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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Mascotte Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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### **MASCOTTE HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 136)**

## **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders**



**Quam Capital Limited**

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A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Quam, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 24 of this circular.

A notice convening the special general meeting of Mascotte Holdings Limited to be held at The Aberdeen Marina Club, 4th Floor, Bridge Room, 8 Shum Wan Road, Aberdeen, Hong Kong on Monday, 17 July 2006 at 3:00 p.m. is set out on pages 140 to 141 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of Mascotte Holdings Limited, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

30 June 2006

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## DEFINITIONS

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

|                         |  |
|-------------------------|--|
| “Acquisition”           | acquisition of the Sale Shares and Shareholders’ Loan by Mascotte Group pursuant to the Acquisition Agreement  |
| “Acquisition Agreement” | the acquisition agreement dated 6 June 2006 entered into between the Vendor and Mascotte Group in relation to the Acquisition  |
| “associates”            | has the meaning ascribed to it under the Listing Rules   |
| “Board”                 | the board of Directors   |
| “Business Day(s)”       | a day (other than Saturdays and days on which a tropical cyclone warning No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business on normal business hours |
| “Company”               | Mascotte Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange   |
| “Completion”            | completion of the Acquisition in accordance with the Acquisition Agreement   |
| “Completion Date”       | the fifth Business Day from the date on which the conditions precedent contained in the Acquisition Agreement have been fulfilled or waived (as the case may be) or such other date as may be agreed by the Vendor and Mascotte Group in writing   |
| “connected persons”     | has the meaning ascribed to it under the Listing Rules   |
| “Consideration”         | the total sum of HK\$92 million, payable by Mascotte Group to the Vendor for the purchase of the Sale Shares and the Shareholders’ Loan pursuant to the Acquisition Agreement  |
| “Director(s)”           | the director(s) of the Company   |
| “Enlarged Group”        | the Group as enlarged by Completion  |

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## DEFINITIONS

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|                                 |   |
|---------------------------------|---|
| “Group”                         | the Company and its subsidiaries  |
| “Hong Kong” or “HK”             | the Hong Kong Special Administrative Region of the PRC  |
| “Independent Board Committee”   | the independent committee of the Board comprising Wong Yui Leung, Larry, Lui Wai Shan, Wilson and Cheung Ngai Lam (all being independent non-executive Directors)                                   |
| “Independent Shareholders”      | Shareholders other than Ms. Chan and her associates   |
| “Latest Practicable Date”       | 29 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular  |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Long Stop Date”                | 31 July 2006 or such other date as agreed by the Vendor and the Purchaser in writing  |
| “Ms. Chan” or “Vendor”          | Chan Oi Ling, Maria Olimpia, chairperson of the Company and an executive Director, and is the vendor under the Acquisition  |
| “Mascotte Group” or “Purchaser” | Mascotte Group Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company, and is the purchaser under the Acquisition |
| “Jet Star”                      | Jet Star Industries Limited, a company incorporated with limited liability under the laws of Hong Kong  |
| “PRC”                           | the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of the this circular   |
| “PRC Property”                  | the whole block of Jifu Building, No.103 Shibafu Road, Liwan District, Guangzhou City, Guangdong Province, the PRC (廣州市荔灣區十八甫路103號廣宇大廈綜合樓) with a total gross floor area of 10,521.32 sq.m.         |

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## DEFINITIONS

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|----------------------|---|
| “Quam”               | Quam Capital Limited, a licensed corporation to carry on type 6 activities under the SFO  |
| “Sale Shares”        | the 998 ordinary shares and 2 non-voting deferred shares in Jet Star beneficially owned by the Vendor, representing the entire issued share capital of Jet Star   |
| “SFO”                | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “SGM”                | the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder |
| “Share(s)”           | share(s) of the Company   |
| “Shareholder(s)”     | holder(s) of the Shares   |
| “Shareholder’s Loan” | an aggregate amount of HK\$25,278,799 which is owed by Jet Star to the Vendor as at the date of the Acquisition Agreement   |
| “Stock Exchange”     | The Stock Exchange of Hong Kong Limited   |
| “HK\$”               | Hong Kong dollar, the lawful currency of Hong Kong  |
| “RMB”                | Renminbi, the lawful currency of the PRC  |
| “%”                  | per cent.   |
| “sq.m.”              | square metre(s)   |

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## LETTER FROM THE BOARD

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### MASCOTTE HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

*Executive Directors:*

Chan Oi Ling, Maria Olimpia (*Chairperson*)  
Lam Yu Ho, Daniel  
Cheng Lok Hing  
Cheng Chun Kit  
Ji Hong

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Wong Yui Leung, Larry  
Lui Wai Shan, Wilson  
Cheung Ngai Lam

*Head office and principal place  
of business in Hong Kong:*

1st Floor  
Po Chai Industrial Building  
28 Wong Chuk Hang Road  
Aberdeen  
Hong Kong

30 June 2006

*To the Shareholders*

Dear Sir or Madam,

### **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

It was announced on 9 June 2006 that on 6 June 2006, the Purchaser, being a direct wholly-owned subsidiary of the Company and principally engaged in investment holding, entered into the Acquisition Agreement with Ms. Chan in relation to the acquisition of the entire issued share capital of Jet Star and the Shareholder's Loan for a total consideration of HK\$92 million. The principal asset of Jet Star is its interest in the PRC Property, being a 20-storey commercial office building located in Liwan District, in Guangzhou City of Guangzhou Province, the PRC (廣州市荔灣區).

The Acquisition, having taken into account the Shareholder's Loan, constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules, which requires the approval by the Independent Shareholders at the SGM. Further information on the Acquisition Agreement is set out below.

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## LETTER FROM THE BOARD

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The Independent Board Committee, comprising Wong Yui Leung, Larry, Lui Wai Shan, Wilson and Cheung Ngai Lam (all being independent non-executive Directors), has been constituted to advise the Independent Shareholders in respect of the Acquisition. Quam has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) further information of the Acquisition; (ii) financial information relating to the Group and Jet Star; (iii) the recommendation from the Independent Board Committee; (iv) the letter from Quam; (v) the notice of the SGM; and (vi) other information required under the Listing Rules.

### THE ACQUISITION AGREEMENT

**Date** : 6 June 2006

**Parties** :

(1) Vendor : Ms. Chan, the chairperson of the Company and an executive Director

(2) Purchaser : Mascotte Group, a direct wholly-owned subsidiary of the Company

### Assets to be acquired

The Sale Shares, being 998 ordinary shares and 2 non-voting deferred shares of Jet Star, representing the entire issued share capital of Jet Star, and the Shareholders' Loan of HK\$25,278,799 owed by Jet Star to the Vendor as at the Latest Practicable Date.

The principal assets of Jet Star is its interest in the PRC Property as more particularly described in the sections headed "Information on Jet Star" and "Information on the PRC Property" below.

### Conditions precedent

Completion is conditional upon:

- (a) the Purchaser having completed its due diligence on Jet Star and the PRC Property (including without limitation, review of business, legal, financial, commercial and taxation aspects), the results of which are, in the absolute opinion of the Purchaser, satisfactory and acceptable to the Purchaser in all respects;

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## LETTER FROM THE BOARD

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- (b) the Purchaser having obtained a written legal opinion issued by a lawyer (acceptable to the Purchaser) qualified to practise PRC laws (which form and contents are satisfactory and acceptable to the Purchaser at its absolute discretion) confirming, among other matters,
  - (i) Jet Star's rights and title to the PRC Property;
  - (ii) no consents or approvals shall be required from any relevant PRC governmental or regulatory authorities in respect of the transactions contemplated under the Acquisition Agreement; and
  - (iii) other issues relating thereto which the Purchaser at its sole discretion consider necessary;
- (c) all warranties under the Acquisition Agreement remaining true and accurate;
- (d) the Shareholders who are not required to abstain from voting in connection herewith having passed an ordinary resolution at the SGM approving the transactions contemplated under the Acquisition Agreement;
- (e) the Purchaser having received a valuation report issued by a firm of professional valuers acceptable to the Purchaser in relation to the PRC Property showing the value of the PRC Property to be not less than HK\$125 million; and
- (f) all necessary consents, permits and approval (whether governmental, regulatory or otherwise) as may be required in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by the Purchaser.

Pursuant to the terms of the Acquisition Agreement, the Purchaser shall be entitled at its absolute discretion, at any time by notice in writing to the Vendor, to waive any of the conditions precedent (save that the conditions precedent in paragraphs (d) and (f) above cannot be waived) either in whole or in part. If (i) any of the conditions precedent set out in paragraphs (a) to (f) above has not been satisfied (or as the case may be, waived by the Purchaser) at or before 5:00 p.m. on the Long Stop Date (i.e. 31 July 2006); or (ii) the Purchaser informs the Vendor in writing that it is not satisfied with the results of the due diligence conducted according to the paragraph (a) above, the Acquisition Agreement shall automatically terminate and none of the parties to the Acquisition Agreement shall have any claim of any nature or liabilities hereunder whatsoever against any of the other parties under the Acquisition Agreement (save for any antecedent breaches of the terms thereof).



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## LETTER FROM THE BOARD

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### Consideration and payment terms

The aggregate consideration for the sale and purchase of the Sale Shares and the Shareholders' Loan shall be HK\$92 million. The Consideration, which represents a 13.8% discount on the unaudited net asset value of Jet Star of approximately HK\$81.4 million and the Shareholders' Loan of approximately HK\$25.3 million as at 31 March 2006 was determined by arm's length negotiations between the Vendor and Mascotte Group with reference to the net asset value of the Sale Shares and having taken into account of the Shareholders' Loan. The Board considers that the Consideration is fair and reasonable and that the Acquisition will not affect the Company's working capital and normal operation.

The Consideration shall be satisfied by the Purchaser in the following manner:

- (a) HK\$48 million shall be payable by the Purchaser upon Completion which will be financed by internal cash resources of HK\$48,000,000. Bank borrowings will be drawn from existing facilities of the Group only if necessary; and
- (b) HK\$44 million (the "**Deferred Payment**") shall be payable in accordance with the following table:

| Amount of Deferred Payment | Date of payment   |
|----------------------------|-------------------|
| HK\$5,500,000              | 30 September 2006 |
| HK\$5,500,000              | 31 March 2007     |
| HK\$5,500,000              | 30 September 2007 |
| HK\$5,500,000              | 31 March 2008     |
| HK\$5,500,000              | 30 September 2008 |
| HK\$5,500,000              | 31 March 2009     |
| HK\$5,500,000              | 30 September 2009 |
| HK\$5,500,000              | 31 March 2010     |

- (c) The amount of Deferred Payment outstanding from time to time shall carry interest calculated at the rate of 1.5% over one month HIBOR (Hong Kong Interbank Offered Rate) from time to time per annum. Interest shall accrue on a day-to-day basis from 1 October 2006 and shall be calculated on the basis of the actual number of days elapsed and a 365-day year, which shall be payable on the above dates of payment.

Taking into account the current financial position of the Company and the initial outlay of HK\$48 million upon Completion, the parties have agreed that the HK\$44 million portion of the Consideration shall be satisfied by instalments as Deferred Payment. However, the Purchaser shall be entitled to prepay all or any part of the Deferred Payment (in multiples of HK\$5,500,000) by serving a notice in writing to the Vendor 7 Business Days prior to the intended prepayment, stating the amount of the Deferred Payment subject to prepayment and the date of such payment. The prepayment is entitled to an annual discount rate of 2.5% and to be calculated in accordance with the relevant provision in the Acquisition Agreement.

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## LETTER FROM THE BOARD

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On the other hand, if the Purchaser's cashflow (after working capital requirements for the Purchaser's operations from time to time) is insufficient to pay and fulfill its Deferred Payment obligations (together with accumulated interest pursuant to paragraph (c) above) on any scheduled payment dates as set out in paragraph (b) above, the Purchaser may defer such payments to such dates to be determined until the Purchaser's financial and liquidity position permits and the Company will make sure that payment of the same will not incur any material adverse financial effect on the Group.

The rental income derived from the PRC Property for the year ended 31 March 2006 was approximately HK\$1.7 million and that the consolidated net profit of the Group was approximately HK\$6.56 million for the year ended 31 March 2005. As stated above, the Group is required to make HK\$5.5 million Deferred Payment on a half yearly basis to the Vendor. However, given (i) the increased occupancy rate (from approximately 34.9% during the financial year ended 31 March 2005 to approximately 70% as at the Latest Practicable Date) and thus the increase in turnover of Jet Star; (ii) the option of bank borrowings being available after the receipt of the Real Estate Ownership Certificate; and (iii) the flexibility to defer the Deferred Payment as set out in the paragraph above, the Directors consider that the Group would be able to finance the Deferred Payment.

### **Completion**

Subject to fulfilment or waiver (as the case may be) of the above conditions precedent, Completion shall take place on the Completion Date.

### **INFORMATION ON JET STAR**

Jet Star is a private limited liability company incorporated under the laws of Hong Kong on 8 October 2003. As at the Latest Practicable Date, Jet Star had an authorised share capital of HK\$10,000 consisting of 10,000 shares of HK\$1.00 each, of which 998 ordinary Shares and 2 non-voting deferred Shares had been issued and fully paid, all of which were beneficially owned by Ms. Chan. As at the Latest Practicable Date, Ms. Chan was also a director and the company secretary of Jet Star.

Jet Star is principally engaged in the business of real estate, which comprises the investment holding and leasing of the PRC Property.

Based on the audited financial statements of Jet Star, it recorded an audited net income of approximately HK\$64.2 million for the year ended 31 March 2005 which comprised of, among other things, approximately HK\$753,339 rental income derived from the PRC Property and approximately HK\$70.9 million increase in fair value of the PRC Property, and an audited net income of approximately HK\$15.6 million for the year ended 31 March 2006 which comprised of, among other things, approximately HK\$1.7 million rental income derived from the PRC Property and approximately HK\$16.4 million increase in fair value of the PRC Property. The average occupancy rate of the PRC Property increased from approximately 34.9% during the year ended 31 March 2005 to approximately 41.3% during the year ended 31 March 2006. As at the Latest Practicable Date, the PRC Property was more than 70% occupied.

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## LETTER FROM THE BOARD

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The audited balance sheet of Jet Star as at 31 March 2006 recorded total asset value of approximately HK\$126.0 million, which comprised of property, plant and equipment of approximately HK\$19,148, investment property of approximately HK\$125.6 million, trade and other receivables, deposits and prepayments of approximately HK\$408,579, and bank balances of approximately HK\$1,010. The audited balance sheet of Jet Star as at 31 March 2006 recorded total liabilities of approximately HK\$44.6 million, which included outstanding taxes and payments in relation to the Real Estate Ownership Certificate (approximately HK\$8.2 million), shareholders' loan (approximately HK\$25.3 million), deferred tax (approximately HK\$8.9 million), construction fee payables (approximately HK\$1.2 million), rentals, utilities and other deposits received (approximately HK\$0.5 million), income tax payable (approximately HK\$0.2 million) and other government tax levies (approximately HK\$0.3 million).

The accountants' report on Jet Star is set out in Appendix II to this circular.

### INFORMATION ON THE PRC PROPERTY

The PRC Property, representing the whole block (20-storeys) of Jifu Building, is a commercial office building located in the Liwan District of Guangzhou City in Guangdong Province. Based on the relevant Real Estate Ownership Certificate, the site area of the PRC Property is shown to be 10,521.32sq.m. The PRC Property is subject to various tenancies, in vacant possession and occupied by Jet Star as temporary office. The average occupancy rate was 34.9% for the year ended 31 March 2005 and 41.3% for the year ended 31 March 2006.

The PRC Property was acquired by Jet Star from the Industrial and Commercial Bank of China (Guangzhou City 2nd Branch) at a consideration of RMB16.95 million by way of an auction which took place in the PRC on 3 June 2004 (the “**Transfer**”).

According to the legal opinions obtained by the Group from GFE Law Office, a law firm in Guangzhou, the PRC (the “**PRC Legal Opinions**”), Jet Star enjoys the rights of possession, use of the PRC Property and income derived from the PRC Property including lease and from other lawful means. However, Jet Star is not entitled to dispose of the PRC Property by way of transfer or mortgage in the open market until it has obtained a real estate ownership certificate (房地產證) in the name of Jet Star (the “**Real Estate Ownership Certificate**”) (as at the Latest Practicable Date, the Real Estate Ownership Certificate was registered under the name of Industrial and Commercial Bank of China (Guangzhou City 2nd Branch)). In order to obtain such certificate, outstanding taxes and payments (as at 31 March 2006) in the amount of approximately RMB8.5 million (equivalent to approximately HK\$8.2 million), which comprised of approximately RMB7.1 million as land premium (土地出讓金), RMB126,256 as real estate transfer fee (房地產交易手續費), RMB33,900 as stamp duty (產權轉移書據印花稅和權利許可證照印花稅), RMB80 as registration fee (房屋所有權登記費和土地證書費), and approximately RMB1.2 million as deed tax (契稅), will be payable by Jet Star to the relevant PRC authorities. As at the Latest Practicable Date, the deed tax in the amount of approximately RMB1.2 million had been paid to the relevant PRC authority. According to the PRC Legal Opinions, there are no circumstances which render Jet Star being liable for any penalty in relation to the outstanding taxes and payments for the purpose of obtaining real estate ownership. The PRC Legal Opinions further

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## LETTER FROM THE BOARD

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provide that when Jet Star has settled all the outstanding taxes and payments in full and applies for the Real Estate Ownership Certificate in accordance with the relevant application procedures, there is no foreseeable obstacle for Jet Star to obtain the Real Estate Ownership Certificate under its name. According to the Vendor, as Jet Star had no intention to dispose of the PRC Property, it had been decided that there was no immediate need to obtain the Real Estate Ownership Certificate. Instead of immediately expending approximately RMB8.5 million (equivalent to approximately HK\$8.2 million) for the relevant taxes and payments in connection with the obtaining of the Real Estate Ownership Certificate, Jet Star utilised resources to finance the renovation work on the entire building which began in or about August 2004 and was completed in or about October 2005, with a view to enhancing the long-term market value of the PRC Property and increasing its rental yield. The Purchaser will take steps to procure Jet Star to obtain the Real Estate Ownership Certificate including settlement of the outstanding taxes and payments following Completion which is expected to be financed by income to be generated from the PRC Property and/or other funds available to Jet Star. Based on the PRC Legal Opinions, the Directors are confident that there would not be any obstacle in obtaining the Real Estate Ownership Certificate after payment of all outstanding taxes and charges and the Board is optimistic that the new Real Estate Ownership Certificate could be obtained within 3 months from the date of Completion.

### INFORMATION ON THE COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of accessories for photographic, electrical and multimedia products, property investment and development.

### REASONS FOR ACQUISITION

By leveraging on the Group's experience in the property business, the Group is open to property investment opportunities and has decided to further expand its investment properties portfolio in high quality commercial buildings. The Board has been actively seeking property investment opportunities in Hong Kong, Macau and the PRC and identified the Acquisition during its normal soliciting process. The Board considers that the Acquisition is in line with the Group's business strategy.

The Acquisition represents an attractive opportunity to the Group as it enables the Group to further diversify into the property market in the PRC and having considered, among other things, the location, quality and market value of the PRC Property.

The Board has engaged Vigers Appraisal & Consulting Limited, an independent property valuer, to conduct a valuation on the PRC Property, and the PRC Property was valued at RMB130 million as at the date of valuation. A valuation report of the PRC Property is set out in Appendix IV to this circular. In considering the Acquisition, the Board has also taken into account the prospering property market in Guangzhou City. According to statistics from Guangzhou Statistical Information Net, investment in office buildings amounted to approximately RMB8.5 billion in the first quarter of 2006, up 99.5% compared to the same period in 2005. Also, Guangzhou's real estate corporation sentiment index grew 7.9 points to 145.2 points in the first quarter of 2006. In fact according to China Real Estate Information

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## LETTER FROM THE BOARD

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Net, the relative price performance of office properties in Guangzhou has outperformed Beijing, Shanghai and Tianjin in the past few months. The average occupancy rate of the PRC Property increased from approximately 34.9% during the year ended 31 March 2005 to approximately 41.3% during the year ended 31 March 2006. As at the Latest Practicable Date, the PRC Property was more than 70% occupied. Accordingly, the Board is optimistic about the potentials of the PRC Property.

The Board has also considered the recently implemented measures to curb real estate short-term speculation and to cool steep rises in property prices in the PRC but these have little impact on its decision on the Acquisition as it is the intention of the Group to hold the PRC Property for long-term investment purposes.

In view of the above, the Board (including the independent non-executive directors) considers the entering into of the Acquisition Agreement (including the transactions contemplated thereunder) is in the interest of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable.

### FINANCIAL EFFECTS OF THE ACQUISITION

Following Completion, Jet Star will become an indirect wholly-owned subsidiary of the Company. The following sets out, for illustrative purposes only, the key financials of (i) the unaudited pro forma income statement for the year ended 31 March 2005 of the Enlarged Group after Completion, assuming the Acquisition had been completed on 1 April 2004; and (ii) the unaudited pro forma combined balance sheet as at 30 September 2005 of the Enlarged Group after Completion, assuming the Acquisition had been completed on 30 September 2005. Please refer to Appendix III to this circular for the unaudited pro forma financial information of the Enlarged Group after completion.

*As at 30 September 2005*

|                                  | <b>The Group</b> | <b>The Enlarged Group upon Completion</b> | <b>% change</b> |
|----------------------------------|------------------|---|-----------------|
| Total assets (HK\$'million)      | 255.1            | 333.2                                     | +30.6%          |
| Total liabilities (HK\$'million) | 67.0             | 130.3                                     | +94.4%          |
| Net asset value (HK\$'million)   | 188.1            | 202.9                                     | +7.9%           |

*For the year ended 31 March 2005*

|                            | <b>The Group</b> | <b>The Enlarged Group upon Completion</b> | <b>% change</b> |
|----------------------------|------------------|---|-----------------|
| Net profits (HK\$'million) | 6.8              | 6.7                                       | -1.1%           |

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## LETTER FROM THE BOARD

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### Gearings

As extracted from the interim report of the Company for the six months ended 30 September 2005, the gearing ratio of the Group, calculated with reference to the total bank borrowings of HK\$34.0 million and the Group's shareholder's equity of HK\$185.2 million was 18.4%.

As set out in Appendix III to this circular, assuming Completion had taken place on 30 September 2005, the gearing ratio of the Enlarged Group, calculated with reference to the total bank borrowings of HK\$40.9 million plus amount due to a director (being Ms. Chan) of HK\$44.0 million and the Group's shareholder's equity of HK\$199.9 million was 42.4%.

### SGM

The Acquisition, having taken into account the Shareholder's Loans, constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules, which requires the approval by the Independent Shareholders at the SGM.

Ms. Chan is the chairperson of the Company and an executive Director. She is also the beneficial owner of the entire issued share capital of Jet Star and the vendor under the Acquisition. As Ms. Chan is a connected person of the Company, under the Listing Rules, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and is conditional upon, inter alia, approval by the Independent Shareholders, voting by way of poll, at the SGM.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Ms. Chan and her associates were holding approximately 45.6% of the issued share capital of the Company. Ms. Chan and her associates will abstain from voting on the Acquisition Agreement at the SGM.

Set out on pages 140 to 141 of this circular is a notice of the SGM to be held at The Aberdeen Marina Club, 4th Floor, Bridge Room, 8 Shum Wan Road, Aberdeen, Hong Kong on Monday, 17 July 2006 at 3:00 p.m.. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of the Company, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

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## LETTER FROM THE BOARD

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### PROCEDURES FOR DEMANDING A POLL

Pursuant to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder 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 Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

### RECOMMENDATION

The Independent Board Committee, after taking into account of the advice from Quam, considers that the terms and conditions of the Acquisition are fair and reasonable, and that the Acquisition is interest of the Company and the Independent Shareholders as a whole and accordingly, recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition.

The text of the letter from the Independent Board Committee is set out on page 14 of this circular. The text of the letter from Quam containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 15 to 24 of this circular.

### FURTHER INFORMATION

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

Yours faithfully,  
for and on behalf of the Board  
**Lam Yu Ho, Daniel**  
*Managing Director*





**MASCOTTE HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

30 June 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
AND  
CONNECTED TRANSACTION**

We have been appointed as members of the Independent Board Committee to advise you in connection with the transactions contemplated under the Acquisition Agreement, details of which are set out in the letter from the Board in the Company's circular dated 30 June 2006 to the Shareholders (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Your attention is drawn to the "Letter from Quam", containing their advice to us and the Independent Shareholders regarding the fairness and reasonableness of the terms and conditions of the transactions contemplated under the Acquisition Agreement as set out on pages 15 to 24 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 13 of the Circular and the additional information set out in the Appendices to the Circular.

Having considered the advice and recommendation of Quam, we consider the terms of the Acquisition Agreement are fair and reasonable to the Independent Shareholders and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. We, therefore, recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the transactions contemplated under the Acquisition Agreement.

Yours faithfully,

**Wong Yui Leung, Larry**

**Lui Wai Shan, Wilson**

**Cheung Ngai Lam**

*Independent Board Committee*



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## LETTER FROM QUAM

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*The following is the text of a letter of advice from Quam, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition.*



Financial Services Group

**Quam Capital Limited** 華富嘉洛企業融資有限公司

A Member of The Quam Group

30 June 2006

The Independent Board Committee and the Independent Shareholders  
Mascotte Holdings Limited  
1st Floor  
Po Chai Industrial Building  
28 Wong Chuk Hang Road  
Aberdeen  
Hong Kong

Dear Sir/Madam,

### **VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Details of the Acquisition are set out in the “Letter from the Board” contained in the circular issued by the Company to the Shareholders dated 30 June 2006 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Messrs. Wong Yui Leung, Larry, Lui Wai Shan, Wilson and Cheung Ngai Lam, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and advise the Independent Shareholders as to whether to vote in favour of the Acquisition. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM QUAM

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Quam is independent of and not connected with any member of the Group or any of their substantial shareholders, directors or chief executive, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Acquisition.

In formulating our recommendation, we have relied on the information and facts supplied by the Company and its advisers, and the opinions expressed by and the representations of the directors and management of the Company. We have assumed that all the information and representations contained or referred to in the Circular are true and accurate in all respects at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they are made and continue to be true at the date thereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Directors have confirmed to us that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statements therein misleading.

We consider that we have taken all reasonable steps as required under Rule 13.80 of the Listing Rules to formulate our advice and we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial positions or future prospects of any member of the Group and Jet Star.

### THE ACQUISITION

The Purchaser and the Vendor entered into the Acquisition Agreement on 6 June 2006, pursuant to which the Purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire from the Vendor the entire issued share capital of Jet Star and the Shareholder's Loan. The Consideration payable by the Purchaser for the Acquisition is HK\$92 million.

The Vendor is the chairperson and an executive director of the Company. In addition, the Vendor and her associates own approximately 45.6% equity interests in the Company. Accordingly, the Vendor is a connected person of the Company. The Acquisition constitutes a "very substantial acquisition" and "connected transaction" for the Company under the Listing Rules.

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## LETTER FROM QUAM

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Businesses of the Group and Jet Star

##### *(a) Business of the Group*

The Group is principally engaged in the (i) manufacture and sale of accessories for photographic, electrical and multimedia products and (ii) property investment and development.

The Group recorded net profit of around HK\$18.9 million, HK\$6.6 million and HK\$8.2 million for the years ended 31 March 2004 (the “**Financial Year 2004**”) and 2005 (the “**Financial Year 2005**”) and for the six months ended 30 September 2005 (the “**First Half of Financial Year 2006**”) respectively. For each of the aforementioned periods, its property business accounted for about 45.2%, 17.5% and 5.2% of the Group’s total segment profit respectively.

Segment profit of the Group’s property business reduced by approximately HK\$7.6 million, or 73.2%, in the Financial Year 2005 compared to the Financial Year 2004. The decline in the segment profit in the Financial Year 2005 was mainly due to the Group’s disposal of an investment property in Sai Kung in March 2004. As a result, no rental income was generated from the property in the Financial Year 2005 and the gain on disposal of the property of around HK\$6.3 million was a non-recurrent item only. The property business generated rental income of around HK\$1.5 million in the First Half of Financial Year 2006 which was comparable to that of around HK\$1.6 million for the same period in the Financial Year 2005.

The Group has several investment properties in Hong Kong. Its investment properties portfolio in the PRC includes (i) a 90% interest in a factory complex in Huizhou, Guangdong Province and (ii) a 100% interest in units 1502 and 1503 at Tai Ping Yang Shang Mao Building, a commercial property in Shenzhen, Guangdong Province.

Given that property investment is one of the Group’s major business operations as discussed above, we are of the view that the Acquisition is conducted in its usual and ordinary business.

##### *(b) Business of Jet Star*

Jet Star is wholly-owned by the Vendor. Jet Star is principally engaged in the business of real estates, comprising investment holding and leasing of the PRC Property.

The PRC Property is a 20-storey commercial office building located in the Liwan District, Guangzhou, Guangdong Province. The construction of the PRC Property was completed in 1985. It has a total gross floor area of 10,521.32 sq. m. The book value of the PRC Property accounted for about 99.7% of audited total assets of Jet Star as at 31 March 2006.

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## LETTER FROM QUAM

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In the Financial Year 2005 and for the year ended 31 March 2006 (the “**Financial Year 2006**”), Jet Star recorded a turnover of around HK\$0.8 million and HK\$1.7 million respectively, representing the rental income generated from the PRC Property. Its net profit decreased from HK\$64.2 million in the Financial Year 2005 to HK\$15.6 million in the Financial Year 2006. This was primarily due to the significant decrease in the increase in fair value of the PRC Property by around HK\$54.6 million. The audited financial statements of Jet Star from the date of its incorporation, being 8 October 2003, to 31 March 2004 and for the two years ended 31 March 2006 are set out in Appendix II to the Circular.

The renovation work on the PRC Property, with a view to enhance the long term market value of the PRC Property and increasing its rental yield, commenced around August 2004 and was completed around October 2005. Following completion of the renovation, Jet Star has secured more tenancy agreements with comparatively higher rental rate. The average occupancy rate of the PRC Property increased from around 34.9% in the Financial Year 2005 to 41.3% in the Financial Year 2006. It should be noted that at present the PRC Property is more than 70% occupied.

Based on the audited cash flow statement of Jet Star, cash inflow from its operating activities was approximately HK\$1.2 million in the Financial Year 2006 despite the PRC Property had only an average occupancy rate of 41.3% during the period.

### 2. Reasons for the Acquisition

It was stated in the Company’s interim report in the First Half of Financial Year 2006 that the management considered that the economic growth of the PRC was promising and would continue to take opportunities to focus upon and expand its strategic business developments in refining the PRC property portfolio. Therefore, we concur with the Directors’ view that the Acquisition is in line with the Group’s business strategy and enables the Group to further diversify into the property market in the PRC.

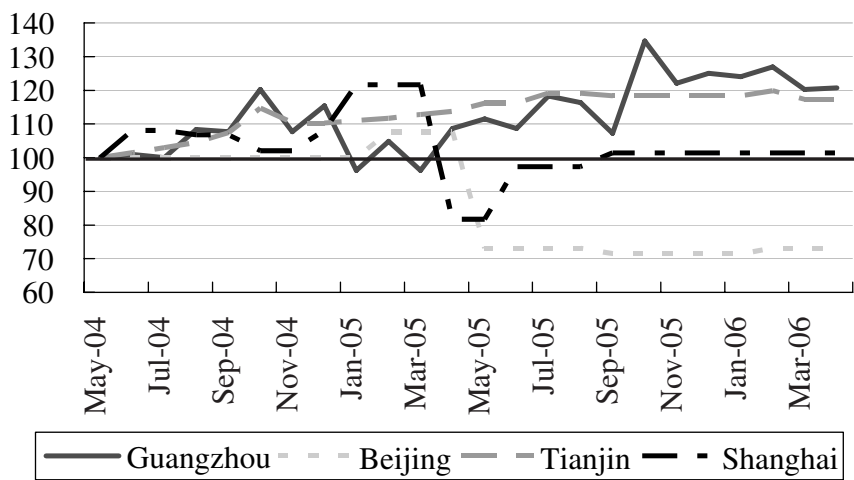
It is noted that the Group intends to hold the PRC Property for long term investment purposes. Jet Star recorded a turnover of approximately HK\$1.7 million in the Financial Year 2006. It is noted that the PRC Property was subject to various tenancy agreements with lease terms ranged from one year to around three years as at 31 March 2006, details of which are disclosed in the valuation report of the PRC Property set out in Appendix VI to the Circular. The monthly rental income (exclusive of management fee) was RMB235,095 (equivalent to approximately HK\$227,172) as at 31 March 2006, or an annualised rental income of around RMB2.8 million (equivalent to approximately HK\$2.7 million). Hence it is expected that the Acquisition would provide the Enlarged Group with a recurrent source of income in future. Furthermore, net profit of the Group was approximately HK\$6.6 million in the Financial Year 2005 according to the latest audited financial statements of the Group whereas net profit of Jet Star was approximately HK\$15.6 million in the Financial Year 2006. Therefore, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole in this regard.

