



MASCOTTE HOLDINGS LIMITED
馬斯葛集團有限公司
(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2003



INTERIM RESULTS

The Board of Directors (the “Directors”) of Mascotte Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | For the six months period ended 30th September, 2003 | |
|----------------------------------|--------------|---|---------------------------------|
| | | (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 |
| | <i>Notes</i> | | |
| Turnover | 3 | 80,313 | 98,797 |
| Cost of sales | | <u>(54,673)</u> | <u>(68,522)</u> |
| Gross profit | | 25,640 | 30,275 |
| Other operating income | | 762 | 1,719 |
| Selling and distribution costs | | (4,068) | (4,150) |
| Administrative expenses | | <u>(13,929)</u> | <u>(17,770)</u> |
| Profit from operations | | 8,405 | 10,074 |
| Finance costs | | <u>(624)</u> | <u>(230)</u> |
| Profit before taxation | 4 | 7,781 | 9,844 |
| Taxation | 5 | <u>(468)</u> | <u>(368)</u> |
| Profit before minority interests | | 7,313 | 9,476 |
| Minority interests | | <u>135</u> | <u>(105)</u> |
| Net profit for the period | | <u>7,448</u> | <u>9,371</u> |
| Interim dividend | 6 | <u>–</u> | <u>–</u> |
| Earnings per share | 7 | | |
| Basic | | <u>1.8 cents</u> | <u>2.2 cents</u> |
| Diluted | | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | 30th September, 2003 (Unaudited) HK\$'000 | 31st March, 2003 (Audited) HK\$'000 |
|--|--------------|--|--|
| Non-current assets | | | |
| Investment properties | | 53,735 | 53,735 |
| Property, plant and equipment | | 57,269 | 59,615 |
| Goodwill | | 8,667 | 9,209 |
| Deposit paid | 8 | 18,000 | – |
| | | <u>137,671</u> | <u>122,559</u> |
| Current assets | | | |
| Inventories | | 8,525 | 8,158 |
| Trade receivables | 9 | 27,424 | 30,081 |
| Loans receivable | 10 | 44,510 | 33,510 |
| Deposits, prepayments and other receivables | | 13,416 | 11,495 |
| Tax recoverable | | 3,275 | 41 |
| Bank balances and cash | | 16,259 | 29,599 |
| | | <u>113,409</u> | <u>112,884</u> |
| Current liabilities | | | |
| Trade Creditors | 11 | 14,177 | 10,336 |
| Other creditors and accrued charges | | 8,052 | 9,401 |
| Taxation | | 18,107 | 20,492 |
| Bank borrowings – due within one year | | 31,897 | 22,826 |
| | | <u>72,233</u> | <u>63,055</u> |
| Net current assets | | <u>41,176</u> | <u>49,829</u> |
| Total assets less current liabilities | | 178,847 | 172,388 |
| Non-current liabilities | | | |
| Bank borrowings – due after one year | | (9,329) | (10,091) |
| Minority interests | | <u>(2,079)</u> | <u>(2,306)</u> |
| | | <u>167,439</u> | <u>159,991</u> |
| Capital and reserves | | | |
| Share capital | 12 | 42,400 | 42,400 |
| Reserves | | 125,039 | 117,591 |
| | | <u>167,439</u> | <u>159,991</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th September, 2003

