and impairment depreciation	Net book value
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold land and buildings	22,378	5,578	16,800
Leasehold improvements	–	–	–
Furniture and equipment	3,047	1,634	1,413
Fixtures and fittings	1,857	1,798	59
Computer equipment	4,500	1,781	2,719
Motor vehicle	–	–	–
	<u>31,782</u>	<u>10,791</u>	<u>20,991</u>

All of the Group's medium term leasehold land and buildings were pledged to secure banking facilities granted to the Group.

(b) **Balances with directors**

Particulars of the amounts due from directors are as follows:

Name	1999	31st March, 2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ki Cheung	2,104	1,604	–	–
Chan Siu Chung	4,551	7,960	–	–
Cheung Shui Kwai	9,902	23,470	–	–
	<u>16,557</u>	<u>33,034</u>	<u>–</u>	<u>–</u>

The maximum amounts outstanding during the Relevant Periods are as follows:

Name	Year ended 31st March,			Seven months ended 31st October, 2001
	1999	2000	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ip Ki Cheung	7,388	15,274	3,611	17,176
Chan Siu Chung	5,605	14,015	10,156	6,870
Cheung Shui Kwai	10,995	34,625	37,089	10,119
	<u>24,988</u>	<u>63,914</u>	<u>70,856</u>	<u>34,165</u>

The balances with directors are unsecured, interest-free and have no fixed terms of repayment.

(c) **Interest-bearing bank borrowings**

	1999	31st March, 2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans repayable by instalments:				
Within one year	158	172	397	472
In the second year	172	190	429	500
In the third to fifth years, inclusive	633	701	1,501	1,689
After five years	2,675	2,417	7,972	7,395
	3,638	3,480	10,299	10,056
Portion classified as current liabilities	(158)	(172)	(397)	(472)
Non-current portion	<u>3,480</u>	<u>3,308</u>	<u>9,902</u>	<u>9,584</u>

Included above is a bank loan of HK\$3,195,633 as at 31st October, 2001 (31st March, 2001: HK\$3,313,763; 2000: HK\$3,480,361, 1999: HK\$3,638,578) which is secured by a pledge of a property of the Group situated in Hong Kong with a carrying value of HK\$3,800,000 as at 31st October, 2001 (31st March, 2001: HK\$5,478,955; 2000: HK\$5,708,210; 1999: HK\$5,937,465). The loan bears interest at the rate of 1.5% per annum over the best lending rate. The loan is repayable by monthly instalments until 2011.

The remaining bank loan of HK\$6,860,731 as at 31st October, 2001 (31st March, 2001: HK\$6,985,293; 2000: Nil; 1999: Nil) is secured by another property of the Group situated in Hong Kong acquired during the year ended 31st March, 2001, which had a carrying value of HK\$13,000,000 as at 31st October, 2001 (31st March, 2001: HK\$15,593,712). The loan bears interest at the rate of 2.25% per annum below the best lending rate and is repayable by monthly instalments until 2021.

(d) Deferred tax

	1999	31st March,	2001	31st October,
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year/period	–	119	1,454	2,154
Charge/(credit) for the year/period (<i>note 3(e)</i>)	119	1,335	700	(1,582)
At end of year/period	<u>119</u>	<u>1,454</u>	<u>2,154</u>	<u>572</u>

The principal components of the Group's deferred tax liabilities calculated at 16% on the cumulative timing differences at 31st March, 1999, 2000 and 2001 and 31st October, 2001 are as follows:

	1999	31st March,	2001	31st October,
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accelerated depreciation allowances	119	56	744	572
Prepayments	–	1,398	1,410	–
	<u>119</u>	<u>1,454</u>	<u>2,154</u>	<u>572</u>

(e) Banking facilities

As at 31st October, 2001, the Group's banking facilities were secured by the following:

- (i) fixed charges on the medium term leasehold land and buildings of the Group; and
- (ii) personal guarantees given by certain directors of the Group.