3. Overview of the Guangzhou property market

According to the 2004 Annual Statistical Report released by the National Bureau of Statistics of China, Guangzhou’s gross domestic product (“GDP”) per capita was among the highest across the cities in the PRC in 2004, surpassing Beijing and Shanghai. Guangzhou recorded a GDP growth rate of 13.0% in 2005, which surpassed the nationwide GDP growth rate of 9.9% according to the Guangzhou Statistical Information Net.

From the statistics of Guangzhou Statistical Information Net, investment in office buildings amounted to approximately RMB808.0 million (equivalent to approximately HK\$780.8 million) in the first quarter of 2006, up 99.5% compared to the same period last year. Amid the government’s austerity measures to cool down the property market, Guangzhou’s real estate corporation sentiment index (房地產業企業景氣指數) grew 7.9 points to 145.2 points in the first quarter of this year compared to the last quarter of 2005, indicating that Guangzhou’s property market was not adversely affected by the policies. Moreover, the relative price performance of office properties in Guangzhou has outperformed Beijing, Shanghai and Tianjin in the past few months as illustrated in the chart below.

Relative price performance of office properties in the PRC



Source: China Real Estate Information Net

According to China’s World Trade Organisation obligations, the PRC government gradually lifts its limitations towards foreign institutions in the retail industry, RMB business and logistics sector between 2005 and 2006. As such, foreign companies are expected to set up businesses in China, which in turn is likely to generate a substantial demand for office space in the near future. Furthermore, the implementation of the Pan-Pearl River Delta Regional Co-operation Scheme is believed to facilitate economic co-operation and generate higher revenues among nine provinces (Guangdong, Guangxi, Fujian, Jiangxi, Hunan, Guizhou, Yunnan, Hainan and Sichuan) in mainland, Hong Kong and Macau in the near future. Being the second largest economy, in terms of GDP, of the cities in the scheme after Hong Kong, Guangzhou is expected to provide an important platform for the raising of economic

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## LETTER FROM QUAM

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co-operation between the different cities. As a result, more companies from both domestic cities and overseas will be attracted to establish their offices in Guangzhou. This will drive up the demand for office space in the city. Based on the aforesaid, the growing prominence of Guangzhou as a major business centre in southern China will fuel the demand of office space in the city. In this regard, we consider that the Acquisition to be in the interests of both the Company and the Shareholders as a whole.

#### 4. Terms of the Acquisition

##### *(a) Consideration for the Acquisition*

It is stated that the Consideration of HK\$92 million has been determined between the Vendor and the Purchaser on an arm's length basis and represents a discount of 13.8%, or around HK\$14.7 million, to the unaudited net asset value of Jet Star of around HK\$81.4 million and the Shareholder's Loan due to the Vendor of approximately HK\$25.3 million as at 31 March 2006 (the "**Book Value**").

It is noted that the Book Value per the unaudited management accounts of Jet Star was the same as the audited figures set out in Appendix II to the Circular. It is further noted that save for the PRC Property, other items in the balance sheet were based on their respective carrying values.

Based on the accounting policy of Jet Star, investment properties are measured using the fair value model subsequent to initial recognition. The appraised value of the PRC Property as at 31 March 2006 by Vigers Appraisal & Consulting Limited, an independent valuer, was HK\$125 million assuming that the PRC Property has obtained the real estate ownership certificate (the "**Certificate**") under the name of Jet Star and freely transferable in the market. In its appraisal, Vigers Appraisal & Consulting Limited has adopted a direct comparison approach by making reference to comparable sales evidence as available in the open market and on the basis of vacant possession, which is the most commonly used assessment method for properties of similar nature. As such, we consider the basis adopted for the valuation to be appropriate. The valuation report of the PRC Property is set out in Appendix VI to the Circular.

According to a PRC legal opinion obtained by the Group, Jet Star enjoys the rights of possession and use of the PRC Property and income derived from the PRC Property. The PRC lawyer also opined that there is no foreseeable obstacle for Jet Star to obtain the Certificate under its name, if Jet Star has settled all outstanding taxes and payments of RMB8.5 million (equivalent to approximately HK\$8.2 million) in aggregate and applied for the Certificate in accordance with the relevant application procedures. In addition, we understand that the amount of RMB8.5 million is based on the invoices issued by various governmental authorities. Therefore, there are no reasonable grounds to doubt that there will be obstacles for Jet Star to obtain the Certificate. After obtaining the Certificate, the PRC Property will be freely transferable in the market.

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## LETTER FROM QUAM

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It is stated in the “Letter from the Board” contained in the Circular that the Purchaser will take steps to procure Jet Star to obtain the Certificate. We have confirmed with the Company that an accrual of around HK\$8.2 million for obtaining the Certificate has already been made in Jet Star’s audited financial statements as at 31 March 2006. As disclosed in the “Letter from the Board” in the Circular, the outstanding payments of approximately HK\$8.2 million is expected to be financed by income to be generated from the PRC Property and/other funds available to Jet Star. We understand that the other funds available to Jet Star including the intra-group borrowings which in turn will be financed by the Enlarged Group’s internal resources and/or bank borrowings.

Based on the PRC Property’s total monthly rental income (exclusive of management fee) of RMB235,095 (equivalent to approximately HK\$227,172) as at 31 March 2006 and the Consideration of HK\$92 million, the rental yield of the PRC Property is about 3.0% per annum. The occupancy rate of the PRC Property was about 62.5% as at 31 March 2006. It is noted that the occupancy rate increased to more than 70% as at the Latest Practicable Date. For illustrative purposes, the annual rental yield of the PRC Property will be around 4.9% assuming that the PRC Property is fully occupied and the average rental per sq. m. remains the same. The change in the rental yield will depend on the change in the average rental per sq. m. in future which in turn depends on the demand and supply of office space in Guangzhou. We consider that the current rental yield to be acceptable based on current circumstances.

Based on the aforesaid, in particular, we are of the view that the determination of the Consideration on the basis of the Book Value is appropriate. Given that the Consideration represents a discount to the Book Value, we consider that the Consideration is on normal commercial term and fair and reasonable.

***(b) Payment terms of the Consideration***

Of the Consideration of HK\$92 million, HK\$48 million shall be payable by the Purchaser upon Completion. The balance of the Consideration of HK\$44 million for the Acquisition (the “**Deferred Payment**”), represents approximately 47.8% of the Consideration, will be payable in accordance with the following schedule:

| <b>Amount of Payment</b> | <b>Date of Payment</b> |
|--------------------------|------------------------|
| HK\$5,500,000            | 30 September 2006      |
| HK\$5,500,000            | 31 March 2007          |
| HK\$5,500,000            | 30 September 2007      |
| HK\$5,500,000            | 31 March 2008          |
| HK\$5,500,000            | 30 September 2008      |
| HK\$5,500,000            | 31 March 2009          |
| HK\$5,500,000            | 30 September 2009      |
| HK\$5,500,000            | 31 March 2010          |



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## LETTER FROM QUAM

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Interest at one-month HIBOR plus 1.5% will be charged on the amount of the Deferred Payment outstanding from time to time. It is noted that no security or guarantee is required to be given by the Group in respect of the Deferred Payment. Furthermore, the interest rate charged related thereto will be at a rate comparable to the Group's existing bank loans.

The Purchaser is entitled to prepay all or any part of the Deferred Payment, with an annual discount rate of 2.5%. It should be noted that under the Acquisition Agreement, if the Purchaser's cashflow (after working capital requirements for the Purchaser's operations from time to time) is insufficient to pay and fulfil its Deferred Payment obligations (together with accrued interests thereon) on any scheduled payment dates, the Purchaser may defer such payments to such dates to be determined until the Purchaser's financial and liquidity position permits.

As discussed above, under the Acquisition Agreement, the Purchaser enjoys a prepayment discount on the Deferred Payment if it wishes to do so. In addition, there is effectively no fixed payment term of the Deferred Payment payable by the Purchaser. The arrangement allows the Group significant flexibility to defer the payment of the outstanding Consideration until it has sufficient financial resources. As such, the payment arrangement is financially sound for the Group as it will not cause any material adverse effects on its liquidity position. We, therefore, consider the payment terms of the Consideration to be fair and reasonable and in the interests of both the Company and the Shareholders as a whole.

### **5. Financial impacts of the Acquisition on the Group**

Of the Consideration, HK\$48 million shall be payable by the Purchaser upon Completion which will be satisfied by the Group's available cash on hand. Bank borrowings will be drawn from the existing facilities of the Group only if necessary. The balance of HK\$44 million shall be payable by the Purchaser in eight equal instalments in accordance with the schedule set out in section 4(b) above.

#### ***(a) Net asset value***

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Acquisition set out in Appendix III to the Circular, the Enlarged Group's net asset value would have been increased by approximately HK\$14.7 million representing the discount of the Consideration to the Book Value.

#### ***(b) Working capital position***

The portion of the Consideration payable by the Group upon Completion will be financed by its internal resources. Bank borrowings will be drawn from the existing facilities of the Group only if necessary. Based on the pro forma consolidated balance sheet of the Enlarged Group after the Acquisition, the Enlarged Group would have net



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## LETTER FROM QUAM

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current assets of approximately HK\$16.8 million which had taken into account of the two instalments of the Deferred Payment amounted to HK\$11 million payable within one year after Completion. Therefore, the Enlarged Group would be able to meet its current liabilities with its current assets. It is also noted that the Directors are of the opinion that, taking into account the internal resources and the available banking facilities, the Enlarged Group will have sufficient working capital for its normal business for next 12 months from the date of the Circular.

Based on the pro forma combined cash flow statement of the Enlarged Group, the annual net cash inflow from operating activities of the Enlarged Group would have been approximately HK\$11.1 million if Completion had taken place. Therefore, the Enlarged Group may or may not be able to finance the two instalments of the Deferred Payment of HK\$11 million per annum in future, depending on its future financial performance. However, the option of bank borrowings will be available after the receipt of the Certificate. Furthermore, based on our discussion in section 4(b) above, the timing of payment of the Deferred Payment to the Vendor is solely at the Purchaser's discretion. The arrangement allows the Group significant flexibility to defer such payment until it has sufficient financial resources.

In view of the above, the Acquisition will not have any material adverse effect on the working capital position of the Enlarged Group.

### **(c) *Gearing ratio***

Save for the Shareholder's Loan of about HK\$25.3 million, Jet Star did not have any borrowings as at 31 March 2006. The Shareholder's Loan will be repaid by part of the Consideration. As a result, Jet Star will not have any borrowings following Completion.

Based on the interim report of the Company, the gearing ratio (defined as the ratio of total debt to total equity) of the Group was about 18.4% as at 30 September 2005. Based on the unaudited pro forma combined balance sheet of the Enlarged Group set out in Appendix III to the Circular, the gearing ratio, calculated with reference to total bank borrowings and overdrafts of HK\$40.9 million plus an amount due to the Director of HK\$44 million, being the Deferred Payment, and the Shareholders' equity of approximately HK\$200 million, would have been 42.5% assuming Completion had taken place. The increase in gearing ratio is mainly due to the Deferred Payment of HK\$44 million. It should be noted that there is effectively no fixed payment term for the Deferred Payment. Hence, the increase in the gearing ratio of the Enlarged Group upon Completion will not have any material adverse impact on its financial position.

### **(d) *Interest expenses***

Interest will be charged at one-month HIBOR plus 1.5% on the amount of the Deferred Payment outstanding from time to time. The average one-month HIBOR this year was about 4.2% per annum. The annual interest expenses on the maximum balance of the Deferred Payment of HK\$44 million will be around HK\$2.5 million assuming interest will be charged at 5.7% per annum.

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## LETTER FROM QUAM

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It should be noted that the Purchaser is allowed to defer interest payments in respect of the Deferred Payment until the liquidity position of the Purchaser permits such payments. As such, payment of interest expenses in relation to the Consideration will not have any adverse impact on the working capital position of the Group.

### RECOMMENDATION

Having considered the principal factors and reasons discussed above, in particular the followings (which should be read in conjunction with and interpreted in the full context of this letter):

- the Acquisition will allow the Group to further diversify into the property market in the PRC;
- the Consideration represents a discount of approximately HK\$14.7 million, or 13.8%, to the Book Value;
- the Purchaser's right to defer the payment of the Deferred Payment of HK\$44 million and the respective interest payment to the Vendor for an unlimited period until the liquidity position of the Purchaser permits such payment;
- the net asset value of the Enlarged Group would increase by approximately HK\$14.7 million following Completion; and
- with flexibility allowed under the Acquisition Agreement, the payment of Consideration and interest expenses thereon will not have any material adverse effect on the financial position of the Enlarged Group,

we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the Group, based on normal commercial terms, fair and reasonable and in the interests of both the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition.

Yours faithfully,  
For and on behalf of  
**Quam Capital Limited**  
**Karen C Wong**  
*Director*

## 1. THREE YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited financial information on the Group for the three years ended 31st March, 2005 and the unaudited financial information on the Group for the six months ended 30th September, 2005 and six months ended 30th September, 2004 extracted from the relevant annual reports and interim reports of the Company:

|   | For the year ended 31st March, |                  |                  | For the six months ended |                  |
|---|--------------------------------|------------------|------------------|--------------------------|------------------|
|   | 2005                           | 2004             | 2003             | 2005                     | 2004             |
|   | HK\$'000                       | HK\$'000         | HK\$'000         | HK\$'000                 | HK\$'000         |
|   |                                |                  |                  | (Unaudited)              | (Unaudited)      |
| <b>Results</b>  |                                |                  |                  |                          |                  |
| Turnover  | 182,661                        | 159,832          | 186,707          | 101,337                  | 88,700           |
| Cost of sales   | (130,555)                      | (110,239)        | (124,188)        | (71,574)                 | (61,068)         |
| Gross profit  | 52,106                         | 49,593           | 62,519           | 29,763                   | 27,632           |
| Other operating income                                  | 413                            | 8,936            | 2,959            | 152                      | 821              |
| Selling and distribution costs                          | (9,297)                        | (7,069)          | (9,181)          | (5,400)                  | (4,982)          |
| Administrative expenses                                 | (32,257)                       | (32,016)         | (34,442)         | (13,591)                 | (14,064)         |
| Surplus arising on revaluation of investment properties | 2,474                          | 2,036            | 344              | –                        | –                |
| Profit from operations                                  | 13,439                         | 21,480           | 22,199           | 10,924                   | 9,407            |
| Finance costs   | (1,160)                        | (1,108)          | (704)            | (889)                    | (612)            |
| Profit before taxation                                  | 12,279                         | 20,372           | 21,495           | 10,035                   | 8,795            |
| Incomes taxes   | (5,519)                        | (1,121)          | (10,511)         | (1,755)                  | (693)            |
| Profit before minority interests                        | 6,760                          | 19,251           | 10,984           | 8,280                    | 8,102            |
| Minority interests                                      | (200)                          | (347)            | (119)            | (62)                     | (145)            |
| Profit for the year/period                              | <u>6,560</u>                   | <u>18,904</u>    | <u>10,865</u>    | <u>8,218</u>             | <u>7,957</u>     |
| Earnings per share                                      |                                |                  |                  |                          |                  |
| Basic   | <u>1.5 cents</u>               | <u>4.5 cents</u> | <u>2.6 cents</u> | <u>1.9 cents</u>         | <u>1.9 cents</u> |

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

|   | For the year ended 31st March, |          |          | As at 30th September, |             |
|---|--------------------------------|----------|----------|-----------------------|-------------|
|   | 2005                           | 2004     | 2003     | 2005                  | 2004        |
|   | HK\$'000                       | HK\$'000 | HK\$'000 | HK\$'000              | HK\$'000    |
|   |                                |          |          | (Unaudited)           | (Unaudited) |
| <b>Assets and liabilities</b>           |                                |          |          |                       |             |
| Non-current assets                      | 109,025                        | 110,151  | 122,559  | 111,665               | 109,024     |
| Current assets                          | 127,844                        | 139,717  | 112,884  | 143,490               | 127,844     |
| Total assets                            | 236,869                        | 249,868  | 235,443  | 255,155               | 236,868     |
| Current liabilities                     | 45,726                         | 59,753   | 63,055   | 57,743                | 45,726      |
| Non-current liabilities                 | 7,043                          | 8,567    | 10,091   | 9,273                 | 7,043       |
| Total liabilities                       | 52,769                         | 68,320   | 73,146   | 67,016                | 52,769      |
| Minority interests                      | 2,854                          | 2,653    | 2,306    | 2,915                 | 2,853       |
| Net assets attributable to Shareholders | 181,246                        | 178,895  | 159,991  | 185,224               | 181,246     |

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST MARCH, 2005

The following is a reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained on pages 16 to 50 of the annual report of the Company for the year ended 31st March, 2005.

### Consolidated Income Statement

|  |       | For the year ended<br>31st March, |                          |
|--|-------|-----------------------------------|--------------------------|
|  |       | 2005                              | 2004                     |
|  | Notes | HK\$                              | HK\$                     |
| Turnover   | 4     | 182,660,980                       | 159,831,573              |
| Cost of sales  |       | <u>(130,554,844)</u>              | <u>(110,238,200)</u>     |
| Gross profit   |       | 52,106,136                        | 49,593,373               |
| Other operating income                                     | 5     | 413,045                           | 8,936,572                |
| Selling and distribution costs                             |       | (9,297,546)                       | (7,069,568)              |
| Administrative expenses                                    |       | (32,256,902)                      | (32,015,670)             |
| Surplus arising on revaluation<br>of investment properties |       | <u>2,474,114</u>                  | <u>2,036,000</u>         |
| Profit from operations                                     | 4 & 6 | 13,438,847                        | 21,480,707               |
| Finance costs  | 7     | <u>(1,160,302)</u>                | <u>(1,108,277)</u>       |
| Profit before taxation                                     |       | 12,278,545                        | 20,372,430               |
| Income taxes   | 9     | <u>(5,518,798)</u>                | <u>(1,121,197)</u>       |
| Profit before minority interests                           |       | 6,759,747                         | 19,251,233               |
| Minority interests   |       | <u>(199,824)</u>                  | <u>(347,145)</u>         |
| Net profit for the year                                    |       | <u><u>6,559,923</u></u>           | <u><u>18,904,088</u></u> |
| Dividend paid  | 10    | <u><u>4,240,001</u></u>           | <u><u>—</u></u>          |
| Earnings per share   | 11    |                                   |                          |
| Basic  |       | <u><u>1.5 cents</u></u>           | <u><u>4.5 cents</u></u>  |

## Consolidated Balance Sheet

|  |       | At 31st March,     |                    |
|--|-------|--------------------|--------------------|
|  |       | 2005               | 2004               |
|  | Notes | HK\$               | HK\$               |
| <b>Non-current assets</b>                    |       |                    |                    |
| Investment properties                        | 12    | 29,880,000         | 27,130,000         |
| Property, plant and equipment                | 13    | 53,802,312         | 56,895,277         |
| Goodwill                                     | 14    | 7,042,015          | 8,125,402          |
| Deposits paid                                | 15    | 18,300,000         | 18,000,000         |
|  |       | <u>109,024,327</u> | <u>110,150,679</u> |
| <b>Current assets</b>                        |       |                    |                    |
| Inventories                                  | 17    | 8,229,626          | 7,257,258          |
| Trade debtors                                | 18    | 23,700,929         | 20,676,470         |
| Loans receivable                             | 19    | 46,710,000         | 46,710,000         |
| Other debtors and prepayments                |       | 14,488,322         | 52,245,166         |
| Tax recoverable                              |       | 149,048            | 681,087            |
| Bank balances and cash                       |       | 34,566,264         | 12,147,529         |
|  |       | <u>127,844,189</u> | <u>139,717,510</u> |
| <b>Current liabilities</b>                   |       |                    |                    |
| Trade creditors                              | 20    | 9,125,652          | 9,036,401          |
| Other creditors and accrued charges          |       | 8,725,105          | 9,750,735          |
| Dividend payable                             |       | 404,760            | —                  |
| Tax payable                                  |       | 4,562,477          | 3,411,825          |
| Bank borrowings                              | 21    | 22,908,424         | 37,553,577         |
|  |       | <u>45,726,418</u>  | <u>59,752,538</u>  |
| <b>Net current assets</b>                    |       | <u>82,117,771</u>  | <u>79,964,972</u>  |
| <b>Total assets less current liabilities</b> |       | 191,142,098        | 190,115,651        |
| <b>Non-current liabilities</b>               |       |                    |                    |
| Bank borrowings                              | 21    | <u>(7,043,000)</u> | <u>(8,567,000)</u> |
|  |       | <u>184,099,098</u> | <u>181,548,651</u> |
| <b>Capital and reserves</b>                  |       |                    |                    |
| Share capital                                | 22    | 42,400,010         | 42,400,010         |
| Reserves                                     |       | 138,845,843        | 136,495,220        |
|  |       | 181,245,853        | 178,895,230        |
| <b>Minority interests</b>                    |       | <u>2,853,245</u>   | <u>2,653,421</u>   |
|  |       | <u>184,099,098</u> | <u>181,548,651</u> |

## Balance Sheet

|   |       | At 31st March,     |                     |
|---|-------|--------------------|---------------------|
|   |       | 2005               | 2004                |
|   | Notes | HK\$               | HK\$                |
| <b>Non-current assets</b>               |       |                    |                     |
| Interests in subsidiaries               | 16    | <u>44,260,976</u>  | <u>154,446,846</u>  |
| <b>Current assets</b>                   |       |                    |                     |
| Amount due from a subsidiary            |       | 110,185,870        | –                   |
| Other debtors and prepayments           |       | 65,260             | 50,260              |
| Bank balances and cash                  |       | <u>465,642</u>     | <u>61,710</u>       |
|   |       | <u>110,716,772</u> | <u>111,970</u>      |
| <b>Current liabilities</b>              |       |                    |                     |
| Other creditors and accrued charges     |       | 147,378            | 201,522             |
| Dividend payable                        |       | 404,760            | –                   |
| Amount due to a subsidiary              |       | <u>15,874,353</u>  | <u>10,576,049</u>   |
|   |       | <u>16,426,491</u>  | <u>10,777,571</u>   |
| <b>Net current assets (liabilities)</b> |       | <u>94,290,281</u>  | <u>(10,665,601)</u> |
|   |       | <u>138,551,257</u> | <u>143,781,245</u>  |
| <b>Capital and reserves</b>             |       |                    |                     |
| Share capital                           | 22    | 42,400,010         | 42,400,010          |
| Reserves                                | 24    | <u>96,151,247</u>  | <u>101,381,235</u>  |
|   |       | <u>138,551,257</u> | <u>143,781,245</u>  |

## Consolidated Statement of Changes in Equity

|   | Share<br>capital<br><i>HK\$</i> | Share<br>premium<br><i>HK\$</i> | Special<br>reserve<br><i>HK\$</i> | Goodwill<br>reserve<br><i>HK\$</i> | Negative<br>goodwill<br>reserve<br><i>HK\$</i> | Translation<br>reserve<br><i>HK\$</i> | Reserve<br>fund<br><i>HK\$</i> | Enterprise<br>expansion<br>reserve<br><i>HK\$</i> | Retained<br>profits<br><i>HK\$</i> | Total<br><i>HK\$</i> |
|---|---------------------------------|---------------------------------|-----------------------------------|------------------------------------|--|---------------------------------------|--------------------------------|---|------------------------------------|----------------------|
| At 1st April, 2003                        | 42,400,010                      | 66,672,487                      | 14,900,773                        | (10,638,038)                       | 2,079,850                                      | (1,150,305)                           | 1,083,258                      | 1,083,258   | 43,559,849                         | 159,991,142          |
| Net profit for the year                   | —                               | —                               | —                                 | —                                  | —  | —                                     | —                              | —   | 18,904,088                         | 18,904,088           |
| At 31st March, 2004                       | 42,400,010                      | 66,672,487                      | 14,900,773                        | (10,638,038)                       | 2,079,850                                      | (1,150,305)                           | 1,083,258                      | 1,083,258   | 62,463,937                         | 178,895,230          |
| Net profit for the year                   | —                               | —                               | —                                 | —                                  | —  | —                                     | —                              | —   | 6,559,923                          | 6,559,923            |
| Dividend paid                             | —                               | —                               | —                                 | —                                  | —  | —                                     | —                              | —   | (4,240,001)                        | (4,240,001)          |
| Realised on winding up<br>of subsidiaries | —                               | —                               | —                                 | —                                  | —  | 30,701                                | —                              | —   | —                                  | 30,701               |
| At 31st March, 2005                       | <u>42,400,010</u>               | <u>66,672,487</u>               | <u>14,900,773</u>                 | <u>(10,638,038)</u>                | <u>2,079,850</u>                               | <u>(1,119,604)</u>                    | <u>1,083,258</u>               | <u>1,083,258</u>                                  | <u>64,783,859</u>                  | <u>181,245,853</u>   |

The special reserve represents the difference between the nominal amount of the share capital issued by the Company in exchange for the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation on 5th September, 1997.

Reserve fund and enterprise expansion reserve are reserves required by the relevant laws in the People's Republic of China ("PRC") applicable to a Group's subsidiary in the PRC.



## Consolidated Cash Flow Statement

|   | For the year ended |                  |
|---|--------------------|------------------|
|   | 31st March,        |                  |
|   | 2005               | 2004             |
|   | HK\$               | HK\$             |
| <b>OPERATING ACTIVITIES</b>   |                    |                  |
| Profit from operations  | 13,438,847         | 21,480,707       |
| Adjustments for:  |                    |                  |
| Allowance for doubtful debts  | 1,603,127          | 1,500,000        |
| Allowance for inventories   | 732,710            | 358,879          |
| Amortisation of goodwill  | 1,083,387          | 1,083,387        |
| Depreciation and amortisation of property,<br>plant and equipment and investment properties | 3,935,509          | 4,519,409        |
| Loss on winding up of subsidiaries  | 30,701             | –                |
| Gain on disposal of property, plant and equipment<br>and investment properties              | (55,234)           | (6,337,072)      |
| Write back of allowance for loans receivable  | –                  | (750,000)        |
| Interest income   | (41,328)           | (2,409,426)      |
| Surplus on revaluation of investment properties   | (2,474,114)        | (2,036,000)      |
| Operating cash flows before movements<br>in working capital                                 | 18,253,605         | 17,409,884       |
| (Increase) decrease in inventories  | (1,705,078)        | 541,790          |
| (Increase) decrease in trade debtors  | (3,024,459)        | 9,405,203        |
| Decrease (increase) in other debtors and prepayments  | 1,153,717          | (4,950,432)      |
| Increase (decrease) in trade creditors  | 89,251             | (1,299,955)      |
| (Decrease) increase in other creditors<br>and accrued charges                               | (1,025,630)        | 349,721          |
| Cash generated from operations  | 13,741,406         | 21,456,211       |
| Hong Kong Profits Tax paid  | (4,319,544)        | (18,813,103)     |
| Hong Kong Profits Tax refunded  | 516,147            | –                |
| Taxation outside Hong Kong paid   | (32,710)           | (28,037)         |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>   | <b>9,905,299</b>   | <b>2,615,071</b> |

|  | For the year ended<br>31st March, |                          |
|--|-----------------------------------|--------------------------|
|  | 2005                              | 2004                     |
|  | HK\$                              | HK\$                     |
| <b>INVESTING ACTIVITIES</b>                                      |                                   |                          |
| Purchase of property, plant and equipment                        | (1,295,066)                       | (1,930,167)              |
| Deposit paid for acquisition of properties                       | (300,000)                         | (18,000,000)             |
| Proceeds from disposal of investment properties                  | 35,000,000                        | –                        |
| Proceeds from disposal of property,<br>plant and equipment       | 231,870                           | 108,443                  |
| Interest received  | 41,328                            | 109,426                  |
| Advance of loans receivable                                      | –                                 | (13,750,000)             |
| Repayment of loans receivable                                    | –                                 | 1,300,000                |
|  | <u>33,678,132</u>                 | <u>(32,162,298)</u>      |
| <b>NET CASH FROM (USED IN)<br/>INVESTING ACTIVITIES</b>          |                                   |                          |
|  | <u>33,678,132</u>                 | <u>(32,162,298)</u>      |
| <b>FINANCING ACTIVITIES</b>                                      |                                   |                          |
| New bank loan raised   | 16,803,738                        | 16,703,992               |
| Repayment of bank loans  | (33,915,665)                      | (3,161,102)              |
| Dividend paid  | (3,835,241)                       | –                        |
| Interest paid  | (1,160,302)                       | (1,108,277)              |
|  | <u>(22,107,470)</u>               | <u>12,434,613</u>        |
| <b>NET CASH (USED IN) FROM<br/>FINANCING ACTIVITIES</b>          |                                   |                          |
|  | <u>(22,107,470)</u>               | <u>12,434,613</u>        |
| <b>INCREASE (DECREASE) IN CASH<br/>AND CASH EQUIVALENTS</b>      | 21,475,961                        | (17,112,614)             |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF THE YEAR</b>    | <u>12,129,523</u>                 | <u>29,242,137</u>        |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF THE YEAR</b>          | <u><u>33,605,484</u></u>          | <u><u>12,129,523</u></u> |
| <b>ANALYSIS OF THE BALANCES OF CASH<br/>AND CASH EQUIVALENTS</b> |                                   |                          |
| Bank balances and cash   | 34,566,264                        | 12,147,529               |
| Bank overdrafts  | <u>(960,780)</u>                  | <u>(18,006)</u>          |
|  | <u><u>33,605,484</u></u>          | <u><u>12,129,523</u></u> |

**Notes to the Financial Statements**

*For the year ended 31st March, 2005*

**1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of accessories for photographic, electrical and multimedia products, property investment and development.

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 “Business Combination”. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously debited to reserves is included in the determination of the profit or loss on disposal.

**Negative goodwill**

Negative goodwill represents the excess of the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

**Subsidiaries**

Investments in subsidiaries are included in the Company’s balance sheet at cost, less any identified impairment loss.

**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm’s length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged as expenses. Where a deficit has previously been charged as expenses and a revaluation surplus subsequently arises, this surplus is credited as income to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease or the term of the joint venture to which the investment properties are held is twenty years or less.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation, amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight-line method, at the following rates per annum:

|                                   |  |
|-----------------------------------|--|
| Leasehold land                    | Over the remaining terms of the leases   |
| Buildings                         | Over the estimated useful lives of 50 years or the terms of the leases or the term of the relevant joint venture by which the buildings are held, whichever is the shorter |
| Leasehold improvements            | 15% or the terms of the leases, if shorter   |
| Furniture, fixtures and equipment | 15%  |
| Plant and machinery               | 20%  |
| Motor vehicles                    | 20%  |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the net profit or loss for the year.

**Impairment**

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 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Operating leases**

Rentals payable under operating leases are charged as expenses on a straight-line basis over the respective lease terms.

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the net profit or loss for the year.

On consolidation, the assets and liabilities of subsidiaries which are denominated in currencies other than Hong Kong dollars and which operate in the PRC and overseas are translated into Hong Kong dollars at the rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

**Taxation**

Income taxes represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Retirement benefits cost**

The amount of contributions payable to the retirement benefits schemes is charged as an expense.

## 4. SEGMENTS INFORMATION

**Business segments**

For management purposes, the Group is currently organised into two operating divisions – manufacture and sales of goods and property investment and development (i.e. rental of properties). These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

**2005**

|                                    | <b>Manufacture<br/>and sales of<br/>goods<br/>HK\$</b> | <b>Property<br/>investment and<br/>development<br/>HK\$</b> | <b>Consolidated<br/>HK\$</b> |
|------------------------------------|--|---|------------------------------|
| <b>TURNOVER</b>                    |  |   |                              |
| To external customers              | 179,503,673  | 3,157,307   | 182,660,980                  |
| <b>RESULT</b>                      |  |   |                              |
| Segment profit                     | 13,148,540   | 2,796,480   | 15,945,020                   |
| Unallocated other operating income |  |   | 41,328                       |
| Unallocated corporate expenses     |  |   | (2,547,501)                  |
| Profit from operations             |  |   | 13,438,847                   |
| Finance costs                      |  |   | (1,160,302)                  |
| Profit before taxation             |  |   | 12,278,545                   |
| Income taxes                       |  |   | (5,518,798)                  |
| Profit before minority interests   |  |   | 6,759,747                    |
| Minority interests                 |  |   | (199,824)                    |
| Net profit for the year            |  |   | 6,559,923                    |

**BALANCE SHEET**

|                                   | <b>Manufacture<br/>and sales of<br/>goods<br/>HK\$</b> | <b>Property<br/>investment and<br/>development<br/>HK\$</b> | <b>Consolidated<br/>HK\$</b> |
|-----------------------------------|--|---|------------------------------|
| <b>ASSETS</b>                     |  |   |                              |
| Segment assets                    | 66,729,657   | 106,392,356   | 173,122,013                  |
| Unallocated corporate assets      |  |   | 63,746,503                   |
| Consolidated total assets         |  |   | 236,868,516                  |
| <b>LIABILITIES</b>                |  |   |                              |
| Segment liabilities               | 16,490,564   | 472,837   | 16,963,401                   |
| Unallocated corporate liabilities |  |   | 35,806,017                   |
| Consolidated total liabilities    |  |   | 52,769,418                   |

## OTHER INFORMATION

|  | Manufacture<br>and sales of<br>goods<br><i>HK\$</i> | Property<br>investment<br>and<br>development<br><i>HK\$</i> | Unallocated<br><i>HK\$</i> | Consolidated<br><i>HK\$</i> |
|--|---|---|----------------------------|-----------------------------|
| Allowance for doubtful debts, net  | –   | 1,430,000   | 173,127                    | 1,603,127                   |
| Allowance for inventories  | 732,710   | –   | –                          | 732,710                     |
| Amortisation of goodwill   | 1,083,387   | –   | –                          | 1,083,387                   |
| Capital expenditure  | 1,034,456   | 260,610   | –                          | 1,295,066                   |
| Depreciation and amortisation of property,<br>plant and equipment and investment<br>properties | 2,105,556   | 1,088,630   | 741,323                    | 3,935,509                   |
| Gain on disposal of property,<br>plant and equipment   | 55,234  | –   | –                          | 55,234                      |
| Surplus arising on revaluation<br>of investment properties                                     | –   | 2,474,114   | –                          | 2,474,114                   |
| Loss on winding up of subsidiaries   | –   | –   | 30,701                     | 30,701                      |
|  | <u>          </u>                                   | <u>          </u>   | <u>          </u>          | <u>          </u>           |

## 2004

|                                    | Manufacture<br>and sales of<br>goods<br><i>HK\$</i> | Property<br>investment and<br>development<br><i>HK\$</i> | Consolidated<br><i>HK\$</i> |
|------------------------------------|---|--|-----------------------------|
| <b>TURNOVER</b>                    |   |  |                             |
| To external customers              | <u>155,378,729</u>                                  | <u>4,452,844</u>   | <u>159,831,573</u>          |
| <b>RESULT</b>                      |   |  |                             |
| Segment profit                     | <u>12,650,349</u>                                   | <u>10,432,051</u>  | 23,082,400                  |
| Unallocated other operating income |   |  | 200,685                     |
| Unallocated corporate expenses     |   |  | <u>(1,802,378)</u>          |
| Profit from operations             |   |  | 21,480,707                  |
| Finance costs                      |   |  | <u>(1,108,277)</u>          |
| Profit before taxation             |   |  | 20,372,430                  |
| Income taxes                       |   |  | <u>(1,121,197)</u>          |
| Profit before minority interests   |   |  | 19,251,233                  |
| Minority interests                 |   |  | <u>(347,145)</u>            |
| Net profit for the year            |   |  | <u>18,904,088</u>           |

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

BALANCE SHEET

|                                   | Manufacture<br>and sales of<br>goods<br><i>HK\$</i> | Property<br>investment and<br>development<br><i>HK\$</i> | Consolidated<br><i>HK\$</i> |
|-----------------------------------|---|--|-----------------------------|
| ASSETS                            |   |  |                             |
| Segment assets                    | 64,608,333  | 141,436,421  | 206,044,754                 |
| Unallocated corporate assets      |   |  | 43,823,435                  |
|                                   |   |  |                             |
| Consolidated total assets         |   |  | 249,868,189                 |
|                                   |   |  |                             |
| LIABILITIES                       |   |  |                             |
| Segment liabilities               | 16,651,877  | 1,196,142  | 17,848,019                  |
| Unallocated corporate liabilities |   |  | 50,471,519                  |
|                                   |   |  |                             |
| Consolidated total liabilities    |   |  | 68,319,538                  |

OTHER INFORMATION

|  | Manufacture<br>and sales of<br>goods<br><i>HK\$</i> | Property<br>investment<br>and<br>development<br><i>HK\$</i> | Unallocated<br><i>HK\$</i> | Consolidated<br><i>HK\$</i> |
|--|---|---|----------------------------|-----------------------------|
| Allowance for doubtful debts   | –   | 1,500,000   | –                          | 1,500,000                   |
| Allowance for inventories  | 358,879   | –   | –                          | 358,879                     |
| Amortisation of goodwill   | 1,083,387   | –   | –                          | 1,083,387                   |
| Capital expenditure  | 576,605   | 1,353,562   | –                          | 1,930,167                   |
| Depreciation and amortisation of property,<br>plant and equipment and investment<br>properties | 2,355,755   | 1,390,313   | 773,341                    | 4,519,409                   |
| Gain on disposal of property, plant and<br>equipment and investment properties                 | –   | 6,337,072   | –                          | 6,337,072                   |
| Surplus arising on revaluation of<br>investment properties                                     | –   | 2,036,000   | –                          | 2,036,000                   |
| Write back of allowance for doubtful debts   | –   | 750,000   | –                          | 750,000                     |



**Geographical segments**

The Group's sales of goods are principally carried out in Europe, United States of America, Hong Kong and other regions in the PRC. Property investment and development is carried out in Hong Kong and other regions in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

|                                    | <b>Revenue by<br/>geographical market</b> |                    | <b>Contribution to profit<br/>from operations</b> |                   |
|------------------------------------|---|--------------------|---|-------------------|
|                                    | <b>2005</b>                               | <b>2004</b>        | <b>2005</b>                                       | <b>2004</b>       |
|                                    | <i>HK\$</i>                               | <i>HK\$</i>        | <i>HK\$</i>                                       | <i>HK\$</i>       |
| Europe                             | 107,650,143                               | 85,806,932         | 7,885,311   | 8,140,817         |
| United States of America           | 23,761,877                                | 23,866,131         | 1,740,544   | 2,264,267         |
| Hong Kong                          | 19,251,752                                | 24,123,930         | 431,087   | 8,373,637         |
| Other regions in the PRC           | 6,060,306                                 | 2,887,206          | 3,988,215   | 2,107,603         |
| Others                             | 25,936,902                                | 23,147,374         | 1,899,863   | 2,196,076         |
|                                    | <u>182,660,980</u>                        | <u>159,831,573</u> | 15,945,020  | 23,082,400        |
| Unallocated other operating income |   |                    | 41,328  | 200,685           |
| Unallocated corporate expenses     |   |                    | (2,547,501)                                       | (1,802,378)       |
| Profit from operations             |   |                    | <u>13,438,847</u>                                 | <u>21,480,707</u> |

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

|                          | <b>Carrying amount<br/>of segment assets</b> |                    | <b>Additions to property,<br/>plant and equipment</b> |                  |
|--------------------------|--|--------------------|---|------------------|
|                          | <b>2005</b>                                  | <b>2004</b>        | <b>2005</b>   | <b>2004</b>      |
|                          | <i>HK\$</i>                                  | <i>HK\$</i>        | <i>HK\$</i>   | <i>HK\$</i>      |
| Hong Kong                | 201,945,213                                  | 214,649,594        | 809,713   | 208,952          |
| Other regions in the PRC | 34,923,303                                   | 35,218,595         | 485,353   | 1,721,215        |
| Segment assets           | <u>236,868,516</u>                           | <u>249,868,189</u> | <u>1,295,066</u>                                      | <u>1,930,167</u> |

## 5. OTHER OPERATING INCOME

|   | 2005<br>HK\$   | 2004<br>HK\$     |
|---|----------------|------------------|
| Bank interest income  | 22,101         | 23,243           |
| Other interest income   | 19,227         | 2,386,183        |
| Gain on disposal of property, plant and equipment and investment properties | 55,234         | 6,337,072        |
| Sundry income   | 316,483        | 190,074          |
|   | <u>413,045</u> | <u>8,936,572</u> |

## 6. PROFIT FROM OPERATIONS

|  | 2005<br>HK\$     | 2004<br>HK\$       |
|--|------------------|--------------------|
| Profit from operations has been arrived at after charging:                                   |                  |                    |
| Allowance for doubtful debts   | 1,603,127        | 1,500,000          |
| Allowance for inventories  | 732,710          | 358,879            |
| Amortisation of goodwill included in administrative expenses                                 | 1,083,387        | 1,083,387          |
| Auditors' remuneration   |                  |                    |
| – Current year   | 750,000          | 650,000            |
| – Underprovision in prior years  | 10,000           | 50,000             |
| Depreciation and amortisation of property, plant and equipment and investment properties     | 3,935,509        | 4,519,409          |
| Minimum lease payments for operating leases in respect of rented premises                    | 2,105,643        | 2,114,468          |
| Staff costs including directors' emoluments and contributions to retirement benefits schemes | 30,527,143       | 27,891,191         |
| and after crediting:   |                  |                    |
| Gain on disposal of property, plant and equipment and investment properties                  | 55,234           | 6,337,072          |
| Gross rental income from investment properties   | 3,157,307        | 4,452,844          |
| Less: Outgoings  | <u>(712,448)</u> | <u>(1,158,528)</u> |
|  | 2,444,859        | 3,294,316          |
| Write back of allowance for loans receivable   | <u>–</u>         | <u>750,000</u>     |

## 7. FINANCE COSTS

|  | 2005<br>HK\$     | 2004<br>HK\$     |
|--|------------------|------------------|
| Interest on:   |                  |                  |
| Bank borrowings wholly repayable within five years     | 971,765          | 856,011          |
| Bank borrowings not wholly repayable within five years | 188,537          | 252,266          |
|  | <u>1,160,302</u> | <u>1,108,277</u> |

## 8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

## Directors' emoluments

The directors' emoluments are analysed as follows:

|   | 2005<br>HK\$            | 2004<br>HK\$            |
|---|-------------------------|-------------------------|
| Fees:   |                         |                         |
| Executive   | –                       | –                       |
| Independent non-executive   | 215,000                 | 200,000                 |
|   | <u>215,000</u>          | <u>200,000</u>          |
| Other emoluments paid to executive directors:                               |                         |                         |
| Salaries and other benefits   | 5,759,146               | 3,764,000               |
| Contributions to retirement benefits schemes                                | 12,000                  | 13,000                  |
| Rentals paid/rateable value in respect of quarters provided ( <i>Note</i> ) | 699,264                 | 708,771                 |
|   | <u>6,470,410</u>        | <u>4,485,771</u>        |
| Total other emoluments  | <u>6,470,410</u>        | <u>4,485,771</u>        |
| Total directors' emoluments   | <u><u>6,685,410</u></u> | <u><u>4,685,771</u></u> |

*Note:* The amount includes the estimated monetary value of premises provided rent free to a director as residence with rateable value of approximately HK\$660,000 (2004: HK\$660,000).

The emoluments were within the following bands:

|                                | No. of directors<br>2005 | 2004     |
|--------------------------------|--------------------------|----------|
| Nil to HK\$1,000,000           | 8                        | 5        |
| HK\$1,000,001 to HK\$1,500,000 | –                        | 2        |
| HK\$1,500,001 to HK\$3,000,000 | 1                        | –        |
| HK\$3,000,001 to HK\$4,000,000 | 1                        | –        |
|                                | <u>10</u>                | <u>7</u> |

**Highest paid employees**

The five highest paid individuals of the Group included two (2004: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2004: three) highest paid individuals, other than directors of the Company, are as follows:

|   | <b>2005</b><br><i>HK\$</i> | <b>2004</b><br><i>HK\$</i> |
|---|----------------------------|----------------------------|
| Salaries and other benefits   | 2,225,788                  | 1,868,259                  |
| Contributions to retirement benefits schemes                                | 24,000                     | 24,000                     |
| Rentals paid/rateable value in respect of quarters provided ( <i>Note</i> ) | 293,280                    | 469,080                    |
|   | <u>2,543,068</u>           | <u>2,361,339</u>           |

*Note:* The amount includes the estimated monetary value of premises provided rent free to a staff as residence with rateable value of approximately HK\$192,000 (2004: HK\$224,000).

The emoluments were within the following bands:

|                                | <b>No. of employees</b><br><b>2005</b> | <b>2004</b> |
|--------------------------------|--|-------------|
| Nil to HK\$1,000,000           | 2                                      | 3           |
| HK\$1,000,001 to HK\$1,500,000 | 1                                      | –           |
|                                | <u>3</u>                               | <u>3</u>    |

**9. INCOME TAXES**

|                                     | <b>2005</b><br><i>HK\$</i> | <b>2004</b><br><i>HK\$</i> |
|-------------------------------------|----------------------------|----------------------------|
| The charge comprises:               |                            |                            |
| Current year                        |                            |                            |
| Hong Kong                           | 2,405,600                  | 1,191,963                  |
| Other regions in the PRC            | 315,990                    | 28,037                     |
|                                     | <u>2,721,590</u>           | <u>1,220,000</u>           |
| Under(over)provision in prior years |                            |                            |
| Hong Kong                           | 2,610,292                  | (98,803)                   |
| Other regions in the PRC            | 186,916                    | –                          |
|                                     | <u>2,797,208</u>           | <u>(98,803)</u>            |
|                                     | <u>5,518,798</u>           | <u>1,121,197</u>           |

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The taxation for the year can be reconciled from taxation based on profit before taxation per the consolidated income statement as follows:

|  | <b>2005</b><br><i>HK\$</i> | <b>2004</b><br><i>HK\$</i> |
|--|----------------------------|----------------------------|
| Profit before taxation   | <u>12,278,545</u>          | <u>20,372,430</u>          |
| Tax at the domestic income tax rate of 17.5%   | 2,148,745                  | 3,565,175                  |
| Tax effect of expenses not deductible for tax purpose                                      | 969,157                    | 877,756                    |
| Tax effect of income not taxable for tax purpose   | (216,535)                  | (1,347,340)                |
| Tax effect of offshore manufacturing profits<br>on 50/50 apportionment basis               | (2,640)                    | (1,095,975)                |
| Tax effect of tax losses not recognised  | 78,605                     | 651,737                    |
| Tax effect of utilisation of deductible temporary differences<br>previously not recognised | (307,107)                  | (1,255,823)                |
| Effect of tax exemption granted to a PRC subsidiary  | (75,835)                   | (73,928)                   |
| Effect of different tax rates of subsidiaries operating<br>in other jurisdictions          | 111,146                    | –                          |
| Under(over)provision in prior years  | 2,797,208                  | (98,803)                   |
| Others   | <u>16,054</u>              | <u>(101,602)</u>           |
| Taxation for the year  | <u>5,518,798</u>           | <u>1,121,197</u>           |

At the balance sheet date, the Group has unused tax losses of approximately HK\$9,795,000 (2004: HK\$9,343,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

At the balance sheet date, the Group has deductible temporary differences of approximately HK\$3,113,000 (2004: HK\$4,868,000) in respect of accelerated accounting depreciation. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the balance sheet date, the Company has unused tax losses of approximately HK\$2,121,000 (2004: HK\$1,999,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

## 10. DIVIDEND

On 9th September, 2004, a dividend of 1 cent per share amounting to HK\$4,240,001 was paid to shareholders as the final dividend in respect of 2004.

A final dividend of 1 cent per share amounting to HK\$4,240,001 in respect of 2005 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The amount of the proposed final dividend is calculated on the basis of the proposed dividend rate and 424,000,100 ordinary shares in issue at the date of the report.

## 11. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the net profit for the year of HK\$6,559,923 (2004: HK\$18,904,088) and on 424,000,100 shares in issue throughout the year.

No diluted earnings per share has been presented as there were no potential dilutive ordinary shares in issue in either 2005 or 2004.

## 12. INVESTMENT PROPERTIES

|   | <b>2005</b><br><i>HK\$</i> | <b>2004</b><br><i>HK\$</i> |
|---|----------------------------|----------------------------|
| VALUATION   |                            |                            |
| At beginning of the year  | 27,130,000                 | 53,735,000                 |
| Transferred from property, plant and equipment ( <i>Note 13</i> ) | 1,318,743                  | –                          |
| Disposal  | –                          | (27,650,000)               |
| Effect on revaluation   | <u>1,431,257</u>           | <u>1,045,000</u>           |
| At end of the year  | <u>29,880,000</u>          | <u>27,130,000</u>          |
| DEPRECIATION AND AMORTISATION                                     |                            |                            |
| Provided for the year   | 1,042,857                  | 991,000                    |
| Eliminated on revaluation   | <u>(1,042,857)</u>         | <u>(991,000)</u>           |
| At end of the year  | <u>–</u>                   | <u>–</u>                   |
| NET BOOK VALUES   |                            |                            |
| At end of the year  | <u>29,880,000</u>          | <u>27,130,000</u>          |
| At beginning of the year  | <u>27,130,000</u>          | <u>53,735,000</u>          |

The net book values of the Group's investment properties at 31st March, 2005 are analysed as follows:

|   | <b>2005</b><br><i>HK\$</i> | <b>2004</b><br><i>HK\$</i> |
|---|----------------------------|----------------------------|
| Situated in Hong Kong held under long leases      | 13,380,000                 | 12,530,000                 |
| Situated in the PRC held under medium-term leases | <u>16,500,000</u>          | <u>14,600,000</u>          |
|   | <u>29,880,000</u>          | <u>27,130,000</u>          |

The investment properties were leased out for rental purposes under operating leases. The investment properties situated in Hong Kong and the PRC were revalued at 31st March, 2005 by Chung, Chan & Associates, Chartered Surveyors, on an open market value basis. The net surplus arising on revaluation of HK\$2,474,114 (2004: HK\$2,036,000) has been credited as income.

## 13. PROPERTY, PLANT AND EQUIPMENT

|  | Leasehold<br>land and<br>buildings<br>HK\$ | Leasehold<br>improvements<br>HK\$ | Furniture,<br>fixtures<br>and<br>equipment<br>HK\$ | Plant and<br>machinery<br>HK\$ | Motor<br>vehicles<br>HK\$ | Total<br>HK\$ |
|--|--|-----------------------------------|--|--------------------------------|---------------------------|---------------|
| <b>THE GROUP</b>   |  |                                   |  |                                |                           |               |
| <b>COST</b>  |  |                                   |  |                                |                           |               |
| At 1st April, 2004   | 67,938,236                                 | 2,843,733                         | 3,269,478  | 20,464,233                     | 5,288,925                 | 99,804,605    |
| Additions  | —  | 260,610                           | 130,608  | 296,403                        | 607,445                   | 1,295,066     |
| Transferred to investment<br>properties ( <i>Note 12</i> ) | (1,318,743)                                | —                                 | —  | —                              | —                         | (1,318,743)   |
| Disposals  | —  | —                                 | —  | —                              | (672,383)                 | (672,383)     |
| At 31st March, 2005  | 66,619,493                                 | 3,104,343                         | 3,400,086  | 20,760,636                     | 5,223,987                 | 99,108,545    |
| <b>DEPRECIATION AND<br/>AMORTISATION</b>                   |  |                                   |  |                                |                           |               |
| At 1st April, 2004   | 14,458,718                                 | 2,189,390                         | 2,457,625  | 19,334,644                     | 4,468,951                 | 42,909,328    |
| Provided for the year                                      | 1,696,682                                  | 217,064                           | 228,397  | 376,116                        | 374,393                   | 2,892,652     |
| Eliminated on disposals                                    | —  | —                                 | —  | —                              | (495,747)                 | (495,747)     |
| At 31st March, 2005  | 16,155,400                                 | 2,406,454                         | 2,686,022  | 19,710,760                     | 4,347,597                 | 45,306,233    |
| <b>NET BOOK VALUES</b>                                     |  |                                   |  |                                |                           |               |
| At 31st March, 2005  | 50,464,093                                 | 697,889                           | 714,064  | 1,049,876                      | 876,390                   | 53,802,312    |
| At 31st March, 2004  | 53,479,518                                 | 654,343                           | 811,853  | 1,129,589                      | 819,974                   | 56,895,277    |

The net book values of the Group's leasehold land and buildings at 31st March, 2005 are analysed as follows:

|  | 2005<br>HK\$ | 2004<br>HK\$ |
|--|--------------|--------------|
| Situated in Hong Kong held under long leases                       | 11,862,890   | 12,094,499   |
| Situated in Hong Kong held under medium-term leases                | 27,950,738   | 28,666,487   |
| Situated in other regions in the PRC held under medium-term leases | 10,650,465   | 12,718,532   |
|  | 50,464,093   | 53,479,518   |

## 14. GOODWILL

|   | <b>THE GROUP</b> |              |
|---|------------------|--------------|
|   | 2005<br>HK\$     | 2004<br>HK\$ |
| <b>GROSS AMOUNT</b>                             |                  |              |
| At beginning of the year and at end of the year | 10,833,870       | 10,833,870   |
| <b>AMORTISATION</b>                             |                  |              |
| At beginning of the year                        | 2,708,468        | 1,625,081    |
| Amortised for the year                          | 1,083,387        | 1,083,387    |
| At end of the year                              | 3,791,855        | 2,708,468    |
| <b>CARRYING AMOUNT</b>                          |                  |              |
| At end of the year                              | 7,042,015        | 8,125,402    |
| At beginning of the year                        | 8,125,402        | 9,208,789    |

Goodwill is amortised over its estimated useful life of 10 years.

## 15. DEPOSITS PAID

|  | <b>THE GROUP</b>   |                    |
|--|--------------------|--------------------|
|  | <b>2005</b>        | <b>2004</b>        |
|  | <i>HK\$</i>        | <i>HK\$</i>        |
| Deposit for acquisition of a property in the PRC   | 18,000,000         | 18,000,000         |
| Deposit for acquisition of a property in Hong Kong                                       | 300,000            | –                  |
| Deposit for acquisition of an interest in a property development project ( <i>Note</i> ) | 6,000,000          | 6,000,000          |
|  | <u>24,300,000</u>  | <u>24,000,000</u>  |
| Less: amounts due within one year shown under other debtors and prepayments              | <u>(6,000,000)</u> | <u>(6,000,000)</u> |
|  | <u>18,300,000</u>  | <u>18,000,000</u>  |

*Note:* Pursuant to an agreement (the “Agreement”) signed between the Group and a company in the PRC (the “Vendor”) on 1st December, 2000, the Group agreed to acquire 19% interest in a property development project of the Vendor for a consideration of HK\$6,000,000. Under the Agreement, the Vendor has the right to repurchase the 19% interest within 15 months from the date of the Agreement at HK\$6,000,000 plus interest at a rate of 10% per annum calculated from the date of payment of the deposit. Pursuant to a termination agreement signed between the Group and the Vendor, the Vendor agreed to repay the consideration of HK\$6,000,000.

Pursuant to a settlement agreement signed between the Group and the Vendor on 28th January, 2005, the Vendor agreed to repay the consideration of HK\$6,000,000 plus a return of 10% within one year.

## 16. INTERESTS IN SUBSIDIARIES

|                              | <b>THE COMPANY</b>  |                     |
|------------------------------|---------------------|---------------------|
|                              | <b>2005</b>         | <b>2004</b>         |
|                              | <i>HK\$</i>         | <i>HK\$</i>         |
| Unlisted shares, at cost     | 89,260,976          | 89,260,976          |
| Less: impairment loss        | <u>(45,000,000)</u> | <u>(45,000,000)</u> |
|                              | 44,260,976          | 44,260,976          |
| Amount due from a subsidiary | <u>–</u>            | <u>110,185,870</u>  |
|                              | <u>44,260,976</u>   | <u>154,446,846</u>  |

In the opinion of the directors, the amount due from a subsidiary in 2004 was not repayable within one year and, accordingly, the amount was classified as non-current. In 2005, the amount is classified as current assets.

Particulars of the subsidiaries at 31st March, 2005 are set out in note 32.

## 17. INVENTORIES

|                  | <b>THE GROUP</b> |                  |
|------------------|------------------|------------------|
|                  | <b>2005</b>      | <b>2004</b>      |
|                  | <i>HK\$</i>      | <i>HK\$</i>      |
| Raw materials    | 5,399,890        | 4,850,336        |
| Work in progress | 620,136          | 440,129          |
| Finished goods   | <u>2,209,600</u> | <u>1,966,793</u> |
|                  | <u>8,229,626</u> | <u>7,257,258</u> |

Included above are raw materials and finished goods of HK\$4,842,032 (2004: HK\$3,006,854) and HK\$1,053,688 (2004: HK\$876,805) respectively which are carried at net realisable value.



## 18. TRADE DEBTORS

|                                 | THE GROUP         |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2005              | 2004              |
|                                 | HK\$              | HK\$              |
| Aged analysis of trade debtors: |                   |                   |
| Within 60 days                  | 21,491,728        | 15,706,541        |
| 61-180 days                     | 1,425,176         | 4,137,384         |
| More than 180 days              | 784,025           | 832,545           |
|                                 | <u>23,700,929</u> | <u>20,676,470</u> |

The Group allowed a credit period ranging from 30 days to 60 days to its trade customers.

## 19. LOANS RECEIVABLE

|   | THE GROUP         |                   |
|---|-------------------|-------------------|
|   | 2005              | 2004              |
|   | HK\$              | HK\$              |
| Loans advanced for property development projects ( <i>Notes</i> ) | <u>46,710,000</u> | <u>46,710,000</u> |

*Notes:*

- (i) Pursuant to various agreements signed between the Group and various companies in the PRC (the “Borrowers”) on 15th June, 2002 (the date of first advance) and subsequent dates, the Group advanced totalling HK\$34,710,000 (2004: HK\$34,710,000) to the Borrowers for property development purpose.
- (ii) Pursuant to an agreement signed between the Group and an individual in the PRC (the “Individual”) on 15th November, 2002, the Group advanced an amount of HK\$12,000,000 to the Individual for property development purpose.

Pursuant to various settlement agreements signed among the Group, the Borrowers and the Individual on 23rd March, 2005, the Borrowers and the Individual agreed to repay the loans plus a return of 10% or properties equivalent to the amount by March 2006. Therefore, the loans are classified as current assets on the balance sheet date.

## 20. TRADE CREDITORS

|                                   | THE GROUP        |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2005             | 2004             |
|                                   | HK\$             | HK\$             |
| Aged analysis of trade creditors: |                  |                  |
| Within 60 days                    | 8,526,073        | 8,803,387        |
| 61-180 days                       | 446,824          | 78,738           |
| More than 180 days                | 152,755          | 154,276          |
|                                   | <u>9,125,652</u> | <u>9,036,401</u> |

## 21. BANK BORROWINGS

|   | <b>THE GROUP</b>  |                   |
|---|-------------------|-------------------|
|   | <b>2005</b>       | <b>2004</b>       |
|   | <i>HK\$</i>       | <i>HK\$</i>       |
| Bank borrowings comprise the following: |                   |                   |
| Bank overdrafts – unsecured             | 960,780           | 18,006            |
| Bank loans – secured                    | 17,514,008        | 46,102,571        |
| – unsecured                             | 11,476,636        | –                 |
|   | <u>29,951,424</u> | <u>46,120,577</u> |

The bank borrowings are repayable as follows:

|   |                     |                     |
|---|---------------------|---------------------|
| Within one year   | 22,908,424          | 37,553,577          |
| More than one year and not more than two years              | 1,524,000           | 1,524,000           |
| More than two years and not more than five years            | 4,572,000           | 4,572,000           |
| More than five years  | 947,000             | 2,471,000           |
|   | <u>29,951,424</u>   | <u>46,120,577</u>   |
| Amounts due within one year shown under current liabilities | <u>(22,908,424)</u> | <u>(37,553,577)</u> |
| Amounts due after one year                                  | <u>7,043,000</u>    | <u>8,567,000</u>    |

## 22. SHARE CAPITAL

|                                   | <b>Number of shares</b> |                      | <b>Amounts</b>     |                    |
|-----------------------------------|-------------------------|----------------------|--------------------|--------------------|
|                                   | <b>2005</b>             | <b>2004</b>          | <b>2005</b>        | <b>2004</b>        |
|                                   |                         |                      | <i>HK\$</i>        | <i>HK\$</i>        |
| Ordinary shares of HK\$0.10 each: |                         |                      |                    |                    |
| Authorised:                       |                         |                      |                    |                    |
| At beginning and end of the year  | <u>1,000,000,000</u>    | <u>1,000,000,000</u> | <u>100,000,000</u> | <u>100,000,000</u> |
| Issued and fully paid:            |                         |                      |                    |                    |
| At beginning and end of the year  | <u>424,000,100</u>      | <u>424,000,100</u>   | <u>42,400,010</u>  | <u>42,400,010</u>  |

## 23. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "Scheme") adopted on 5th September, 1997, for the primary purpose of providing incentive to directors and eligible employees, and which will expire 10 years after the date of adoption, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as shall represent 10% of the nominal amount of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee cannot exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme. Upon acceptance of option, the grantee shall pay HK\$10 to the Company by way of consideration of the grant. An option may be exercised at any time during the three year period commencing six months after the date on which the option is accepted.

No share option was granted or exercised during the two years ended 31st March, 2005 and there are no share options outstanding as at 31st March, 2005.

## 24. RESERVES

|                       | Share<br>premium<br>HK\$ | Contributed<br>surplus<br>HK\$ | Accumulated<br>losses<br>HK\$ | Total<br>HK\$     |
|-----------------------|--------------------------|--------------------------------|-------------------------------|-------------------|
| <b>THE COMPANY</b>    |                          |                                |                               |                   |
| At 1st April, 2003    | 66,672,487               | 76,440,973                     | (40,622,660)                  | 102,490,800       |
| Net loss for the year | —                        | —                              | (1,109,565)                   | (1,109,565)       |
| At 31st March, 2004   | 66,672,487               | 76,440,973                     | (41,732,225)                  | 101,381,235       |
| Net loss for the year | —                        | —                              | (989,987)                     | (989,987)         |
| Dividend paid         | —                        | (4,240,001)                    | —                             | (4,240,001)       |
| At 31st March, 2005   | <u>66,672,487</u>        | <u>72,200,972</u>              | <u>(42,722,212)</u>           | <u>96,151,247</u> |

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the Company's subsidiary at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation on 5th September, 1997.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, at the balance sheet date, the Company's reserves available for distribution to the shareholders were as follows:

|                     | 2005<br>HK\$        | 2004<br>HK\$        |
|---------------------|---------------------|---------------------|
| Contributed surplus | 72,200,972          | 76,440,973          |
| Accumulated losses  | <u>(42,722,212)</u> | <u>(41,732,225)</u> |
|                     | <u>29,478,760</u>   | <u>34,708,748</u>   |

## 25. MAJOR NON-CASH TRANSACTION

As at 31st March, 2004, the consideration in respect of the disposal of property, plant and equipment and investment properties of HK\$35,000,000 had not been settled.

## 26. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

Effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF

Scheme, the employer and its employees are each required to contribute 5% of the employees’ monthly remunerations or HK\$1,000 per month whichever is the smaller to the MPF Scheme. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

Employees located in PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contributed schemes.

During the year, the Group made retirement benefits scheme contributions of HK\$720,130 (2004: HK\$670,809) after forfeited contributions utilised in the Defined Contribution Scheme of Nil (2004: HK\$12,792).

As at 31st March, 2005 and 2004, there were no amount of forfeited contributions, which arose upon employees leaving the scheme and which are available to reduce the contributions payable by the Group in the future years.

27. OPERATING LEASE ARRANGEMENTS

THE GROUP

The Group as lessee:

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and building which fall due as follows:

|                                       | THE GROUP        |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2005             | 2004             |
|                                       | HK\$             | HK\$             |
| Within one year                       | 1,277,566        | 1,134,006        |
| In the second to fifth year inclusive | 1,275,286        | 2,175,487        |
|                                       | <u>2,552,852</u> | <u>3,309,493</u> |

Leases are negotiated for terms ranging from one to three years.

The Group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

|                                       | THE GROUP         |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | 2005              | 2004              |
|                                       | HK\$              | HK\$              |
| Within one year                       | 2,611,449         | 2,359,822         |
| In the second to fifth year inclusive | 8,211,077         | 8,172,207         |
| Over five years                       | 2,306,340         | 4,342,479         |
|                                       | <u>13,128,866</u> | <u>14,874,508</u> |

Leases are negotiated for terms ranging from one to eight years.

THE COMPANY

The Company did not have any operating lease commitments at the balance sheet date.

28. CONTINGENT LIABILITIES

THE GROUP

At the balance sheet date, the Group had contingent liabilities of HK\$2,347,737 (2004: HK\$2,581,405) in respect of bills discounted with recourse.

THE COMPANY

At the balance sheet date, the Company provided corporate guarantees of approximately HK\$101,000,000 (2004: HK\$81,000,000) to banks to secure general banking facilities granted to subsidiaries. The total amount of facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$29,951,000 (2004: HK\$46,121,000).

29. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

(i) Transactions with directors’ related companies

| Name of party             | Directors’ interest                                 | Nature of transactions | 2005<br>HK\$ | 2004<br>HK\$ |
|---------------------------|---|------------------------|--------------|--------------|
| Dawnvast Ltd.             | Mr. Cheng Lok Hing<br>Mr. Cheng Chun Kit            | Rental expense         | 369,600      | 369,600      |
| Techford Development Ltd. | Ms. Chan Oi Ling,<br>Maria Olimpia                  | Rental expense         | 156,000      | 156,000      |
| Wing Nin Trading Co. Ltd. | Family member of Ms. Chan<br>Oi Ling, Maria Olimpia | Rental expense         | 196,000      | 240,000      |

(ii) Transactions with minority shareholders

| Name of party   | Nature of transactions  | 2005<br>HK\$ | 2004<br>HK\$ |
|---|-------------------------|--------------|--------------|
| 東莞市橋光實業集團公司<br>Dongguan City Qiao Guang<br>Industrial Group Company | Rental expenses         | 890,459      | 884,354      |
| 惠州市益發光學機電有限公司   | Management fee expenses | –            | 5,101        |

Rental expenses represent amounts agreed with reference to the market rate between the respective management of the companies concerned.

Management fee expenses were carried out at terms mutually agreed by both parties.

30. PLEDGE OF ASSETS

The Group had pledged its investment properties and leasehold land and buildings with carrying value of HK\$22,700,000 (2004: HK\$21,950,000) and HK\$28,185,380 (2004: HK\$34,714,076) respectively to banks to secure banking facilities granted to the Group.

31. LITIGATION

Pursuant to a factoring agreement made among Mee Lee Shing Plastic Factory Limited (“MLS”) as vendor, Mr. Cheang (“Cheang”) as purchaser and Mascotte Industrial Associates (Hong Kong) Limited (“MIA”), a wholly owned subsidiary of the Company, as trustee for Cheang dated 25th August, 1999 and an assignment of debt made between MLS as assignor and MIA (as trustee for Cheang) as assignee dated 25th August, 1999. MLS, in consideration of certain sum agreed to be paid by Cheang to MLS, assigned to MIA as trustee for Cheang debts in the total sum of approximately HK\$4,750,000, being the aggregate amount of the trade receivables due from Vtech Communications Limited (“Vtech”) to MLS. Thereafter, MIA received on behalf of Cheang from Vtech two payments in aggregate amounting to approximately HK\$2,750,000 and MLS unilaterally terminated the said factoring agreement and claimed to be entitled to the sum of HK\$2,000,000 out of the assigned debts. Vtech took out interpleader proceedings in Court of First Instance of the High Court of Hong Kong in which both MLS and MIA were defendants. Vtech has since paid approximately HK\$2,000,000 into the court and the balance of the assigned debts to MIA (as trustee for Cheang) and been released from the interpleader proceedings. During the year ended 31st March, 2005, the litigation was finalised and the amount has been settled by Vtech.

32. SUBSIDIARIES

Particulars of the subsidiaries at 31st March, 2005 are as follows:

| Name  | Place of incorporation or registration/ operation | Issued and fully paid ordinary share capital/ registered and contributed capital | Attributable equity interest held by the Group | Principal activities  |
|---|---|--|--|---|
| 東莞德雅皮具製品廠有限公司<br>Dongguan Tak Ya Leather Goods Manufactory Limited (Note b) | PRC   | HK\$8,000,000  | 70%<br>(Note c)                                | Manufacture of accessories for photographic, electrical and multimedia products               |
| Mana Industrial Limited   | Hong Kong   | HK\$10,000   | 100%   | Inactive  |
| March Professional Bags Company Limited                                     | Hong Kong/ PRC                                    | HK\$50,000   | 100%   | Manufacturing and trading of accessories for photographic, electrical and multimedia products |
| Mascotte Industrial Associates (Hong Kong) Limited                          | Hong Kong   | HK\$2  | 100%   | Trading of accessories for photographic, electrical and multimedia products                   |
| Mascotte Investments Limited  | Hong Kong   | HK\$1,000<br>HK\$1,000,000*  | 100%   | Property holding  |
| Mascotte Group Limited  | British Virgin Islands/ Hong Kong                 | US\$100  | 100%   | Investment holding  |

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| Name   | Place of incorporation or registration/operation | Issued and fully paid ordinary share capital/registered and contributed capital | Attributable equity interest held by the Group | Principal activities   |
|--|--|---|--|--|
| 馬斯葛志豪照相器材(惠州)有限公司<br>Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co. Ltd.<br>(Note b) | PRC  | US\$3,180,000   | 90%  | Property holding and manufacture of accessories for photographic, electrical and multimedia products |
| Mascotte Hui Zhou Limited  | British Virgin Islands/PRC                       | US\$1   | 100%   | Investment holding   |
| Mascotte Overseas Limited  | British Virgin Islands/Macau                     | US\$1,795,000   | 100%   | Inactive   |
| Mascotte Photographic Trading Limited  | British Virgin Islands/Macau                     | US\$1   | 100%   | Inactive   |
| Newland Kingdom Limited  | Hong Kong  | HK\$9,998<br>HK\$2*   | 100%   | Property investment  |
| Resourceful Enterprise Limited   | Hong Kong  | HK\$2   | 100%   | Inactive   |
| Tak Ya Leather Goods Manufactory Limited   | British Virgin Islands/PRC                       | US\$1   | 100%   | Investment holding   |

\* These represent non-voting deferred shares (Note d).

Notes:

- a. Except for Mascotte Group Limited, all the companies above are indirectly held by the Company.
- b. These companies are equity joint ventures.
- c. Dongguan Tak Ya Leather Goods Manufactory Limited was established by the Group with an independent party in the PRC. Under various agreements entered into with the PRC party, the Group is entitled to all of the net profits derived from its operations up to 31st December, 2006.
- d. These deferred shares, which are not held by the Group, practically carry no right to dividends and no rights to receive notice of or to attend or vote at any general meeting of the respective companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the respective companies only after the distribution of substantial amounts as specified in the Articles of Associations to holders of ordinary shares of the respective companies.

33. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date,

- (a) the Group disposed of an investment property with a carrying value of HK\$1,480,000 to a third party at a consideration of HK\$1,460,000;
- (b) the Group acquired properties from a third party at an aggregate consideration of HK\$5,710,000.

### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

The following is a reproduction of the text of the unaudited consolidated financial statements of the Group together with the accompanying notes contained on pages 2 to 10 of the interim report of the Company for the six months ended 30th September, 2005:

#### Condensed Consolidated Income Statement

|                                |       | Six months ended<br>30th September, |  |
|--------------------------------|-------|-------------------------------------|--|
|                                |       | 2005                                | 2004                                     |
|                                | Notes | HK\$'000<br>(Unaudited)             | HK\$'000<br>(Unaudited)<br>(As restated) |
| Turnover                       | 3     | 101,337                             | 88,700                                   |
| Cost of sales                  |       | <u>(71,574)</u>                     | <u>(61,068)</u>                          |
| Gross profit                   |       | 29,763                              | 27,632                                   |
| Other operating income         |       | 152                                 | 821                                      |
| Selling and distribution costs |       | (5,400)                             | (4,982)                                  |
| Administrative expenses        |       | <u>(13,591)</u>                     | <u>(14,064)</u>                          |
| Profit from operations         | 3&4   | 10,924                              | 9,407                                    |
| Finance costs                  |       | <u>(889)</u>                        | <u>(612)</u>                             |
| Profit before taxation         |       | 10,035                              | 8,795                                    |
| Income taxes                   | 5     | <u>(1,755)</u>                      | <u>(693)</u>                             |
| Profit for the period          |       | <u>8,280</u>                        | <u>8,102</u>                             |
| Attributable to:               |       |                                     |  |
| Shareholders of the Company    |       | 8,218                               | 7,957                                    |
| Minority interests             |       | <u>62</u>                           | <u>145</u>                               |
|                                |       | <u>8,280</u>                        | <u>8,102</u>                             |
| Interim dividend               | 6     | <u>–</u>                            | <u>–</u>                                 |
| Earnings per share             | 7     |                                     |  |
| Basic                          |       | <u>1.9 cents</u>                    | <u>1.9 cents</u>                         |



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## Condensed Consolidated Balance Sheet

|  |              | <b>30th September,<br/>2005</b> | <b>31st March,<br/>2005</b>                   |
|--|--------------|---------------------------------|---|
|  | <i>Notes</i> | <i>HK\$'000</i><br>(Unaudited)  | <i>HK\$'000</i><br>(Audited)<br>(As restated) |
| <b>Non-current assets</b>                    |              |                                 |   |
| Investment properties                        |              | 34,236                          | 29,880  |
| Property, plant and equipment                |              | 47,187                          | 48,394  |
| Goodwill                                     |              | 7,042                           | 7,042   |
| Deposit paid                                 | 8            | 18,000                          | 18,300  |
| Prepaid lease payments                       |              | 5,200                           | 5,408   |
|  |              | <u>111,665</u>                  | <u>109,024</u>                                |
| <b>Current assets</b>                        |              |                                 |   |
| Inventories                                  |              | 8,111                           | 8,230   |
| Trade and bills receivable                   | 9            | 34,247                          | 23,701  |
| Loans receivable                             | 10           | 46,710                          | 46,710  |
| Other debtors and prepayments                |              | 13,295                          | 14,488  |
| Tax recoverable                              |              | –                               | 149   |
| Bank balances and cash                       |              | 41,127                          | 34,566  |
|  |              | <u>143,490</u>                  | <u>127,844</u>                                |
| <b>Current liabilities</b>                   |              |                                 |   |
| Trade creditors                              | 11           | 15,274                          | 9,126   |
| Other creditors and accrued charges          |              | 11,402                          | 8,725   |
| Dividend payable                             |              | 405                             | 405   |
| Tax payable                                  |              | 5,943                           | 4,562   |
| Bank borrowings                              |              | 24,719                          | 22,908  |
|  |              | <u>57,743</u>                   | <u>45,726</u>                                 |
| <b>Net current assets</b>                    |              | <u>85,747</u>                   | <u>82,118</u>                                 |
| <b>Total assets less current liabilities</b> |              | <u>197,412</u>                  | <u>191,142</u>                                |
| <b>Non-current liabilities</b>               |              |                                 |   |
| Bank borrowings                              |              | 9,273                           | 7,043   |
| <b>Net assets</b>                            |              | <u>188,139</u>                  | <u>184,099</u>                                |
| <b>Capital and reserves</b>                  |              |                                 |   |
| Share capital                                | 12           | 42,400                          | 42,400  |
| Reserves                                     |              | 142,824                         | 138,846                                       |
| Shareholder's equity                         |              | 185,224                         | 181,246                                       |
| Minority interests                           |              | 2,915                           | 2,853   |
| <b>Total equity</b>                          |              | <u>188,139</u>                  | <u>184,099</u>                                |

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Condensed Consolidated Statement of Changes in Equity – Unaudited

|                            | For the six months ended 30th September, 2005 |               |                 |                  |                           |                     |              |                              |                  |          |                    |          |
|----------------------------|---|---------------|-----------------|------------------|---------------------------|---------------------|--------------|------------------------------|------------------|----------|--------------------|----------|
|                            | Attributable to Shareholders of the Company   |               |                 |                  |                           |                     |              |                              |                  |          |                    |          |
|                            | Share capital                                 | Share premium | Special reserve | Goodwill reserve | Negative goodwill reserve | Translation reserve | Reserve fund | Enterprise expansion reserve | Retained profits | Total    | Minority interests | Total    |
|                            | HK\$'000                                      | HK\$'000      | HK\$'000        | HK\$'000         | HK\$'000                  | HK\$'000            | HK\$'000     | HK\$'000                     | HK\$'000         | HK\$'000 | HK\$'000           | HK\$'000 |
| At 1st April, 2005         |   |               |                 |                  |                           |                     |              |                              |                  |          |                    |          |
| As previously reported     | 42,400  | 66,672        | 14,901          | (10,638)         | 2,080                     | (1,119)             | 1,083        | 1,083                        | 64,784           | 181,246  | 2,853              | 184,099  |
| Opening adjustment HKFRS 3 | –   | –             | –               | –                | (2,080)                   | –                   | –            | –                            | 2,080            | –        | –                  | –        |
| As restated                | 42,400  | 66,672        | 14,901          | (10,638)         | –                         | (1,119)             | 1,083        | 1,083                        | 66,864           | 181,246  | 2,853              | 184,099  |
| Net profit for the period  | –   | –             | –               | –                | –                         | –                   | –            | –                            | 8,218            | 8,218    | 62                 | 8,280    |
| 2005 final dividend paid   | –   | –             | –               | –                | –                         | –                   | –            | –                            | (4,240)          | (4,240)  | –                  | (4,240)  |
| At 30th September, 2005    | 42,400  | 66,672        | 14,901          | (10,638)         | –                         | (1,119)             | 1,083        | 1,083                        | 70,842           | 185,224  | 2,915              | 188,139  |
| At 1st April, 2004         | 42,400  | 66,672        | 14,901          | (10,638)         | 2,080                     | (1,150)             | 1,083        | 1,083                        | 62,464           | 178,895  | 2,654              | 181,549  |
| Net profit for the period  | –   | –             | –               | –                | –                         | –                   | –            | –                            | 7,957            | 7,957    | 145                | 8,102    |
| 2004 final dividend paid   | –   | –             | –               | –                | –                         | –                   | –            | –                            | (4,240)          | (4,240)  | –                  | (4,240)  |
| At 30th September, 2004    | 42,400  | 66,672        | 14,901          | (10,638)         | 2,080                     | (1,150)             | 1,083        | 1,083                        | 66,181           | 182,612  | 2,799              | 185,411  |

Condensed Consolidated Cash Flow Statement

|   | Six months ended<br>30th September, |                      |
|---|-------------------------------------|----------------------|
|   | 2005                                | 2004                 |
|   | HK\$'000                            | HK\$'000             |
|   | (Unaudited)                         | (Unaudited)          |
| Net cash from (used in) operating activities          | 12,249                              | (1,692)              |
| Net cash (used in) from investing activities          | (4,600)                             | 34,647               |
| Net cash used in financing activities                 | <u>(168)</u>                        | <u>(12,861)</u>      |
| Increase in cash and cash equivalents                 | 7,481                               | 20,094               |
| Cash and cash equivalents at beginning of the period  | <u>33,605</u>                       | <u>12,130</u>        |
| Cash and cash equivalents at end of the period        | <u><u>41,086</u></u>                | <u><u>32,224</u></u> |
| Analysis of the balances of cash and cash equivalents |                                     |                      |
| Bank balances and cash                                | 41,127                              | 33,099               |
| Bank overdraft  | <u>(41)</u>                         | <u>(875)</u>         |
|   | <u><u>41,086</u></u>                | <u><u>32,224</u></u> |

**Notes to the Condensed Financial Statements***For the six months ended 30th September, 2005***1. BASIS OF PRESENTATION**

The interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those adopted by the Group in its annual financial statements for the year ended 31st March, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKAS”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

**Business combinations**

In the current period, the Group has applied the transitional provisions of HKFRS 3 “Business Combinations” and the principal effects are summarized below:

*Goodwill*

In prior years, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life.

In the current period, the Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st April, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. This new accounting policy has been applied prospectively.

*Negative goodwill*

In prior years, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves. In accordance with relevant transitional provisions in HKFRS 3, the Group has re-classified all negative goodwill at 1st April, 2005, which was previously presented in negative goodwill reserve, with a corresponding increase to retained earnings.

**Financial instruments**

In the current period, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application, while HKAS 39 generally does not permit recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized as below:

*Classification of measurement of financial assets and financial liabilities*

The Group has applied the relevant provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognized, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group’s bills receivable with full recourse which were derecognized prior to 1st April, 2005 have not been restated. As at 30th September, 2005, the Group’s bills receivable with full recourse have not been derecognized. Instead, the related borrowings of HK\$3,854,897 have been recognized on the balance sheet date. This change has had no material effect on the results for the current period.

Owner-occupied leasehold interest in land

In prior years, owner-occupied leasehold land and buildings were included in property, plant and equipment and stated at cost less accumulated depreciation, amortization and impairment loss.

In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The change in accounting policy has had no effect on the income statement and retained profits. Comparative figures on the balance sheet have been restated to reflect the reclassification of leasehold land.

3. SEGMENTS INFORMATION

Analysis of the Group’s turnover and contribution to operating profit by business segments and geographical segments is as follows:

Business segments

|                                    | Six months ended 30th September, 2005            |  |                          |
|------------------------------------|--|--|--------------------------|
|                                    | Manufacture<br>and sales of<br>goods<br>HK\$'000 | Property<br>investment<br>and<br>development<br>HK\$'000 | Consolidated<br>HK\$'000 |
| TURNOVER                           |  |  |                          |
| To external customers              | 99,842   | 1,495  | 101,337                  |
| RESULT                             |  |  |                          |
| Segment profit                     | 11,034   | 603  | 11,637                   |
| Unallocated other operating income |  |  | 32                       |
| Unallocated corporate expenses     |  |  | (745)                    |
| Profit from operations             |  |  | 10,924                   |

|                                    | Six months ended 30th September, 2004                   |   |                                 |
|------------------------------------|---|---|---------------------------------|
|                                    | Manufacture<br>and sales of<br>goods<br><i>HK\$'000</i> | Property<br>investment<br>and<br>development<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
| TURNOVER                           |   |   |                                 |
| To external customers              | 87,123  | 1,577   | 88,700                          |
| RESULT                             |   |   |                                 |
| Segment profit                     | 8,666   | 1,016   | 9,682                           |
| Unallocated other operating income |   |   | 27                              |
| Unallocated corporate expenses     |   |   | (302)                           |
| Profit from operations             |   |   | 9,407                           |

#### Geographical segments

|                                    | Six months ended 30th September,  |                         |   |                         |
|------------------------------------|-----------------------------------|-------------------------|---|-------------------------|
|                                    | Revenue by<br>geographical market |                         | Contribution to<br>profit from operations |                         |
|                                    | 2005<br><i>HK\$'000</i>           | 2004<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i>                   | 2004<br><i>HK\$'000</i> |
| Europe                             | 64,498                            | 50,610                  | 7,128                                     | 5,034                   |
| United States of America           | 13,062                            | 11,857                  | 1,443                                     | 1,179                   |
| Hong Kong                          | 11,631                            | 8,365                   | 966                                       | 560                     |
| Other regions in the PRC           | 2,705                             | 3,553                   | 1,057                                     | 1,485                   |
| Others                             | 9,441                             | 14,315                  | 1,043                                     | 1,424                   |
|                                    | 101,337                           | 88,700                  | 11,637                                    | 9,682                   |
| Unallocated other operating income |                                   |                         | 32  | 27                      |
| Unallocated corporate expenses     |                                   |                         | (745)                                     | (302)                   |
| Profit from operations             |                                   |                         | 10,924                                    | 9,407                   |

#### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

|  | Six months ended<br>30th September, |                         |
|--|-------------------------------------|-------------------------|
|  | 2005<br><i>HK\$'000</i>             | 2004<br><i>HK\$'000</i> |
| Allowance for doubtful debts   | 433                                 | –                       |
| Amortisation of goodwill included in administrative expenses (HKFRS 3) | –                                   | 542                     |
| Depreciation and amortisation  | 1,671                               | 1,994                   |
| Interest on bank borrowings  | 889                                 | 612                     |

## 5. INCOME TAXES

|                       | Six months ended<br>30th September, |            |
|-----------------------|-------------------------------------|------------|
|                       | 2005                                | 2004       |
|                       | HK\$'000                            | HK\$'000   |
| Hong Kong Profits Tax | 1,519                               | 660        |
| Other jurisdictions   | 236                                 | 33         |
|                       | <u>1,755</u>                        | <u>693</u> |

Hong Kong Profits Tax has been calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

There was no material unprovided deferred tax for the interim period (2004: Nil).

## 6. INTERIM DIVIDEND

At a meeting held on 27th July, 2005, the Directors proposed a final dividend of HK 1 cent per ordinary share totaling HK\$4,240,001 for the year ended 31st March, 2005, which was paid on 9th September, 2005 and has been reflected as an appropriation of retained earnings for the six months period ended 30th September, 2005.

The Directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2005 (2004: Nil).

## 7. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the six months period ended 30th September, 2005 of HK\$8,218,000 (2004: HK\$7,957,000) and on 424,000,100 shares (2004: 424,000,100 shares) of the Company in issue during the period.

No diluted earnings per share has been presented as there were no potential dilution ordinary shares in issue during the six months ended 30th September, 2005 and 2004.

## 8. DEPOSIT PAID

|  | As at<br>30th September,<br>2005 | As at<br>31st March,<br>2005 |
|--|----------------------------------|------------------------------|
|  | HK\$'000                         | HK\$'000                     |
| Deposit for acquisition of a property in the PRC   | 18,000                           | 18,000                       |
| Deposit for acquisition of a property in Hong Kong | <u>–</u>                         | <u>300</u>                   |
|  | <u>18,000</u>                    | <u>18,300</u>                |

## 9. TRADE AND BILLS RECEIVABLE

|                            | As at<br>30th September,<br>2005 | As at<br>31st March,<br>2005 |
|----------------------------|----------------------------------|------------------------------|
|                            | HK\$'000                         | HK\$'000                     |
| Trade receivable           | 30,392                           | 23,701                       |
| Bills receivable (HKAS 39) | <u>3,855</u>                     | <u>–</u>                     |
|                            | <u>34,247</u>                    | <u>23,701</u>                |

The following is an aged analysis:

|                    | As at<br>30th September,<br>2005<br><i>HK\$'000</i> | As at<br>31st March,<br>2005<br><i>HK\$'000</i> |
|--------------------|---|---|
| Within 60 days     | 28,990  | 21,492  |
| 61-180 days        | 3,848   | 1,425   |
| More than 180 days | 1,409   | 784   |
|                    | <u>34,247</u>                                       | <u>23,701</u>                                   |

The Group allowed a credit period ranging from 30 days to 60 days to its trade customers.

#### 10. LOANS RECEIVABLE

|   | As at<br>30th September,<br>2005<br><i>HK\$'000</i> | As at<br>31st March,<br>2005<br><i>HK\$'000</i> |
|---|---|---|
| Loans advanced for property development projects ( <i>Notes</i> ) | <u>46,710</u>                                       | <u>46,710</u>                                   |

*Notes:*

- (i) Pursuant to various agreements signed between the Group and various companies in the PRC (the “Borrowers”) on 15th June, 2002 (the date of first advance) and subsequent dates, the Group advanced totalling HK\$34,710,000 to the Borrowers for property development purpose.
- (ii) Pursuant to an agreement signed between the Group and an individual in the PRC (the “Individual”) on 15th November, 2002, the Group advanced an amount of HK\$12,000,000 to the individual for project development purpose.

Pursuant to various settlement agreements signed among the Group, the Borrowers and the Individual on 23rd March, 2005, the Borrowers and the Individual agreed to repay the loans plus a return of 10% or properties equivalent to the amount by March 2006.

#### 11. TRADE CREDITORS

The following is an aged analysis:

|                    | As at<br>30th September,<br>2005<br><i>HK\$'000</i> | As at<br>31st March,<br>2005<br><i>HK\$'000</i> |
|--------------------|---|---|
| Within 60 days     | 15,003  | 8,526   |
| 61-180 days        | 118   | 447   |
| More than 180 days | 153   | 153   |
|                    | <u>15,274</u>                                       | <u>9,126</u>                                    |



12. SHARE CAPITAL

|  | As at<br>30th September,<br>2005<br><i>HK\$'000</i> | As at<br>31st March,<br>2005<br><i>HK\$'000</i> |
|--|---|---|
| Authorised:                                    |   |   |
| 1,000,000,000 ordinary shares of HK\$0.10 each | 100,000   | 100,000   |
| Issued and fully paid:                         |   |   |
| 424,000,100 ordinary shares of HK\$0.10 each   | 42,400  | 42,400  |

13. RELATED PARTY TRANSACTIONS

During the period, the following related party transactions took place:

(i) Transactions with directors’ related companies:

| Name of party             | Directors’ interest                                    | Nature of transactions | Six months ended<br>30th September, |                         |
|---------------------------|--|------------------------|-------------------------------------|-------------------------|
|                           |  |                        | 2005<br><i>HK\$'000</i>             | 2004<br><i>HK\$'000</i> |
| Dawnvast Ltd.             | Mr. Cheng Lok Hing<br>Mr. Cheng Chun Kit               | Rental expense         | 185                                 | 185                     |
| Techford Development Ltd. | Ms. Chan Oi Ling,<br>Maria Olimpia                     | Rental expense         | 78                                  | 78                      |
| Wing Nin Trading Co. Ltd. | Family member of<br>Ms. Chan Oi Ling,<br>Maria Olimpia | Rental expense         | 96                                  | 100                     |

(ii) Transaction with a minority shareholder:

| Name of party   | Nature of transactions | Six months ended<br>30th September, |                         |
|---|------------------------|-------------------------------------|-------------------------|
|   |                        | 2005<br><i>HK\$'000</i>             | 2004<br><i>HK\$'000</i> |
| 東莞市橋光實業集團公司<br>Dongguan City Qiao Guang<br>Industrial Group Company | Rental expenses        | 446                                 | 446                     |

Rental expenses represent amounts agreed with reference to the market rate between the respective management of the companies concerned.

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

**Deloitte.**  
**德勤**

德勤 • 關黃陳方會計師行  
香港金鐘道88號  
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Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

30 June 2006

The Directors  
Mascotte Holdings Limited  
1/F., Po Chai Industries Building  
28 Wong Chuk Hang Road  
Aberdeen  
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Jet Star Industries Limited (the “Company”) for the period from 8 October 2003 to 31 March 2004 and each of the two years ended 31 March 2006 (the “Relevant Periods”), for inclusion in the circular of Mascotte Holdings Limited dated 30 June 2006 (the “Circular”) in respect of a major and connected transaction in relation to the acquisition of a 100% interest in the Company.

The Company was incorporated in Hong Kong on 8 October 2003. The principal activity of the Company is property leasing. On 6 June 2006, Mascotte Holdings Limited entered into a sale and purchase agreement with Ms. Chan Oi Ling, Maria Olimpia, a director and major shareholder of the Company and Mascotte Holdings Limited, in relation to the acquisition of a 100% interest in the Company. Upon completion of the acquisition, the Company would become a wholly owned subsidiary of Mascotte Holdings Limited.

We have acted as auditors of the Company for the Relevant Periods.

We have examined the audited financial statements (the “Underlying Financial Statements”) of the Company for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants.

The financial information set out in this report has been prepared based on the Underlying Financial Statements. No adjustments were considered necessary to adjust the Underlying Financial Statements.

The preparation of the Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of Mascotte Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the results and cash flows of the Company for the Relevant Periods and of the state of affairs of the Company as at 31 March 2004, 2005 and 2006.

A. FINANCIAL INFORMATION

Income Statements

|  |       | 8.10.2003 | Year ended 31 March |             |
|--|-------|-----------|---------------------|-------------|
|  | Notes | to        | 2005                | 2006        |
|  |       | 31.3.2004 |                     |             |
|  |       | HK\$      | HK\$                | HK\$        |
| Turnover   | 5 & 6 | –         | 753,339             | 1,717,085   |
| Direct operating costs                           |       | –         | (295,920)           | (575,372)   |
| Gross profit                                     |       | –         | 457,419             | 1,141,713   |
| Increase in fair value<br>of investment property |       | –         | 70,948,885          | 16,371,925  |
| Other income                                     | 7     | –         | 225,753             | 543,201     |
| Administrative expenses                          |       | (7,000)   | (279,515)           | (641,965)   |
| (Loss) profit before taxation                    | 8     | (7,000)   | 71,352,542          | 17,414,874  |
| Income tax                                       | 9     | –         | (7,156,329)         | (1,786,141) |
| (Loss) profit for the period/year                |       | (7,000)   | 64,196,213          | 15,628,733  |

## Balance Sheets

|   |       | At 31 March |              |              |
|---|-------|-------------|--------------|--------------|
|   | Notes | 2004        | 2005         | 2006         |
|   |       | HK\$        | HK\$         | HK\$         |
| <b>Non-current assets</b>                             |       |             |              |              |
| Property, plant and equipment                         | 11    | –           | 1,760        | 19,148       |
| Investment property                                   | 12    | –           | 98,355,239   | 125,619,000  |
| Deposits for renovation of investment property        |       | –           | 753,680      | –            |
|   |       | –           | 99,110,679   | 125,638,148  |
| <b>Current assets</b>                                 |       |             |              |              |
| Trade and other receivables, deposits and prepayments | 13    | –           | 236,521      | 408,579      |
| Bank balances   | 14    | 1,100       | 995          | 1,010        |
|   |       | 1,100       | 237,516      | 409,589      |
| <b>Current liabilities</b>                            |       |             |              |              |
| Other payables, deposits received and accruals        | 15    | –           | 9,576,251    | 10,174,848   |
| Amount due to a shareholder                           | 16    | 8,098       | 18,426,400   | 25,278,799   |
| Income tax payable                                    |       | –           | 61,440       | 211,968      |
|   |       | 8,098       | 28,064,091   | 35,665,615   |
| <b>Net current liabilities</b>                        |       | (6,998)     | (27,826,575) | (35,256,026) |
| <b>Non-current liability</b>                          |       |             |              |              |
| Deferred taxation                                     | 17    | –           | 7,094,889    | 8,914,329    |
| <b>Net (liabilities) assets</b>                       |       | (6,998)     | 64,189,215   | 81,467,793   |
| <b>Capital and reserves</b>                           |       |             |              |              |
| Share capital   | 18    | 2           | 2            | 1,000        |
| Reserves  |       | (7,000)     | 64,189,213   | 81,466,793   |
|   |       | (6,998)     | 64,189,215   | 81,467,793   |

## Statements of Changes in Equity

|   | Share<br>capital<br><i>HK\$</i> | Translation<br>reserve<br><i>HK\$</i> | (Deficit)<br>retained<br>profits<br><i>HK\$</i> | Total<br><i>HK\$</i> |
|---|---------------------------------|---------------------------------------|---|----------------------|
| Shares issued on 8 October 2003   | 2                               | –                                     | –   | 2                    |
| Loss for the period   | –                               | –                                     | (7,000)   | (7,000)              |
| At 31 March 2004  | 2                               | –                                     | (7,000)   | (6,998)              |
| Profit for the year   | –                               | –                                     | 64,196,213                                      | 64,196,213           |
| At 31 March 2005  | 2                               | –                                     | 64,189,213                                      | 64,189,215           |
| Exchange movement on translation<br>into presentation currency<br>recognised directly in equity | –                               | 1,648,847                             | –   | 1,648,847            |
| Profit for the year   | –                               | –                                     | 15,628,733                                      | 15,628,733           |
| Total recognised profit for the year  | –                               | 1,648,847                             | 15,628,733                                      | 17,277,580           |
| Shares issued   | 998                             | –                                     | –   | 998                  |
| At 31 March 2006  | 1,000                           | 1,648,847                             | 79,817,946                                      | 81,467,793           |

## Cash Flow Statements

|  | 8.10.2003 to<br>31.3.2004<br>HK\$ | Year ended 31 March |              |
|--|-----------------------------------|---------------------|--------------|
|  |                                   | 2005<br>HK\$        | 2006<br>HK\$ |
| <b>Operating activities</b>  |                                   |                     |              |
| (Loss) profit before taxation  | (7,000)                           | 71,352,542          | 17,414,874   |
| Adjustments for:   |                                   |                     |              |
| Depreciation   | –                                 | 128                 | 2,176        |
| Interest income  | –                                 | (1,495)             | (3,225)      |
| Increase in fair value of investment property  | –                                 | (70,948,885)        | (16,371,925) |
| Operating cash flow before movements in working capital                                  | (7,000)                           | 402,290             | 1,041,900    |
| Increase in trade and other receivables, deposits and prepayments                        | –                                 | (236,521)           | (165,983)    |
| Increase in other payables, deposits received and accruals                               | –                                 | 9,576,251           | 352,609      |
| <b>Cash (used in) generated from operations</b>  | (7,000)                           | 9,742,020           | 1,228,526    |
| Interest received  | –                                 | 1,495               | 3,225        |
| <b>Net cash (used in) from operating activities</b>                                      | (7,000)                           | 9,743,515           | 1,231,751    |
| <b>Investing activities</b>  |                                   |                     |              |
| Purchase of property, plant and equipment  | –                                 | (1,888)             | (19,519)     |
| Purchase of investment property  | –                                 | (27,406,354)        | (7,592,316)  |
| Deposits for renovation of investment property   | –                                 | (753,680)           | –            |
| <b>Cash used in investing activities</b>   | –                                 | (28,161,922)        | (7,611,835)  |
| <b>Financing activities</b>  |                                   |                     |              |
| Advance from a shareholder   | 8,098                             | 18,418,302          | 6,379,075    |
| Proceeds on issue of shares  | 2                                 | –                   | 998          |
| <b>Cash from financing activities</b>  | 8,100                             | 18,418,302          | 6,380,073    |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | 1,100                             | (105)               | (11)         |
| <b>Cash and cash equivalents at beginning of the period/year</b>                         | –                                 | 1,100               | 995          |
| <b>Effect of foreign exchange rate changes</b>   | –                                 | –                   | 26           |
| <b>Cash and cash equivalents at end of the period/year, represented by bank balances</b> | <u>1,100</u>                      | <u>995</u>          | <u>1,010</u> |

**B. NOTES TO THE FINANCIAL INFORMATION****1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Company is a private limited company incorporated in Hong Kong. The principal activity of the Company is leasing of property. The address of the registered office of the Company is 410, Tin Hang House, Shun Tin Estate, Kwun Tong, Kowloon, Hong Kong. The principal place of business of the Company is Jifu Building, No. 103 Shibafu Road, Liwan District, Guangzhou City, Guangdong Province, the People's Republic of China (the "PRC").

The functional currency of the Company is Renminbi. The financial information is presented in Hong Kong dollars as the Company is incorporated in Hong Kong and the directors of the Company control and monitor the performance and financial position of the Company by using Hong Kong dollars.

The financial information has been prepared on a going concern basis because a shareholder has agreed to provide adequate funds to the Company to meet in full its financial obligations as they fall due in the foreseeable future.

**2. ADOPTION OF NEW FINANCIAL REPORTING STANDARDS**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred as "new HKFRSs") that are effective for the accounting periods beginning on or after 1 January 2005. The financial information has been prepared in accordance with those new HKFRSs. The HKICPA has also issued the following new standards and interpretations, which are not yet effective for the Relevant Periods. The Company has not early applied these new standards and interpretations. The directors of the Company is in the process of assessing the potential impact of these new standards and interpretations and so far concluded that the application of these new standards and interpretations will have no material impact on the financial information of the Company.

|                                |  |
|--------------------------------|--|
| HKAS 1 (Amendment)             | Capital disclosures <sup>1</sup>   |
| HKAS 19 (Amendment)            | Actuarial gains and losses, group plans and disclosures <sup>2</sup>   |
| HKAS 21 (Amendment)            | Net investment in a foreign operation <sup>2</sup>   |
| HKAS 39 (Amendment)            | Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>  |
| HKAS 39 (Amendment)            | The fair value option <sup>2</sup>   |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts <sup>2</sup>   |
| HKFRS 6                        | Exploration for and evaluation of mineral resources <sup>2</sup>   |
| HKFRS 7                        | Financial instruments: Disclosures <sup>1</sup>  |
| HK(IFRIC) – INT 4              | Determining whether an arrangement contains a lease <sup>2</sup>   |
| HK(IFRIC) – INT 5              | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>  |
| HK(IFRIC) – INT 6              | Liabilities arising from participating in a specific market-waste electrical and electronic equipment <sup>3</sup> |
| HK(IFRIC) – INT 7              | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>    |
| HK(IFRIC) – INT 8              | Scope of HKFRS 2 <sup>5</sup>  |
| HK(IFRIC) – INT 9              | Reassessment of embedded derivatives <sup>6</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 June 2006.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

The financial information has been prepared on the historical cost basis except for investment property which are measured at fair value, as explained in the accounting policies set out below.

The principal accounting policies adopted are as follows:

#### **Revenue recognition**

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period/year in which the item is derecognised.

#### **Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Company as lessor*

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### **Foreign currencies**

In preparing the financial information, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at



the rates prevailing on the balance sheet date. Non-monetary items 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the financial information, the assets and liabilities of the Company are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period/year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the operation is disposed of.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### *Financial assets – Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities*

Financial liabilities including other payables, deposit received and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Impairment**

At each relevant reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**Taxation**

Income tax represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. 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 periods/years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by each balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the balance sheet 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 the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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.

**4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's major financial instruments are trade and other receivables, deposits, bank balances, other payables, deposits received and amount due to a shareholder. Details of which are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in each balance sheet. In order to minimise the credit risk, the management of the Company has monitoring procedures to ensure that follow-up action is taken to recover overdue debts and reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Company has no significant concentration of credit risk on receivables, with exposure spread over a number of counterparties.

**Liquidity risk**

The Company has net current liabilities at each balance sheet date and therefore is exposed to liquidity risk which is dependent on the financial support from its shareholder.

**5. GEOGRAPHICAL AND BUSINESS SEGMENTS**

The Company is principally engaged in the property leasing in the PRC. No analysis by geographical and business segments is provided herein.

**6. TURNOVER**

Turnover represents rental income received and receivable during the Relevant Periods.

**7. OTHER INCOME**

Included in other income is interest income of Nil, HK\$1,495 and HK\$3,225 for period from 8 October 2003 to 31 March 2004 and each of the two years ended 31 March 2006 respectively.

**8. (LOSS) PROFIT BEFORE TAXATION**

|   | <b>8.10.2003 to<br/>31.3.2004</b> | <b>Year ended 31 March</b> |             |
|---|-----------------------------------|----------------------------|-------------|
|   | <i>HK\$</i>                       | <b>2005</b>                | <b>2006</b> |
|   |                                   | <i>HK\$</i>                | <i>HK\$</i> |
| (Loss) profit before taxation has been arrived at after charging: |                                   |                            |             |
| Auditors' remuneration  | –                                 | –                          | –           |
| Depreciation  | –                                 | 128                        | 2,176       |
| Directors' remuneration   | –                                 | –                          | –           |
|   | <u>–</u>                          | <u>–</u>                   | <u>–</u>    |

Auditors' remuneration is borne by a shareholder.

**9. INCOME TAX**

|                       | <b>8.10.2003 to<br/>31.3.2004</b> | <b>Year ended 31 March</b> |                  |
|-----------------------|-----------------------------------|----------------------------|------------------|
|                       | <i>HK\$</i>                       | <b>2005</b>                | <b>2006</b>      |
|                       |                                   | <i>HK\$</i>                | <i>HK\$</i>      |
| The charge comprises: |                                   |                            |                  |
| PRC income tax        | –                                 | 61,440                     | 148,949          |
| Deferred taxation     | –                                 | 7,094,889                  | 1,637,192        |
|                       | <u>–</u>                          | <u>7,156,329</u>           | <u>1,786,141</u> |

PRC income tax is calculated at the rate prevailing in the PRC. The income tax for the period/year can be reconciled to the (loss) profit per the income statement as follows:

|   | <b>8.10.2003 to<br/>31.3.2004</b> | <b>Year ended 31 March</b> |                   |
|---|-----------------------------------|----------------------------|-------------------|
|   | <i>HK\$</i>                       | <b>2005</b>                | <b>2006</b>       |
|   |                                   | <i>HK\$</i>                | <i>HK\$</i>       |
| (Loss) profit before taxation                         | <u>(7,000)</u>                    | <u>71,352,542</u>          | <u>17,414,874</u> |
| Tax at PRC income tax rate of 10%                     | (700)                             | 7,135,254                  | 1,741,487         |
| Tax effect of expenses not deductible for tax purpose | 700                               | 54,310                     | 113,895           |
| Tax effect of income not taxable for tax purpose      | <u>–</u>                          | <u>(33,235)</u>            | <u>(69,241)</u>   |
| Income tax for the period/year                        | <u>–</u>                          | <u>7,156,329</u>           | <u>1,786,141</u>  |

**10. EARNINGS PER SHARE**

Earnings per share is not presented herein as such information is not considered meaningful in the context of this report.

11. PROPERTY, PLANT AND EQUIPMENT

|                         | Furniture and<br>fixtures<br><i>HK\$</i> | Office<br>equipment<br><i>HK\$</i> | Total<br><i>HK\$</i> |
|-------------------------|--|------------------------------------|----------------------|
| <b>2004</b>             |  |                                    |                      |
| COST                    |  |                                    |                      |
| At 8 October 2003       | –  | –                                  | –                    |
| Additions               | –  | –                                  | –                    |
|                         |  |                                    |                      |
| At 31 March 2004        | –  | –                                  | –                    |
|                         |  |                                    |                      |
| DEPRECIATION            |  |                                    |                      |
| At 8 October 2003       | –  | –                                  | –                    |
| Provided for the period | –  | –                                  | –                    |
|                         |  |                                    |                      |
| At 31 March 2004        | –  | –                                  | –                    |
|                         |  |                                    |                      |
| CARRYING VALUE          |  |                                    |                      |
| At 31 March 2004        | –  | –                                  | –                    |
|                         |  |                                    |                      |
| <b>2005</b>             |  |                                    |                      |
| COST                    |  |                                    |                      |
| At 1 April 2004         | –  | –                                  | –                    |
| Additions               | 895                                      | 993                                | 1,888                |
|                         |  |                                    |                      |
| At 31 March 2005        | 895                                      | 993                                | 1,888                |
|                         |  |                                    |                      |
| DEPRECIATION            |  |                                    |                      |
| At 1 April 2004         | –  | –                                  | –                    |
| Provided for the year   | 100                                      | 28                                 | 128                  |
|                         |  |                                    |                      |
| At 31 March 2005        | 100                                      | 28                                 | 128                  |
|                         |  |                                    |                      |
| CARRYING VALUE          |  |                                    |                      |
| At 31 March 2005        | 795                                      | 965                                | 1,760                |
|                         |  |                                    |                      |
| <b>2006</b>             |  |                                    |                      |
| COST                    |  |                                    |                      |
| At 1 April 2005         | 895                                      | 993                                | 1,888                |
| Exchange adjustments    | 23                                       | 25                                 | 48                   |
| Additions               | 8,262                                    | 11,257                             | 19,519               |
|                         |  |                                    |                      |
| At 31 March 2006        | 9,180                                    | 12,275                             | 21,455               |
|                         |  |                                    |                      |
| DEPRECIATION            |  |                                    |                      |
| At 1 April 2005         | 100                                      | 28                                 | 128                  |
| Exchange adjustments    | 2  | 1                                  | 3                    |
| Provided for the year   | 560                                      | 1,616                              | 2,176                |
|                         |  |                                    |                      |
| At 31 March 2006        | 662                                      | 1,645                              | 2,307                |
|                         |  |                                    |                      |
| CARRYING VALUE          |  |                                    |                      |
| At 31 March 2006        | 8,518                                    | 10,630                             | 19,148               |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

|                        |     |
|------------------------|-----|
| Furniture and fixtures | 15% |
| Office equipment       | 15% |

## 12. INVESTMENT PROPERTY

|                                 | 8.10.2003 to<br>31.3.2004<br>HK\$ | Year ended 31 March<br>2005<br>HK\$ | 2006<br>HK\$       |
|---------------------------------|-----------------------------------|-------------------------------------|--------------------|
| FAIR VALUE                      |                                   |                                     |                    |
| At beginning of the period/year | –                                 | –                                   | 98,355,239         |
| Exchange adjustments            | –                                 | –                                   | 2,526,480          |
| Additions                       | –                                 | 27,406,354                          | 8,365,356          |
| Increase in fair value          | –                                 | 70,948,885                          | 16,371,925         |
|                                 | <u>–</u>                          | <u>98,355,239</u>                   | <u>125,619,000</u> |
| At end of the period/year       | <u>–</u>                          | <u>98,355,239</u>                   | <u>125,619,000</u> |

The investment property is located in the PRC under a medium term lease.

The fair value of the investment property at the balance sheet dates have been arrived at on the basis of a valuation carried out on those dates by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected with the Company. Vigers Appraisal & Consulting Limited is a member of the Hong Kong Institute of Surveyors and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The property has been transferred to the Company pursuant to the signing of an auction confirmation dated 3 June 2004 and settlement of the full consideration as specified in the auction confirmation upon which the Company is entitled to occupy the property, receive the rental from the existing tenants and obtain any income derived from the property. The Company is now in the process of obtaining the Real Estate Ownership Certificate and will be entitled to transfer, lease and mortgage the property in the open market once the Real Estate Ownership Certificate under the name of the Company has been issued by the relevant government organisation. The above valuation is made on the basis that the property has obtained the Real Estate Ownership Certificate under the name of the Company and freely transferable in the market.

## 13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Company allows an average credit period ranging from 5 to 30 days to its tenants.

An aged analysis of trade receivables is as follows:

|   | 2004<br>HK\$ | At 31 March<br>2005<br>HK\$ | 2006<br>HK\$   |
|---|--------------|-----------------------------|----------------|
| Within 30 days                              | –            | 28,757                      | 62,238         |
| Between 31 to 60 days                       | –            | 14,587                      | 546            |
| Between 61 to 90 days                       | –            | 14,587                      | –              |
| Between 91 to 365 days                      | –            | 43,762                      | 13,671         |
|   | <u>–</u>     | <u>101,693</u>              | <u>76,455</u>  |
| Other receivables, deposits and prepayments | –            | 134,828                     | 332,124        |
|   | <u>–</u>     | <u>236,521</u>              | <u>408,579</u> |

The fair value of trade and other receivables and deposits at the balance sheet dates approximates to the corresponding carrying amount.

14. BANK BALANCES

The fair value of the amount at the balance sheet dates approximates to the corresponding carrying amount.

15. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

The fair value of the other payables and deposits received at the balance sheet dates approximates to the corresponding carrying amount.

16. AMOUNT DUE TO A SHAREHOLDER

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

The fair value of the amount at the balance sheet dates approximates to the corresponding carrying amount.

17. DEFERRED TAXATION

The following are the deferred tax liabilities in respect of revaluation of investment property recognised by the Company and movements thereon during the Relevant Periods.

|                                      | 8.10.2003 to<br>31.3.2004<br>HK\$ | Year ended 31 March |              |
|--------------------------------------|-----------------------------------|---------------------|--------------|
|                                      |                                   | 2005<br>HK\$        | 2006<br>HK\$ |
| At beginning of the period/year      | –                                 | –                   | 7,094,889    |
| Exchange adjustments                 | –                                 | –                   | 182,248      |
| Charge to income for the period/year | –                                 | 7,094,889           | 1,637,192    |
|                                      |                                   |                     |              |
| At end of the period/year            | –                                 | 7,094,889           | 8,914,329    |

18. SHARE CAPITAL

|  | 8.10.2003 to<br>31.3.2004<br>HK\$ | Year ended 31 March |              |
|--|-----------------------------------|---------------------|--------------|
|  |                                   | 2005<br>HK\$        | 2006<br>HK\$ |
| Ordinary share of HK\$1 each             |                                   |                     |              |
| <b>Authorised</b>                        |                                   |                     |              |
| At beginning of the period/year          | –                                 | 10,000              | 10,000       |
| Increase during the period/year          | 10,000                            | –                   | –            |
| Converted into non-voting deferred share | –                                 | –                   | (2)          |
|  |                                   |                     |              |
| At end of the period/year                | 10,000                            | 10,000              | 9,998        |
| <b>Issued and fully paid</b>             |                                   |                     |              |
| At beginning of the period/year          | –                                 | 2                   | 2            |
| Issued during the period/year            | 2                                 | –                   | 998          |
| Converted into non-voting deferred share | –                                 | –                   | (2)          |
|  |                                   |                     |              |
| At end of the period/year                | 2                                 | 2                   | 998          |

|   | 8.10.2003 to<br>31.3.2004<br>HK\$ | Year ended 31 March<br>2005<br>HK\$ | 2006<br>HK\$ |
|---|-----------------------------------|-------------------------------------|--------------|
| Non-voting deferred share of HK\$1 each |                                   |                                     |              |
| <b>Authorised</b>                       |                                   |                                     |              |
| At beginning of the period/year         | –                                 | –                                   | –            |
| Converted from ordinary share           | –                                 | –                                   | 2            |
|   | <u>–</u>                          | <u>–</u>                            | <u>2</u>     |
| At end of the period/year               | <u>–</u>                          | <u>–</u>                            | <u>2</u>     |
| <b>Issued and fully paid</b>            |                                   |                                     |              |
| At beginning of the period/year         | –                                 | –                                   | –            |
| Converted from ordinary share           | –                                 | –                                   | 2            |
|   | <u>–</u>                          | <u>–</u>                            | <u>2</u>     |
| At end of the period/year               | <u>–</u>                          | <u>–</u>                            | <u>2</u>     |

The Company was incorporated with an authorised share capital of 10,000 ordinary shares of HK\$1 each amounting to HK\$10,000. At the time of incorporation, 2 ordinary shares of HK\$1 each were issued at par to the subscribers to provide the initial capital of the Company.

On 22 December 2005, the Company issued 998 ordinary shares of HK\$1 each at par to the shareholder of the Company for the purpose of raising additional capital.

On the same date, 2 ordinary shares of HK\$1 each are hereby converted into non-voting deferred shares of HK\$1 each.

These non-voting deferred shares practically carry no right to dividends and no rights to receive notice of or to attend or vote at any general meeting of the Company. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the Company only after the distribution of substantial amounts as specified in the Articles of Associations to holders of ordinary shares of the Company.

## 19. OPERATING LEASE ARRANGEMENTS

At the balance sheet dates, the Company had contracted with tenants for the following future minimum lease payments:

|                                       | 2004<br>HK\$ | At 31 March<br>2005<br>HK\$ | 2006<br>HK\$     |
|---------------------------------------|--------------|-----------------------------|------------------|
| Within one year                       | –            | 747,781                     | 2,627,952        |
| In the second to fifth year inclusive | –            | 859,063                     | 1,502,872        |
|                                       | <u>–</u>     | <u>1,606,844</u>            | <u>4,130,824</u> |

Leases are negotiated for the range of 1 to 5 years.

20. CAPITAL COMMITMENTS

|  | At 31 March  |                      |                   |
|--|--------------|----------------------|-------------------|
|  | 2004         | 2005                 | 2006              |
|  | HK\$         | HK\$                 | HK\$              |
| Capital expenditure in respect of the renovation for investment property contracted but not provided for in the financial statements | <div>–</div> | <div>2,581,354</div> | <div>21,850</div> |

C. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong



The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.



德勤 • 關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

30 June 2006

The Board of Directors  
Mascotte Holdings Limited  
1st Floor, Po Chai Industries Building  
28 Wong Chuk Hang Road  
Aberdeen  
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION TO THE DIRECTORS OF MASCOTTE HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of Mascotte Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors for illustrative purpose only, to provide information about how the proposed acquisition of Jet Star Industries Limited might have affected the financial information presented, for inclusion in Appendix III of the circular dated 30 June 2006 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out on pages 81 to 87 of the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND  
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 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 financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose 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 financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 September 2005 or any future date; or
- the results and cash flows of the Group for the year ended 31 March 2005 or any future period.

**OPINION**

In our opinion:

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

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**A. INTRODUCTION**

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition of Jet Star by the Group.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Group's directors, and because of its nature, it 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, result or cash flows of:

- the Enlarged Group had the Acquisition actually completed as the dates indicated therein; or
- the Enlarged Group at any future date or for any future periods.

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based upon the unaudited consolidated balance sheet of the Group as at 30th September, 2005, which has been extracted from the interim report of the Group for the six months ended 30th September, 2005 and the audited balance sheet of Jet Star as at 31st March, 2006 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition has been completed on 30th September, 2005.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group as extracted from the annual report of the Group for the year ended 31st March, 2005, and the audited income statement and cash flow statement of Jet Star for the year ended 31st March, 2006 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition has been completed on 1st April, 2004.

The accompanying unaudited pro forma financial information of the Enlarged Group is prepared based on the audited and unaudited historical information of the Group as set out in Appendix I and the audited historical financial information of Jet Star as set out in Appendix II after incorporating the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions and (ii) factually supportable, are summarized in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of Jet Star as set out in Appendix II and other financial information included elsewhere in this circular.

APPENDIX III

PRO FORMA FINANCIAL INFORMATION OF THE GROUP

B.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

|  | Unaudited<br>consolidated<br>balance sheet of<br>the Group as at<br>30th September,<br>2005<br>HK\$'000 | Audited<br>balance sheet of<br>Jet Star as at<br>31st March,<br>2006<br>HK\$'000 | Sub-total<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Pro forma<br>consolidated<br>balance sheet of<br>the Enlarged<br>Group after the<br>Acquisition<br>HK\$'000 |
|--|---|--|-----------------------|--------------------------------------|-------|---|
| <b>Non-current assets</b>                                |   |  |                       |                                      |       |   |
| Investment properties                                    | 34,236  | 125,619  | 159,855               |                                      |       | 159,855   |
| Property, plant and equipment                            | 47,187  | 19   | 47,206                |                                      |       | 47,206  |
| Goodwill   | 7,042   | –  | 7,042                 |                                      |       | 7,042   |
| Deposit paid   | 18,000  | –  | 18,000                |                                      |       | 18,000  |
| Prepaid lease payments                                   | 5,200   | –  | 5,200                 |                                      |       | 5,200   |
|  | 111,665   | 125,638  | 237,303               |                                      |       | 237,303   |
| <b>Current assets</b>                                    |   |  |                       |                                      |       |   |
| Inventories  | 8,111   | –  | 8,111                 |                                      |       | 8,111   |
| Trade and other receivables, deposits<br>and prepayments | 47,542  | 409  | 47,951                |                                      |       | 47,951  |
| Loans receivable   | 46,710  | –  | 46,710                |                                      |       | 46,710  |
| Bank balances and cash                                   | 41,127  | 1  | 41,128                | (48,000)                             | (1)   | (6,872)   |
|  | 143,490   | 410  | 143,900               |                                      |       | 95,900  |
| <b>Current liabilities</b>                               |   |  |                       |                                      |       |   |
| Trade creditors  | 15,274  | –  | 15,274                |                                      |       | 15,274  |
| Other payables, deposits and accruals                    | 11,402  | 10,175   | 21,577                |                                      |       | 21,577  |
| Amount due to a shareholder                              | –   | 25,279   | 25,279                | (25,279)                             | (2)   | –   |
| Amount due to a director                                 | –   | –  | –                     | 11,000                               | (1)   | 11,000  |
| Dividend payable   | 405   | –  | 405                   |                                      |       | 405   |
| Tax payable  | 5,943   | 212  | 6,155                 |                                      |       | 6,155   |
| Bank borrowings  | 24,719  | –  | 24,719                |                                      |       | 24,719  |
|  | 57,743  | 35,666   | 93,409                |                                      |       | 79,130  |

APPENDIX III

PRO FORMA FINANCIAL INFORMATION OF THE GROUP

|   | Unaudited<br>consolidated<br>balance sheet of<br>the Group as at<br>30th September,<br>2005<br><i>HK\$'000</i> | Audited<br>balance sheet of<br>Jet Star as at<br>31st March,<br>2006<br><i>HK\$'000</i> | Sub-total<br><br><i>HK\$'000</i> | Pro forma<br>adjustments<br><br><i>HK\$'000</i> | Notes | Pro forma<br>consolidated<br>balance sheet of<br>the Enlarged<br>Group after the<br>Acquisition<br><br><i>HK\$'000</i> |
|---|--|---|----------------------------------|---|-------|--|
| Net current assets/(liabilities)                    | 85,747   | (35,256)  | 50,491                           |   |       | 16,770   |
| Total assets less current liabilities               | 197,412  | 90,382  | 287,794                          |   |       | 254,073  |
| Non-current liabilities                             |  |   |                                  |   |       |  |
| Amount due to a director                            | –  | –   | –                                | 33,000  | (1)   | 33,000   |
| Bank borrowings                                     | 9,273  | –   | 9,273                            |   |       | 9,273  |
| Deferred taxation                                   | –  | 8,914   | 8,914                            |   |       | 8,914  |
|   | 9,273  | 8,914   | 18,187                           |   |       | 51,187   |
| Net assets  | 188,139  | 81,468  | 269,607                          |   |       | 202,886  |
| Capital and reserves                                |  |   |                                  |   |       |  |
| Share capital                                       | 42,400   | 1   | 42,401                           | (1)   | (1)   | 42,400   |
| Reserves  | 142,824  | 81,467  | 224,291                          | (81,467)  | (1)   | 157,571  |
|   |  |   |                                  | 14,747  | (2)   |  |
| Total equity attributable<br>to equity shareholders | 185,224  | 81,468  | 266,692                          |   |       | 199,971  |
| Minority interests                                  | 2,915  | –   | 2,915                            |   |       | 2,915  |
|   | 188,139  | 81,468  | 269,607                          |   |       | 202,886  |

C.

UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP

|  | Audited<br>consolidated<br>income statement<br>of the Group for<br>the year ended<br>31st March,<br>2005<br><i>HK\$'000</i> | Audited<br>income statement<br>of Jet Star for<br>the year ended<br>31st March,<br>2006<br><i>HK\$'000</i> | Sub-total<br><i>HK\$'000</i> | Pro forma<br>adjustments<br><i>HK\$'000</i> | Notes | Pro forma<br>consolidated<br>income statement<br>of the Enlarged<br>Group after the<br>Acquisition<br><i>HK\$'000</i> |
|--|---|--|------------------------------|---|-------|---|
| Turnover   | 182,661   | 1,717  | 184,378                      |   |       | 184,378   |
| Cost of sales  | (130,555)   | (575)  | (131,130)                    |   |       | (131,130)   |
| Gross profit   | 52,106  | 1,142  | 53,248                       |   |       | 53,248  |
| Other operating income                                 | 413   | 543  | 956                          |   |       | 956   |
| Selling and distribution costs                         | (9,297)   | –  | (9,297)                      |   |       | (9,297)   |
| Administrative expenses                                | (32,257)  | (642)  | (32,899)                     |   |       | (32,899)  |
| Net increase in fair value<br>of investment properties | 2,474   | 16,372   | 18,846                       | (16,372)                                    | (3)   | 2,474   |
| Profits from operation                                 | 13,439  | 17,415   | 30,854                       |   |       | 14,482  |
| Finance costs  | (1,160)   | –  | (1,160)                      | (968)                                       | (4)   | (2,128)   |
| Profits before taxation                                | 12,279  | 17,415   | 29,694                       |   |       | 12,354  |
| Incomes taxes  | (5,519)   | (1,786)  | (7,305)                      | 1,637                                       | (3)   | (5,668)   |
| Profit for the year                                    | 6,760   | 15,629   | 22,389                       |   |       | 6,686   |
| Attributable to:                                       |   |  |                              |   |       |   |
| Shareholders of the Company                            | 6,560   | 15,629   | 22,189                       |   |       | 6,486   |
| Minority interests                                     | 200   | –  | 200                          |   |       | 200   |
|  | 6,760   | 15,629   | 22,389                       |   |       | 6,686   |

## APPENDIX III PRO FORMA FINANCIAL INFORMATION OF THE GROUP

### D. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT FOR THE ENLARGED GROUP

|  | Audited<br>consolidated cash<br>flow statement of<br>the Group for<br>the year ended<br>31st March,<br>2005<br>HK\$'000 | Audited<br>cash flow<br>statement of<br>Jet Star for<br>the year ended<br>31st March,<br>2006<br>HK\$'000 | Sub-total<br>HK\$'000 | Pro forma<br>adjustments<br>HK\$'000 | Notes | Pro forma<br>consolidated cash<br>flow statement of<br>the Enlarged<br>Group after the<br>Acquisition<br>HK\$'000 |
|--|---|---|-----------------------|--------------------------------------|-------|---|
| <b>OPERATING ACTIVITIES</b>  |   |   |                       |                                      |       |   |
| Profit from operations   | 13,439  | 17,415  | 30,854                | (16,372)                             | (3)   | 14,482  |
| Adjustments for:   |   |   |                       |                                      |       |   |
| Allowance for doubtful debts   | 1,603   | –   | 1,603                 |                                      |       | 1,603   |
| Allowance for inventories  | 733   | –   | 733                   |                                      |       | 733   |
| Amortisation of goodwill   | 1,083   | –   | 1,083                 |                                      |       | 1,083   |
| Depreciation and amortisation of<br>property, plant and equipment<br>and investment properties | 3,935   | 2   | 3,937                 |                                      |       | 3,937   |
| Loss on winding up of subsidiaries   | 31  | –   | 31                    |                                      |       | 31  |
| Gain on disposal of property, plant<br>and equipment   | (55)  | –   | (55)                  |                                      |       | (55)  |
| Interest income  | (41)  | (3)   | (44)                  |                                      |       | (44)  |
| Net increase in fair value of<br>investment properties   | (2,474)   | (16,372)  | (18,846)              | 16,372                               | (3)   | (2,474)   |
| Operating cash flows before<br>movements in working capital                                    | 18,254  | 1,042   | 19,296                |                                      |       | 19,296  |
| Increase in inventories  | (1,705)   | –   | (1,705)               |                                      |       | (1,705)   |
| Increase in trade and other<br>receivables deposits and<br>prepayment                          | (1,871)   | (166)   | (2,037)               |                                      |       | (2,037)   |
| Increase in trade creditors  | 89  | –   | 89                    |                                      |       | 89  |
| (Decrease) increase in other payables,<br>deposits received and accruals                       | (1,025)   | 352   | (673)                 |                                      |       | (673)   |
| Cash generated from operations   | 13,742  | 1,228   | 14,970                |                                      |       | 14,970  |
| Interest received  | –   | 3   | 3                     |                                      |       | 3   |
| Hong Kong Profits Tax paid   | (4,320)   | –   | (4,320)               |                                      |       | (4,320)   |
| Hong Kong Profits Tax refunded   | 516   | –   | 516                   |                                      |       | 516   |
| Taxation outside of Hong Kong paid   | (33)  | –   | (33)                  |                                      |       | (33)  |

APPENDIX III

PRO FORMA FINANCIAL INFORMATION OF THE GROUP

|   | Audited<br>consolidated cash<br>flow statement of<br>the Group for<br>the year ended<br>31st March,<br>2005<br><i>HK\$'000</i> | Audited<br>cash flow<br>statement of<br>Jet Star for<br>the year ended<br>31st March,<br>2006<br><i>HK\$'000</i> | Sub-total<br><br><i>HK\$'000</i> | Pro forma<br>adjustments<br><i>HK\$'000</i> | Notes | Pro forma<br>consolidated cash<br>flow statement of<br>the Enlarged<br>Group after the<br>Acquisition<br><i>HK\$'000</i> |
|---|--|--|----------------------------------|---|-------|--|
| NET CASH FROM OPERATING<br>ACTIVITIES                       | 9,905  | 1,231  | 11,136                           |   |       | 11,136   |
| INVESTING ACTIVITIES  |  |  |                                  |   |       |  |
| Purchase of property, plant and<br>equipment                | (1,295)  | (19)   | (1,314)                          |   |       | (1,314)  |
| Purchase of investment property                             | –  | (7,592)  | (7,592)                          |   |       | (7,592)  |
| Deposit paid for acquisition of<br>properties               | (300)  | –  | (300)                            |   |       | (300)  |
| Proceeds from disposal of investment<br>properties          | 35,000   | –  | 35,000                           |   |       | 35,000   |
| Proceeds from disposal of property,<br>plant and equipment  | 232  | –  | 232                              |   |       | 232  |
| Acquisition of Jet star                                     | –  | –  | –                                | (48,000)                                    | (1)   | (48,000)   |
| Interest received   | 41   | –  | 41                               |   |       | 41   |
| NET CASH FROM (USED IN)<br>INVESTING ACTIVITIES             | 33,678   | (7,611)  | 26,067                           |   |       | (21,933)   |
| FINANCING ACTIVITIES  |  |  |                                  |   |       |  |
| New bank loan raised  | 16,804   | –  | 16,804                           |   |       | 16,804   |
| Repayment of bank loans                                     | (33,916)   | –  | (33,916)                         |   |       | (33,916)   |
| Advance from a shareholder                                  | –  | 6,379  | 6,379                            |   |       | 6,379  |
| Proceeds on issue of shares                                 | –  | 1  | 1                                |   |       | 1  |
| Dividend paid   | (3,835)  | –  | (3,835)                          |   |       | (3,835)  |
| Interest paid   | (1,160)  | –  | (1,160)                          |   |       | (1,160)  |
| NET CASH (USED IN) FROM<br>FINANCING ACTIVITIES             | (22,107)   | 6,380  | (15,727)                         |   |       | (15,727)   |
| INCREASE (DECREASE) IN<br>CASH AND CASH<br>EQUIVALENTS      | 21,476   | –  | 21,476                           |   |       | (26,524)   |
| CASH AND CASH EQUIVALENTS<br>AT BEGINNING OF THE YEAR       | 12,129   | 1  | 12,130                           |   |       | 12,130   |
| CASH AND CASH EQUIVALENT<br>AT END OF THE YEAR              | 33,605   | 1  | 33,606                           |   |       | (14,394)   |
| ANALYSIS OF THE BALANCES<br>OF CASH AND CASH<br>EQUIVALENTS |  |  |                                  |   |       |  |
| Bank balances and cash                                      | 34,566   | 1  | 34,567                           | (34,567)                                    | (1)   | –  |
| Bank overdrafts   | (961)  | 0  | (961)                            | (13,433)                                    | (1)   | (14,394)   |
|   | 33,605   | 1  | 33,606                           | (48,000)                                    |       | (14,394)   |



## E. NOTES

- (1) The adjustments represent the elimination of capital of HK\$1,000 and reserves of HK\$81,467,000 of Jet Star upon completion of the Acquisition for a total Consideration of HK\$92,000,000 which is to be financed by internal cash resources of HK\$48,000,000 and a director's loan due to Ms. Chan of HK\$44,000,000. Bank borrowings will be drawn from existing facilities of the Group, if necessary.
- (2) The adjustments represent discount arising from the acquisition of Jet Star as if the Acquisition had taken place on 31st March, 2005. The discount of approximately HK\$14,747,000 arising from the acquisition of Jet Star is derived from the Consideration of HK\$92,000,000 minus the net assets of Jet Star acquired which amounted to approximately HK\$81,468,000 as at 31st March, 2006 minus the Shareholder's loan (i.e. amount due by Jet Star to its shareholder, Ms. Chan) to be acquired by the Company of approximately HK\$25,279,000 as at 31st March, 2006. The discount on acquisition is regarded as a deemed capital contribution by the shareholder, and therefore, credited to equity.
- (3) The income statement of Jet Star for the year ended 31st March, 2006 as set out in the Appendix II to this circular was prepared in accordance with the accounting policies in conformity with new Hong Kong Financial Reporting Standards effective for accounting periods beginning on or after 1st January, 2005. The increase in fair value of investment property is included in profit or loss for the period in which they arise in accordance with Hong Kong Accounting Standard 40 "Investment Property" which is different from the accounting policies adopted by the Group in the preparation of the financial statements for the year ended 31st March, 2005 that revaluation surplus or deficits were credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. Accordingly, the increase in fair value of investment property by Jet Star of HK\$16,372,000 arising during the year ended 31st March, 2006 would be wholly credited to revaluation reserve and the corresponding deferred tax on increase in fair value of investment property of HK\$1,637,000 would also be charged to revaluation reserve.
- (4) The amount represents interest on director's loan due to Ms. Chan of HK\$44,000,000 calculated at 1.5% over Hong Kong Interbank Offered Rate (approximately 2.2% per annum). The settlement of loan and interest are assumed to be in accordance with the dates as specified in the agreement.

## 1. MANAGEMENT DISCUSSION AND ANALYSIS

### (a) THE GROUP

The following is the reproduction of the management discussion and analysis as contained in the interim report of the Company for the six months ended 30 September, 2005 and the annual reports of the Company for the year ended 31 March 2003, 2004 and 2005:

*For the six months ended 30th September 2005*

#### **BUSINESS REVIEW**

For the six months period ended 30th September, 2005, the Group recorded a turnover of approximately HK\$101.3 million, representing an increase of 14.2% when compared with previous corresponding period.

Profit before taxation and profit attributable to shareholders for the period ended 30th September, 2005 amounted to approximately HK\$10.0 million and HK\$8.2 million respectively (2004: HK\$8.8 million and HK\$7.9 million). Such increases in profit were mainly attributable to an increase in turnover of the Group's manufacture and sale activity.

#### **Manufacture and Sale of Photographical, Electrical and Multimedia Accessories**

During the period under review, the demand for the Group's products remained strong and healthy and the Group achieved growth in both turnover and profit approximately of HK\$99.8 million and HK\$11.0 million, representing an increase of 14.6% and 27.3% over the last corresponding period. Europe continued to be the Group's largest market, accounting for approximately 63.6% of the turnover of the period. Total export sales to Europe rose to HK\$64.5 million, representing a growth of 27.4% as compared to that of same period last year. The management has good knowledge and confidence in this market and will adhere to its established strategy to further penetrate into this very huge market.

In this year 2005, the Group has also re-distributed and diversified more marketing resource into the US market, which accounts for around 12.9% of the Group's sales turnover in this period under review. The Group has added to an experienced marketing executive for the North American market that has over 18 years of experience in the multimedia and audio accessories industry and is optimistic to increase market share in the post quota era.

#### **Property Portfolio Refinement**

During the period under review, the Group was able to maintain a stable property letting income of approximately HK\$1.5 million when compared with HK\$1.6 million last period.

The management considers that the economic growth of the PRC is promising and will continue to take opportunity to focus upon and expand its strategic business developments in refining the PRC property portfolio.

## **FINANCIAL REVIEW**

### **Liquidity and Gearing Ratio**

As at 30th September, 2005, the Group recorded a total of cash and bank balances of HK\$41.1 million (as at 31st March, 2005 of HK\$34.6 million). Moreover, the Group had current assets of HK\$143.5 million (as at 31st March, 2005 of HK\$127.9 million). The shareholder's equity was of HK\$185.2 million (as at 31st March, 2005 of HK\$181.2 million) and the total bank borrowings was of HK\$34.0 million (as at 31st March, 2005 of HK\$29.9 million); and accordingly, the gearing ratio was of 18.4% (as at 31st March, 2005 of 16.5%).

### **Pledge of Assets**

As at 30th September, 2005, the Group had pledged its investment properties and leasehold land and buildings with carrying value of HK\$28.5 million (as at 31st March, 2005 of HK\$22.7 million) and HK\$27.6 million (as at 31st March, 2005 of HK\$28.2 million) respectively to banks to secure banking facilities granted to the Group.

### **Contingent Liabilities**

As at 30th September, 2005, the Company provided corporate guarantees of HK\$85.0 million (as at 31st March, 2005 of HK\$101.0 million) to banks to secure general banking facilities granted to subsidiaries. The total amount of facilities utilized by the subsidiaries as at 30th September, 2005 amounted to HK\$34.0 million (as at 31st March, 2005 of HK\$29.9 million).

## **NUMBER OF EMPLOYEES AND REMUNERATION POLICY**

As at 30th September, 2005, the Group had more than 1,000 employees and with around 95% of them were employed in the PRC for the manufacturing business. The Group remunerates its employees based on their work performance and with reference to prevailing condition of labor markets.

## **PROSPECTS**

The management continues to take a down-to-earth approach with a continued focus on new revenue channels in the Group's core business of accessories for photographic, multimedia and electrical products. The increased demand for digital SLR camera bags is helping to maintain a sustainable turnover in the photographic area albeit in a declining market, whereas extended relationships with multimedia brand manufacturers are

allowing the Group to expand in the thriving audio market. Despite of the challenges ahead, the Group is confident to maintain its leading position in the photographic market; and at the same time to increase its market share in the multimedia market.

In prior years, the Group signed various co-operation and manufacturing agreements with Eleksen Limited ([www.eleksen.com](http://www.eleksen.com)), a UK technology company, which is a patent holder for soft fabric switches and sensors. After several specific projects involving intense R&D and market research, Eleksen have now launched generic controllers for wearables and a Bluetooth keyboard compatible with most mobile devices with pre-orders and deliveries for Q1 2006. The Group manufactures both generic sensors and several convergence products for Eleksen customers. The management sees good growth potential in the Group's continued investment into convergence products (textile and electronic combinations) and further strategic relationships with technology partners such as NXT PLC ([www.nxtplc.com](http://www.nxtplc.com)) and Eleksen, which offer patented and unique products for the multimedia and audio industry. The management believes that these projects will contribute positively to the Group's results in the coming years.

*For the year ended 31st March, 2005*

## **BUSINESS REVIEW**

For the year ended 31st March, 2005, the Group achieved a turnover of HK\$182.7 million, representing an increase of 14.3% when compared with previous corresponding year.

Profit before taxation for the year ended 31st March, 2005 amounted to HK\$12.3 million (2004: HK\$20.4 million). Such decrease in profit before taxation was mainly resulted from that an investment property disposal gain of HK\$6.3 million as recorded last year which was not recurrent in this year.

With the accounting for additional tax provision in prior years of HK\$2.8 million, net profit for the year ended 31st March, 2005 amounted to HK\$6.6 million, which was decreased by 65.3% over HK\$18.9 million as recorded last year. Earnings per share was HK1.5 cents (2004: HK4.5 cents).

## **Manufacture and Sale of Photographic, Electrical and Multimedia Accessories**

During this financial year, the demand for the Group's products remained strong and healthy and the Group achieved a turnover of approximately HK\$179.5 million, an increase of 15.5% from the previous financial year. Profit from this manufacture and sale activity during this financial year amounted to approximately HK\$13.1 million, only increased by 4.0% over HK\$12.7 million last corresponding financial year.

Europe is the Group's largest sale segment and the management has good knowledge and confidence in this market. For the year under review, the Group's sale to this largest market was approximately HK\$107.7 million when compared with HK\$85.8 million in

the previous year, representing an increase of 25.4%. The management expects to be able to seize more business opportunities for this very huge market for the coming year.

During the year under review, intense competition in the photographic and multimedia markets continued to exert downward pressure on the Group's product profit margins. The general increase in raw materials costs, as well as surge in labor and other operating costs also had adverse impacts on the production in PRC factories. These had resulted in decline of profit margin by approximately 2.5%; which also affected negatively on overall net profit results despite of the favourable growth in turnover.

### **Property Portfolio Refinement**

In March 2004, the Group disposed of an investment property in Sai Kung to an independent third party for a cash consideration of HK\$35.0 million and had realized a gain of HK\$6.3 million (after audit) during last financial year. Without the rental income contribution of this disposed investment property during the financial year, the Group recorded a turnover amounted to HK\$3.2 million, a reduction of 29.1% when compared with last financial year.

In late 2004, the Group financed a 31-storey commercial and residential complex development project in Guangzhou, PRC which was near completion of the construction for the phase one. Up to the date of this announcement, it is now under the various inspection and approvals to be granted by various government authorities.

## **FINANCIAL REVIEW**

### **Liquidity and Gearing Ratio**

As at 31st March, 2005, the Group recorded a total of cash and bank balances of HK\$34.6 million (as at 31st March, 2004 of HK\$12.1 million). Moreover, the Group had current assets of HK\$127.9 million (as at 31st March, 2004 of HK\$139.7 million). The shareholders funds was of HK\$181.2 million (as at 31st March, 2004 of HK\$178.9 million) and the total bank borrowings was of HK\$29.9 million (as at 31st March, 2004 of HK\$46.1 million); and accordingly the gearing ratio was of 16.5% (as at 31st March, 2004 of 25.8%). The management considers that the existing gearing ratio level of the Group is in a healthy position.

### **Pledge of Assets**

The Group had pledged its investment properties and leasehold land and buildings with carrying value of HK\$22,700,000 (2004: HK\$21,950,000) and HK\$28,185,380 (2004: HK\$34,714,076) respectively to banks to secure banking facilities granted to the Group.

### **Contingent Liabilities**

At the balance sheet date, the Company provided corporate guarantees of approximately HK\$101,000,000 (2004: HK\$81,000,000) to banks to secure general

banking facilities granted to subsidiaries. The total amount of facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$29,951,000 (2004: HK\$46,121,000).

### **FOREIGN CURRENCY RISK MANAGEMENT**

The Group's largest sale geographical segment is the Europe market, which alone accounts for around 50-60% of the Group's sale turnover. In safeguarding the volatile Euro dollar currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting the US dollar quoted sales orders, which in turn the management can maintain a stable currency exchange condition for normal trading business development. Regularly, the Group also adopts appropriate hedging policy against the foreign current bank balance and against the cash inflows from the foreign currency sale orders.

Following the very recent acceleration of Renminbi against US and HK dollars by around 2%, the management has commenced considering the impacts and exposure on the Group's manufacturing operations in the PRC.

### **NUMBER OF EMPLOYEES AND REMUNERATION POLICY**

As at 31st March, 2005, the Group had more than 1,000 employees and with around 95% of them were employed in the PRC for the manufacturing business. The Group remunerates its employees based on their work performance and with reference to prevailing conditions of labor markets.

### **OUTLOOK**

Despite the challenges facing ahead, the Group is confident to maintain its leading position in the photographic industry. Moreover, the Group has also successfully improved its market position in the multimedia industry during the year. Through the additional various measures implemented during the year to improve both operating and cost efficiencies, the management believes that these measures should contribute positively to the overall results of the Group for the coming year. Reacted by the management's working in a down-to-earth manner, striving proactively and providing the best services and products to customers, the management is cautiously optimistic about business prospects for the coming year.

*For the year ended 31 March 2004*

### **BUSINESS REVIEW**

For the year ended 31st March, 2004, the Group recorded a turnover of HK\$159.8 million, representing a decline of 14.4% when compared with the previous year.

Despite a decrease in turnover during this financial year, profit before taxation was relatively stable at HK\$20.4 million (2003: HK\$21.5 million). The decrease in turnover

was attributable to the slowdown of manufacture and sale activity, which was offset by the gain on the disposal of an investment property amounting to HK\$6.3 million.

Following the completion of the tax review by the Inland Revenue Department during the year and without further accounting for additional tax provision as in the last year, profit attributable to shareholders was amounted to HK\$18.9 million when compared with HK\$10.9 million last corresponding year.

### **Manufacture and Sale of Photographic, Electrical and Multimedia Accessories**

As adversely affected by the SARS outbreak and the market tendency and preference for smaller or pocket size photographic equipments, turnover from manufacture and sale activity segment showed a slowdown during this financial year amounted to HK\$155.4 million, a decrease of 14.8% from the previous financial year. Profit from manufacture and sale activity segment was amounted to HK\$12.7 million when compared with HK\$18.1 million last corresponding financial year.

The outbreak of SARS caused the overseas buyers to shy away from Hong Kong during the first and second quarters of this financial year. The market tendency and preference for smaller or pocket size photographic equipments were also affecting the Group as the Group's smaller size bag and pouch products were selling on lower unit dollar value, which had to be compensated by higher production quantity and sale volume. Despite the Group was able to resume rapidly to the normal level since the third quarter of this financial year, the overall sale turnover for the whole financial year was still adversely affected.

### **Property Portfolio Refinement**

In early 2004, the property market in Hong Kong showed some sentiment rebounds; whereas the Directors were cautious about the persistence of the good market sentiment. In March 2004, the Group disposed of an investment property in Sai Kung to an independent third party for a cash consideration of HK\$35.0 million, the management considered the disposal represented a good opportunity to realize a gain of HK\$6.3 million (after audit). Details of the disposal were set out in the Circular dated 1st March, 2004 to the shareholders.

In late 2003, the Group financed 31-storey commercial and residential complex development project in Guangzhou, PRC was open for sale for the residential units. Up to the date of this annual report, over 50% of these residential units have been sold. The Directors expect this development project will contribute positively to the Group's operating results and cash flows for the coming two years.

## **FINANCIAL REVIEW**

### **Liquidity and Gearing Ratio**

As at 31st March, 2004, the Group recorded a total of cash and bank balances of HK\$12.1 million (as at 31st March, 2003 of HK\$29.6 million). Moreover, the Group had



a net current assets of HK\$139.7 million (as at 31st March, 2003 of HK\$112.9 million). The shareholder's funds was of HK\$178.9 million (as at 31st March, 2003 of HK\$159.9 million) and the total bank borrowings was of HK\$46.1 million (as at 31st March, 2003 of HK\$32.9 million); and accordingly, the gearing ratio was of 25.8% (as at 31st March, 2003 of 20.6%). Taking advantage of this low borrowing rate environment, the management considers that the relaxation of gearing ratio so as to finance the PRC property portfolio refinement in a healthy position.

**Pledge of Assets**

The Group had pledged its investment properties and leasehold land and buildings with carrying value of HK\$21,950,000 (2003: HK\$41,590,000) and HK\$34,714,076 (2003: HK\$35,943,995) respectively to banks to secure banking facilities granted to the Group.

**Contingent Liabilities**

At the balance sheet date, the Company provided corporate guarantees of approximately HK\$81,000,000 (2003: HK\$73,000,000) to banks to secure general banking facilities granted to subsidiaries. The total amount of facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$46,121,000 (2003: HK\$32,917,000).

*For the year ended 31st March, 2003*

**BUSINESS REVIEW**

For the year ended 31st March, 2003, the Group achieved a turnover of approximately HK\$186.7 million, representing an increase of 12.2% when compared with the previous year.

Profit from ordinary activities before taxation and profit attributable to shareholders amounted to approximately HK\$21.5 million and approximately HK\$10.9 million respectively (2002: HK\$14.9 million and HK\$13.4 million). Such increase in profit from ordinary activities before taxation is in line with the turnover growth. Decrease in profit attributable to shareholders was resulted from the accounting for potential additional tax liabilities as set out in the Taxation Note to the Consolidated Income Statement.

**Manufacture and Sale of Photographic, Electrical and Multimedia Accessories**

For this financial year under review, the Group's core activity of sale of accessories of photographic, electrical and multimedia accessories regained growth despite the persistent global economic slowdown. The Group's sale to the US market for the financial year under review recorded approximately HK\$29.1 million, representing an increase of 58.2% when compared with the last financial year. This dramatic and remarkable recovery



is largely due to the re-distribution of the increasing marketing resources by the management into this geographical segment which has overcome the after-effects of the 11 September terrorist attacks in the United States last financial year.

Europe is always the Group's largest market and it has always been accounted for around 60% of the Group's sale in recent years. For this financial year under review, the Group's sale to this largest market was approximately of HK\$107.4 million when compared with HK\$98.1 million previous financial year, representing an increase of 9.4%. The management has good knowledge and confidence in the market and will adhere to its established strategy to further penetrate into this geographical segment as the management believes that the relatively stronger Euro dollar has improved the purchasing power and willingness of many of the Group's major European customers recently.

### **Property Portfolio Refinement**

Battered with the weak economy and the overall rental rate decline in the Hong Kong property market, the Group was able to maintain a stable property letting income of HK\$4.4 million when compared to HK\$4.1 million last financial year. This was mainly attributable to the accounting for the full year rental income contribution of No.2 Hau Ho Street property building in Kennedy Town, Hong Kong, which was acquired during the last financial year.

While the management expects the property market in Hong Kong will remain sluggish for quite a considerable period of time, the management is confident of the booming property market in PRC. During this financial year, the Group advanced 1) HK\$20.9 million to a commercial and residential complex development project in Guangzhou, PRC, for which the project has now been constructed up to the top 31st floor level and 2) HK\$12.0 million in another commercial development project in Guangzhou, PRC, for which the project is now in the land acquisition phase. The management expects these 2 development projects will contribute positively to the Group operating results for the coming two years.

## **FINANCIAL REVIEW**

### **Liquidity and Gearing Ratio**

Along the financial year under review, the Group had always maintained a good liquidity position. As at 31st March, 2003, the Group recorded a total of cash and bank balances of HK\$29.6 million (as at 31st March, 2002 of HK\$23.1 million). Moreover, the Group had a net current assets of HK\$112.9 million (as at 31st March, 2002 of HK\$81.7 million). The shareholders' funds was of HK\$159.9 million (as at 31st March, 2002 of HK\$153.4 million) and the total bank borrowings was of HK\$32.9 million (as at 31st March, 2002 of HK\$6.4 million); and accordingly, the gearing ratio was of 20.6% (as at 31st March, 2002 of 4.2%). The gearing ratio represented a 16.4% increase when compared with the last financial year end date.

Taking advantage of this very low borrowing rate environment, the management considers that the relaxation of the gearing ratio so as to finance the PRC property portfolio refinement in a healthy position.

### **Pledge of Assets**

The Group had pledged its investment properties and leasehold land and buildings with carrying value of HK\$41,590,000 (2002: HK\$27,800,000) and HK\$35,943,995 (2002: HK\$5,545,531) respectively to banks to secure banking facilities granted to the Group.

### **Contingent Liabilities**

At the balance sheet date, the Company provided corporate guarantees of approximately HK\$73,000,000 (2002: HK\$43,770,000) to banks to secure general banking facilities granted to subsidiaries. The total amount of facilities utilised by the subsidiaries at the balance sheet date amounted to approximately HK\$32,917,000 (2002: HK\$6,366,000).

## **(b) JET STAR**

*For the year ended 31st March 2006*

### **BUSINESS REVIEW**

For the year ended 31st March 2006, Jet Star recorded a turnover of approximately HK\$1.7 million, representing an increase of 128% when compared with previous corresponding year.

Profit after taxation for the year ended 31st March 2006 amounted to approximately HK\$15.6 million (2005: HK\$64.2 million). Such decrease in profit was mainly resulted from that the increase in fair value of the PRC Property for the year ended 31st March 2006 of HK\$16.4 million was comparatively lower than the increase in fair value of the PRC Property for the year ended 31st March 2005 of HK\$70.9 million.

The average occupancy rate of the PRC Property for the year ended 31st March 2006 was 41.3% (2005: 34.9%). Such increase was mainly attributed to that certain new tenancy agreements of higher rental yields were obtained after the renovation work on the entire building was completed on or about October 2005.

### **BORROWING AND GEARING**

As at 31st March 2006, a shareholder loan of HK\$25,278,799 (2005: HK\$18,426,400) was advanced by the Vendor to Jet Star for the purpose of financing the renovation and operations of Jet Star. Such shareholder loan was unsecured, interest-free and had no fixed term of repayment.

As at 31st March 2006, the net asset value of Jet Star was approximately HK\$81.4 million (2005: HK\$64.2 million). The gearing ratio, calculated with reference to the total liabilities of HK\$44.6 million (2005: HK\$35.2 million) and the total assets of HK\$126.0 million (2005: HK\$99.3 million), was approximately 35.4% (2005: 35.4%).

### **NUMBER OF EMPLOYEES AND REMUNERATION POLICIES**

As at 31st March, 2006, Jet Star had 4 employees (2005: 4 employees) mainly for soliciting and negotiating on the leasing of the PRC property. Jet Star remunerates its employees based on their work performance and with reference to prevailing conditions of labor markets.

*For the period from 8th October 2003 (date of incorporation) to 31st March 2004 and for the year ended 31st March 2005*

### **BUSINESS REVIEW**

Jet Star was inactive during the period from 8th October 2003 (date of incorporation) to 31st March 2004.

Jet Star is principally engaged in the business of real estate, which comprises the investment holding and leasing of the PRC Property.

For the year ended 31st March 2005, Jet Star recorded a turnover of HK\$753,339. Profit after taxation for the year ended 31st March 2005 was approximately HK\$64.2 million, which was mainly the result of the increase in fair value of the PRC Property of HK\$70.9 million.

The average occupancy rate of the PRC Property for the year ended 31st March 2005 was only 34.9%, which was mainly due to that the PRC Property had undergone a renovation work on the entire building which began on or about August 2004, with a view to enhancing long term market value of the PRC Property and increasing its rental yield. Hence, Jet Star terminated certain old tenancy agreements during the renovation period.

### **BORROWING AND GEARING**

As at 31st March 2005, a shareholder loan of HK\$18,426,400 was advanced by the Vendor to Jet Star for the purpose of financing the renovation and operations of Jet Star. Such shareholder loan was unsecured, interest-free and had no fixed term of repayment.

As at 31st March 2005, the net asset value of Jet Star was approximately HK\$64.2 million. The gearing ratio, calculated with reference to the total liabilities of HK\$35.2 million and the total assets of HK\$99.3 million, was approximately 35.4%.

**2. FINANCIAL AND TRADING PROSPECT OF THE GROUP AND JET STAR****(a) The Group**

As disclosed in the 2005 interim report, the Group has been actively exploring business opportunities with primary focus on refining the PRC property portfolio. Having considered, among other things, the location, quality and market value of the PRC Property, the Group has decided to further expand its investment properties portfolio in high quality commercial buildings. The Acquisition represents an attractive opportunity to the Group.

Following the Acquisition Completion, the property portfolio of the Group in the PRC is expected to accelerate the future growth in line with the promising economic growth of the PRC.

The Company will conduct regular review of the operations of the Group with a view to enhance its existing businesses of manufacturing and sale activity and property investment and development activity. The Company will continue to build on the strength and expertise of its businesses and proactively identify new potential markets and other attractive investment opportunities.

**(b) JET STAR**

Jet Star is principally engaged in the business of real estate, which comprises the investment holding and leasing of the PRC Property. Upon completion of the Acquisition, Jet Star will become an indirect subsidiary of the Company.

The PRC Property, representing the whole block (20-storeys) of Jifu Building, is a commercial office building located in Liwan District of Guangzhou City in Guangdong Province. The site area of the PRC Property is 10,521.32 sq.m. Following the completion of the renovation work on the entire building on or about October 2005, Jet Star has been able to secure increased number of new tenancy agreements with higher rental yields when compared with those old tenancy agreements before renovation. Moreover, the occupancy rate of the PRC Property has now been improved to more than 70% when compared with the average occupancy rate of 41.3% for the year ended 31st March 2006.

The PRC property market has been strong on commercial building sector. In this respect, quality commercial building will suit the increasing demand in line with the promising economic growth of the PRC. The Directors consider that the Acquisition will contribute positively to the operating results of the Group in future years.

### 3. STATEMENT OF INDEBTEDNESS

#### (a) Borrowings

As at the close of business on 30 April 2006, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group (including Jet Star) had the following borrowings:

|                                 |              | <b>The Group</b>    | <b>Jet Star</b>     | <b>Enlarged Group</b> |
|---------------------------------|--------------|---------------------|---------------------|-----------------------|
|                                 | <i>Notes</i> | <i>HK\$'million</i> | <i>HK\$'million</i> | <i>HK\$'million</i>   |
| Secured bank loans              | (i)          | 17.2                | –                   | 17.2                  |
| Secured bank overdraft          | (ii)         | 2.3                 | –                   | 2.3                   |
| Unsecured bank loans            | (iii)        | 5.8                 | –                   | 5.8                   |
| Bills receivables with recourse | (iv)         | <u>2.6</u>          | <u>–</u>            | <u>2.6</u>            |
|                                 |              | 27.9                | –                   | 27.9                  |
| Unsecured other loans           | (v)          | –                   | 25.3                | 25.3                  |
| – a shareholder                 |              | <u>–</u>            | <u>25.3</u>         | <u>25.3</u>           |
|                                 |              | <u>27.9</u>         | <u>25.3</u>         | <u>53.2</u>           |

*Notes:*

- (i) secured bank loans of approximately HK\$17.2 million, of which approximately HK\$9.3 million was repayable within one year, approximately HK\$2.3 million was repayable after one year but within two years and approximately HK\$5.6 million was repayable after two years but within five years;
- (ii) secured bank overdraft of approximately HK\$2.3 million was repayable within one year;
- (iii) unsecured bank loans of approximately HK\$5.8 million were repayable within one year;
- (iv) bills receivables with recourse of approximately HK\$2.6 million were repayable within one year.
- (v) unsecured other loan due to a shareholder of HK\$25.3 million has no fixed terms of repayment.

#### (b) Securities and guarantees

The details of the securities and guarantees relating to the Group's borrowings were set out as follows:

- (i) The secured bank borrowings are secured by certain of the Group's investment properties and leasehold land and buildings with carrying value of HK\$28.1 million and HK\$26.9 million respectively to banks to secure banking facilities granted to the Group.

- (ii) The Company provided corporate guarantees of approximately HK\$71.0 million to banks to secure general banking facilities granted to subsidiaries.
- (iii) Save for aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding, at the close of business on 30 April 2006, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, other loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments, debentures, mortgages, charges, guarantees or other material contingent liabilities.

#### **4. WORKING CAPITAL**

The Directors are of the opinion that, taking into account the internal resources and the available banking facilities, the Enlarged Group will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st March 2005 (being the date to which the latest published audited financial statements of the Company were made up).

*The following is the text of letter and valuation certificates for inclusion in this circular received from Chung, Chan & Associates, an independent valuer, in connection with its valuation as at 31 March 2006.*

## **Chung, Chan & Associates**

Chartered Surveyors

Valuers of all types of Property, Business and Assets,  
Plant, Machinery and Equipment  
Professional Real Estate Advisers



30 June 2006

The Directors,  
Mascotte Holdings Limited,  
1st Floor, Po Chai Industrial Building,  
28 Wong Chuk Hang Road,  
Aberdeen,  
Hong Kong

Dear Sirs,

**Re: Valuation of property interests of Mascotte Holdings Limited in Hong Kong, Macau and the People's Republic of China.**

In accordance with your instructions to value the property interests held by Mascotte Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong, Macau and the People's Republic of China (the "PRC"), we have carried out inspections, made relevant enquiries and have obtained such further information as we consider necessary for the purpose of providing you with our opinions of the capital value of the properties as at 31st March, 2006 (the "date of valuation") for inclusion in the circular of the Company dated 30 June 2006. Our valuation made herein is in compliance with Chapter 5 and Practice Note 12 of the Listing Rules.

Our valuation of each of the above property interests is our opinion of 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".

Our valuations have been made on the assumption that the owners sell the property interests on the market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties. In addition, no account is taken of any option or pre-emptive right relating to or affecting the sale of the properties and no forced sale in any form in respect of the properties has been assumed in our valuations.

In valuing property interest no. 3 which is owned and occupied by the Group in Hong Kong, the Government lease of which expired on 30th June, 1997, we have taken account of the stipulation contained in Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland 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 a lease may be extended without premium until 30th June, 2047 and that an annual rent of three per cent of the rateable value will be charged annually from the date of extension.

As at 31st March, 2006, a number of the properties are occupied by the Group while a number are tenanted. Accordingly those properties which are owner-occupied or vacant have been valued on the basis of their market value on the assumption that vacant possession will be available in the event of a sale whilst those properties which are tenanted or subject to leases have been valued on the basis of their market values by capitalisation of the net income which are derived from the tenancies or leases with allowance given for outgoings and, where appropriate, provisions made for reversionary income potential and having regard to market comparables wherever possible.

We have relied to a considerable extent on information given by the Group and have accepted advice given to us in relation to planning approvals or statutory notices, easements, tenure, completion date of buildings, contracts and agreements, particulars of occupancy including lease or tenancy details, floor areas, site areas and other relevant matters.

With regard to the property interests in Hong Kong, we have not been provided with copies of title and other documents relating to the properties but we have caused searched to be made at the Land Registry. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any lease amendments which do not appear on the copies provided to us.

As regards the properties in Macau and the PRC, we have relied to a considerable extent on information provided to us by the Group. Whilst the majority of the documents show the ownership of the properties, we however, have not inspected the original documents to verify ownership or to ascertain the existence of any lease amendments which do not appear on the copies provided to us.

All copies of documents and contracts relating to the property interests have been used as reference only. All dimensions, measurements and areas including floor and site areas, as stated in our valuation certificate, are approximate and are based on information provided to us by the Group. Also, all floor areas and site area as shown on the copies of documents or from information supplied to us by the Group are assumed to be correct. No on-site measurements have been taken or carried out to determine the floor areas of the properties or to verify their correctness.



In preparing our valuation of those properties in the PRC, we have assumed that the land use rights of the properties are transferable and that unless otherwise stated, any premium payable has already been fully paid or will be fully paid. We have also assumed that all approvals, consents, certificates, permits and licences from the relevant Government authorities for the properties have been or will be granted without any onerous conditions or undue delay which might affect the value of the properties. We have relied on advice given by the Group which has advised us that it has sought legal advice from its legal advisers on PRC law, Guangzhou Qi Xing Law Office, regarding the legality and validity of the various agreements and documents relating to the properties and the interest of the Group in the properties. For the purpose of our valuation, we have assumed that the titles in respect of the properties, whether vested in the Group or pending, are legally enforceable.

We have also assumed that the Group has free and uninterrupted rights to use, assign, transfer, lease or mortgage the properties in the PRC for the unexpired term of the granted lease and that all costs relating to the acquisition of the properties have been paid in full.

All the information provided to us by the Group, which are pertinent to our valuation, are believed to be true and accurate and it is assumed that no material facts have been omitted from the information supplied.

We are instructed to express our opinions on the capital value of the property interests and in the capacity of an external valuer, we have not undertaken any building survey to report on the condition or state of repair of the properties although in the course of our inspections, we did not note any serious defects. However, we must advise that we cannot express an opinion about or give advice on the condition of the uninspected parts of the properties or report on whether or not those parts of the properties which are concealed, unexposed or inaccessible are free of rot, infestation or other structural defects, whether latent or otherwise. For the purpose of our valuation, the aforesaid parts of the properties are assumed to be in a good state of repair and condition and this report should not be construed as making any implied representation or statement about the condition of such parts. None of the services in respect of the properties has been tested.

We have not arranged for any investigation to be conducted or tests to be carried to determine whether or not any deleterious or hazardous materials have been used in the construction of the buildings and structures accommodating the properties or forming parts of the properties, or whether such materials have since been incorporated, and we are therefore unable to report that the buildings and structures are free from such risk. However, for the purpose of our valuation, we have assumed that should such an investigation be carried out, it would not reveal the presence of any such materials to any significant extent.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests and neither has any allowance been made for any liability to taxation on sale or any expenses 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 accordance with your instructions, we are required to express our opinions on the market value of all of the property interests, including those in Macau and the PRC, in Hong Kong Dollars. The exchange rate used for converting the valuation of the property interests in the PRC from Renminbi into Hong Kong Dollars at the relevant date is equivalent to about RMB1.030 = HK\$1.00. We understand that there has been no significant fluctuation in the exchange rate of Renminbi and the Hong Kong Dollar between the date such exchange rate was adopted and the date of this letter.

We attach herewith a summary of values and our valuation certificate.

Yours faithfully,  
**CHUNG, CHAN & ASSOCIATES**  
**Peter C. K. Chung**  
FRICS FHKIS MIS(M)

*Note:* Mr. Peter Chung is a Chartered Surveyor, a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Hong Kong Institute of Surveyors, and has been conducting professional valuations of property and other assets as well as providing professional advisory work in Hong Kong, Mainland China, Macau and the Asia Pacific region since 1980.

## SUMMARY OF VALUES

| Property  | Market value in<br>existing state as at<br>31st March, 2006<br>(HK\$) |
|---|---|
| 1. Units A and B on 1st Floor<br>and Car Parking Spaces Nos. 1, 2 and 3<br>on Ground Floor,<br>Po Chai Industrial Building,<br>No. 28 Wong Chuk Hang Road,<br>Hong Kong                                       | 6,850,000   |
| 2. Unit B on 7th Floor,<br>Po Chai Industrial Building,<br>No. 28 Wong Chuk Hang Road,<br>Hong Kong   | 1,850,000   |
| 3. Workshop A on 1st Floor,<br>Wo Fung Industrial Building,<br>No. 2 Yip Wo Street,<br>Fanling,<br>New Territories,<br>Hong Kong  | 2,900,000   |
| 4. Flat B on 3rd Floor of Tower 7<br>(Yee Mei Court),<br>South Horizons,<br>No. 7 South Horizons Drive,<br>Hong Kong  | 3,250,000   |
| 5. Flat B on Ground Floor of Block 1<br>including portion of Open Yard,<br>Yar Chee Villas,<br>No. 1A Chi Fu Road<br>and Car Parking Space No. 3<br>on Level 2 of Car Park B,<br>Chi Fu Fa Yuen,<br>Hong Kong | 4,250,000   |

| Property   | Market value in<br>existing state as at<br>31st March, 2006<br>(HK\$) |
|--|---|
| 6. Factory complex situated at<br>Lots Nos. 14-03-128 and 14-03-129,<br>Huishan Expressway,<br>Huiyang County,<br>Pingtan Town,<br>Huizhou,<br>Guangdong Province,<br>People's Republic of China | 27,000,000  |
| 7. Units P1607 and P1608, 16th Floor,<br>First International Commercial Centre,<br>No. 600E Avenida Dr. Rodrigo Rodrigues,<br>Macau  | 1,700,000   |
| 8. Flat A on 3rd Floor of Tower 7<br>(Yee Mei Court),<br>South Horizons,<br>No. 7 South Horizons Drive,<br>Hong Kong   | 3,250,000   |
| 9. Flat B on 15th Floor<br>including A/C Platform thereof of Tower 5,<br>and Car Parking Spaces Nos. A108<br>and B33 on 1st Floor,<br>The Leighton Hill,<br>No. 2B Broadwood Road,<br>Hong Kong  | 28,500,000  |
| 10. Unit 03, 31st Level, Block 2,<br>Jun Yue Hao Ting,<br>Nos. 2-4 Yuelai South Road,<br>Shiqi District,<br>Zhongshan,<br>Guangdong Province,<br>People's Republic of China                      | 690,000   |

| Property   | Market value in<br>existing state as at<br>31st March, 2006<br>(HK\$) |
|--|---|
| 11. Unit A on Ground Floor,<br>Po Chai Industrial Building,<br>No. 28 Wong Chuk Hang Road,<br>Hong Kong  | 3,680,000   |
| 12. Workshop No. 7 on 18th Floor,<br>Harbour Industrial Centre,<br>No. 10 Lee Hing Street,<br>Hong Kong  | 590,000   |
| 13. No. 2 Hau Wo Street,<br>Hong Kong  | 7,650,000   |
| 14. Units 1502 and 1503 on Level 15,<br>Tai Ping Yang Shang Mao Building,<br>No. 4028 Jia Bin Road,<br>Luohu District,<br>Shenzhen,<br>Guangdong Province,<br>People's Republic of China | 1,350,000   |
| 15. Shop Space No. S97 on 2nd Floor,<br>Red Mall of Malahon Apartments,<br>No. 509 Jaffe Road,<br>Hong Kong  | 2,900,000   |
| 16. Shop Space No. S18 on 2nd Floor,<br>Red Mall of Malahon Apartments,<br>No. 509 Jaffe Road,<br>Hong Kong  | 2,480,000   |

VALUATION CERTIFICATE

|  |  | Particulars of occupancy  | Market value in existing state as at 31st March, 2006 |
|--|--|---|---|
| Property   | Description and tenure   |   |   |
| 1. Units A and B on 1st Floor and Car Parking Spaces Nos. 1, 2 and 3 on Ground Floor, Po Chai Industrial Building, No. 28 Wong Chuk Hang Road, Hong Kong.<br><br>29/358 parts or shares of and in Aberdeen Inland Lot No. 348. | <p>The property comprises two adjoining industrial units on the first floor of a 16-storey industrial development and three car spaces on the ground floor. The building has a frontage to Wong Chuk Hang Road whilst the rear of the building abuts Heung Yip Street, a secondary access road. The building is believed to have been built in 1975 or thereabouts.</p> <p>The total saleable area of the aforementioned two units is approximately 820.79 sq.m. (8,835 sq.ft.).</p> <p>The property is held under Conditions of Sale No. 9600 for a lease term of 75 years from 22nd December, 1969 renewable for a further term of 75 years. The ground rent payable in respect of the Lot is HK\$248 per annum.</p> | As at the date of valuation, the aforesaid two units are occupied by the Group for use partly as offices, showroom and warehouse. The parking spaces are used by the Group for car parking. | HK\$6,850,000   |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|   |   |  | Market value in<br>existing state as at<br>31st March, 2006 |
|---|---|--|---|
| Property  | Description and tenure  | Particulars of<br>occupancy  |   |
| 2. Unit B on<br>7th Floor,<br>Po Chai Industrial<br>Building,<br>No. 28 Wong Chuk<br>Hang Road,<br>Hong Kong.<br><br>10/358 parts or<br>shares of and in<br>Aberdeen Inland<br>Lot No. 348. | <p>The property comprises an industrial unit on the 7th floor of a 16-storey industrial development which has a frontage to Wong Chuk Hang Road. The rear of the building abuts Heung Yip Road, a secondary access road. The building is believed to have been built in 1975 or thereabouts.</p> <p>The saleable area of the property is approximately 270.53 sq.m. (2,912 sq.ft.).</p> <p>The property is held under Conditions of Sale No. 9600 for a lease term of 75 years from 22nd December, 1969 renewable for a further term of 75 years. The ground rent payable in respect of the Lot is HK\$248 per annum.</p> | As at the date of valuation, the property is occupied by the Group as a warehouse. | HK\$1,850,000   |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|  |  |  | Market value in<br>existing state as at<br>31st March, 2006 |
|--|--|--|---|
| Property   | Description and tenure   | Particulars of<br>occupancy  |   |
| 3. Workshop A on<br>1st Floor,<br>Wo Fung Industrial<br>Building,<br>No. 2<br>Yip Wo Street,<br>Fanling,<br>New Territories,<br>Hong Kong.<br><br>60/1,392 parts<br>or shares of and<br>in the Remaining<br>Portion of<br>Lot No. 5180 in<br>Demarcation<br>District No. 51. | <p>The property comprises a workshop unit on the 1st floor of a 5-storey industrial development located in the light industrial area of On Lok Tsuen in Fanling, and is believed to have been built in 1980 or thereabouts.</p> <p>The saleable area of the property is approximately 577.76 sq.m. (6,219 sq.ft.).</p> <p>The property is held under New Grant No. 11188 for a lease term of 99 years less the last three days. By virtue of the New Territories Leases (Extension) Ordinance, 1988, the lease has been extended for a further term of 50 years until 30th June, 2047. The ground rent payable in respect of the Lot is equivalent to 3 per cent of the rateable value of the Lot.</p> | As at the date of valuation, the property is occupied by the Group as a warehouse. | HK\$2,900,000   |

*Notes:*

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.



|   |  |   | Market value in<br>existing state as at<br>31st March, 2006 |
|---|--|---|---|
| Property  | Description and tenure   | Particulars of<br>occupancy   |   |
| 4. Flat B on<br>3rd Floor of<br>Tower 7<br>(Yee Mei Court),<br>South Horizons,<br>No. 7 South<br>Horizons Drive,<br>Hong Kong.<br><br>16/168,000 parts<br>or shares of and<br>in the Remaining<br>Portion of<br>Aplichau Inland<br>Lot No. 121. | <p>The property comprises a domestic unit on the 3rd floor of a 41-storey residential building with basement car parking, one of a number of similar buildings in South Horizons, a self-contained residential estate in Ap Lei Chau. The estate, which is believed to have been built in 1992, has a commercial centre and other facilities for the convenience and benefit of residents.</p> <p>The gross floor area of the property is approximately 87.33 sq.m. (940 sq.ft.) whilst the saleable area is approximately 70.61 sq.m. (760 sq.ft.).</p> <p>The property is held under Conditions of Exchange No. 11998 for a lease term commencing 28th January, 1988 and expiring on 31st March, 2040.</p> | As at the date of valuation, the property is used by the Group as staff quarters. | HK\$3,250,000   |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|   |  |   | Market value in<br>existing state as at<br>31st March, 2006 |
|---|--|---|---|
| Property  | Description and tenure   | Particulars of<br>occupancy   |   |
| 5. Flat B on<br>Ground Floor of<br>Block 1<br>including portion<br>of Open Yard,<br>Yar Chee Villas,<br>No. 1A<br>Chi Fu Road, and<br>Car Parking Space<br>No. 3 on Level 2<br>of Car Park B,<br>Chi Fu Fa Yuen,<br>Hong Kong.<br><br>13/910 parts or<br>shares of and in<br>Section A of Inland<br>Lot No. 8442 (in<br>respect of the flat)<br><br>12/33,137 parts or<br>shares of and in<br>Sections D, B, F<br>and J of Inland<br>Lot No. 8442<br>(in respect of the<br>car parking space) | <p>The property comprises a domestic unit on the ground floor of Block 1 of Yar Chee Villas and a car parking space. Yar Chee Villas is a low-rise development which forms part of Chi Fu Fa Yuen, a self-contained residential estate which is believed to have been built in stages between the late 1970s and early 1980s.</p> <p>The gross floor area of the domestic unit is approximately 97.45 sq.m. (1,049 sq.ft.) whilst the area of an open yard is approximately 23.97 sq.m. (258 sq.ft.).</p> <p>The property is held under Conditions of Exchange No. 11106 for a lease term of 75 years commencing on 19th October, 1976 renewable for a further term of 75 years.</p> | As at the date of valuation, the property is used by the Group as staff quarters. | HK\$4,250,000   |

*Notes:*

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|  | Property  | Description and tenure  | Particulars of occupancy | Market value in existing state as at 31st March, 2006 |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
|--|---|---|--------------------------|---|--|--|-------|--------|--------------------------------------|----------|--------|---------------------------------|----------|--------|---------------------------------|----------|--------|--|--------|-------|-----------------------------|----------|--------|-----------------------------|----------|--------|---------------------------|----------|--------|------------------|-------|-----|------------|--------|-------|-------------------------------|-------|-----|-------|-----------|---------|--|----------------|
| 6.   | Factory complex situated at Lots Nos. 14-03-128 and Lots Nos. 14-03-129, Huishan Expressway, Pingtan Town, Huiyang County, Huizhou, Guangdong Province, People's Republic of China. | <p>The property comprises an industrial complex occupying two adjoining parcels of land which are irregular in shape with each parcel having an area of 62,750 sq.m. (675,441 sq.ft.). The total land area is therefore 125,500 sq.m. (1,350,882 sq.ft.).</p> <p>The industrial complex comprises a single storey factory building, two 3-storey factory buildings, a single storey warehouse building for dangerous goods, a 5-storey dormitory building, a 6-storey dormitory building, a 2-storey canteen building and ancillary structures comprising a water pump room, a plant room and a compressor room. All of the buildings and structures are believed to have been built between 1994 and 1997.</p> <p>The approximate gross floor areas (GFA) of the respective buildings and structures are as follows:</p> <table><tr><th></th><th colspan="2">Approximate GFA</th></tr><tr><th></th><th>sq.m.</th><th>sq.ft.</th></tr><tr><td>Single storey factory building No. 1</td><td>3,270.24</td><td>35,201</td></tr><tr><td>3-storey factory building No. 2</td><td>4,285.44</td><td>46,128</td></tr><tr><td>3-storey factory building No. 3</td><td>4,363.76</td><td>46,972</td></tr><tr><td>Single storey warehouse building (dangerous goods)</td><td>130.10</td><td>1,400</td></tr><tr><td>5-storey dormitory building</td><td>3,411.20</td><td>36,718</td></tr><tr><td>6-storey dormitory building</td><td>4,597.98</td><td>49,493</td></tr><tr><td>2-storey canteen building</td><td>1,643.06</td><td>17,686</td></tr><tr><td>Water pump house</td><td>78.82</td><td>848</td></tr><tr><td>Plant room</td><td>339.49</td><td>3,654</td></tr><tr><td>Single storey compressor room</td><td>28.13</td><td>303</td></tr><tr><td>Total</td><td>22,148.22</td><td>238,403</td></tr></table> <p>We would advise that the guardhouse at the entrance to the factory complex having an area of 36 sq.m. has not been included in the above floor area schedule but has been taken into account in our valuation.</p> <p>The property has been granted a land use right for a term from 18th January, 1994 to 17th January, 2044.</p> |                          | Approximate GFA                                       |  |  | sq.m. | sq.ft. | Single storey factory building No. 1 | 3,270.24 | 35,201 | 3-storey factory building No. 2 | 4,285.44 | 46,128 | 3-storey factory building No. 3 | 4,363.76 | 46,972 | Single storey warehouse building (dangerous goods) | 130.10 | 1,400 | 5-storey dormitory building | 3,411.20 | 36,718 | 6-storey dormitory building | 4,597.98 | 49,493 | 2-storey canteen building | 1,643.06 | 17,686 | Water pump house | 78.82 | 848 | Plant room | 339.49 | 3,654 | Single storey compressor room | 28.13 | 303 | Total | 22,148.22 | 238,403 | <p>As at the date of valuation, a portion of the property comprising a single storey factory building, a single storey warehouse building, a 5-storey dormitory building and ancillary structures having a total gross floor area of approximately 7,257.98 sq.m. is subject to a 15-year lease commencing 1st April, 1995 at a monthly rent of HK\$90,000, subject to adjustment every 3 years and in accordance with market conditions prevailing at the time of review.</p> <p>The remaining portion of the property comprising a 3-storey factory building, a 6-storey dormitory building and a 2-storey canteen building having a total gross floor area of approximately 10,563.04 sq.m. is subject to a 15-year lease commencing on 1st September, 1997 at a monthly rent of HK\$80,000, subject to adjustment every three years and in accordance with market conditions prevailing at the time of review.</p> <p>We are advised that one of the 3-storey factory buildings (factory building No.2) is occupied by the Group as workshop and ancillary office.</p> | HK\$27,000,000 |
|  | Approximate GFA   |   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
|  | sq.m.   | sq.ft.  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Single storey factory building No. 1               | 3,270.24  | 35,201  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| 3-storey factory building No. 2                    | 4,285.44  | 46,128  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| 3-storey factory building No. 3                    | 4,363.76  | 46,972  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Single storey warehouse building (dangerous goods) | 130.10  | 1,400   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| 5-storey dormitory building                        | 3,411.20  | 36,718  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| 6-storey dormitory building                        | 4,597.98  | 49,493  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| 2-storey canteen building                          | 1,643.06  | 17,686  |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Water pump house                                   | 78.82   | 848   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Plant room   | 339.49  | 3,654   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Single storey compressor room                      | 28.13   | 303   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |
| Total  | 22,148.22   | 238,403   |                          |   |  |  |       |        |                                      |          |        |                                 |          |        |                                 |          |        |  |        |       |                             |          |        |                             |          |        |                           |          |        |                  |       |     |            |        |       |                               |       |     |       |           |         |  |                |

Notes:

1.

According to the Contract for Grant of Land Use Right entered into between the Land Administration Bureau of Huiyang County (“Party A”) and Zhi-Hao (“Party B”) on 18th January, 1994, Party A has agreed to grant the land use right in respect of a portion of the property to Party B. The salient conditions as stipulated in the aforesaid Contract are as follows:
- i.

Land area

:

94.125 mu (62,750 sq.m.)

ii.

Use

:

For the development of an industrial complex for photographic equipment and products.

iii.

Land premium

:

RMB8,157,500
2.

According to the Contract for Grant of Land Use Right entered into between the Land Administration Bureau of Huiyang County (“Party A”) and Zhi-Hao (“Party B”) on 18th January, 1994, Party A has agreed to grant the land use right in respect of another portion of the property to Party B. The salient conditions as stipulated in the aforesaid Contract are as follows:
- i.

Land area

:

94.125 mu (62,750 sq.m.)

ii.

Use

:

For expansion of Party B’s existing manufacturing facility.

iii.

Land premium

:

RMB8,157,500
3.

According to two Certificates for the Use of State-owned Land, Hui Yang Fu Guo Yong No. (96) 13211400037 and Hui Yang Fu Guo Yong No. (96) 13211400038 both dated August, 1996 and issued by the People’s Government of Guangdong Province, the land use right of the property of which the two parcels of land has a total area of 125,500 sq.m. has been granted to Market Group Zhi-Hao Photographic Equipment (Huizhou) Industry and Trade Co., Ltd., (hereinafter referred to as Zhi-Hao”) for a term from 18th January, 1994 to 17th January, 2044, for industrial, factory and warehouse uses.
4.

According to five Certificates for the Ownership of Real Estate, all dated 16th April, 1996, issued by the People’s Government of Huiyang Municipality, the ownership of the following buildings which comprise a portion of the property, and having a total gross floor area of approximately 7,229.85 sq.m., is vested in Market Group Zhi-Hao Photographic Equipment (Huizhou) Industry & Trade Co., Ltd. Details of the aforesaid certificates are summarised as follows:

| Certificate No. | Building                                | Gross floor area |
|-----------------|---|------------------|
| 0477274         | Water pump house                        | 78.82 sq.m.      |
| 0477278         | Plant room                              | 339.49 sq.m.     |
| 0477279         | Single storey dangerous goods warehouse | 130.10 sq.m.     |
| 0477281         | Single storey optical factory           | 3,270.24 sq.m.   |
| 0477282         | 5-storey dormitory building             | 3,411.20 sq.m.   |

5.

We are advised that Certificates for the Ownership of Real Estate in respect of the following buildings have been obtained:

| Building                        | Gross floor area |
|---------------------------------|------------------|
| 3-storey factory building No. 2 | 4,285.44 sq.m.   |
| 3-storey factory building No. 3 | 4,363.76 sq.m.   |
| 6-storey dormitory building     | 4,597.98 sq.m.   |
| 2-storey canteen building       | 1,643.06 sq.m.   |
| Single storey compressor room   | 28.13 sq.m.      |

6. According to the Joint Venture Contract entered into between Market Group Machinery & Electronic Development Company (“Party A”) and Mascotte Industrial Associates (“Party B”) on 3rd May, 1993 and a supplementary Contract entered into between both parties on 18th October, 1993, the salient conditions of the contracts are summarised as follows:

- i. Equity joint venture company : Market Group Zhi-Hao Photographic Equipment (Huizhou) Industry & Trade Co., Ltd.
- ii. Registered capital : US\$3,180,000 (Party A shall inject US\$630,000 which represents about 20 per cent of the registered capital whilst Party B shall inject US\$2,550,000 which represents about 80 per cent of the registered capital).
- iii. Joint venture period : 25 years
- iv. Profit sharing : The profit sharing arrangement between Party A and Party B shall be on the basis of the respective percentage in equity participation by both parties.

7. According to the Document of the Foreign Economic and Trade Committee of Huizhou Municipality of Guangdong Province, (Hui Shi Jing Mau Wei Zi (1996) No. 255) dated 22nd September, 1996, Market Group Machinery & Electronic Development Company, (Party A) of the Joint Venture Company, Market Group Zhi Hao Photographic Equipment (Huizhou) Industrial and Trade Co., Ltd. has changed its name to Market Group Photology Industrial Company.

The total registered capital of the Joint Venture Company shall remain unchanged but the equity interest has changed to the following:

- Market Group Machinery & Electronic Development Company (Party A) : 10 per cent of the registered capital
- Mascotte Industrial Associates (Party B) : 90 per cent of the registered capital

8. According to the Agreement of the Transfer of Shareholding dated 8th December, 1996 entered into between Mascotte Industrial Associates (Party A) and Mascotte Hui Zhou Limited (Party B), Party A has transferred all the 90 per cent equity interest including debts and creditors’ rights to Party B.

9. According to the Business Licence, (Qi He Yue Hui Zong Fu Zi Di No. 000785), dated 11th August, 1999, the relevant particulars are as follows:

- i. Equity joint venture company : Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co., Ltd.
- ii. Registered capital : US\$4,180,000 (Party A’s shareholding has been revised to 10 per cent of the registered capital i.e. US\$418,000 whilst Party B’s shareholding has been revised to 90 per cent of the registered capital i.e. US\$3,762,000).
- iii. Joint venture period : 25 years (commencing on 27th May, 1993 and expiring on 26th May, 2018)

10. According to the Document of the Foreign Trade and Economic Cooperation Bureau of Huizhou Municipality, (Hui Wai Jing Mao Zi (2003) No. 493) dated 15th December, 2003, Market Group Zhi Hao Photographic Equipment (Huizhou) Co., Ltd. has changed its name to Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co., Ltd.

11. We have relied on all the information as provided to us by the Group and have prepared our valuation on the following bases:

- i. The Group is in possession of a legal title to the property and is entitled to transfer the property with the residual term of the land use right at no additional premium or other costs payable to the government.

- ii.

All land premium and other costs relating to the provision of utilities and ancillary services have been completely settled.

iii.

The design and construction of the buildings and structures are in compliance with local planning regulations and have been approved by the relevant government authorities.

iv.

Our valuation of the property is based on a 100 per cent attributable interest.

v.

The property may be disposed of freely to both purchasers within or outside the PRC.
12.

The status of title of the property interest, as well as requisite approvals, consents, certificates, permits and licences relating to the development, use and sale of the property interest in accordance with the information provided to us by the Group are as follows:
- Certificates for the Use of State-owned Land

–

obtained

Contract for Grant of Land Use Right

–

signed

Joint venture contract

–

signed

Business Licence

–

obtained

|   |  |  | Market value in<br>existing state as at<br>31st March, 2006 |
|---|--|--|---|
| Property  | Description and tenure   | Particulars of<br>occupancy  |   |
| 7. Units P1607<br>and P1608,<br>16th Floor,<br>First international<br>Commercial Centre,<br>No. 600E Avenida<br>Dr. Rodrigo<br>Rodrigues,<br>Macau. | <p>The property comprises two office units on the 16th floor of a modern multi-storey commercial/office development which is situated in the Outer Harbour Reclamation Area of Macau and about 8 minutes' driving distance from the Ferry Pier and about the same distance from the established business hub of Macau. The building is believed to have been built in the early 2000s.</p> <p>The gross floor areas of Units P1607 and P1608 are respectively 117.71 sq.m. (1,267 sq.ft.) and 140.19 sq.m. (1,509 sq.ft.) whilst the saleable areas of the two units are respectively 81.81 sq.m. (881 sq.ft.) and 97.55 sq.m. (1,050 sq.ft.) approximately.</p> <p>We understand that the property is subject to the provisions of the Joint Declaration of the Government of Portugal and the Government of the People's Republic of China whereby the lease term is for 50 years commencing on 20th December, 1999.</p> | As at the date of valuation, the property is used by the Group as offices. | HK\$1,700,000   |

Notes:

1. According to a Declaration of Trust entered into between Chan Oi Ling and Mascotte Hui Zhou Limited on 26th March, 2002, the interest of the property is held by Chan Oi Ling on trust for Mascotte Hui Zhou Limited (the “Beneficial Owner”).
2. Our valuation of the property is based on a 100 per cent attributable interest.

|   |  |   | Market value in<br>existing state as at<br>31st March, 2006 |
|---|--|---|---|
| Property  | Description and tenure   | Particulars of<br>occupancy   |   |
| 8. Flat A on<br>3rd Floor of<br>Tower 7<br>(Yee Mei Court),<br>South Horizons,<br>No. 7 South<br>Horizons Drive,<br>Hong Kong.<br><br>16/168,000 parts<br>or shares of and<br>in the Remaining<br>Portion of<br>Aplichau Inland<br>Lot No. 121. | <p>The property comprises a domestic unit on the 3rd floor of a 41-storey residential building with basement car parking, one of a number of similar buildings in South Horizons, a self-contained residential estate in Ap Lei Chau. The estate, which is believed to have been built in 1992, has a commercial centre and other facilities for the convenience and benefit of residents.</p> <p>The gross floor area of the property is approximately 87.33 sq.m. (940 sq.ft.) whilst the saleable area is approximately 70.61 sq.m. (760 sq.ft.).</p> <p>The property is held under Conditions of Exchange No. 11998 for a lease term commencing 28th January, 1988 and expiring on 31st March, 2040.</p> | As at the date of valuation, the property is used by the Group as staff quarters. | HK\$3,250,000   |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.



|    | Property  | Description and tenure  | Particulars of occupancy  | Market value in existing state as at 31st March, 2006 |
|----|---|---|---|---|
| 9. | Flat B on 15th Floor including A/C platform thereof of Tower 5 and Car Parking Spaces Nos. A108 and B33 on 1st Floor, The Leighton Hill, No. 2B Broadwood Road, Hong Kong.<br><br>374/279,977 parts or shares of and in the Remaining Portion of Inland Lot No. 8882. | <p>The property comprises a 15th floor apartment and two car parking spaces in The Leighton Hill, a high quality 8-tower residential development which is located on a hill over-looking the Happy Valley race-course. The construction of the development was completed in 2002.</p> <p>The gross floor area of the apartment is approximately 207.92 sq.m. (2,238 sq.ft.) while the saleable area is approximately 161.84 sq.m. (1,742 sq.ft.).</p> <p>The property is held under Conditions of Sale No. 12519 for a lease term of 50 years commencing on 14th May, 1998.</p> | As at the date of valuation, the property is used by the Group as staff quarters. | HK\$28,500,000  |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|   |  |   | Market value in<br>existing state as at<br>31st March, 2006 |
|---|--|---|---|
| Property  | Description and tenure   | Particulars of<br>occupancy   |   |
| 10. Unit 03,<br>31st Level,<br>Block 2,<br>Jun Yue Hao Ting,<br>Nos. 2-4<br>Yuelai South Road,<br>Shiqi District,<br>Zhongshan,<br>Guangdong<br>Province,<br>People’s Republic<br>of China. | <p>The property comprises a residential unit located on the 31st level of a 31-storey composite development with a basement. The building faces Yuelai South Road which is a relatively busy road in Shiqi District in the city of Zhongshan.</p> <p>According to the Commodity House Sale and Purchase Contract in respect of the property, the gross floor area of the property is approximately 153.71 sq.m.</p> <p>The property has been granted a land use right for a term of 70 years commencing on 10th July, 2001 and expiring on 13th July, 2071 for residential purposes.</p> | As at the date of valuation, the property is occupied by the Group as staff quarters. | HK\$690,000   |

Notes:

- According to the Commodity House Sale and Purchase Contract of Guangdong Province (the “Contract”) dated 18th December, 2002 entered into between Zhongshan City Jun Yue Real Estate Development Co., Ltd. (“Party A”) and Chan Oi Ling (“Party B”), the property is situated on the 31st Level of Jun Yue Hao Ting at Yuelai South Road, Shiqi District, Zhongshan City, and having a gross floor area of 153.71 sq.m. The land has been granted a land use right for a term of 70 years commencing on 10th July, 2001 and expiring on 13th July, 2071 for commercial and residential purposes.

The consideration in respect of the property is the sum of RMB699,650. According to a Declaration of Trust entered into between Chan Oi Ling and Mascotte Hui Zhou Limited on 18th December, 2002, the interest of the property is held by Chan Oi Ling on trust for Mascotte Hui Zhou Limited (the “Beneficial Owner”).
- We have relied on all the information as provided to us by the Group and have prepared our valuation on the following bases:
  - The Group is in possession of a legal title to the property and is entitled to transfer the property with the residual term of the land use right at no additional premium or other costs payable to the government.
  - All land and other premium as well as other costs relating to the provision of utilities and ancillary services have been completely settled.
  - The design and construction of the building are in compliance with local planning regulations and have been approved by the relevant government authorities.
  - Our valuation of the property is based on a 100 per cent attributable interest.
  - The property may be disposed of freely to both purchasers within or outside the PRC.
- The status of title of the property interest, as well as requisite approvals, consents, certificates, permits and licences relating to the development, use and sale of the property interest in accordance with the information provided to us by the Group are as follows:

Commodity House Sale and Purchase Contract      –      signed  
of Guangdong Province

|     |   |  | Market value in<br>existing state as at<br>31st March, 2006   |
|-----|---|--|---|
|     | Property  | Description and tenure   | Particulars of<br>occupancy   |
| 11. | Unit A on<br>Ground Floor,<br>Po Chai Industrial<br>Building,<br>No. 28 Wong Chuk<br>Hang Road,<br>Hong Kong.<br><br>14/358 parts or<br>shares of and in<br>Aberdeen Inland<br>Lot No. 348. | <p>The property comprises a workshop on the ground floor of a 16-storey industrial development which has a frontage to Wong Chuk Hang Road. The rear of the building abuts Heung Yip Road, a secondary access road. The building is believed to have been built in 1975 thereabouts.</p> <p>The gross floor area of the property is approximately 353.03 sq.m. (3,800 sq.ft.) whilst the saleable area, including lavatories, is approximately 271 sq.m. (2,917 sq.ft.).</p> <p>The property is held under Conditions of Sale No. 9600 for a lease term of 75 years from 22nd December, 1969 renewable for a further term of 75 years. The ground rent payable in respect of the Lot is HK\$248 per annum.</p> | <p>As at the date of valuation, the property is subject to a two-year tenancy commencing on 16th April, 2004 and expiring on 15th April, 2006 at a rent of HK\$29,000 per month, exclusive of rates and management fee.</p> |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|  |  |  | Market value in<br>existing state as at<br>31st March, 2006 |
|--|--|--|---|
| Property   | Description and tenure   | Particulars of<br>occupancy  |   |
| 12. Workshop No. 7<br>on 18th Floor,<br>Harbour Industrial<br>Centre,<br>No. 10<br>Lee Hing Street,<br>Hong Kong.<br><br>183/236,843 parts<br>or shares of and<br>in Ap Lei Chau<br>Inland Lot<br>No. 116. | <p>The property comprises a workshop on the 18th floor of a 24-storey industrial development which is located in the established industrial estate in the north-western part of Ap Lei Chau. The building is believed to have been built in 1993 or thereabouts.</p> <p>The gross floor area of the property is approximately 106.37 sq.m. (1,145 sq.ft.) whilst the saleable area is approximately 76.74 sq.m. (826 sq.ft.).</p> <p>The property is held under Conditions of Exchange No. 11820 for a lease term of 75 years from 1st October, 1980 renewable for a further term of 75 years. The ground rent payable in respect of the Lot is HK\$1,000 per annum.</p> | As at the date of valuation, the property is subject to a two-year tenancy commencing on 1st August, 2005 and expiring on 31st July, 2007 at a rent of HK\$3,200 per month, exclusive of rates and management fee. | HK\$590,000   |

Notes:

- The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
- Our valuation of the property is based on a 100 per cent attributable interest.

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The status of the respective floors and units, as at the date of valuation, is as follows:

| Property    | Term of tenancy  | Monthly rent (\$)   |
|-------------|--|---|
| G/F Unit A1 | 01-04-2005 to 30-06-2005<br>(vacant between 01-07-2005 and 31-03-2006) | 7,500 exclusive of rates, government rent and property tax                  |
| G/F Unit A2 | 01-09-2004 to 31-08-2007   | 6,000 inclusive of rates, government rent and property tax                  |
| G/F Unit B  | 01-06-2005 to 31-05-2007   | 11,500 exclusive of rates and government rent but inclusive of property tax |
| G/F Unit C  | 04-06-2002 to 03-06-2007   | 6,800 exclusive of rates and government rent but inclusive of property tax  |
| G/F Unit D  | 16-11-2004 to 15-11-2006   | 1,800 exclusive of rates and management fee                                 |
| 1/F & 2/F   | 01-07-2005 to 30-06-2007   | 14,700 inclusive of rates, government rent and property tax                 |
| 3/F         | 23-06-2005 to 22-03-2007   | 4,500 inclusive of rates, government rent and management fee                |
| Total       |  | 52,800  |

Notes:

- The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
- The property has been valued as a tenement property, subject to the existing tenancies, and inclusive of all fixtures, fittings and installations but disregarding any potential for redevelopment.
- Our valuation of the property is based on a 100 per cent attributable interest.

|   |   |  | Market value in<br>existing state as at<br>31st March, 2006 |
|---|---|--|---|
| Property  | Description and tenure  | Particulars of<br>occupancy  |   |
| 14. Units 1502 and 1503 on Level 15, Tai Ping Yang Shang Mao Building, No. 4028 Jia Bin Road, Luohu District, Shenzhen, Guangdong Province, People's Republic of China. | <p>The property comprises two adjoining office units located on the 15th level of a 25-storey commercial/office building which has a frontage to Jia Bin Road, a relatively busy street in Luohu District in the city of Shenzhen.</p> <p>According to copies of Certificates of Real Estate Ownership in respect of the two units, Unit 1502 has a gross floor area of 102.56 sq.m. approximately while Unit 1503 has a gross floor area of 130.94 sq.m. approximately.</p> <p>Each of the units has been granted a land use right for a term of 50 years commencing on 28th December, 1993 and expiring on 27th December, 2043.</p> | As at the date of valuation, the two units comprising the subject property are vacant and awaiting to be rented out. | HK\$1,350,000   |

Notes:

1. According to the Sale and Purchase Contract of Shenzhen Municipality (the “Contract”) dated 5th February, 2004 in respect of Unit 1502 entered into between Zheng Yuan Zhong (“Party A”) and Chan Oi Ling (“Party B”), the property comprising Unit 1502 is situated on the 15th Level of Tai Ping Yang Shang Mao Building at Jia Bin Road, Luohu District, Shenzhen City, and having a gross floor area of 102.56 sq.m. The Real Estate Certificate number in respect of this Contract is No. 2000024035. The aforesaid Contract has been registered at the Shenzhen Municipal Registry of Guangdong Province, People’s Republic of China on 5th February, 2004.
2. According to the Sale and Purchase Contract of Shenzhen Municipality (the “Contract”) dated 5th February, 2004 in respect of Unit 1503 entered into between Zheng Yuan Zhong (“Party A”) and Chan Oi Ling (“Party B”), the property comprising Unit 1503 is situated on the 15th Level of Tai Ping Yang Shang Mao Building at Jia Bin Road, Luohu District, Shenzhen City, and having a gross floor area of 130.94 sq.m. The Real Estate Certificate number in respect of this Contract is No. 2000024033. The aforesaid Contract has been registered at the Shenzhen Municipal Registry of Guangdong Province, People’s Republic of China on 5th February, 2004.
3. According to the Certificate of Real Estate Ownership, Shen Fang Di Zi Di No. 2000184601 dated 9th February, 2004, issued by the Planning and State-owned Land Resources Bureau of Shenzhen Municipality, the property comprising Unit 1502 and having a gross floor area of 102.56 sq.m. was purchased for a consideration of RMB615,360 while according to the Certificate of Real Estate Ownership, Shen Fang Di Zi Di No. 2000184603 also dated 9th February, 2004 and issued by the Planning and State-owned Land Resources Bureau of Shenzhen Municipality, the property comprising Unit 1503 and having a gross floor area of 130.94 sq.m. was purchased for a consideration of RMB785,640. The land use right in respect of the property is for a term of 50 years commencing on 28th December, 1993 and expiring on 27th December, 2043.

According to a Declaration of Trust entered into between Chan Oi Ling and Mascotte Hui Zhou Limited on 5th February, 2004, the interest of the property is held by Chan Oi Ling on trust for Mascotte Hui Zhou Limited (the “Beneficial Owner”).

4.

We have relied on all the information as provided to us by the Group and have prepared our valuation on the following bases:
- i.

The Group is in possession of a legal title to the property and is entitled to transfer the property with the residual term of the land use right at no additional premium or other costs payable to the government.
- ii.

All land and other premium as well as other costs relating to the provision of utilities and ancillary services have been completely settled.
- iii.

The design and construction of the building are in compliance with local planning regulations and have been approved by the relevant government authorities.
- iv.

Our valuation of the property is based on a 100 per cent attributable interest.
- v.

The property may be disposed of freely to both purchasers within or outside the PRC.
5.

The status of title of the property interest, as well as requisite approvals, consents, certificates, permits and licences relating to the development, use and sale of the property interest in accordance with the information provided to us by the Group are as follows:
- Sale and Purchase Contracts of Shenzhen Municipality  
(in respect of Units 1502 and 1503)

–

signed
- Sale and Purchase Contracts Registry Certificates  
(in respect of Units 1502 and 1503)

–

obtained
- Certificates of Real Estate Ownership (Shen Fang  
Di Zi Di Nos. 2000184601 and 2000184603)

–

obtained



|  |  |   | Market value in<br>existing state as at<br>31st March, 2006 |
|--|--|---|---|
| Property   | Description and tenure   | Particulars of<br>occupancy   |   |
| 15. Shop Space<br>No. S97 on<br>2nd Floor of<br>Red Mall of<br>Malahon<br>Apartments,<br>No. 509<br>Jaffe Road,<br>Hong Kong.  | The property comprises a 2nd<br>floor arcade shop in the<br>commercial and retail podium of<br>a multi-storey composite<br>development which has a<br>frontage to Jaffe Road which<br>provides access to the shopping<br>arcade. The building is believed<br>to have been built in 1967 or<br>thereabouts.   | As at the date of<br>valuation, the<br>property is subject to<br>a two-year tenancy<br>commencing on 27th<br>October, 2005 and<br>expiring on 26th<br>November, 2007 at a<br>rent of HK\$18,141.67<br>per month, exclusive<br>of rates, government<br>rent and management<br>fee. | HK\$2,900,000   |
| 102/12,786 of<br>18.75/314 parts<br>or shares of and<br>in the Remaining<br>Portion of<br>Section D of<br>Inland Lot No.<br>2836 and the<br>Remaining Portion<br>of Section L of<br>Marine Lot No. 52<br>and the Extension<br>thereto. | The saleable area of the property<br>is approximately 4.74 sq.m. (51<br>sq.ft.).<br><br>The property is held under 2<br>Government leases. The lease in<br>respect of the Remaining Portion<br>of Section D of Inland Lot No.<br>2836 is for a term of 99 years<br>from 30th September, 1929<br>renewable for a further term of<br>99 years. The ground rent<br>payable in respect of this Lot is<br>HK\$152 per annum. The lease in<br>respect of the Remaining Portion<br>of Section L of Marine Lot No.<br>52 and the Extension thereto is<br>for a term of 999 years<br>commencing on 25th June, 1843.<br>The ground rent payable in<br>respect of this Lot is HK\$4 per<br>annum. |   |   |

*Notes:*

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

|   |   | Particulars of occupancy  | Market value in existing state as at31st March, 2006 |
|---|---|---|--|
| Property  | Description and tenure  |   |  |
| 16. Shop Space No. S18 on 2nd Floor of Red Mall of Malahon Apartments, No. 509 Jaffe Road, Hong Kong.   | The property comprises a 2nd floor arcade shop in the commercial and retail podium of a multi-storey composite development which has a frontage to Jaffe Road which provides access to the shopping arcade. The building is believed to have been built in 1967 or thereabouts.   | As at the date of valuation, the property is subject to a two-year tenancy commencing on 27th October, 2005 and expiring on 26th November, 2007 at a rent of HK\$15,166.67 per month, exclusive of rates, government rent and management fee. | HK\$2,480,000  |
| 88/12,786 of 18.75/314 parts or shares of and in the Remaining Portion of Section D of Inland Lot No. 2836 and the Remaining Portion of Section L of Marine Lot No. 52 and the Extension thereto. | The saleable area of the property is approximately 4.09 sq.m. (44 sq.ft.).<br><br>The property is held under 2 Government leases. The lease in respect of the Remaining Portion of Section D of Inland Lot No. 2836 is for a term of 99 years from 30th September, 1929 renewable for a further term of 99 years. The ground rent payable in respect of this Lot is HK\$152 per annum. The lease in respect of the Remaining Portion of Section L of Marine Lot No. 52 and the Extension thereto is for a term of 999 years commencing on 25th June, 1843. The ground rent payable in respect of this Lot is HK\$4 per annum. |   |  |

Notes:

1. The registered owner of the property interest is Mascotte Investments Limited, a wholly-owned subsidiary of the Company.
2. Our valuation of the property is based on a 100 per cent attributable interest.

*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 31st March 2006.*



30 June 2006

The Directors  
Mascotte Holdings Limited  
1/F, Po Chai Industrial Building  
28 Wong Chuk Hang Road  
Aberdeen  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value of the property interest to be acquired by Mascotte Holdings Limited (referred hereinafter to as the “Company”) and its subsidiaries (referred hereinafter to as the “Group”) located in the People’s Republic of China (“the PRC”) for acquisition purpose, and for inclusion in the circular of the Company dated 30 June 2006. We confirm that we have carried out an inspection of the property, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest for the purpose of incorporation in this circular as at 31st March 2006 (the “date of valuation”).

Our valuation is our opinion of the market value of the property interest which we would define market value 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”.

In valuing the property interest, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

Our valuation has been made on the assumption that the owner sells the property in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property. Furthermore, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interest, we have assumed that the owner has free and uninterrupted rights to use, occupy or assign the property interest for the whole of the unexpired term of the respective land use rights. Furthermore, we have also assumed that all consents, approvals and licences from relevant PRC government authorities for development of the property interest were granted without any onerous conditions or undue delay.

In the course of our valuation, we have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. However, we have been provided with extracts of title documents relating to the property interest. We have not, however, searched the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which do not appear on the copies handed to us. All documents have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and therefore are only approximations.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and other relevant matters. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and we have not independently verified the information provided.

Furthermore, we have relied on the legal opinion provided by the Group's PRC legal adviser, GFE Law Office (the "PRC Legal Opinion"). Details of the current status of titles, grant of major approvals, licenses and documents of the property interest set out in the valuation certificate are based on the PRC Legal Opinion so provided. We have no responsibility for any legal matters concerning the legal title to the property interest set out in this letter and valuation certificate.

We have inspected the exterior and, where possible, the interior of the premises. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any other structural defects, though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

In valuing the property interest, we have complied with all the requirements set out in Chapter 5 and Practice Notes 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited. In addition, our valuations are prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the subject property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances restrictions and outgoings of an onerous nature which could affect its value.

Unless otherwise stated, all money amounts stated are in Renminbi. The exchange rate used in valuing the property interest in the PRC as at 31st March 2006 was HK\$1 = RMB1.04. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a valuation certificate.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
MRICS, MHKIS, MSc (e-com)  
*Executive Director*

*Note:* Raymond K. K. Ho, Chartered Surveyor, MRICS MHKIS, MSc (e-com) has over nineteen years’ experience in undertaking valuations of properties in Hong Kong and Macau and has over twelve years’ experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

The property to be acquired by the Group for investment in the PRC

| Property  | Description and Tenure   | Particulars of occupancy   | Market Value as at 31st March 2006 |
|---|--|--|------------------------------------|
| The whole block of Jifu Building, No. 103 Shibafu Road, Liwan District, Guangzhou City, Guangdong Province, the PRC | <p>The property comprises the whole of a 20-storey (inclusive of basement) composite building completed in 1985.</p> <p>The property has a total gross floor area of approximately 10,521.3206 sq.m.</p> | According to the information provided by the Group, the property is subject to various tenancies, in vacant possession and occupied by Jet Star Industries Limited as temporary office. The particulars of the tenancies are summarized in Note 4. | No commercial value                |

Notes:

- According to a Guangzhou Real Estate Transferal Registration Record dated 5th January 2006, the ownership of the property having a total gross floor area of approximately 10,521.3206 sq.m. has been transferred from Industrial and Commercial Bank of China (Guangzhou City 2nd Branch) to Jet Star Industries Limited at a consideration of RMB16,950,000.
- Pursuant to a Real Estate Ownership Certificate (Document No.: Sui Fang Di Zheng Zi No. 0406503), the current registered owner of the property is Industrial and Commercial Bank of China (Guangzhou City 2nd Branch).
- According to a Guangzhou Real Estate Ownership Record (Registration No. Wen Zi 30430), the current registered owner of the property is Industrial and Commercial Bank of China (Guangzhou City 2nd Branch).
- According to the information provided by the Group, portion of the property is subject to various tenancies as at the date of valuation, the particulars of these tenancies are summarized as follows:

| Unit    | Gross Floor Area<br>(sq.m.) | Lease Term                          | Monthly Rental<br>(exclusive of management fee)<br>(RMB) |
|---------|-----------------------------|-------------------------------------|--|
| 102A    | 43                          | 1 October 2004-30 September 2007    | 2,750  |
| 102B    | 60.13                       | 1 October 2004-30 September 2007    | 2,970  |
| 501A    | 32                          | 10 November 2005-19 November 2006   | 1,376  |
| 501B    | 46                          | 1 August 2005-31 July 2006          | 1,748  |
| 502     | 122.67                      | 1 August 2005-31 July 2006          | 4,662  |
| 503-505 | 146.62                      | 1 August 2004-31 December 2007      | 4,500  |
| 506     | 73.31                       | 1 July 2005-31 December 2007        | 2,199  |
| 601B    | 36.5                        | 12 October 2005-11 October 2006     | 1,533  |
| 604-606 | 219.93                      | 1 August 2004-30 June 2008          | 4,770  |
| 607-608 | 144.39                      | 1 July 2005-30 June 2008            | 4,332  |
| 701     | 78.02                       | 1 March 2006-29 February 2008       | 3,793  |
| 704-705 | 146.62                      | 20 February 2006-19 February 2008   | 6,821  |
| 801A    | 42                          | 20 September 2005-19 September 2006 | 1,764  |
| 801B    | 36.5                        | 20 September 2005-19 September 2006 | 1,500  |
| 802     | 122.67                      | 11 December 2005-10 December 2007   | 4,661  |
| 806     | 73.31                       | 14 March 2006-13 March 2008         | 2,932  |

APPENDIX VI

PROPERTY VALUATION OF JET STAR

| Unit                                     | Gross Floor Area<br>(sq.m.) | Lease Term                          | Monthly Rental<br>(exclusive of management fee)<br>(RMB) |
|--|-----------------------------|-------------------------------------|--|
| 807                                      | 73.31                       | 16 March 2006-15 March 2008         | 3,006  |
| 808                                      | 71.08                       | 1 April 2006-31 March 2008          | 2,985  |
| 901-902                                  | 200.69                      | 1 October 2005-31 December 2008     | 8,429  |
| 904-905                                  | 146.62                      | 5 November 2005-4 November 2008     | 5,572  |
| 906-907                                  | 146.62                      | 7 March 2006-6 March 2009           | 6,158  |
| 908                                      | 71.08                       | 13 March 2006-12 March 2007         | 2,914  |
| 1001-1008                                | 565.01                      | 21 October 2005-30 September 2007   | 17,990   |
| 1101                                     | 78.02                       | 5 September 2005-4 September 2006   | 2,965  |
| 1102                                     | 122.67                      | 1 December 2005-30 November 2007    | 4,661  |
| 1104-1106                                | 219.93                      | 1 January 2006-31 December 2006     | 8,357  |
| 1107                                     | 73.31                       | 28 September 2005-27 September 2006 | 2,932  |
| 1201A                                    | 52                          | 1 July 2005-30 June 2006            | 2,236  |
| 1201B                                    | 42                          | 25 January 2006-30 September 2007   | 1,596  |
| 1202A                                    | 42                          | 13 March 2006-12 March 2007         | 1,932  |
| 1202C                                    | 47                          | 1 August 2005-31 July 2006          | 1,786  |
| 1205                                     | 73.31                       | 1 August 2005-31 July 2006          | 2,786  |
| 1206                                     | 73.31                       | 1 April 2006-31 July 2006           | 2,786  |
| 1207                                     | 73.31                       | 1 August 2005-31 July 2006          | 2,786  |
| 1301-1302                                | 200.69                      | 1 October 2004-30 September 2007    | 6,090  |
| 1303-1307 and<br>1504-1505               | 439.86                      | 1 August 2004-28 February 2007      | 12,540   |
| 1401-1407                                | 510.01                      | 1 October 2004-30 September 2007    | 16,800   |
| 1402A                                    | 55                          | 1 September 2005-30 September 2007  | 1,925  |
| 1501-1502,<br>1506-1508 and<br>1704-1708 | 807.98                      | 1 July 2005-30 June 2007            | 28,279   |
| 1602                                     | 68.86                       | 1 August 2004-31 December 2008      | 6,000  |
| 1603-1605                                | 144.06                      | 1 August 2004-31 December 2007      | 4,500  |
| 1606-1607                                | 144.06                      | 1 August 2005-31 July 2007          | 5,474  |
| 1608                                     | 71.29                       | 1 August 2005-31 July 2007          | 2,709  |
| 1701-1702 and<br>1801-1808               | 541.19                      | 1 October 2004-30 September 2007    | 16,590   |
| Total                                    | 6,577.94                    |                                     | 235,095  |

5.

Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property are as follows:

(a)

Real Estate Ownership Certificate

Yes
6.

We have assessed no commercial value to the property because the relevant Real Estate Ownership Certificate under the name of Jet Star Industries Limited has not been obtained and the property is not entitled to freely transfer and mortgage in the open market.

However, for indicative purpose, if the property has obtained the Real Estate Ownership Certificate under the name of Jet Star Industries Limited and freely transferable in the market, its market value as at the date of valuation is circa RMB130,000,000 (equivalent to HK\$125,000,000)

7. We have been provided with a PRC Legal Opinion on the title to the property interest issued by GFE Law Office, the PRC legal adviser, which contains, inter alias, the following information:
- (a) According to the Real Estate Ownership Certificate, the current registered owner of the property is Industrial and Commercial Bank of China (Guangzhou City 2nd Branch), which is entitled to occupy and dispose the property in the market;
  - (b) According to the “Auction Law of the People’s Republic of China”, “The Regulations on Auction Management”, “Temporary Regulations on Supervision and Management of Auction” and “Company Law of the People’s Republic of China”, the transfer of the property from Industrial and Commercial Bank of China (Guangzhou City 2nd Branch) to Jet Star Industries Limited in the way of auction is legally effective and enforceable by the law of the PRC;
  - (c) Jet Star Industries Limited is entitled to occupy the property, receive the rental from the existing tenants and obtain any income derived from the property since the handover of the property from Industrial and Commercial Bank of China (Guangzhou City 2nd Branch);
  - (d) Since the delivery of the PRC Property (being 1 August 2004), Jet Star Industries Limited enjoys the rights of possession, use of the PRC Property and income derived from the PRC Property including lease and from other lawful means. Jet Star Industries Limited is entitled to transfer and mortgage the property in the open market once the Real Estate Ownership Certificate under the name of Jet Star Industries Limited has been issued by the relevant government organization; and
  - (e) Jet Star Industries Limited has not obtained the Real Estate Ownership Certificate under its name due to the relevant taxes and payments have not been duly settled. If Jet Star Industries Limited has settled all the relevant taxes and payments in full and has applied the Real Estate Ownership Certificate in accordance to the application procedure of Guangzhou Real Estate Exchange Centre, there is no foreseeable obstacle for Jet Star Industries Limited to obtain the Real Estate Ownership Certificate under its name.



1. RESPONSIBILITY STATEMENT

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

2. DIRECTORS’ INTERESTS IN SECURITIES

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

| Name              | Name of company in which interests or short positions were held | Nature of interests                           | Number of shares | % of shareholding (approximate) |
|-------------------|---|---|------------------|---------------------------------|
| Ms. Chan          | The Company   | Interests of controlled corporation<br>(Note) | 193,340,000 (L)  | 45.60%                          |
| Lam Yu Ho, Daniel | The Company   | Beneficial interests                          | 24,376,000 (L)   | 5.75%                           |
| Cheng Lok Hing    | The Company   | Beneficial interests                          | 8,000,000 (L)    | 1.89%                           |
| Cheng Chun Kit    | The Company   | Beneficial interests                          | 8,200,000 (L)    | 1.93%                           |

*Note:* These Shares are held by Honeyard Corporation, the entire issued share capital of which is held by The Honeyard Trust, a discretionary trust of which the family members of Mr. Chan are discretionary beneficiaries

(L) denotes the long position held in shares

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

3. SUBSTANTIAL SHAREHOLDERS

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

| Name                           | Name of company in which interests or short positions were held | Nature of interests  | Number of shares                                     | % of shareholding (approximate) |
|--------------------------------|---|----------------------|--|---------------------------------|
| Honeyard Corporation<br>(Note) | The Company   | Beneficial interests | 193,340,000 (L)                                      | 45.60%                          |
| Ms. Chan                       | Jet Star  | Beneficial interests | 998 ordinary shares and 2 non-voting deferred shares | 100%                            |

*Note:* These Shares are held by Honeyard Corporation, the entire issued share capital of which is held by The Honeyard Trust, a discretionary trust of which the family members of Mr. Chan are discretionary beneficiaries

(L) denotes the long position held in shares

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and

3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group and the amount of each of such person's interest in such securities or held any options in respect of such capital.

#### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business part from the Group's business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

#### **5. OTHER INTERESTS**

Save for the Acquisition Agreement, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, save for (i) Ms. Chan's shareholding in Jet Star; (ii) Cheng Lok Hing and Cheng Chun Kit's (both being executive Directors) interest in the entire issued share capital of Dawnvast Ltd., which had leased its property at Block D, 1/F., Wo Fung Industrial Building, 2 Yip Wo Street, On Lok Tsuen, Fanling, New Territories, Hong Kong to the Group at a monthly rental of HK\$30,800; (iii) Ms. Chan's interest in the entire issued share capital of Techford Development Ltd., which had leased its property at Unit 10, 21/F., Harbour Industrial Centre, 10 Lee Hing Street, Aberdeen, Hong Kong to the Group at a monthly rental of HK\$13,000; and (iv) Ms. Chan's family members' interests in the entire issued share capital of Wing Nin Trading Co. Ltd., which had leased its property at Flat B & C, 8/F., Summit Industrial Building, 9 Sun Yip Street, Chai Wan, Hong Kong to the Group at a monthly rental of HK\$16,000, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

#### **6. MATERIAL CONTRACTS**

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by the Enlarged Group within the two years preceding the Latest Practicable Date and which are or may be material:

- (a) the Acquisition Agreement.

#### **7. SERVICE CONTRACT**

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors and the Company or any member of the Group, excluding contracts which expire or may be terminated by the employer within a year without payment of any compensation (other than statutory compensation).

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Enlarged Group was engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

| Name  | Qualification   |
|---|---|
| Deloitte Touche Tohmatsu<br>("DTT")                 | certified public accountants                                      |
| Quam  | Licensed corporation to carry out type 6 activities under the SFO |
| Chung, Chan & Associates                            | chartered surveyors   |
| Vigers Appraisal & Consulting<br>Limited ("Vigers") | professional valuers  |
| GFE Law Office                                      | PRC lawyers   |

Each of DTT, Quam, Chung, Chan & Associates, Vigers and GFE Law Office has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of DTT, Quam, Chung, Chan & Associates, Vigers and GFE Law Office had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of DTT, Quam, Chung, Chan & Associates, Vigers and GFE Law Office had any direct or indirect interests in any assets which had been, since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 1st Floor, Po Chai Industrial Building, 28 Wong Chuk Hang Road, Aberdeen, Hong Kong, from the date of this circular and up to and including 17 July 2006, being the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed "Material contracts" in this Appendix;
- (c) the published audited consolidated financial statements of the Company for each of the two years ended 30 March 2005;
- (d) the interim report of the Company for the six months ended 30 September 2005;
- (e) the accountants' report of Jet Star, the text of which is set out in Appendix II to this circular;
- (f) the accountants' report on the unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;
- (g) the valuation reports of properties of the Group, the text of which is set out in Appendix V to this circular;
- (h) the valuation reports of properties of Jet Star, the text of which is set out in Appendix VI to this circular;
- (i) the letters of consent referred to under the section headed "Experts and consents" in this Appendix.

**11. MISCELLANEOUS**

- (a) The branch share registrar of the Company is Secretaries Limited, the address of which is at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (b) The secretary and the qualified accountant of the Company is Mr. Au Kin Fai, Alfred, HKICPA
- (c) The English text of this circular shall prevail over the Chinese text.

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## NOTICE OF SGM

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### MASCOTTE HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 136)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of Mascotte Holdings Limited (the “**Company**”) will be held at The Aberdeen Marina Club, 4th Floor, Bridge Room, 8 Shum Wan Road, Aberdeen, Hong Kong on Monday, 17 July 2006 at 3:00 p.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the sale and purchase agreement dated 6 June 2006 (the “**Acquisition Agreement**”, a copy of which has been produced to this meeting marked “A” and initialled by the chairman of the meeting for the purpose of identification) entered into between Mascotte Group Limited (“**Mascotte Group**”), a wholly-owned subsidiary of Mascotte Holdings Limited (the “**Company**”), as purchaser and Chan Oi Ling, Maria Olimpia (the “**Vendor**”) as vendor in relation to (i) the sale and purchase (the “**Acquisition**”) of 998 shares of HK\$1.00 each in the share capital of Jet Star Industries Limited (“**Jet Star**”) and 2 non-voting deferred shares in the capital of Jet Star; and (ii) the shareholder’s loan in an aggregate amount of HK\$25,278,799, which was owed by Jet Star to the Vendor as at the date of the Acquisition Agreement, the performance and implementation of the transactions contemplated under the Acquisition Agreement be and are hereby confirmed, approved and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they in their absolute discretion consider necessary or expedient to give effect to the Acquisition Agreement and the implementation of all transactions contemplated thereunder.”

By order of the board of  
**MASCOTTE HOLDINGS LIMITED**

**Lam Yu Ho, Daniel**

*Managing Director*

Hong Kong, 30 June 2006

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## NOTICE OF SGM

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*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal Place  
of Business in Hong Kong:*

1st Floor  
Po Chai Industrial Building  
28 Wong Chuk Hang Road  
Aberdeen, Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies, if holding two or more shares, to attend and to vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of authority, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. As at the date hereof, the board of directors of the Company comprises:

Executive Directors:

Chan Oi Ling, Maria Olimpia  
(Chairperson)  
Cheng Lok Hing  
Ji Hong

Lam Yu Ho, Daniel  
(Managing Director)  
Cheng Chun Kit

Independent non-executive Directors:

Wong Yui Leung, Larry  
Cheung Ngai Lam

Lui Wai Shan, Wilson