| | Share capital | Share premium | Special reserve | Goodwill reserve | Negative goodwill reserve | Translation reserve | Reserve fund | Enterprise expansion reserve | Retained profits | Total |
|------------------------------|----------------------|----------------------|----------------------|------------------------|---------------------------------|------------------------|---------------------|------------------------------------|----------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st April, 2002 | 42,400 | 66,672 | 14,901 | (10,638) | 2,080 | (1,150) | 1,083 | 1,083 | 36,935 | 153,366 |
| Net profit for the period | - | - | - | - | - | - | - | - | 9,371 | 9,371 |
| 2002 final dividend paid | - | - | - | - | - | - | - | - | (4,240) | (4,240) |
| At 30th September, 2002 | <u>42,400</u> | <u>66,672</u> | <u>14,901</u> | <u>(10,638)</u> | <u>2,080</u> | <u>(1,150)</u> | <u>1,083</u> | <u>1,083</u> | <u>42,066</u> | <u>158,497</u> |
| At 1st April, 2003 | 42,400 | 66,672 | 14,901 | (10,638) | 2,080 | (1,150) | 1,083 | 1,083 | 43,560 | 159,991 |
| Net profit for the period | - | - | - | - | - | - | - | - | 7,448 | 7,448 |
| At 30th September, 2003 | <u>42,400</u> | <u>66,672</u> | <u>14,901</u> | <u>(10,638)</u> | <u>2,080</u> | <u>(1,150)</u> | <u>1,083</u> | <u>1,083</u> | <u>51,008</u> | <u>167,439</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months period ended 30th September, | |
|---|---|---------------------------------|
| | 2003 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 |
| Net cash from operating activities | 7,491 | 11,645 |
| Net cash used in investing activities | (28,515) | (17,435) |
| Net cash from financing activities | <u>8,041</u> | <u>2,784</u> |
| Decrease in cash and cash equivalents | (12,983) | (3,006) |
| Cash and cash equivalents at beginning of the period | <u>29,242</u> | <u>22,798</u> |
| Cash and cash equivalents at end of the period | <u>16,259</u> | <u>19,792</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

1. Basis of preparation

The interim financial report has 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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA").

2. Principal accounting policies

The interim financial report has been prepared under the historical cost convention.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st March, 2003 except that the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods.

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

| | For the six months period ended 30th September, 2003 | | |
|------------------------------------|---|--|--------------------------|
| | Manufacture and sales of goods HK\$'000 | Property Investment and development HK\$'000 | Consolidated HK\$'000 |
| TURNOVER | <u>78,020</u> | <u>2,293</u> | <u>80,313</u> |
| RESULT | | | |
| Segment profit | <u>7,020</u> | <u>1,684</u> | <u>8,704</u> |
| Unallocated other operating income | | | 26 |
| Unallocated corporate expenses | | | <u>(325)</u> |
| Profit from operations | | | <u>8,405</u> |

| | For the six months period ended 30th September, 2002 | | |
|------------------------------------|---|--|--------------------------|
| | Manufacture and sales of goods HK\$'000 | Property Investment and development HK\$'000 | Consolidated HK\$'000 |
| TURNOVER | <u>96,640</u> | <u>2,157</u> | <u>98,797</u> |
| RESULT | | | |
| Segment profit | <u>9,791</u> | <u>1,116</u> | 10,907 |
| Unallocated other operating income | | | 1,178 |
| Unallocated corporate expenses | | | <u>(2,011)</u> |
| Profit from operations | | | <u>10,074</u> |

Geographical segments

| | For the six months period ended 30th September, | | | |
|---------------------------------------|--|---------------|---|----------------|
| | Revenue by geographical market | | Contribution to profit from operations | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Europe | 42,371 | 52,738 | 3,812 | 5,343 |
| United States of America | 11,273 | 17,264 | 1,014 | 1,749 |
| Hong Kong | 14,708 | 14,496 | 1,378 | 1,604 |
| Other regions in the PRC | 1,160 | 2,804 | 878 | 1,046 |
| Others | 10,801 | 11,495 | 1,622 | 1,165 |
| | <u>80,313</u> | <u>98,797</u> | <u>8,704</u> | <u>10,907</u> |
| Unallocated other operating income | | | 26 | 1,178 |
| Unallocated corporate expenses | | | <u>(325)</u> | <u>(2,011)</u> |
| Profit from operations | | | <u>8,405</u> | <u>10,074</u> |

4. Profit before taxation

Profit before taxation has been arrived at after charging:

| | For the six months period ended 30th September, | |
|---|--|------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Amortisation of goodwill included in administrative expenses | 542 | 542 |
| Depreciation and amortisation | 2,438 | 2,169 |
| Interest on bank borrowings | <u>624</u> | <u>230</u> |

5. Taxation

| | For the six months period ended 30th September, | |
|-----------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Hong Kong Profits Tax | 440 | 349 |
| Other jurisdictions | 28 | 19 |
| | 468 | 368 |

Hong Kong Profits Tax has been calculated at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

As disclosed in 2003 annual report that a tax audit was commenced by the Inland Revenue Department ("IRD") on certain subsidiaries of the Company, the Group is in the progress to reach a final settlement with the IRD and the management believes that the Group has made an adequate provision for the potential additional tax liabilities.

There was no material unprovided deferred tax for the interim period (2002: Nil).

6. Interim dividend

The Directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2003 (2002: Nil).

7. Earnings per share

The calculation of basic earnings per share is based on the net profit for the six months period ended 30th September, 2003 of HK\$7,448,000 (2002: HK\$9,371,000) and the weighted average of 424,000,100 (2002: weighted average of 424,000,100) ordinary shares of the Company in issue during the period.

Diluted earnings per share amounts for the periods ended 30th September, 2003 and 2002 have not been presented as there were no dilutive potential ordinary shares in existence during these periods.

8. Deposit paid

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|---------------------------------------|--|--|
| Deposit for acquisition of a property | <u>18,000</u> | <u>–</u> |

9. Trade receivables

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

The following is an aged analysis:

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|--------------------|--|--|
| Within 60 days | 21,682 | 22,612 |
| 61–180 days | 4,180 | 5,235 |
| More than 180 days | <u>1,562</u> | <u>2,234</u> |
| | <u>27,424</u> | <u>30,081</u> |

10. Loans receivable

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|--|--|--|
| Loans advanced for property development projects (<i>note a</i>) | 43,960 | 32,960 |
| Other loan (<i>note b</i>) | <u>550</u> | <u>550</u> |
| | <u>44,510</u> | <u>33,510</u> |

Notes:

- (a) The loans advanced for property development projects were as follows:
- (i) Pursuant to various agreements signed between the Group and various companies in the PRC (the "Borrower") on 15th June, 2002 (the date of first advance) and subsequent dates, the Group advanced totalling HK\$31.9 million to the Borrower for property development purpose. The loan is unsecured and is wholly repayable within one year. The Group is entitled to an average return carried at 15% to 24% per annum (from the actual date of advances) in cash, or properties equivalent to the amount, subject to the Group's decision, upon the repayment of the advance.
 - (ii) Pursuant to various agreement signed between the Group and an individual in the PRC on 15th November, 2002 and subsequent dates, the Group advanced an amount of HK\$12.0 million to the individual for project development purpose. The loan is unsecured and repayable within one year. The Group is entitled to a 40% equity interest of the property project under financing by the Group or, a return of HK\$4.8 million in cash, or properties equivalent to the amount, subject to the Group's decision, upon repayment of the advance.
- (b) The other loan is secured by the borrower land and buildings and is repayable within one year.

11. Trade creditors

The following is an aged analysis:

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|--------------------|--|--|
| Within 60 days | 14,099 | 10,110 |
| 61–180 days | 78 | 222 |
| More than 180 days | – | 4 |
| | 14,177 | 10,336 |

12. Share capital

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|---|--|--|
| <i>Authorised:</i> | | |
| 1,000,000,000 ordinary shares of HK\$0.10 each | <u>100,000</u> | <u>100,000</u> |
| <i>Issued and fully paid:</i> | | |
| 424,000,100 ordinary shares of HK\$0.10 each | <u>42,400</u> | <u>42,400</u> |

13. Capital commitments

| | As at 30th September, 2003 HK\$'000 | As at 31st March, 2003 HK\$'000 |
|---|--|--|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements | <u>5,000</u> | <u>–</u> |

14. Contingent liabilities

The Company provided corporate guarantees of approximately HK\$75.0 million (as at 31st March, 2003: approximately HK\$73.0 million) to banks to secure general banking facilities granted to subsidiaries. The total amount of facilities utilised by the subsidiaries at 30th September, 2003 is amounted to approximately HK\$41.2 million (as at 31st March, 2003: HK\$32.9 million).

15. Litigation

As disclosed in the 2003 annual report that an interpleader proceeding between Mee Lee Shing Plastic Factory Limited and Mascotte Industrial Associates (Hong Kong) Limited, a wholly owned subsidiary of the Company, as trustee of Mr. Cheang for proving their respective claims to the disputed sum of HK\$2,000,000, there is no material progress on this litigation up to the announcement date.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months period ended 30th September, 2003, the Group recorded declines in both turnover and profit attributable to shareholders approximately of HK\$80.3 million and HK\$7.4 million, representing a decrease of 18.7% and 20.5% when compared with the previous corresponding period.

During this period under review, the performance of the Group was adversely affected by the economic uncertainty caused by the Iraqi war, followed by the outbreak of Severe Acute Respiratory Syndrome (“SARS”). Europe and the United States are always the Group’s largest two markets, and during this period these two markets together recorded a combined decrease of 23.3% in turnover when compared with the previous corresponding period. The economic uncertainty of Iraqi war had caused the overseas importers and distributors to reduce their orders so as to prevent from the piling of stock, risking a loss on price and stock obsolescence. The outbreak of SARS had caused the overseas buyers to shy away from Hong Kong during the first and the early second financial quarters for this period.

Despite all these adverse conditions, the management was managed to introduce increasingly tighter cost control measures and to boost up high productivity of all manufacturing bases, for which the Group had been able to safeguard the gross profit margin and to reduce the administrative costs when compared with compared with the previous corresponding period.

Liquidity and gearing ratio

As at 30th September, 2003, the Group recorded a total of cash and bank balances of HK\$16.2 million (as at 31st March, 2003 of HK\$29.6 million). Moreover, the Group had a net current assets of HK\$113.4 million (as at 31st March, 2003 of HK\$112.9 million). The shareholder’s funds was of HK\$167.4 million (as at 31st March, 2003 of HK\$159.9 million) and the total bank borrowings was of HK\$41.2 million (as at 31st March, 2003 of HK\$32.9 million); and accordingly, the gearing ratio was of 24.6% (as at 31st March, 2003 of 20.6%). Taking advantage of this very 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.

Prospects

The impact of Iraqi war and SARS had gradually disappeared during the second financial quarter for this period and the Group’s business had since then been able to resume rapidly to the normal level. With some rush orders picked up by the Group around the end of second financial quarter for this period, the management anticipates that the Group business is still cautiously optimistic for the remaining months before the coming financial year end.

Subsequent to this interim report date, the Group financed 31-storey commercial and residential complex development project in Guangzhou, PRC is now open for sale for the residential units. The management expects this development project will contribute positively to the Group's operating results and cash flows for the coming two years. Details of this development project is set out in Loans Receivable Note (a)(i) to the Condensed Consolidated Balance Sheet.

Number of Employees and Remuneration Policy

As at 30th September, 2003, 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.

SHARE OPTION SCHEMES

A share option scheme adopted by the Company on 5th September, 1997 was terminated and a new share option scheme of the Company (the "New Scheme") was approved by the shareholders of the Company at the 2003 Annual General Meeting held on 21st August, 2003. The New Scheme fully complied with Chapter 17 of the Listing Rules. During the period, no share option was granted, exercised, cancelled or lapsed under the New Scheme. There was no outstanding option under the New Scheme at the beginning and at the end of the period.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30th September, 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

| Name of director | Number of shares held | |
|------------------------------------|-----------------------|--------------------------|
| | Personal interest | Other interest (Note) |
| Ms. Chan Oi Ling, Maria Olimpia | – | 193,340,000 |
| Mr. Lam Yu Ho, Daniel | 24,376,000 | – |
| Mr. Cheng Lok Hing | 8,000,000 | – |
| Mr. Cheng Chun Kit | 8,200,000 | – |

Note: These shares are held by Honeyard Corporation. The entire issued share capital of Honeyard Corporation is held by The Honeyard Trust, a discretionary trust of which the family members of Ms. Chan Oi Ling, Maria Olimpia are discretionary beneficiaries.

Save as disclosed above, other than certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors or their associates had any interests or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the SFO as at 30th September, 2003.

Furthermore, no share options were granted under the Company's share option scheme since its adoption on 21st August, 2003. Other than that, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed under the heading "Directors' interests in Shares, Underlying Shares and Debentures", the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited financial statements of the Group for the six months ended 30th September, 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th September, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

By Order of the Board
Chan Oi Ling, Maria Olimpia
Chairman

Hong Kong, 24th December, 2003