Application has been made to and consent has been obtained from the banker for the personal guarantees given by certain directors of the Company to be released upon the listing of the Shares on The Stock Exchange of Hong Kong Limited and replaced by corporate guarantees and/or other security to be provided by the Company and/or other members of the Group.

(f) Combined shareholders' equity

	1999	31st March,	2001	31st October,
<i>Note</i>	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Issued capital	–	–	–	–
Reserves	(839)	6,481	(4,973)	15,877
	<u>(839)</u>	<u>6,481</u>	<u>(4,973)</u>	<u>15,877</u>

The Group's issued capital as at 31st March, 1999, 2000 and 2001 and 31st October, 2001 represented the aggregate amounts of the respective share capitals of the Group's subsidiaries.

	1999	31st March,	2001	31st October,
	<i>HK\$</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issued and fully paid ordinary shares	<u>105</u>	<u>108</u>	<u>108</u>	<u>108</u>

(g) Reserves

Movements in the reserves of the Group during the Relevant Periods were as follows:

	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1st April, 1998	(772)	(772)
Profit for the year attributable to shareholders	8,533	8,533
Dividends	<u>(8,600)</u>	<u>(8,600)</u>
At 31st March, 1999 and 1st April, 1999	(839)	(839)
Profit for the year attributable to shareholders	32,320	32,320
Dividends	<u>(25,000)</u>	<u>(25,000)</u>
At 31st March, 2000 and 1st April, 2000	6,481	6,481
Profit for the year attributable to shareholders	39,546	39,546
Dividends	<u>(51,000)</u>	<u>(51,000)</u>
At 31st March, 2001 and 1st April, 2001	(4,973)	(4,973)
Profit for the period attributable to shareholders	55,350	55,350
Dividends	<u>(34,500)</u>	<u>(34,500)</u>
At 31st October, 2001	<u><u>15,877</u></u>	<u><u>15,877</u></u>

(h) Contingent liabilities

As at 31st March, 1999, 2000, 2001 and 31st October, 2001, the Group had no significant contingent liabilities.

(i) Commitments

	1999 HK\$'000	31st March, 2000 HK\$'000	2001 HK\$'000	31st October, 2001 HK\$'000
(i) Capital commitments:				
Contracted but not provided for	<u>–</u>	<u>2,000</u>	<u>–</u>	<u>800</u>

(ii) Commitments under operating leases:

At the balance sheet date, the Group had total future commitments under non-cancellable operating leases in respect of land and buildings which fall due, as follows:

	1999 HK\$'000	31st March, 2000 HK\$'000	2001 HK\$'000	31st October, 2001 HK\$'000
Within one year	11,089	17,428	12,783	5,168
Within two to five years, inclusive	<u>1,231</u>	<u>832</u>	<u>–</u>	<u>6,981</u>
	<u><u>12,320</u></u>	<u><u>18,260</u></u>	<u><u>12,783</u></u>	<u><u>12,149</u></u>

(j) Net tangible assets of the Company

The Company was incorporated in the Cayman Islands on 20th December, 2001. On the basis set out in Section I above, the net tangible assets of the Company as at 31st October, 2001 would have been HK\$15,877,000, representing its investments in subsidiaries.

(k) Distributable reserves

As at 31st October, 2001, the Company had not been incorporated and hence there were no reserves available for distribution to the shareholders of the Company at that date.

5. STATEMENT OF MOVEMENTS IN EQUITY

The movements in the combined shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	Year ended 31st March,		Seven months ended	
	1999	2000	2001	31st October, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	(772)	(839)	6,481	(4,973)
Net profit attributable to shareholders	8,533	32,320	39,546	55,350
Dividends	(8,600)	(25,000)	(51,000)	(34,500)
	<u>(839)</u>	<u>6,481</u>	<u>(4,973)</u>	<u>15,877</u>

6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above are as follows:

	Notes	Year ended 31st March,			Seven months ended
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	31st October, 2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	6(a)	1,063	6,373	41,188	3,860
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		304	293	904	465
Interest paid		(417)	(355)	(435)	(331)
Net cash inflow/(outflow) from returns on investments and servicing of finance		(113)	(62)	469	134
TAX					
Hong Kong profits tax paid		(1,598)	(3,919)	(8,316)	–
INVESTING ACTIVITIES					
Purchases of fixed assets		(1,795)	(1,796)	(21,981)	(199)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(2,443)	596	11,360	3,795
FINANCING ACTIVITIES	6(b)				
Repayments of bank loans		(130)	(158)	(181)	(243)
New bank loan		–	–	7,000	–
Net cash inflow/(outflow) from financing activities		(130)	(158)	6,819	(243)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,573)	438	18,179	3,552
Cash and cash equivalents at beginning of year/period		5,778	3,205	3,643	21,822
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>3,205</u>	<u>3,643</u>	<u>21,822</u>	<u>25,374</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances		<u>3,205</u>	<u>3,643</u>	<u>21,822</u>	<u>25,374</u>

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	Year ended 31st March,			Seven months ended 31st October,
	1999	2000	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operating activities	10,446	38,841	48,778	66,889
Interest income	(304)	(293)	(904)	(465)
Depreciation	974	1,301	2,800	1,920
Impairment of medium term leasehold land and buildings	–	–	–	3,796
Loss on disposals/write-off of fixed assets	–	–	11	209
Increase in balances with directors	(7,284)	(41,477)	(17,530)	(34,077)
Increase in prepayments, deposits and other receivables	(343)	(4,113)	(4,068)	(7,011)
Increase/(decrease) in deferred revenue	–	–	1,976	(1,976)
Increase/(decrease) in deposits received in advance	56	11,410	9,994	(38,562)
Increase in trade payables	–	–	–	13,303
Increase/(decrease) in other payables and accrued liabilities	(2,482)	704	131	(166)
	<u>1,063</u>	<u>6,373</u>	<u>41,188</u>	<u>3,860</u>
Net cash inflow from operating activities	<u>1,063</u>	<u>6,373</u>	<u>41,188</u>	<u>3,860</u>

(b) Analysis of changes in financing during the Relevant Periods

	Bank loans <i>HK\$'000</i>
Balance at 1st April, 1998	3,768
Repayments of a bank loan	<u>(130)</u>
Balance at 31st March, 1999 and at 1st April, 1999	3,638
Repayments of a bank loan	<u>(158)</u>
Balance at 31st March, 2000 and at 1st April, 2000	3,480
Repayments of bank loans	(181)
New bank loan	<u>7,000</u>
Balance at 31st March, 2001 and at 1st April, 2001	10,299
Repayments of bank loans	<u>(243)</u>
Balance at 31st October, 2001	<u>10,056</u>

(c) Major non-cash transactions

- (i) During the three years ended 31st March, 1999, 2000 and 2001 and the seven months ended 31st October, 2001, interim dividends of HK\$8,600,000, HK\$25,000,000, HK\$51,000,000 and HK\$34,500,000 respectively were declared by a subsidiary of the Company, Kenfair International Limited, to its then shareholders. These dividends were not paid in cash but were offset against the current accounts of the then respective shareholders.
- (ii) During the year ended 31st March, 2001, the Group disposed of a motor vehicle to a director of Kenfair International Limited at a carrying book value of approximately HK\$293,000 and the balance was settled through the current account with the director.

7. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods by the Company, or any of the companies now comprising the Group, to the directors of the Company. Under the arrangements currently in force, the estimated aggregate remuneration of the directors of the Company for the year ending 31st March, 2002 will be approximately HK\$4,911,000. In addition, benefits in kind representing the monetary value of residential accommodation provided to a director of the Group will be approximately HK\$720,000.

Further details concerning the terms of which are set out in the paragraph headed "Disclosure of Interests" in the sub-section 3(a) of Appendix V to this Prospectus.

8. SUBSEQUENT EVENTS

- (a) On 7th March, 2002, the Company became the holding company of the Group.
- (b) Subsequent to 31st October, 2001, the Group underwent a reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, details of which are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix V to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31st October, 2001.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st October, 2001.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong