THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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 transfer was effected for onward transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

MASCOTTE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 136)

(1) VERY SUBSTANTIAL ACQUISITION
(2) INCREASE IN AUTHORISED SHARE CAPITAL
(3) PLACING OF NEW SHARES AND CONVERTIBLE BONDS
(4) APPOINTMENT OF A NEW DIRECTOR
(5) GRANT OF FACILITY TO SUN MASS ENERGY LIMITED
AND
(6) NOTICE OF SGM

Financial Adviser and Placing Agent of the Company

Deutsche Bank

Capitalised terms used on this cover page shall have the same meanings as those in the section headed "Definitions" in this circular.

A notice convening the SGM of the Company to be held at 30/F., China United Centre, 28 Marble Road, North Point, Hong Kong on 7 June 2011 at 9:00 am is set out on pages 373 to 376 of this circular. A form of proxy for use in connection with the SGM is also enclosed herewith. Whether or not you intend to be present at the SGM, you are requested to complete the form of proxy and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for holding of the SGM or any adjourned meeting. Completion of the form of proxy and its return will not preclude you from attending and voting in person at the SGM or any adjourned meeting, if you so wish. Pursuant to Rule 13.39(4) of the Listing Rules, voting by the Shareholders at the SGM will be by poll.

This circular is not an offer of securities for sale or solicitation of an offer to purchase securities. The securities described herein have not been and will not be registered under the US Securities Act, and may not be offered or sold in the United States absent registration under the US Securities Act, or an applicable exemption from the registration requirements thereof. There will be no public offering of the securities described herein in the United States.

Forward-looking Information

Certain information contained in this circular constitutes forward-looking information. Investors are cautioned that forward-looking information is inherently uncertain and involves risks and uncertainties that could cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Such statements include comments regarding the Target Group Companies, Completion and the terms of the proposed transactions described in this circular and the proposed strategies of the Company. Factors that could cause actual results to differ materially include (without limitation) the ability to complete the Acquisition, the failure to receive regulatory approvals with respect to the Acquisition, and changes in Hong Kong and other relevant securities markets. In addition, specific reference is made to the section headed "Risk Factors" in this circular. There can be no assurance that future developments affecting the Company will be those anticipated by management. While the Company may elect to update the forward-looking information at any time, the Company does not undertake to update such information at any particular time or in response to any particular event. Investors and others should not assume that any forward-looking information in this circular represents management's estimation as of any date other than the date of this circular.

Currency and Exchange Rates

For the purpose of this circular, the exchange rates of US$1.00 = HK$7.80 and NT$1.00 = HK$0.2750 have been used for currency translation, where applicable. Such exchange rates are for illustration purposes only and do not constitute representation that any amount in HK$ or US$ or NT$ have been, could have been or may be converted in such rates or at all.

20 May 2011

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the purchase of the Sale Shares by the Company on the terms and subject to the conditions of the Sale and Purchase Agreement
"Announcement"	the Company's announcement dated 19 January 2011
"Availability Period"	the period of three (3) months commencing on the date on which the last in time of the conditions in the Facility Agreement to be satisfied, or waived in accordance with the Facility Agreement, is first satisfied or waived
"Board"	the board of Directors
"Bond Documents"	the bond documentation in relation to the Convertible Bonds, the terms of which are to be agreed by the Company and the Placing Agent
"Borrower"	the Target, being the borrower under the Facility Agreement
"Business Day"	a day (except a Saturday or Sunday) on which banks are generally open for business in Hong Kong
"Business Valuation Report"	the business valuation report prepared by the Valuer, as set out in Appendix V
"BVI"	the British Virgin Islands
"Call Option"	the option granted by the Seller to the Company to buy, and to require the Seller to sell, all or any of the Option Shares in accordance with the terms of the Call Option Agreement
"Call Option Agreement"	the call option agreement dated 31 December 2010 and entered into between the Company and the Seller in relation to the grant of the Call Option
"Call Option Period"	the period beginning on the first Business Day falling 12 months after the Completion Date and ending on the first Business Day falling 36 months after the Completion Date

"Company"	Mascotte Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange
"Company Early Redemption Date"	as defined under the paragraphs headed "Convertible Bonds" in part D of the Letter from the Board in this circular
"Company Early Redemption Notice"	as defined under the paragraphs headed "Convertible Bonds" in part D of the Letter from the Board in this circular
"Completion"	completion of the Acquisition in accordance with the Sale and Purchase Agreement
"Completion Date"	the day which is the third Business Day after the date on which the last in time of the Sale Conditions (except such Sale Conditions which are expressed to be satisfied on or as of the Completion Date but subject to the satisfaction or waiver of such Sale Conditions) to be satisfied or waived in accordance with the Sale and Purchase Agreement is first satisfied or waived
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	US$150,000,000, to be satisfied by the payment in cash on Completion
"Conversion Price"	as defined under the paragraphs headed "Convertible Bonds" in part D of the Letter from the Board
"Conversion Shares"	Shares to be issued upon conversion of the Convertible Bonds pursuant to the Placing Mandate and subject to adjustment as set out in the Bond Documents
"Convertible Bonds"	the convertible bonds in the aggregate principal amount to be agreed between the Placing Agent and the Company, to be issued by the Company in accordance with the indicative terms set out in the section headed "the Convertible Bonds" in part D of the letter from the Board in this circular and constituted and issued pursuant to the Bond Documents

"Core Technology"	the technology deployed by Sun Materials in relation to its polysilicon production
"Directors"	the directors of the Company
"Dr Wu"	Wu Yi-Shuen (吳以舜), also known as Mark Wu
"Employee"	each employee who is engaged by a Target Group Company at Completion
"Encumbrance"	a charge, debenture, mortgage, pledge, lien, security interest, title retention, assignment, restriction, right of first refusal, option, right of pre-emption or other third party right or interest of any kind, whether granted for the purpose of security or not and "**Encumbrances**" means all those kinds of right or interest
"Enlarged Group"	the Group as it will be comprised immediately after the Completion
"Equipment Procurement Agreement"	the equipment procurement agreement dated 31 May 2010 and entered into between Sun Materials and an equipment manufacturer in relation to Sun Materials' procurement of a cyclone high temperature reactor and all relevant components from such equipment manufacturer
"Facility Agreement"	the facility agreement between the Company and the Target in relation to a facility of up to US$50 million dated 7 March 2011
"GCL-Poly"	GCL-Poly Energy Holdings Limited, a polysilicon manufacturer based in China
"GCM"	as defined in the section headed "Basis for determining the Consideration" in part B of the letter from the Board in this circular
"Group"	the Company and its subsidiaries
"GTM"	as defined in the section headed "Basis for determining the Consideration" in part B of the letter from the Board in this circular

"Hareon"	Hareon Solar Technology Co., Ltd, a company incorporated with limited liability in China. Information in relation to Hareon is set out in the paragraph headed "3. Competitive strengths of Sun Materials – Sun Materials has a strategic cooperation relationship with Hareon, one of the leading industry players" in part A of the letter from the Board in this circular
"Hemlock"	Hemlock Semiconductor Group, a polysilicon manufacturer based in the United States
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IC"	the Investment Commission of the MOEA, Taiwan
"Improve Forever"	Improve Forever Investments Limited, a company incorporated in the BVI and the subscriber under the Subscription Agreement
"Initial Conversion Price"	the initial conversion price of the Convertible Bonds to be agreed between the Company and the Placing Agent
"Latest Practicable Date"	18 May 2011
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lution"	Lution International Holdings Co., Ltd (祿訊國際股份有限公司), a company incorporated with limited liability in Taiwan and is wholly-owned by the Target
"Maturity Date"	as defined under the paragraphs headed "Convertible Bonds" in part D of the Letter from the Board
"MEMC"	MEMC Electronic Materials, Inc., a polysilicon manufacturer based in the United States
"MOEA"	Ministry of Economic Affairs of Taiwan

"Ms Hsieh"	Hsieh Cheng Lu (謝正陸)
"NT$"	new Taiwan dollars, the lawful currency of Taiwan
"OCI"	OCI Co Ltd, a polysilicon manufacturer based in South Korea
"Option Shares"	4,990,000 shares of a single class of no par value of the Target, representing 49.9% of the issued shares of the Target as at the Signing Date
"Patented and Related Technology"	the patents listed in the Sale and Purchase Agreement (or any of them) or any other technology, whether patentable or not, which is derived from, constitutes an improvement of, or which otherwise could not be lawfully exploited without a licence from Sun Materials in respect of those patents
"Photon Consulting"	Photon Consulting LLC is a research and consultancy firm focused on fast growing global photovoltaic market within the solar power sector. It provides consulting services, data, research and analysis to global clientele
"Placees"	professional, institutional and other investors selected and procured by or on behalf of the Placing Agent as contemplated by the Placing Agreement and the Bond Documents
"Placing"	the placing of the Placing Shares and Convertible Bonds of the Company in accordance with the Placing Agreement
"Placing Agent"	Deutsche Bank AG, Hong Kong Branch
"Placing Agreement"	the agreement between the Placing Agent and the Company dated 17 January 2011 for the placing of the Placing Shares and the Convertible Bonds, as varied and supplemented by the Supplemental Agreements

"Placing Completion Date"	the date or dates (in the event that the completion of the Placing of the Placing Shares falls on a different day to the completion of the Placing of the Convertible Bonds) notified by the Placing Agent to the Company, being not later than 110 days after the date of the SGM, or such other time or date as the Company and the Placing Agent shall agree in writing
"Placing Mandate"	a specific mandate to be sought at the SGM for the issue of up to 9,550,000,000 Placing Shares and/or Conversion Shares, subject to the conditions set out under the section headed "2. The Placing Mandate" in part D of the letter from the Board in this circular
"Placing Price"	the placing price of each Placing Share to be agreed between the Company and the Placing Agent
"Placing Shares"	Shares to be offered by the Placing Agent as agent for the Company pursuant to the Placing Agreement and to be issued pursuant to the Placing Mandate
"PRC" or "China"	the People's Republic of China
"Preliminary Agreement"	the preliminary agreement between the Company, the Seller, Mr Chang Wen-Shan and Dr Wu dated 3 August 2010
"Preliminary Business Valuation"	the preliminary range of business enterprise value of the Target Group prepared by the Valuer with reference to the Technical Report
"REC"	Renewable Energy Corp ASA, a polysilicon manufacturer based in Norway
"Redemption Price"	as defined under the paragraphs headed "Convertible Bonds" in part D of the Letter from the Board in this circular

"Relevant Technology"	any technology, whether patentable or not, intellectual property developed by Dr Wu (whether or not in conjunction with others) or otherwise came into existence as a result of any work undertaken by Dr Wu (whether or not for or on behalf of any Target Group Company) which is or is capable of being used for, applied to, or otherwise exploited in connection with the manufacture of polysilicon, except the Patented and Related Technology
"Reorganisation"	the completion of the acquisition by the Target of the entire issued share capital of Lution, which owns the entire issued share capital of Sun Materials and the receipt of all approvals and completion of all procedural steps required in connection therewith, as set out in the Sale and Purchase Agreement
"Restricted Business"	any research, development or other consultancy work involving, relating to or utilising, in any manner, the inventions which are the subject of the Patented and Related Technology
"RMB"	Renminbi, the lawful currency of the People's Republic of China
"Restricted Period"	a period of three years starting on the Completion Date
"Sale and Purchase Agreement"	the agreement dated 31 December 2010 and entered into between the Company, the Seller, Ms Hsieh and Dr Wu in relation to the acquisition of the Sale Shares
"Sale Condition"	each of the conditions set out under the paragraphs headed "Conditions precedent" in part B of the letter from the Board in this circular
"Sale Shares"	5,010,000 of shares of a single class of no par value of the Target, representing 50.1% of the issued shares of the Target as at the date of the Sale and Purchase Agreement
"Samuel Yang"	Mr Huai Jin Yang, also known as Samuel Yang. Information in relation to Samuel Yang is set out in the paragraph headed "3. Competitive strengths of Sun Materials – Sun Materials has a strategic cooperation relationship with Hareon, one of the leading industry players" in part A of the letter from the Board in this circular

"Seller"	Quinella International Incorporated, a company incorporated with limited liability in the BVI and the sole shareholder of the Target
"Service Agreement"	the service agreement between Sun Materials and Dr Wu dated 31 May 2010 (as amended by a supplemental agreement between Sun Materials and Dr Wu dated 11 October 2010)
"SGM"	the special general meeting of the Company to be convened to approve the Acquisition, the appointment of Dr Wu as a Director, the Placing Agreement and the Placing Mandate, the increase of authorised share capital and the US$50M Facility and Facility Agreement, and the transactions contemplated under the above agreements
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholders' Agreement"	the shareholders' agreement to be entered into by the Company, the Seller, the Target and Ms Hsieh on Completion in respect of the Target
"Signing Date"	31 December 2010, being the date on which the Company, the Seller, Ms Hsieh and Dr Wu entered into the Sale and Purchase Agreement
"Solarbuzz Report"	the Annual World Photovoltaic Market Review published by Solarbuzz in March 2011 (an international solar energy research and consulting company, which provides a range of services including standard industry reports and research and consultancy services)
"SREAP"	SREAP Inc., a company based in the Republic of Korea, with whom Sun Materials have entered into a polysilicon supply agreement

"Standard"	the set of standards entitled "Entry Standard of Polysilicon Industry" (多晶硅行業准入條件) jointly promulgated by the Ministry of Industry and Information Technology, the National Reform and Development Commission and the Ministry of Environmental Protection of the PRC on 31 December 2010 in relation to polysilicon production in the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Cooperation Agreement"	the strategic cooperation agreement between the Company, Sun Materials and Hareon dated 27 September 2010
"Subscription"	the issue and subscription of the Subscription Shares pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement between Samuel Yang, Improve Forever and the Company dated 12 January 2011 in respect of the Subscription Shares
"Subscription Shares"	354,100,608 Shares issued pursuant to the Subscription Agreement
"Sun Materials"	Sun Materials Technology Co., Ltd. (山陽科技股份有限公司), a company incorporated with limited liability in Taiwan and wholly-owned by Lution
"Supplemental Agreements"	the supplemental agreements to the Placing Agreement between the Placing Agent and the Company dated 11 February 2011 and 30 March 2011
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target"	Sun Mass Energy Limited (formerly known as Trifecta International Incorporated), a company incorporated with limited liability in the BVI and wholly-owned by the Seller
"Target Group"	the Target, Lution and Sun Materials
"Target Group Company"	a member of the Target Group
"Technical Adviser"	Ove Arup & Partners Hong Kong Ltd

"Technical Report"	the technical report prepared by the Technical Adviser in connection with Sun Materials, as set out in Appendix VI
"Tokuyama"	Tokuyama Corporation, a polysilicon manufacturer based in Japan
"t.p.a."	tons per annum
"Transaction Documents"	the Sale and Purchase Agreement, the Disclosure Letter (as defined in the Sale and Purchase Agreement), the Call Option Agreement, the Service Agreements, and the Shareholders' Agreement
"Transactions"	the transactions contemplated under the Transaction Documents
"Tynsolar"	Tynsolar Corporation, a company based in Taiwan, with whom Sun Materials have entered into a polysilicon supply agreement
"United States"	the United States of America
"US Securities Act"	the US Securities Act of 1933 and the rules and regulations promulgated thereunder (as amended from time to time)
"US$"	United States dollars, the lawful currency of the United States of America
"US$50M Facility"	the facility from the Company to the Target pursuant to the terms of the Facility Agreement
"Valuer"	American Appraisal China Limited, an independent valuer
"Wacker"	Wacker Chemie AG, a polysilicon manufacturer with production facilities around the world

"electronic grade polysilicon"	polysilicon for applications in the microelectronic industry to produce, for example, integrated circuits. Electronic grade polysilicon's purity is about >99.999999999% (i.e. 11N)
"FBR process"	a process which uses the fluidized bed reactor, one of the typically used deposition reactors in the industry of polysilicon production
"photovoltaic"	the physical effect of converting light into electricity. The term is used by the photovoltaic industry to describe the application of this effect on an industrial scale
"polysilicon"	referred to as polycrystalline silicon in the previous announcements of the Company in connection with the Acquisition. It is the primary raw materials used in producing solar cells and integrated circuits
"pyrolysis"	a form of incineration that chemically decomposes organic materials by heat in the absence of oxygen
""Siemens" process", "traditional "Siemens" process" and "modified "Siemens" process"	a process which uses the trichlorosilane (TCS) and Siemens type reactor and modifications of such process, both being widely deployed in the industry of polysilicon production
"solar grade polysilicon"	a type of polysilicon used for applications in the solar / photovoltaic industry to produce solar cells. Solar grade polysilicon's purity is about >99.99999% (i.e. 7N-8N) for solar cells with lower cell efficiency and about >99.999999% (i.e. 8N-9N) for high efficiency solar cells
"UMG grade silicon"	Upgraded Metallurgical Grade (UMG), a type of silicon used for low efficiency solar cells, with a purity of typically about >99.999% (i.e. 5N-7N)

Set out below are the risks and uncertainties which may be associated with the Acquisition.

RISKS RELATING TO THE BUSINESS

Sun Materials' business is new for the Group.

The Group is principally engaged in the business of trading of investments, loan financing, property investment, manufacturing and sales of computers, photographic, videos, phones and solar powered multi-media bags and accessories. The Group does not have previous experience in operating a company located in Taiwan nor a company which manufactures solar grade polysilicon. As such, the prospective investors should consider the Group's business and prospects in light of the risks and uncertainties that the Group may face as a company operating a new business in a new region. If the Enlarged Group is unable to control the related operational risks of this new business, its financial condition and operating results may be materially and adversely affected.

The pricing and demand for polysilicon tend to fluctuate.

The Directors consider that there are many factors which may influence the price and demand of polysilicon in the international market, including but not limited to, the stability of the international economic situation and the fluctuation of the global political and social condition, which are beyond the control of the Enlarged Group. According to the Silicon Price Index published by Photon Consulting, the average spot prices for polysilicon had fallen from a high point of US$417/kg in August 2008 to US$219/kg in December 2008 due to adverse market condition caused by the financial crisis. The average spot prices further experienced a sharp fall in the first half of 2009 and reached US$72/kg by June 2009. The average spot prices for polysilicon continued to decline to the range of US$52-$55/kg in early 2010. Nonetheless, they have recovered since then and reached US$60-$90/kg in January 2011. The future price movement of polysilicon, whether upward or downward, is unpredictable. If the prices of polysilicon continue to drop to lower levels, it will intensify the price competition, and the financial condition and results of operation of the Target Group may be adversely affected.

Interruption in the supply for raw materials will affect Sun Materials' operations.

Sodium hexafluorosilicate (Na_2SiF_6), also known as sodium silicofluoride, is the main raw material in manufacturing Sun Materials' polysilicon. The operations of Sun Materials depend on its ability to procure sufficient quantities of sodium hexafluorosilicate on a timely basis and on commercially reasonable terms. Based on the information provided by Sun Materials, sodium hexafluorosilicate is a waste product from the production of fertilizer and such material is available in China and India in quantities of up to 3,000,000 t.p.a. and is widely available in other phosphorus fertilizer producing regions. As such, Sun Materials does not anticipate any supply constrains of the raw materials and thus no fixed term supply contracts are in placed. However, in the event of interruptions in delivery of these raw materials due to delay, trade restrictions, changes in tariffs or other factors, it may significantly affect the quantity, quality or cost of the raw materials supplied by third-party suppliers and which in turn may adversely affect the financial condition and results of operations of the Target Group.

If Sun Materials fails to maintain an effective quality control system, its reputation and revenue may be materially and adversely affected.

The performance and quality of Sun Materials' polysilicon are critical to its customers, its reputation and ultimately, its success. The effectiveness of Sun Materials' quality control system is determined by various factors, including the design of the system, implementation of quality standards, quality of training programs and the mechanism to ensure its employees' adherence to the quality control policies and guidelines, and its ability to monitor and manage the supplier quality system. If Sun Materials fails to maintain an effective quality control system, the quality of its products may be compromised and it may in turn be exposed to product liabilities and warranty claims. Inconsistent product quality may also undermine its reputation and relationships with existing customers and its revenue may be materially and adversely affected.

Sun Materials' business and expansion plans requires significant, continuous and timely capital investment.

The Target Group's business is still in development and requires significant and continuous capital investment. Sun Materials completed the construction of its first production plant in Yi-Lan County, Taiwan in October 2010. The total construction cost for the first production plant incurred as of 31 December 2010 was approximately US$17.1 million. It is estimated that the total capital expenditure and working capital required to construct the additional five production plants in Taiwan up to the second quarter of 2012 will be approximately US$250 million and further funding will be required to construct other production plant in the PRC. Historically, Sun Materials financed its production and business operations primarily through its internal funds, bank borrowings and capital contribution from equity holders. It is expected that over the next several years, a substantial portion of Sun Materials' cash flow will be used to finance its production and sales activities, the construction of new production plants and research and development. Sun Materials may need to obtain additional financing through bank borrowings or by accessing international capital markets (through the Company, if Completion proceeds) in order to fund its business operations, production expansion and capital expenditures in the future. The Target Group's ability to obtain additional capital in the future is subject to a variety of uncertainties. There is no assurance that Sun Materials will be successful in obtaining such financing at a reasonable cost or at all.

In addition, if the commercial production of polysilicon by the Target Group does not commence as planned or scheduled, the operations of the Target Group may exceed the original budgets and may not achieve the intended economic results or commercial viability. The Company cannot assure Shareholders that after Completion the Enlarged Group will be able to obtain additional capital in a timely manner or on acceptable terms, or at all. If the Enlarged Group fails to raise adequate funding, its financial conditions and operations may be adversely affected.

If Sun Materials is unable to complete the expansion plan, to obtain relevant equipments, to bring the first production plant up to full capacity within budget and on schedule and to produce polysilicon that meets its customers' quality specifications, the results of its operations and business expansion strategies could be adversely affected.

Sun Materials may face cost overruns if the actual cost exceeds the budget in its expansion plan. In addition, Sun Materials has to largely rely on contractors, consultants, managers and technicians that it hires or will hire from the industry to construct, complete, operate and maintain its production plants. It also relies on the equipment that has been imported or contracted to import for the production of polysilicon. It has expended and will continue to expend significant financial and other resources in order to construct, start-up, test-run and ramp up its new lines of business. Apart from the risks described above, Sun Materials' ability to successfully construct and ramp up its production plants is subject to various other risks and uncertainties, including:

- the need to procure additional equipment at reasonable cost and on a timely basis;
- the need to raise additional funds to finance the construction, ramp-up and maintain of the production plant, which it may be unable to obtain on reasonable terms or at all;
- unexpected construction delays, delays in equipment deliveries and cost overruns;
- its ability to install, implement and maintain the facilities and closed-loop systems for each of its production plants;
- difficulties in recruiting and training additional skilled employees, including technicians and managers at different levels;
- diversion of significant management attention and other resources; and
- delays or denials of required approvals (if any), including environmental approvals, for its land acquisition and plant construction by relevant government authorities in Taiwan or the PRC.

The Target Group's ability to achieve profitability depends in part on its ability to achieve commercial production and full utilisation of its production capacity. The Target Group has incurred and will continue to incur certain fixed costs associated with the facilities and equipment whether or not they are being used. If Sun Materials fails to complete the construction of its production plants in time or to make it operational up to its designed capacity or fail to produce polysilicon that meets its quality standards, or if the construction and ramp-up costs significantly exceed its original budget, the Group may not have sufficient resources to meet its working capital and capital expenditure requirements. The results of operations, the business expansion and low-cost production strategies will be materially adversely affected.

Reliance on the strategic relationship with Hareon and its affiliates.

As a new entrant to the solar energy market, the relationship with Hareon, its strategic partner under the Strategic Cooperation Agreement and Sun Materials' contracted customer, is invaluable to the Enlarged Group in providing the Enlarged Group with access to potential customers and vendors, as well as insights into the demands, trends and technological development in the industry. This strategic relationship is further strengthened by the investment of Samuel Yang, the founder of Hareon, in the Company under the Subscription Agreement. The Enlarged Group will rely on this relationship in its business development and technological development as it establishes its presence in the solar grade polysilicon market. The Board believes that the relationship with Hareon and Samuel Yang will continue to prosper. However, if, for any reason, this strategic relationship is terminated or becomes untenable, the business prospects of the Enlarged Group in the solar energy market may be adversely affected.

Dependence on the continuing services of the executive officers and key employees.

The future success depends substantially on the continued services of the Enlarged Group's executive officers and key employees, especially Dr Wu, the chief executive officer and chief technical officer of Sun Materials. If one or more of our executive officers or key employees, including Dr Wu, were unable or unwilling to continue to work for Sun Materials, Sun Materials may not be able to replace them in a timely manner, or at all. As a result, the Enlarged Group's business may be severely interrupted, its financial condition and results of operations may be materially and adversely affected and it may incur additional expenses to recruit, train and retain personnel.

Sun Materials relies on a limited number of customers for a significant portion of its net sales of polysilicon, and changes in their purchase terms or patterns may cause significant fluctuations or declines in its revenues.

Sun Materials has entered into fixed term purchase agreements with a number of downstream solar wafer, cell and module manufacturers, namely Hareon, Tynsolar and SREAP, whereby these customers may, but are not obliged to, make orders for polysilicon from Sun Materials. Whilst it is expected that the production output of Sun Materials will be fully taken up by the orders from these customers until December 2011, customers' orders may vary depending on its own demand for polysilicon, Sun Materials' competitiveness in product quality and pricing, and factors generally affecting the solar energy market which are beyond the control of Sun Materials.

In light of the recent global economic downturn, there is no assurance that any of these customers will continue to purchase significant quantities of, or any, polysilicon from Sun Materials. In such an event, Sun Materials has to find alternative customers for its product. If this trend continues, that the quantity of polysilicon that these customers order from Sun Materials would be less than expected, and, therefore Sun Materials' sales performance and the utilisation of its production capacity may be adversely affected. In addition, due to the fact that Sun Materials relies on a limited number of customers, any of the following events may cause material fluctuations or declines in its net sales and profits:

- delays or cancellations of purchase orders from one or more of its significant customers;

- loss of one or more of its significant customers and its failure to identify additional or replacement customers; and

- failure of any of its significant customers to make timely payments for its products.

If Sun Materials fails to develop or maintain its relationships with these and other new customers, or if any of its major customers reduces in the purchases of Sun Materials' products, it may be difficult for Sun Materials to find alternative customers on a timely basis and on commercially reasonable terms or at all. This may have an adverse effect on Sun Materials' revenue and profitability.

If Sun Materials fails to fulfil its customer orders on a timely basis, it may lose the customers, its reputation may be damaged, and Sun Materials may incur economic losses for breach of contracts.

Sun Materials' ability to meet the purchase orders depends on successfully and timely implementation of its production plan. If Sun Materials is unable to fulfil its customer orders on a timely basis, it may lose the customers and its reputation may be damaged. Moreover, although it is not currently provided for in the supply agreements, agreements with potential customers in the future may provide for specified monetary damages or penalties for non-delivery or failure to meet delivery schedules or product specifications. If any of its potential customers invokes these clauses against Sun Materials, it may be liable to pay damages. As a result, the results of operations of Sun Materials may be adversely affected.

Fluctuations in exchange rates could adversely affect the Target Group's business.

The Target Group's revenues, costs and capital expenditures are largely denominated in US$, NT$ and RMB (once construction of additional production plants commences in the PRC). Therefore, fluctuations in currency exchange rates could have a material adverse effect on its financial condition and results of operations. These fluctuations could affect the Target Group's gross and net profit margins and could result in foreign exchange and operating losses. To the extent the Target Group holds assets denominated in HK$, including the net proceeds from the Placing, any appreciation of NT$ or RMB against HK$ could result in a change to the Target Group's statements of operations and a reduction in the value of its HK$ denominated assets. The Target Group cannot predict the impact of future exchange rate fluctuations on its results of operations and may incur additional net foreign currency losses in the future.

The Enlarged Group faces risks related to health epidemics and other outbreaks of contagious diseases, including influenza A (H1N1), avian flu and SARS.

The Enlarged Group's business could be adversely affected by the effects of influenza A (H1N1), avian flu, SARS, or other epidemic outbreaks. There has been an outbreak of influenza A caused by the H1N1 virus occurred in Mexico and the United States, which has spread into a number of countries rapidly. There have been reports of outbreaks of a highly pathogenic avian flu, caused by the H1N1 virus, in certain regions of Asia and Europe. Over the years, there have been reports on the occurrences of avian flu in various parts of China, including confirmed human cases. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the outbreaks in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, could also have similar adverse effects of a similar scale. Any prolonged occurrence or recurrence of these contagious diseases or other adverse public health developments may have a material adverse effect on the business operations of the Enlarged Group. These include limitations on the ability to travel or ship products to overseas as well as temporary closure of the production facilities for quarantine or for preventive purposes. Such closures or travel or shipment restrictions could severely disrupt the Enlarged Group's business operations and adversely affect the Enlarged Group's financial condition and results of operations. The Enlarged Group has not adopted any written preventive measures or contingency plans to combat any health epidemics and other outbreaks of contagious diseases, including influenza A (H1N1), avian flu, or SARS.

RISKS RELATING TO VALUATION AND THE PRO FORMA FINANCIAL INFORMATION

An impairment loss on the intangible assets of the Enlarged Group may affect its financial position.

The unaudited pro forma consolidated financial information set out in Appendix III to this circular shows that as of 31 December 2010, the deemed cost of the Core Technology is HK$2,100,214,000. According to Group's accounting policy, intangible assets that are acquired by the Group should be stated in the Group's statement of financial position at cost less accumulated amortisation and impairment losses. According to HKAS 36 "Impairment of Assets", an intangible asset not yet available for use should be tested for impairment annually, irrespective of whether there is an indication of impairment. Since Sun Materials has not commenced commercial production using the Core Technology or the sale of its polysilicon, the Directors are unable to prepare an estimate of the future cash flows that the Group expects to derive from the Core Technology for the calculation of the recoverable amount of the Core Technology and assess whether an impairment loss would need to be recognised in respect of the Core Technology at this stage in accordance with HKAS 36 "Impairment of Assets". If the deemed cost of the Core Technology was higher than its recoverable amount, an adjustment would be required to reflect the effect of the impairment loss.

The Directors expect that the Core Technology will be available for use on or before the first reporting period after Completion and they will be able to assess whether there is any indication that the Core Technology may be impaired in the first annual results after Completion. Whilst the Directors are not aware of any event or circumstance which is likely to cause any material adverse effect on the market for polysilicon or the industry in which Sun Materials will operate, there is no assurance that circumstances will not change. If Sun Materials does not commence full scale commercial production and launch its product successfully within the projected timeframe after Completion, the value of the Core Technology may be impaired. If the amount of impairment (if any) of the Enlarged Group's intangible assets turns out to be significant, the financial position of the Enlarged Group may be materially and adverse affected.

Sun Materials' lack of operating history and track record may not serve as adequate basis for evaluating its future performance.

Sun Materials has only commenced the production of polysilicon in Taiwan in the first quarter of 2011. It has limited financial track record for the potential investors to evaluate its business, financial performance and future prospects. While Sun Materials plans to construct further production plants in Taiwan and China, its expansion plan may be delayed, and there is no assurance that its planned expansion will prove to be profitable. Accordingly, its results of operations for any prior periods may not serve as accurate indication of its future performance.

The Business Valuation involves assumptions.

As the Business Valuation involves various assumptions, it may or may not properly reflect the true fair value of the Target Group.

RISKS RELATING TO THE TECHNOLOGY

The solar energy industry changes rapidly and introduction of new technology could render Sun Materials' technology less competitive or obsolete.

The solar energy industry is characterised by rapid changes in technology and know-how and frequent emergence of innovations. New technology, raw materials and products may emerge in the photovoltaic industry and affect Sun Materials' viability and competitiveness. These technological evolutions and developments place increasing demands on the improvement of Sun Materials' product, such as higher quality. Other companies may devise production technologies that enable them to produce polysilicon that could yield higher qualities at a lower cost than Sun Materials' products. Technologies developed or adopted by others may prove more advantageous than Sun Materials' proprietary technology for commercialization of polysilicon products and may render its products obsolete. In addition, further developments in competing polysilicon production technologies may result in lower manufacturing costs or higher product performance than those achieved from "Siemens" or the FBR processes.

The future success of Sun Materials therefore depends in part on the Enlarged Group's ability to foresee and respond to these changes and position itself favourably in the market. Sun Materials may need to invest significant resources in research and development to maintain its market position, keep pace with technological advances in the photovoltaic industry and effectively compete in the future. The failure to further refine and enhance Sun Materials' product or to keep pace with evolving technologies and industry standards could cause its products to become uncompetitive or obsolete, which could in turn reduce its market share and cause its net sales and profits to decline.

Failure to protect the intellectual property rights, know-how and technology may undermine Sun Materials' competitive position.

Sun Materials has developed the know-how and technologies in the production of polysilicon and such know-how and technologies play a critical role in its reducing the cost of production. The intellectual property and proprietary rights will be crucial in maintaining Sun Materials' competitive edge in the polysilicon industry. Sun Materials has only obtained patents on its key production equipment, namely the self-propagating combustion cyclone reactor, in Taiwan, China, Japan, the United States and Europe. It currently uses contractual arrangements with employees and external parties to protect its intellectual property and proprietary rights. Nevertheless, contractual arrangements afford only limited protection and the actions Sun Materials may take to protect its intellectual property and proprietary rights may not be adequate. In addition, others may obtain knowledge of Sun Materials' know-how and technologies through independent development. The failure to protect its production process related know-how and technologies and/or its intellectual property and proprietary rights may undermine its competitive position. Third parties may infringe or misappropriate its proprietary technologies or other intellectual property and proprietary rights. Policing unauthorised use of proprietary technology can be difficult and expensive. Also, litigation, which can be costly and divert management attention and other resources away from Sun Materials' business, may be necessary to enforce its intellectual property rights, protect its trade secrets or determine the validity and scope of its proprietary rights. There is no assurance that the outcome of such potential litigation will be in Sun Materials' favour. An adverse determination in any such litigation will impair its intellectual property and proprietary rights and may harm its business, prospects and reputation.

Sun Materials may be exposed to infringement, misappropriation or other claims by third parties and an adverse determination could result in it paying significant damages.

Sun Materials' success depends on the ability to use and develop its technology and know-how, to produce polysilicon without infringing the intellectual property or other rights of third parties. Although Sun Materials has obtained patents on its key production equipment, namely the self-propagating combustion cyclone reactor, in Taiwan, China, Japan, the United States and Europe, it may be subject to litigation involving claims of other patent infringement or violation of intellectual property rights of third parties with respect to its production process. The validity and scope of claims relating to photovoltaic technology patents involve complex scientific, legal and factual questions and analyses and, therefore, may be highly uncertain. The defence and prosecution of intellectual property suits, patent opposition proceedings, trademark disputes and related legal and administrative proceedings can be both costly and time consuming and may significantly divert Sun Materials' resources and the attention of its technical and management personnel. An adverse ruling in any such litigation or proceedings could result it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties, or to redesign its production process, or subject it to injunctions prohibiting the production and sale of its products or the use of technologies other than its self-developed technology. Protracted litigation could also result in its customers or potential customers deferring or limiting their purchase or use of its product until resolution of such dispute.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA AND TAIWAN

The impact of the new standard for polysilicon production in China on the industry and Sun Materials' business prospect is unknown.

The Ministry of Industry and Information Technology, the National Reform and Development Commission and the Ministry of Environmental Protection of the PRC jointly promulgated the Standard on 31 December 2010. The Standard has tightened the entry standards for investing into polysilicon industry in China by setting up strict conditions on different aspects of polysilicon production including project construction conditions and site selection, production scale (minimum annual capacity for solar grade polysilicon is 3,000 tons) and production techniques and equipment, resource recycling and energy consumption, environmental protection. In addition, according to the Standard, the PRC government currently is freezing the construction of all new polysilicon projects unless the products adopt innovated technology which is energy efficient and environmentally friendly, subject to the examination and approval by the state investment regulatory authority. Moreover, all existing polysilicon projects, which include both polysilicon plants that have been approved for construction and polysilicon plants that are in operation, will be re-examined and if they fail to satisfy the Standard, the projects concerned will be required to conduct rectification or even withdraw from the industry.

Whilst the polysilicon market is yet to see the implementation and impact of the Standard in China, the Standard may have a negative effect on Chinese manufacturers with smaller production capacity, which lack the resources to upgrade their production plant and process so as to meet the Standard. The Standard will also increase the difficulty for new manufacturing plants to be established in China. Consequently, it is expected that the competitive landscape for the players in the polysilicon market in China will be changed accordingly.

The Board believes that the Standard will not directly have an adverse effect on Sun Materials' current business operations. However, the full effect of the Standard is unclear and the prospects and expansion plan of Sun Materials may be affected as a result of the implementation of the Standard.

Changes in Taiwan and PRC political and economic policies and conditions could adversely affect Sun Materials' business and prospects.

Sun Material's primary production base is located in Taiwan and it also plans to construct and operate a production plant in China. While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market-oriented economy since 1978, a substantial part of the PRC economy is still being operated under various controls of the PRC government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. In addition, other political, economic and social factors in Taiwan or the PRC may lead to adjustments of various reform measures. This refining and adjustment process may not necessarily have a positive effect on Sun Materials' operations and its future business development. The Target Group's business, prospects and results of operations may be materially adversely affected by changes in the Taiwan or PRC economic and social conditions and by changes in the policies of the Taiwan or PRC government, such as measures to control inflation, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

Restrictions on payment of dividends under applicable regulations may limit the Target Group's ability to remit dividend, which could affect its liquidity and financial position.

The Target Group's operations are currently conducted in Taiwan and it aims to expand its operations to China. The ability of the Target Group to make dividend and other distributions is therefore restricted by Taiwan and PRC law and regulations. These regulations may differ in many aspects from the Hong Kong Financial Reporting Standards, including the requirement for dividends to be paid only out of the net profit and thus restricts the amount of profit available for distribution. In addition, PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. As a result, the Target Group's liquidity and its ability to pay dividends could be affected.

Shortage or interruption of electricity supply may adversely affect Sun Materials' operations.

Sun Materials consumes a significant amount of electricity in its production plant. With the rapid development of the PRC economy, demand for electricity has continued to increase. There have been shortages in electricity supply in various regions across China, especially during the winter season when the weather is bad and during the summer peak seasons. There is no assurance that there will be no interruption or shortages in electricity supply after Sun Materials' production plant in regions where it operates production facilities or that there will be sufficient electricity available to Sun Materials to meet its future requirements. Shortages in electricity supply may disrupt its normal operations and adversely affect its profitability.

Compliance with environmental and safety regulations is expensive, and noncompliance may result in adverse publicity and potentially significant monetary damages and fines or suspension of the Sun Materials' business operations.

Sun Materials is required to comply with all national and local regulations regarding protection of the environment. Compliance with environmental regulations is expensive. In addition, if more stringent regulations are adopted by the Taiwan or PRC governments in the future, the costs of compliance with the Taiwan or PRC environmental protection regulations could increase. Upon the completion of the additional production plants in Taiwan and the PRC, Sun Materials is subject to regulations and periodic monitoring by local environmental protection authorities and is required to comply with all Taiwan and PRC national and local environmental protection laws and regulations. Under the PRC environmental regulations, Sun Materials will be required to obtain a safety appraisal approval before the construction of its production plant, and it will be further required to undergo safety examination and obtain approval with relevant governmental authorities after it completes the installation of the manufacturing equipment and before the production plant commences commercial production. Sun Materials must also register the hazardous chemicals to be used in the production process with the relevant authorities and to obtain safety permits, which include a permit for the storage and use of hazardous chemicals and a permit for the use of atmospheric pressure containers. There is no assurance that Sun Materials will be able to obtain these approvals and permits upon completion of its production plant or commencement of commercial production on a timely basis or at all. The relevant governmental authorities have the right to impose fines or deadlines to cure any non-compliance, or to order Sun Materials to cease construction or production if it fails to comply with these requirements. If Sun Materials fails to comply with present or future environmental regulations, it may be subject to substantial fines or damages or suspension of its business operations, and its reputation may be harmed.

The Enlarged Group will engage in the manufacture and sale of polysilicon. Set out below is an overview of the industry in which the Enlarged Group will operate.

SOLAR PHOTOVOLTAIC INDUSTRY

Currently, there are two major cell technologies applied in the solar photovoltaic industry, namely, the technology for crystalline silicon (c-Si) solar cells and that for thin film solar cells. The latter is a recent introduction to the market place. According to the Technical Report, the ratio for the market share of c-Si technology to thin film technology is 80% to 20% and this ratio is expected by the industry to remain the same for the next five years. Previously thin film technology was expected by the market to have more favourable manufacturing cost structure compared to c-Si technology. As of early 2010, with a much lower cost of polysilicon base material and a lower than anticipated thin film solar cell efficiency, c-Si technology is a preferred option by the final end customers.

According to the Solarbuzz Report of March 2011, the global photovoltaic market increased to 18.23 gigawatt (GW) in 2010 from 7.62 GW in 2009, representing a remarkable growth of 139% year on year. The compound annual growth rate (CAGR) of the global photovoltaic market between 2006 and 2010 was approximately 80%. The cumulative global photovoltaic installations reached 41.7 GW at the end of 2010, representing a growth of approximately 78% over the cumulative installations at the end of 2009. The polysilicon feedstock demand and supply capacity for use in the solar and semiconductor industries are illustrated in the table below:

	2006	**2007**	**2008**	**2009**	**2010**
	(Metric tons per annum)	*(Metric tons per annum)*	*(Metric tons per annum)*	*(Metric tons per annum)*	*(Metric tons per annum)*
Polysilicon demand for solar use	22,000	30,000	51,900	63,700	131,740
Polysilicon demand for semiconductor use	23,600	25,300	24,200	20,500	28,760
Polysilicon supply capacity for solar and semiconductor use	34,400	48,600	76,500	129,700	214,500

Polysilicon is the primary raw material required for c-Si solar cells production and there was an over-supply of polysilicon in 2010. According to the Solarbuzz Report, the actual global production output of polysilicon in 2010 was 162,020 metric tons, whilst the demand for polysilicon was 131,700 metric tons and 28,800 metric tons for the solar and semiconductor industries respectively, a total demand of 160,500 metric tons. After deducting rejected and reprocessed polysilicon of 2,540 metric tons, the net polysilicon demand in 2010 was 157,950 metric tons. This represented to an inventory growth of 4,070 metric tons across the solar and semiconductor manufacturing chains. As reflected in the price movement of polysilicon in 2010, the demand for polysilicon increased over the year. The steady increase in the spot price of polysilicon towards the second half of 2010 on a month-by-month basis indicated that the overall demand and supply of the product was in balance. It is anticipated that this overall balance will continue in 2011 but the gap will widen in 2012 as substantial polysilicon capacity expansions are getting on stream.

According to the Solarbuzz Report, the market share of solar cell production for China and Taiwan increased from 25.2% in 2006 to 58.3% in 2010. Such growth was achieved largely at the expense of European and Japanese manufacturers, whose market shares have fallen from 29.9% to 13.4% and from 29.7% to 9.2% respectively during that period. At the end of 2010, leading Chinese manufacturers were noted to incur lower average solar module production costs than those of western and Japanese manufacturers. As mentioned in the Solarbuzz Report, the profile of future manufacturing costs is increasingly weighted in favour of manufacturers in the greater China region. With a lower cost basis, Chinese manufacturers are expected to leverage a newly created domestic market to further accelerate their pace of market expansion.

DETAILS OF DIFFERENT PROCESSES USED IN THE INDUSTRY

The traditional "Siemens" process of manufacturing polysilicon is being associated with environmental risks and general safety concerns by the industry. A newer modified "Siemens" process and the FBR process are used by some manufacturers of polysilicon to address some of the environmental and safety issues of the older technology, but further innovation is being sought by the industry to make the entire solar energy product value chain more environmentally friendly with a lower carbon footprint and less costly.

(i) "Siemens" process

This refers to a process to manufacture high-purity silicon for the semiconductor or solar industry. It involves initially converting metallurgical silicon into trichlorosilane using gaseous hydrogen chloride. Following several distillation steps, the trichlorosilane is broken down thermally into silicon and chlorous gases through the addition of hydrogen in a so-called "CVD reactor". "CVD reactor" is also known as the Siemens reactor. In this process high temperature polysilicon rods are put in a Siemens bell jar reactor with a cold water-chilled walls. Trichlorosilane (TCS) gas is then passed over these rods and deposits of the silicon in the gas will be formed on the rods. When the rods reach the required size, they are extracted. The end product is in the form of chunks or rods of polysilicon.

(ii) Modified "Siemens" Process

This refers to a process to manufacture high-purity silicon for the semiconductor or solar industry. It involves initially converting metallurgical silicon into silane using gaseous hydrogen chloride. Following several distillation steps, the silane is broken down thermally into silicon and chlorous gases through the addition of hydrogen in a so-called "CVD reactor". "CVD reactor" is also known as the Siemens reactor. In this process high temperature polysilicon rods are put in a Siemens bell jar reactor with cold water-chilled walls. Silane gas (instead of TCS gas in the traditional "Siemens" Process) is then passed over these rods and deposits of the silicon in the gas will be formed on the rods. When the rods reach the required size, they are extracted. The end product is in the form of chunks or rods of polysilicon.

(iii) the FBR Process

A fluidized bed reactor (FBR) is a type of reactor device that can be used to carry out a variety of multiphase chemical reactions. In this type of reactor, a fluid (gas or liquid) is passed through a granular solid material (usually a catalyst possibly shaped as tiny spheres) at high enough velocities to suspend the solid and cause it to behave as though it were a fluid. This process, known as fluidization, imparts many important advantages to the FBR. As a result, the fluidized bed reactor is now used in many industrial applications, such as the photovoltaic industry. Silane or TCS is passed through the FBR in liquid form. A solid is then condensed under high velocity and energy in the FBR. The end product is in the form of granular polysilicon (instead of chunks or rods polysilicon produced from the "Siemens" type reactor).

PRICING OF POLYSILICON

According to the Silicon Price Index published by Photon Consulting, the average spot prices for polysilicon had fallen from a high point of US$417/kg in August 2008 to US$219/kg in December 2008 due to adverse market condition caused by the financial crisis. The average spot prices further experienced a sharp fall in the first half of 2009 and reached US$72/kg by June 2009. The average spot prices for polysilicon continued to decline to the range of US$52-$55/kg in early 2010. Nonetheless, they have recovered since then and reached US$60-$90/kg in January 2011 due to increasing demand and lucrative support from governments in Europe and the United States for new solar project installations. According to the Technical Report, the market analysis from Morgan Stanley and Deutsche Bank which was published in 2010 indicates that the average spot prices of polysilicon in the market will be between US$40-$45/kg in 2011. However, according to the Silicon Price Index published by Photon Consulting in May 2011, the spot price, which accounts for about 10%-20% of the polysilicon market, has raised from US$54/kg in May 2010 to US$76/kg in May 2011.

Despite the volatility in recent years in spot pricing, market information shows that producers of polysilicon continue to maintain superior profit margins when compared to other suppliers in the solar energy value chain. However, given the decrease in the spot prices, manufacturers of solar grade polysilicon are constantly looking at ways to reduce production costs in order to maintain and/or improve their profit margins.

COMPETITIVE LANDSCAPE

According to the Technical Report, major polysilicon manufacturers include Hemlock, Tokuyama, Wacker, REC, MEMC, OCI, and GCL-Poly. Both pure-play and integrated business models are employed by these polysilicon manufacturers. Out of these seven manufacturers, Hemlock is the largest polysilicon manufacturer in terms of its production capacity estimated for 2010.

Hemlock is a leading provider of polysilicon and other silicon-based products used in the manufacturing of semiconductor devices and passive solar cells and modules. Tokuyama produces inorganic and organic industrial chemicals, polysilicon, synthetic resins, cement, and construction materials. Wacker manufactures various chemical products, including silicon wafers for semiconductor manufacturers. REC is an integrated player involved in the production of solar-grade polysilicon, manufacture of multicrystalline and monocrystalline silicon wafers, and production of solar cells and modules. MEMC engages in the production of polysilicon, development, manufacture, and sale of silicon wafers, and provision of solar energy services. OCI is a global company which engages in the production and sale of polysilicon, inorganic and petrol chemicals and insulation materials. GCL-Poly is a Chinese power company that produces solar grade polysilicon and operates cogeneration plants and in China. The production capacity and market share of each of the above polysilicon manufacturers are illustrated in the table below:

	Hemlock	**Wacker**	**GCL-Poly**	**REC**	**OCI**	**MEMC**	**Tokuyama**
Production capacity by end of 2010 (metric tons)	36,000	30,500	25,000	17,000	16,000	12,500	8,200
Market share	24%	20%	17%	11.5%	11%	8.5%	5.5%

MARKET GROWTH FOR POLYSILICON

Anticipating expected demand for polysilicon, the manufacturing capacity in the photovoltaic sector rose by 78% in GW terms in 2010. According to the Solarbuzz Report, assuming an improved economic environment together with supportive photovoltaic-friendly government policies, the solar market may see an increase in the demand for polysilicon from 135,660 metric tons in 2011 to 176,460 metric tons in 2015, representing a CAGR of 6.8%. This is assuming that polysilicon manufacturers will achieve an average utilization rate of approximately 68.4% of their production capacities between 2011 to 2015, which the Directors believe to be a reasonable assumption on the basis that polysilicon factories generally operate at a maximum utilization of approximately 80%-85%. The Directors also consider that other factors such as new production processes and technology could potentially lower the procurement costs of polysilicon for downstream customers in the solar energy value chain, which may in turn lead to a substantially larger demand for polysilicon produced by such new and/or more cost-competitive production processes.

MASCOTTE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 136)

Executive Directors:
Mr. Peter Temple Whitelam *(Chairman)*
Mr. Lo Yuen Wa Peter
(Acting Chief Executive Officer)
Ms. Song Jiajia
Mr. Eddie Woo
Mr. Suen Yick Lun Philip

Non-executive Director:
Dr. Chuang, Henry Yueheng *(Deputy-Chairman)*

Independent non-executive Directors:
Mr. Frank H. Miu
Dr. Agustin V. Que
Mr. Robert James Iaia II
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20 May 2011

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) INCREASE OF AUTHORISED SHARE CAPITAL
(3) PLACING OF NEW SHARES AND CONVERTIBLE BONDS
(4) APPOINTMENT OF A NEW DIRECTOR
(5) GRANT OF FACILITY TO SUN MASS ENERGY LIMITED

INTRODUCTION

On 19 January 2011, the Board announced that the Company had entered into the Sale and Purchase Agreement with the Seller, Ms Hsieh and Dr Wu on 31 December 2010 whereby the Company has conditionally agreed to purchase from the Seller 50.1% of the issued shares of the Target for US$150,000,000 in accordance with the terms and subject to the conditions of the Sale and Purchase Agreement. The Target Group deploys a new and innovative technology and Sun Materials has patented in the United States, Europe, Japan, Taiwan and China the key production equipment for such technology, with a view to significantly reducing the plant construction costs, production costs, production hazards and adverse environmental effects of manufacturing polysilicon.

Completion of the Acquisition is conditional on the satisfaction (or if applicable, waiver) of each Sale Condition. It is proposed that Dr Wu be appointed as a Director on Completion.

The Seller and the Company also entered into the Call Option Agreement on 31 December 2010 whereby, in consideration of the payment of the sum of US$1, the Seller has irrevocably agreed to grant the Company an option to buy, and to require the Seller to sell, the Option Shares (representing 49.9% of the issued shares of the Target), at the Company's absolute discretion, during the Call Option Period in accordance with the terms and subject to the conditions of the Call Option Agreement.

In connection with the Acquisition, the Company proposes to place the Placing Shares and the Convertible Bonds pursuant to the Placing Agreement with a view to raising an aggregate amount of approximately HK$4,000,000,000. On the terms and subject to the conditions of the Placing Agreement and the definitive Bond Documents, the Placing Agent has conditionally agreed, on a best efforts basis, to procure Placees to subscribe for the Placing Shares and the Convertible Bonds. The Board seeks the approval from the Shareholders of the Placing Mandate to issue the Placing Shares and the Conversion Shares.

In order to facilitate the Placing, the Board is seeking Shareholders' approval to increase the authorised share capital of the Company from HK$1,000,000,000 (divided into 10,000,000,000 Shares) to HK$2,000,000,000 (divided into 20,000,000,000 Shares) by creating an additional 10,000,000,000 Shares.

Further, to assist the Target Group in meeting its capital needs pending Completion, the Board announced on 7 March 2011 that the Company has entered into the Facility Agreement with the Target whereby the Company conditionally agreed to advance up to US$50,000,000 to the Target in accordance with the terms of the Facility Agreement. The US$50M Facility is a major transaction pursuant to Chapter 14 of the Listing Rules and constitutes an advance to an entity under Chapter 13.13 of the Listing Rules.

The Acquisition, (and all the transactions contemplated by the Sale and Purchase Agreement), the authorisation of the Board to appoint Dr Wu as a Director on Completion, the issue of the Placing Shares and the Conversion Shares under the Placing Mandate, the increase in authorised share capital of the Company and the US$50M Facility are subject to approval by the Shareholders at the SGM.

The purpose of this circular is to provide the Shareholders with (i) information about the Target Group, and in particular, Sun Materials; (ii) details of the Acquisition and the transactions contemplated by the Sale and Purchase Agreement including, but not limited to, the grant of the Call Option, the Shareholders' Agreement and the facility contemplated thereunder, the proposed appointment of Dr Wu as a Director, the Placing Mandate, the increase in authorised share capital, the US$50M Facility and the Board's recommendation to the Shareholders on them; (iii) financial and other information on the Group; (iv) financial information on the Target Group; (v) unaudited pro forma financial information of the Enlarged Group assuming Completion occurs; (vi) the Business Valuation Report; (vii) the Technical Report; (viii) other additional information and (ix) the notice of the SGM.

PART A – INFORMATION ON THE TARGET GROUP

1. The Target Group

The Target is a limited liability company incorporated in the BVI and wholly-owned by the Seller. Upon completion of the Reorganisation, it became the sole shareholder of Lution and its principal business is investment holding. Lution is a limited liability company incorporated in Taiwan and its principal business is investment holding. It is the sole shareholder of Sun Materials.

History of the Target Group

Based on information provided by the Seller, set out below is the history of the Target Group.

Sun Materials, the sole operating subsidiary of the Target Group, was established on 19 March 2007 by four former shareholders with an initial share capital of NT$135,013,000 (comprising 13,501,300 shares of NT$10 each). On 24 May 2007, the share capital of Sun Materials was increased to NT$150,013,000, as Dr Wu subscribed for 1,500,000 shares of NT$10 each, then equal to 10% of the issued share capital, in Sun Materials (as enlarged by such subscription). During the period between 24 May 2007 and 15 September 2009, Sun Materials underwent a number of changes in its share capital. Through a share swap arrangement in September 2009, all of the 11 former shareholders of Sun Materials transferred their shareholding in Sun Materials to Lution, then a newly established company, in exchange for Lution's issuance of an aggregate of 40 million new shares of NT$1 each. Since the conclusion of such share swap arrangement, Lution has become the sole shareholder of Sun Materials.

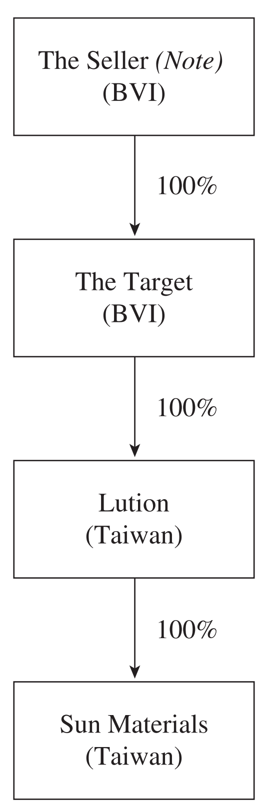
Lution was incorporated on 22 October 2009 following the above share swap arrangement and has since then undergone a number of changes to its share capital. Immediately before the Reorganisation, Lution had an issued share capital of 50 million shares of NT$1 each, and was owned as to 81.91% by Mr Chang Wen-Shan, 4.22% by Dr Wu, 1.3% by Ms Hsieh (i.e. the Guarantor) and the remaining 12.57% by 11 other shareholders.

Sun Mass was incorporated on 17 May 2010. It is a special purpose vehicle to hold the interest in Lution. Sun Mass was 100% beneficially owned by Ms Hsieh as at the Signing Date. The Reorganisation comprised the acquisition of the total issued shares of Lution by Sun Mass, which required prior approval from the IC in Taiwan. On 26 July 2010, Sun Mass filed an application with the IC for the acquisition of the total issued shares of Lution for a purchase price of NT$900,000,000. As informed by Ms Hsieh and the Seller, the purchase price was determined after negotiations among Ms Hsieh (as beneficial owner of Sun Mass) and other shareholders of Lution at that time based on the then net asset value of Lution, taking into account the potential tax implications to the then shareholders of Lution as a result of the completion of the Reorganisation. The IC approved Sun Mass' acquisition of the total issued shares of Lution at the purchase price of NT$900,000,000 on 4 August 2010.

On 28 January 2011, the IC verified that Sun Mass remitted and converted an amount equivalent to NT$900,000,000 on 25 January 2011 for the acquisition of the total issued shares of Lution. After withholding and paying securities transaction tax of NT$2,700,000 (equivalent to 0.3% of the total purchase price of NT$900,000,000) to the Taiwan tax authority on behalf of Lution's selling shareholders pursuant to Taiwan Securities Transaction Tax Act, Sun Mass paid the balance of the purchase price to the sellers, and completed the Reorganisation. Since then, Sun Mass became the sole shareholder of Lution.

As far as the Directors are aware, except for Dr Wu, all of the related parties of Sun Materials during the three financial years ended 31 December 2010 have ceased to be related parties of Sun Materials following completion of the Reorganisation.

Current shareholding structure of the Target Group (i.e. post-Reorganisation):



Note: Ms Hsieh is indirectly interested in the entire issued shares of the Seller.

2. Sun Materials and its technology

Sun Materials is a limited liability company incorporated in Taiwan and its principal business is the manufacture of solar grade polysilicon. Sun Materials deploys a new and innovative technology developed by Dr Wu with a view to significantly reducing the plant construction costs, production costs, production hazards and adverse environmental effects of manufacturing solar grade polysilicon. Sun Materials has patented the key production equipment for such technology in the United States, Europe, Japan, Taiwan and China.

Highlights of Sun Materials' production process

Unlike the "Siemens" process or the FBR process which use silicon dioxide as their main raw material, Sun Materials uses sodium hexafluorosilicate (Na_2SiF_6) and water. Sodium hexafluorosilicate is a by-product in the manufacturing of phosphorous fertilizers and is readily available from fertilizer producers in China and India. The main feedstock required for Sun Materials' process is produced from sodium hexafluorosilicate after pyrolysis and other initial processes. Compared with the "Siemens" or the FBR counterparts, the initial processes of Sun Materials' production are simplified, thus reducing the number of equipments, the space required for the plant and the energy consumption for manufacturing polysilicon.

The key production equipment in Sun Materials' production process is a patented self-propagating combustion cyclone reactor, which allows the production to be carried out in a closed loop system. Such closed loop configuration significantly reduces the consumption of water and waste product output through recycling.

Sun Materials' polysilicon production process is uniquely designed in a modular format that minimizes floor space and eliminates the bottleneck issues commonly found with the "Siemens" inline process, where the entire production line will be stalled if any of the inline components, especially in the production of trichlorosilane, breaks down.

With its production process simplified, Sun Materials' production plants are designed to use less factory space and equipment for the same production capacity. The initial capital expenditure for Sun Materials' production plants is estimated to be significantly lower than that for the "Siemens" and the FBR processes. Sun Materials believes that even if it depreciates its equipment costs using the straight line depreciation method over ten years, its equipment depreciation cost in the long run will still be lower than that for manufacturers using the traditional and modified "Siemens" processes and the FBR process which typically calculate their depreciation costs over a longer depreciation period.

Whilst the "Siemens" process or the modified "Siemens" process is capable of achieving solar grade and electronic grade polysilicon of high purity levels, the manufacturing costs and environmental impact of these processes are high. In contrast, Sun Materials' production process is designed to produce solar grade polysilicon of approximately 6N to 7N purity at competitive cost. The manufacturing cost of Sun Materials is estimated to be US$19.80/kg by the Technical Adviser, as compared to the average of US$24-30/kg of the top industry incumbents using the traditional and modified "Siemens" processes and the FBR process.

Set out below is a table comparing the processes of Sun Materials, against the "Siemens" process and the FBR process:

	"Siemens" (including the modified "Siemens") process	**the FBR process**	**Sun Materials' technology**
Raw materials	Silicon dioxide		By-product of chemical fertilizers production
Use of feedstock	Requires more distillation steps and higher energy consumption		Cleaner
Production line	Higher energy consumption, "Bottleneck" issues		Closed-loop, thus consuming less water Modular
Capital expenditure	Higher, as more land and complex processing equipment is required		Lower, as less space is required and modular design is utilized
Overall effect	Higher purity product but with significantly higher energy consumption, danger of explosion and higher overall cost		Solar grade purity but environmentally friendlier and much lower hazardous elements and low overall cost

Details of the patents on the key production equipment are set out in the section headed "8. Intellectual property" below.

As far as the Directors are aware, the technologies generally used for manufacturing solar grade polysilicon in the market are the "Siemens" process, the FBR process, and the modified "Siemens" process, and these processes do not involve the Core Technology which Sun Materials will deploy on an industrial scale. Sun Materials' patented key production equipment is a crucial component of the production process for deploying this technology to manufacture solar grade polysilicon on an industrial scale. The Directors are not aware of other means to deploy this technology for the same application on an industrial scale.

3. Competitive strengths of Sun Materials

The Directors believe that the Target Group will be able to compete effectively and capitalize on anticipated long-term growth in the market for polysilicon in the solar energy industry due to the Target Group's and/or the Enlarged Group's competitive strengths described in the paragraphs below:

Sun Materials deploys a "disruptive" technology for manufacturing polysilicon

The technology deployed by Sun Materials for the production of solar grade polysilicon is considered as being "disruptive" in the industry, in that it is capable of significantly reducing the plant construction costs, production costs, production hazards and adverse environmental effects associated with the manufacturing process. Sun Materials has patented in the United States, Europe, Japan, Taiwan and China the key production equipment which, the Directors understand, is a crucial component of the production process for deploying this "disruptive" technology to manufacture solar grade polysilicon on an industrial scale. The Directors are not aware of other means to deploy this technology for the same application on an industrial scale. The Directors have observed prior entrants seeking other "low cost alternatives" for the production of polysilicon, such as UMG grade silicon, but the cost benefit and quality of polysilicon produced by the prior entrants appear not to have met market expectations. For more details, please refer to the section headed "6. Business plan for Sun Materials – Target market" in part A of this letter from the Board. The Directors believe that Sun Materials' technological advantage will enable it to address the future trends of the solar energy market and capture a leading market position in the industry.

Sun Materials' production process helps to reduce production costs

The innovative technology deployed by Sun Materials can significantly reduce the production costs of polysilicon. The key savings in operation costs are a result of the reduction in electricity and water usage, made possible through the use of modular production lines. This has the added advantage of reducing the adverse environmental impact in the production of polysilicon. Compared with other polysilicon manufacturing processes, Sun Materials' production process uses a different feedstock at much lower cost. In addition, Sun Materials' production process adopts a "closed loop configuration" which allows part of the feedstock to be re-used in the process.

As stated in the Technical Report, the production cost of polysilicon is expected to be at the level of US$19.8/kg as compared to the average of US$24-$30/kg of the top industry incumbents using the traditional and modified "Siemens" processes and the FBR process. In the Technical Adviser's opinion, the production cost of lower than US$20/kg would represent a major breakthrough for the entire solar industry, assuming mass production can be achieved using Sun Materials' technology. The Directors believe that the cost advantage of Sun Materials will enable it to achieve strong profit margins and market competitiveness for its products.

The capital requirement for Sun Materials to enter into the polysilicon market was relatively low

Compared with the traditional and modified “Siemens” processes and the FBR process commonly used in the production of polysilicon, Sun Materials’ innovative technology requires lower investment cost in that the plant size required for its production is relatively smaller. As a result, Sun Materials is able to achieve savings from building construction and production equipment. According to the Technical Report, the investment cost for each of Sun Materials’ 3,500 metric ton production plants is estimated to be approximately US$95.9 million, whilst other Asian manufacturers which adopt the traditional and modified “Siemens” processes are estimated to generally require investment cost of between US$70 million to US$90 million for every 1,000 metric tons of polysilicon production capacity. The modular design of Sun Materials’ production process also shortens the time for the replication of production lines. The Directors believe such technological advantages allow Sun Materials to achieve a higher efficiency in its capital deployment and more flexibility in capacity expansion.

Sun Materials has secured long term contracts with customers

Sun Materials has entered into fixed term purchase agreements with several domestic and international customers, including Hareon, Tynsolar and SREAP. All of them have agreed to purchase polysilicon produced by Sun Materials until at least 2015, with one of them having extended the term of the purchase agreement to 2020, subject to the terms of the purchase agreements. The Directors believe such orders represent meaningful quantities in the market and provide Sun Materials with a long-term customer base and stable cash flows.

Sun Materials has a strategic cooperation relationship with Hareon, one of the leading industry players

Pursuant to the Strategic Cooperation Agreement, Hareon agreed to use its best commercial efforts to assist Sun Materials in the development and manufacture of polysilicon at Sun Materials’ production plant and cooperate through various means, including but not limited to:

- streamlining the existing production processes and creating new processes to further lower the cost of production;
- establishing a market for polysilicon manufactured using the reductive combustion process; and
- reciprocally staff personnel at the manufacturing and test facilities to aid in the cooperation process.

Headquartered in Jiangsu, China, Hareon is a rapidly growing, vertically integrated manufacturer of solar photovoltaic products including ingot, block, wafers, cells and modules. With its global customer base, Hareon is one of China's largest manufacturers of photovoltaic products. Hareon is led by Samuel Yang, its chief executive officer, who is the founder of NASDAQ-listed JA Solar Holdings Co., Ltd (NASDAQ: JASO) and co-founder of Suntech Power Holdings Co., Ltd. (NYSE: STP) and China Sunergy Holdings Co., Ltd. (NASDAQ: CSUN).

The Directors believe that the strategic cooperation with Hareon, one of the leading players in the solar industry, will assist Sun Materials in the rapid commercialization, future business development and mass production of polysilicon at Sun Materials' production plant, and will therefore be beneficial to Sun Materials and the Company.

The Enlarged Group combines technology expertise with commercial and financial experience to strengthen Sun Materials' foothold in the solar energy market

Dr. Wu, the chief executive officer and chief technical officer of Sun Materials and a proposed candidate for the office of Director, has strong technological expertise in the research and development of clean technology applications. Coupled with the Company's diversified and experienced management team in the commercial and financial arenas, the Directors believe that Sun Materials will have a strong foothold in the polysilicon market.

Based on the above, the Directors are of the view that the competitive strengths of Sun Materials will enable the Enlarged Group to position itself favourably in the solar energy industry.

4. Snapshot of Sun Materials

Production plant

Sun Materials completed the construction of its first production plant in Yi-Lan County, Taiwan in October 2010 which has a design production capacity of up to 3,500 metric tons of polysilicon. In November 2010, Sun Materials commenced trial production at the plant for the purposes of fulfilling the qualification requirements of its customers. It is expected that the commercial production of polysilicon by Sun Materials will commence on or before 31 May 2011.

Please refer to the Technical Report for details of Sun Materials' production plant and processes.

Supply of raw materials and production equipment

The main raw materials used by Sun Materials are sodium hexafluorosilicate (Na_2SiF_6) and water. Sodium hexafluorosilicate is a by-product in the manufacture of phosphorus fertilizers. It is generally treated as a waste product for disposal by phosphorus fertilizer producers and has minimal commercial value. Based on the information provided by Sun Materials, this raw material is available in China in quantities of up to 3,000,000 t.p.a. and is widely available in other phosphorus fertilizer producing regions, and no supply constraint is therefore anticipated by Sun Materials.

For its trial production, Sun Materials sourced its supply of sodium hexafluorosilicate from two independent suppliers and intends to enter into agreements with these suppliers for the supply of the raw materials in the long run.

In relation to its production equipments, Sun Materials has entered into the Equipment Procurement Agreement with an equipment manufacturer in relation to Sun Materials' procurement of a cyclone high temperature reactor and all relevant components from such equipment manufacturer. Completion is conditional on, among other Sale Conditions, this Equipment Procurement Agreement being effective and no termination or material breach of such agreement having occurred on or before Completion. The Company may waive this Sale Condition in whole or in part at any time on or prior to Completion.

Based on information provided by the Seller as at the Latest Practicable Date, Sun Materials is not aware of any adverse circumstances relating to the supply of sodium hexafluorosilicate or the procurement of production equipments under the Equipment Procurement Agreement, which would materially and adversely affect its polysilicon production.

Customers

The target customers of Sun Materials are downstream manufacturers of wafers, ingots and photovoltaic cells in the global clean technology market. Sun Materials has entered into fixed term purchase agreements with both domestic and international customers including Hareon, Tynsolar and SREAP, which, unless terminated by the parties thereto, are effective until at least 2015. The term of one of the customer contracts has been extended to 2020. According to Sun Materials' estimation, the orders generated by these purchase agreements are likely to account for a significant amount of its projected production output until the end of 2020. Under these purchase agreements, Sun Materials will provide polysilicon according to its customers' specifications at a discount to the spot price quoted by Photon Consulting's Silicon Price Index of the relevant month in which an order is placed. The customers may, but are not obliged to, order polysilicon from Sun Materials. The specifications, payment terms and terms of the purchase agreements vary between customers. According to Sun Materials, it is common practice for polysilicon suppliers to enter into fixed term framework agreements with their customers with forecasts of purchase volumes and prices referenced against the prevailing polysilicon spot prices. The actual quantities, pricing and specifications, as well as penalties for breach, will be agreed by the parties when actual orders are placed and accepted. Information in relation to Hareon is set out in the paragraph headed "Sun Materials has a strategic cooperation relationship with Hareon, one of the leading industry players" under "3. Competitive strengths of Sun Materials" in this part of the letter from the Board. Save as disclosed in this circular, Dr Wu has no other relationship with Mr Samuel Yang and Hareon. Tynsolar, a company listed on the Taiwan Stock Exchange, is principally engaged in the design, manufacture and distribution of solar battery modules, solar batteries and silicon wafers. It provides mainly 180 watt (W) monocrystalline and polycrystalline solar battery modules and other customer-tailored modules, and is also involved in the manufacture and distribution of solar batteries and silicon wafers, as well as the trading of related raw materials. Its products are applied in the manufacture of civil lightening products, road lamps, traffic lights, building roofs and power generation devices. SREAP is a silicon materials trading company based in South Korea, which has a joint venture pilot plant for producing ingots and wafers. Tynsolar and SREAP are independent third parties of Sun Materials and Dr Wu.

Sun Materials believes that upon full commercial production at its first production plant, its polysilicon will be competitive in both pricing and product quality. On this basis and according to Sun Materials' estimate, the orders generated by the above purchase agreements are likely to account for a significant amount of its projected production output until the end of 2020. The aggregate maximum quantity of polysilicon that Sun Materials would supply under the existing purchase agreements and the designed production capacity in Taiwan only from 2010 to 2015 are as follows:

Year	**Maximum quantities under the purchase agreements** *(Note 1)*	**Designed Production Capacity (in t.p.a.)** *(Note 2)*	**Approximate utilisation of Production Capacity** *(Note 3)*
2010/2011	2,500 tons	3,500 t.p.a.	71%
2012	5,000 tons	15,000 t.p.a.	33%
2013	6,000 tons	21,000 t.p.a.	29%
2014	7,000 tons	21,000 t.p.a.	33%
2015	8,000 tons	21,000 t.p.a.	38%

Note 1: This represents the aggregate maximum quantities that Sun Materials is obliged to supply under the existing purchase agreements, and does not represent the minimum quantities that the customers are obliged to purchase from Sun Materials.

Note 2: The designed production capacity is based on Sun Materials' current expansion plan in Taiwan only, which may or may not materialise.

Note 3: This equals to the maximum quantity under column 2, as a percentage of the designed production capacity under column 3. Factoring in maintenance and downtime, the maximum utilisation of a production plant, according to Sun Materials, is typically about 85%.

Quality control system

Sun Materials' quality control department is responsible in maintaining the standards of its product based on internal guidelines and customer specifications. Since the commencement of trial production, it has implemented various quality control measures and is devising its quality control manuals in consultation with its customers to ensure that its polysilicon complies with contract specifications.

The Board is of the view that ISO standards or other similar standards for the quality control of production processes are fairly standard within the industry. Sun Materials seeks to meet relevant quality control standards, if appropriate and commercially advisable to do so.

5. Recent trial runs and test results of Sun Materials' samples

Trial runs

Polysilicon is manufactured in different grades and Sun Materials seeks to produce and supply solar grade polysilicon to its customers. The table below summarises the typical international polysilicon purity specifications for solar grade application and the Chinese Standard GB/T25074-2010 for "Grade 1" polysilicon, as extracted from the Technical Report:

	Unit	**Solar Grade**	**GB/T 25074- 2010 Grade 1**
Acceptors/Donors			
B (Acceptors)	ppba	< 0.1	<0.5
P, As (Donors)	ppba	< 1	<1.5
Carbon	ppma	< 1	<0.5
Total Heavy Bulk Metals	ppbw	< 15	<50

Note: The Chinese Standard GB/T25074-2010 relates to solar grade polycrystalline silicon and was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and Standardization Administration of the PRC, with effect from 1 April 2011.

The specifications of customers and target customers may be different from the above specifications and each other. The samples produced from the initial production trials of Sun Materials in November 2010 indicated that Sun Materials' product did not meet the typical international industrial specifications for "solar grade" as stated above or the product specifications as stated in the purchase agreements between Sun Materials and its customers. Notwithstanding this, Sun Materials indicated that two of its customers had confirmed the quality of the sample products as being acceptable. Also, those samples have met the Chinese Standard Grade 1 standard in GB/T25074-2010 as stated above in their purity of donors and carbon. Please refer to the Technical Report for the test results on the samples from the trial production in November 2010.

Since November 2010, Sun Materials carried out further polysilicon production trials and the samples produced from such trials were tested independently by Hareon. In December 2010, Hareon indicated to Sun Materials and the Company that its qualification tests of the polysilicon samples from Sun Materials' production plant in Taiwan fulfilled Hareon's sampling requirements. On 13 January 2011, Hareon informed Sun Materials and the Company that its mass spectroscopy test data of samples produced in December 2010 and January 2011 revealed consistent results, that the key impurities for photovoltaic applications, boron and phosphorus, are within specifications, and the minority carrier lifetimes of the ingots and cell efficiency are within limits. The sampling and testing of Sun Materials' polysilicon is ongoing and the results continue to be consistent with the data received from Hareon in December 2010. Eddie Woo, a Director, observed the trial runs performed by Sun Materials in person and has been constantly monitoring the outcome of the trial runs. Furthermore, both Hareon and Sreap confirmed that they are satisfied with the progress of the trial runs. In view of the foregoing, the Company is pleased with the progress of the trial runs and testing and expects Sun Materials to launch commercial production on or before 31 May 2011.

The production trials were conducted primarily to test the quality of Sun Materials' product and for the purposes of fine-tuning the production process of Sun Materials. As such, Sun Materials did not consider whether the costs of the trials met its cost-saving targets.

Sun Materials reported that the first pilot run was completed in the first week of April 2011 and further refinement and improvement is on-going to improve the product quality. Sun Materials believes that its progress is in line with the ramp-up schedule. The Directors noted the Technical Adviser's opinion that, based on the current status of the project, timely completion of the subsequent production plants beyond 2011 will require significant project management and resources to meet the tight schedule since construction of these plants has not been commenced. The Directors have been constantly monitoring the progress of Sun Materials in meeting its time schedule in order to complete the subsequent production plants beyond 2011. The Directors are of the opinion that Sun Materials is sufficiently engaged with its project management and aggressive hiring of relevant personnel in order to meet its time schedule to complete the subsequent production plants beyond 2011.

6. Business plan for Sun Materials

Sun Materials engages in the manufacture and sale of polysilicon and its revenue will be generated from such operations, when the production plant in Taiwan commences commercial production.

With its innovative and what the Board believes to be a cost effective and "disruptive" technology, Sun Materials believes it is in a favourable position as a new entrant to the solar energy market. The competitive strengths of Sun Materials are set out in the section headed "3. Competitive strengths of Sun Materials" in part A of this letter from the Board. As a new entrant to the market, Sun Materials intends to capture a leading market position in the industry through attracting good talents, expanding both its production and customer base, as well as improving its technology.

Yi-Lan as its pilot location

Sun Materials has chosen Yi-Lan County, Taiwan as its headquarter and intends to develop its production base from there, where it benefits from a competitive cost structure in a community which fosters the growth of new companies. As access to the county has been vastly improved by the completion of the Snow Mountain tunnel in 2006, Yi-Lan County, historically an agricultural and recreation hub, is now actively promoting the region as an ideal location for clean technology related industries. As an early tenant in the Letzer Industrial Zone in Yi-Lan County since 2007, Sun Materials qualified for competitively low rent with the MOEA. Given the rural location and supported by two universities, the high-technology industry in the county, including photovoltaic companies in the Letzer Industrial Zone, has not experienced much difficulty in attracting qualified local talent at competitive staff costs.

Furthermore, Taiwan is a well-established locale for semiconductor related industry, of which the photovoltaic industry is an offshoot. There is a wealth of experienced middle to senior level work force that Sun Materials expects to source locally from related industries. Given the relatively stagnant growth in salary in Taiwan over the past ten years, Sun Materials believes that staff cost in Taiwan for equivalent level of talent is among the lowest in the south-east Asia region.

Production

Sun Materials utilizes a closed loop manufacturing system that begins with the in-house production of its own silicon-based gas using sodium hexafluorosilicate. Such system is preferable to some of the open loop systems of older and more mature "Siemens" process manufacturers, in that the closed loop design helps to minimize Sun Materials' use of energy and causes significantly less pollution.

Sun Materials completed the construction of its first production plant with a design production capacity of up to 3,500 metric tons in Yi-Lan County, Taiwan in October 2010. In November 2010, Sun Materials commenced trial production at the plant for the purposes of fulfilling the qualification requirements of its customers. It is expected that the commercial production of polysilicon by Sun Materials will commence on or before 31 May 2011.

According to Sun Materials, it expects to commence construction of five additional production plants in Yi-Lan County by October 2011 which will increase the production capacity to up to 21,000 metric tons of polysilicon by the end of the second quarter of 2012. The Board noted from the information and estimates provided by Sun Materials that the total capital expenditure and working capital required for the five additional production plants up to the second quarter of 2012 will be approximately US$250,000,000. The Technical Report provides for a higher estimated investment cost for each 3,500 metric ton production plant of approximately US$95.9 million. The Board believes that the difference in the estimates of Sun Materials and the Technical Adviser is attributable to, among other things, the use of different benchmarks in determining the cost bases. By way of example, the Technical Adviser has benchmarked the costs for the process equipment against equipment sourced internationally or from Europe. Having compared the estimated investment costs budgeted by Sun Materials against those contained in the Technical Report and considered the actual investment costs for the existing production plant as stated in Sun Materials' management accounts, the Directors believe that the capital expenditure required for the five additional production plants will, nevertheless, be significantly lower than that for traditional polysilicon production plants with similar production capabilities.

Sun Materials further expects to commence construction of an 18,000 metric ton production plant in the PRC in the fourth quarter of 2011. Sun Materials is exploring various strategic locations for the establishment of this new facility, including western China, where it will be in close proximity to its key raw materials vendors, and eastern and south eastern China, where Hareon and other potential downstream customers, including ingot, wafer, cell and module manufacturers have their production facilities.

Sun Materials believes that the expansion plan in China is currently compliant with the Standard issued on 31 December 2010 in relation to polysilicon production. Please refer to the paragraphs headed "The impact of the new standard for polysilicon production in China on the industry and Sun Materials' business prospect is unknown" under the section headed "Risk Factors" in this circular.

The Directors expect that part of the net proceeds from the Placing will be used to fund the working capital and capital expenditures of both the expansion of the existing site in Yi-Lan County, Taiwan and in the PRC and further fund raising may be required in the future, although no decision has been made as to how the remaining capital expenditure of such expansion will be funded.

Target market

Sun Materials will focus on the production and sale of solar grade polysilicon, being the largest segment of the polysilicon market. In addition to strengthening existing customer relationships, Sun Materials expects to broaden its customer base beyond its current photovoltaic customer commitments in China, Taiwan and South Korea. Along with geographic diversification, Sun Materials intends to broaden its reach within the entire photovoltaic value chain to incorporate customers who process its polysilicon into ingots, wafers, cells, modules and system integrators. It is currently in discussions with potential customers in Europe, the United States and other countries in Asia. The target customers of Sun Materials are downstream manufacturers of wafers, ingots and photovoltaic cells in the global clean technology market.

Sun Materials intends to compete with established polysilicon suppliers in the market, including Hemlock, Tokuyama, Wacker, OCI and MEMC. These suppliers are known to be "Tier 1" suppliers in the market. They use the "Siemens" process and they dominate the polysilicon market in terms of production output.

The technological requirements for producing solar grade polysilicon set a high threshold for entry into the industry. The Directors observed that prior entrants sought to enter the industry by producing UMG grade silicon, which, compared to polysilicon, is a lower grade product with a comparable cost of production to the dominant "Siemens" processes. The emergence of UMG grade silicon was initially seen as a "low cost alternative" to the production of polysilicon using the "Siemens" or the FBR processes, but the cost benefit and product quality did not meet market expectations. UMG grade silicon solar cells generally possess lower conversion efficiency and have a higher rate of degradation when compared to polysilicon solar cells. UMG grade silicon is currently produced by a few manufacturers in the market on a limited scale and does not compete directly with polysilicon.

Trading prospects of Sun Materials

Compared to the traditional and modified "Siemens" processes and the FBR process, which are commonly used by manufacturers of solar grade polysilicon, Sun Materials considers its production process to be innovative in that it uses modular production lines. Such modular production lines are designed with a view to using lower cost feedstock while substantially reducing the consumption of electricity and water. This helps to significantly reduce the adverse environmental effects generally associated with the manufacturing of polysilicon. According to the Technical Report, Sun Materials' manufacturing cost is approximately 25% lower than the current manufacturing costs of well-established polysilicon manufacturers in the market.

This potentially translates into a lower cost of polysilicon procurement by downstream customers in the solar energy value chain which may allow them to deliver a product that can generate electricity at or below grid parity without the aid of subsidies.

On the basis that Sun Materials' technology will significantly reduce plant construction costs, the consumption of water and electricity and use of a lower cost feedstock in the production processes, the Directors believe that Sun Materials could potentially enjoy the best profit margins in the industry after achieving economies of scale, and at the same time maintain its cost-competitiveness.

Research and development

Sun Materials currently dedicates most of its resources in the production trials and does not currently have any in-house research and development capability. It intends to build up a research and development team as the initial production plant begins commercial production. Sun Materials expects to continuously evaluate its existing manufacturing process by increasing its research and development capacity and capability to reduce costs by raising the efficiency of its process and the material output. Currently, Sun Materials produces solar grade polysilicon. As it reaches full scale commercial production of solar grade polysilicon in the near future, its research and development efforts will also extend to refining its production process and technology to produce electronic grade polysilicon.

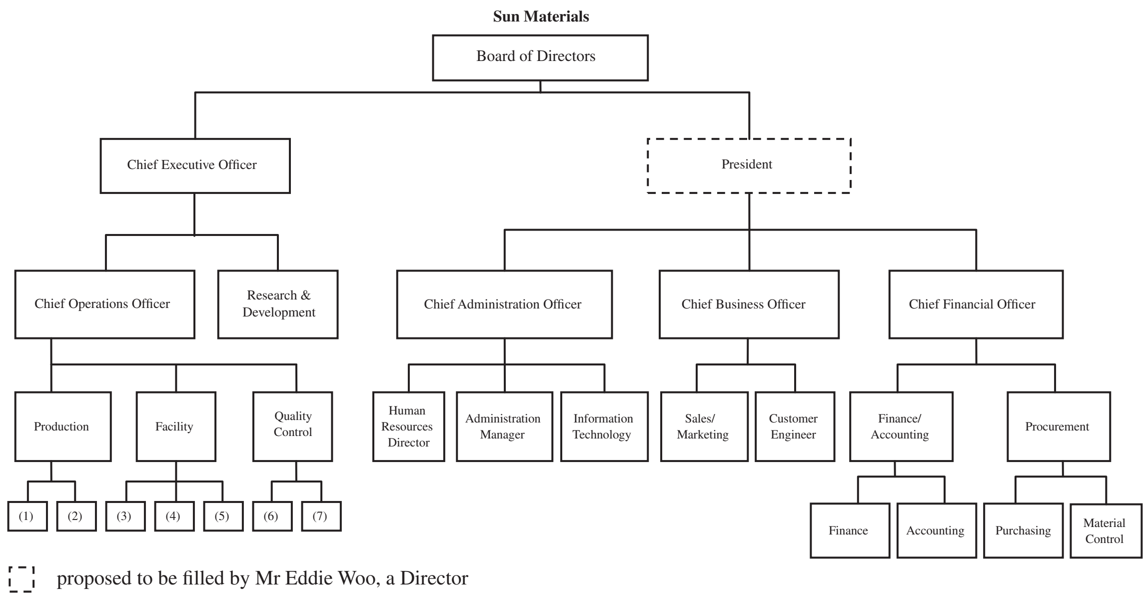
7. Management team

The Enlarged Group will establish an experienced management team to oversee the operations of the Target Group.

This team is currently headed by Dr Wu, the chief executive officer of Sun Materials, and following Completion, the proposed team will be headed by Dr Wu as the chief executive officer and Mr Eddie Woo, a Director, as the president of Sun Materials. Dr Wu's biography and other information is set out the section headed "1. Particulars of the Director to be Appointed" of part F in this letter from the Board.

Mr Eddie Woo is an executive Director. He is a former executive director in the Asia investment banking group of Oppenheimer & Co. Inc., and his previous experience includes assisting companies within the solar energy value chain with financing. He has in-depth understanding of the business operations of companies in this sector. Mr Eddie Woo received his master of business administration from the University of San Francisco and his bachelor's degree from the University of California, Santa Cruz.

The organisational structure of Sun Materials' management will be as follows:



(1) Manufacturing
(2) Engineering
(3) Gas/Chemical
(4) Water/Electricity
(5) Environmental Safety & Health
(6) In-Process Quality Engineering
(7) Outgoing Quality Assurance

According to Sun Materials, the positions of chief operations officer, chief financial officer, human resources director, plant manager, and administration manager have either been filled or suitable candidates have been identified for such positions.

Sun Materials has appointed a chief operations officer to be responsible for overseeing and managing Sun Materials' operations, who having obtained a doctorate in chemical engineering and completed a master's degree in environmental engineering, has approximately 15 years of experience in the technology and semiconductors industries. His expertise, among other things, includes semiconductor process integration and plant operations for integrated circuits manufacture. Before joining Sun Materials, he was working in a well-known semiconductor company in China and was involved in many aspects of plant operations, including system integration, improving operational efficiency, pilot production and production ramp-up. Sun Materials considers its chief operations officer's experience invaluable for the successful launch of its polysilicon production. To assist its chief operations officer, Sun Materials has also appointed a plant manager, who has over 8.5 years of experience in integrated circuit plant operations and management.

Sun Materials has recently appointed Mr Joe Shen as the financial controller. Mr Shen received his certified practising accountant qualification in the United States and has approximately 20 years of finance and accounting experience in the technology and semiconductors industries. To assist Mr Shen, Sun Materials has hired Ms Rebecca Chen as senior accounting manager. Ms Chen has over six years' of experience working in a well-known listed Chinese semiconductor company as a senior accounting and internal audit manager. Sun Materials has also recently appointed Ms Fiona Lei as the human resources director. Ms Lei has approximately 20 years of experience working in the human resources department of high-tech companies. Following the recruitment of Ms Lei and as commercial production will commence shortly, Sun Materials expects to recruit actively and the Directors expect that suitable candidates and advisors will be appointed to provide management and technical support to the Target Group.

Although the Group has neither engaged in any business within the photovoltaic industry nor operated a business in Taiwan, the Board believes that the qualifications and prior experience of the following Directors, in addition to Mr Eddie Woo, will assist the Company in managing the Enlarged Group:

- Dr Henry Yueheng Chuang, a deputy chairman and non-executive Director, holds a master's degree in petroleum engineering and business administration from the University of Southern California and an honorary doctorate degree in recognition of his achievements in the field of petroleum engineering from Dubna University of Russia. In addition to many years of field experience in the energy industry, Dr. Chuang also has more than 18 years' experience in corporate finance and development;

- Dr Nelly Yung Chien, an independent non-executive Director, holds a doctorate degree and a master degree in civil engineering from Stanford University. She provides consulting service for evaluating, architecting and maintaining technology based solutions and products. Her clients include Stanford University and the New York Stock Exchange; and

- Dr. Agustin V. Que, an independent non-executive Director, holds a doctorate degree and a master of business administration from the Wharton School of the University of Pennsylvania. He has been involved in the field of finance for more than 35 years as a private equity investor and a development finance professional. Dr. Que started his career in finance in Washington DC with the World Bank Group where he spent over 10 years. His last posting was senior investment officer in the capital markets department of the International Finance Corporation, the World Bank Group's private investment arm.

After Completion, the Directors intend to review the qualifications and capabilities of the existing management of the Target Group and will re-appoint the existing management of the Target Group or appoint additional expertise as and when necessary to continue with the normal operations of the Target Group, with a view to ensuring that the Enlarged Group will have sufficient expertise for the management and operation of the Target Group after Completion.

8. Intellectual property

Patents

Sun Materials is the registered owner of all of the following patents:

Title of Invention	Country	Patent No.	Inventor	Date of Patent (DD/MM/YYYY)
Self-Propagating Combustion Cyclone Reactor	European	EP2060536B1	Yi-Shuen Wu	21-07-2010
Self-Propagating Combustion Cyclone Reactor	United States	US7,704,466 B2	Yi-Shuen Wu	27-04-2010
Self-Propagating Combustion Cyclone Reactor	Taiwan	I 312301	吳以舜 (Yi-Shuen Wu)	21-07-2009
Self-Propagating Combustion Cyclone Reactor	Japan	4390819	吳以舜 (Yi-Shuen Wu)	16-10-2009
Self-Propagating Combustion Cyclone Reactor	China	ZL 2007 1 0090400.6	吳以舜 (Yi-Shuen Wu)	13-10-2010

The above patents relate to a self-propagating combustion cyclone reactor, which is a key process unit in Sun Materials' production line. Set out below is the description of the effects of the self-propagating combustion cyclone reactor as extracted from the patents:

"The effect of the self-propagating combustion cyclone reactor in accordance with the present invention is that a continuous self-propagating cyclonic combustion is carried out inside of reactor with reductant and oxidizer supplied thereto so as to enhance the purity of the reaction product without the need of repeated distillation and refining processes and thus the manufacturing process is simplified, the costs are reduced, and highly purified metals, alloys and semi-conductor materials can be obtained."

and

"Another effect of the self-propagating combustion cyclone reactor in accordance with the present invention is that the self-propagating combustion is a continuous combustion reaction, which allows continuous generation of the reaction product, rather than a bath process, so that the manufacturing efficiency and the product quality of the metals, alloys and semiconductor materials so manufactured can be enhanced."

The extracts (in italics) are contained in the summary of invention, which forms part of the description of the registered patent. The description of the patent was provided by the applicant to the relevant patent registration authorities. Whilst the patent registration authorities would typically consider the description provided by each applicant as part of the substantive examination of the patent application, they do not verify or endorse the truth and accuracy of the description provided by the applicant.

The patented self-propagating combustion cyclone reactor, as applied to the process for manufacturing polysilicon, is designed to simplify the manufacturing process and reduce the required feedstock, thereby improving the efficiency for manufacturing polysilicon with high purity. It is therefore a crucial component in Sun Materials' production process for deploying this technology to manufacture solar grade polysilicon on an industrial scale. Whilst cyclone reactors that employ self-propagating combustion reaction are known "prior art", the Directors are not aware of other means to deploy this technology for the same application as Sun Materials on an industrial scale.

The Company has commissioned an intellectual property review of the process of Sun Materials. Among other things, the Company has asked its legal counsel to conduct a "freedom to operate" search to investigate whether the processes of Sun Materials infringe any third party's intellectual property rights in the European Union and the United States. Completion is conditional on, among other Sale Conditions, the Company being reasonably satisfied with the results of such intellectual property review on the manufacturing process of the Target Group. At the Latest Practicable Date, the Company has not completed its review. The Company is entitled to waive this Sale Condition in whole or in part at any time on or prior to Completion. The Directors will consider, among other things, the feasibility, costs and time required to complete the intellectual property review against the risks of acquiring Sun Materials, when deciding whether to waive this Sale Condition. If the intellectual property review reveals any material adverse findings which are detrimental to Sun Materials and/or the Enlarged Group, the Directors will not proceed with Completion.

As registered proprietor of the above patents, Sun Materials may enforce its rights against any unlicensed third party for the manufacture, importation, sale or commercial use, in the member states of the European Union where the patents are registered, the United States, Taiwan, Japan and China, of a cyclone reactor with all the technical features specified in any of the claims of its patents.

Trademarks

Sun Materials is the registered owner of the following trademarks:

Mark	Country	Mark No.	Filing Date (DD/MM/YYYY)	Reg Date (DD/MM/YYYY)	Class	Goods
	Taiwan	01377303	22-01-2009	16-09-2009	1	Catalysts; deoxidizer; activator; activated agent; battery acid; electrode paste; adhesive; fluosilicic acid; sodium fluorosilicate; silicon
山陽	Taiwan	01377302	22-01-2009	16-09-2009	1	Catalysts; deoxidizer; activator; activated agent; battery acid; electrode paste; adhesive; fluosilicic acid; sodium fluorosilicate; silicon
Sun Materials (Remarks: disclaimer to "Materials")	Taiwan	01377301	22-01-2009	16-09-2009	1	Catalysts; deoxidizer; activator; activated agent; battery acid; electrode paste; adhesive; fluosilicic acid; sodium fluorosilicate; silicon
	Taiwan	01377772	22-01-2009	16-09-2009	9	Lithium battery; solar batteries; semiconductor substrates; silicon crystal; silicon chip; wafer
山陽	Taiwan	01377771	22-01-2009	16-09-2009	9	Lithium battery; solar batteries; semiconductor substrates; silicon crystal; silicon chip; wafer

Sun Materials, being the registered owner of its trademarks, is entitled to enforce its rights against infringement by third parties of these intellectual property rights in the countries stated above.

To protect its know-how and technology, Sun Materials will continue to evaluate its proprietary rights protection measures, and if appropriate, file applications for registration of patents and trademarks in relevant jurisdictions, including the application for the registrations of its trademarks in the PRC.

9. Legal and compliance

(a) The Target

The Target is an investment holding company duly incorporated in the BVI on 17 May 2010 with limited liability. The Company's BVI counsel confirmed that the Target complied in all material respects with the applicable laws and regulations in the BVI.

(b) Lution

Lution is a company limited by shares established on 22 October 2009 and is duly incorporated and validly existing under the laws of Taiwan. Lution's business of holding shares and making investment in Sun Materials does not require any special approval or license under Taiwan law.

(c) Sun Materials

Sun Materials is a company limited by shares established on 19 March 2007 and is duly incorporated and validly existing under the laws of Taiwan. Sun Materials' businesses of manufacturing and selling polysilicon do not require any special approval or license under Taiwan law.

Sun Materials is located in Letzer Industrial Zone, one of the industrial zones in Yi-Lan County, Taiwan. In order for Sun Materials to establish its office and factory in Letzer Industrial Zone and to commence operations, Sun Materials has complied with the relevant Taiwan laws and regulations by performing the following requirements of law:

1. Sun Materials was approved by the Industrial Development Bureau on 20 April 2007 in accordance with relevant laws for its entry into Letzer Industrial Zone through signing a lease agreement with the MOEA, the land owner of Letzer Industrial Zone.

2. Sun Materials signed a lease agreement with the MOEA on 16 May 2007, in which the MOEA leased parcels of land to Sun Materials for Sun Materials' construction of office and factory buildings in Letzer Industrial Zone. The term of the lease is 20 years which is renewable by the parties.

3. Sun Materials obtained the building construction permit and the building usage permit from Yi-Lan County Government for the construction and usage of its office, warehouse and factory and completed the buildings registration with Yi-Lan County Government on 15 January, 2010 in accordance with relevant laws.

4. Sun Materials obtained the relevant environmental approvals (as pre-requisites for obtaining the approval to complete the factory registration with local municipal government) and completed the factory registration with Yi-Lan County Government on 30 September 2010.

Below is a summary of material Taiwan laws and regulations governing the businesses of Lution and Sun Materials:

Foreign ownership restrictions

Foreign ownership restrictions

Under the Statute for Investment by Foreign Nationals (外國人投資條例, "**SIFN**"), foreign investors are subject to prohibitions or restrictions on making investment in certain types of Taiwanese businesses. Pursuant to the Negative List for Investment by Overseas Chinese and Foreign Nationals promulgated by the Executive Yuan, last amended on 21 December 2010 (僑外投資負面表列, the "**Negative List**"), industries of which foreign ownership is prohibited or restricted include, among others, agriculture, husbandry, fishing, forestry, telecommunications, television or radio broadcasting, and transportation. The businesses of manufacturing and selling polysilicon are not on the Negative List, and foreign investors are therefore not prohibited or restricted from making investment in a Taiwan company engaged in manufacturing and selling polysilicon.

Foreign investment application and approval

A foreign investor wishing to make a direct investment in a Taiwanese company is required to obtain prior approval from the Investment Commission ("**IC**") of the MOEA. After consummation of the investment, the foreign investor shall further apply to the IC for the verification of such consummation.

In order to complete the Reorganisation, the Target filed an application with the IC on 26 July 2010 for the acquisition of the entire issued shares of Lution. The Target obtained the IC approval on 4 August 2010. After consummation of the Reorganisation, the Target applied with the IC for the verification of such consummation on 26 January 2011 and obtained the IC approval on 28 January 2011.

Environmental protection

Environmental impact assessment

According to the Environmental Impact Assessment Act (環境影響評估法), environmental impact assessments is required to be conducted for some development activities. The Guidelines on the Items and Scope of Development Act Required to Conduct Environmental Impact Assessment (開發行為應實施環境影響評估細目及範圍認定標準, the "**Guidelines**") set forth the requirements and degrees of development activities which are subject to environmental impact assessment. According to the Guidelines, establishment of a factory requires an environmental impact assessment if it meets the criteria provided under the Guidelines.

Sun Materials' operation and construction of its factory in the Letzer Industrial Zone is exempted from conducting an environmental impact assessment because it does not meet the criteria provided under the Guidelines. On 20 April 2007, the Industrial Development Bureau held a meeting to review Sun Materials' proposed operation in the Letzer Industrial Zone. The meeting confirmed that Sun Materials is exempted from conducting an environmental impact assessment for the operation and construction of its factory in the Letzer Industrial Zone.

Pollution prevention laws

The operation of any enterprise is required to comply with the relevant laws and regulations for preventing pollution, including Water Pollution Prevention Act (水污染防治法), Air Pollution Prevention Act (空氣污染防治法), Waste Disposal Act (廢棄物清理法), and others. Pursuant to the Water Pollution Prevention Act, the Waste Disposal Act, and regulations promulgated thereunder, and according to the Industrial Development Bureau's request, before Sun Materials can start its operation and complete the factory registration, Sun Materials must (a) submit a water pollution prevention plan to the Industrial Development Bureau and obtain approval of such plan; and (b) submit a waste disposal plan to the Yi-Lan County Government and obtain approval of such plan. Sun Materials obtained the relevant environmental approvals (as pre-requisites for obtaining the approval to complete the factory registration with local municipal government) and completed the factory registration with Yi-Lan County Government on 30 September 2010.

Labour laws

Labour Standards Act and Safety laws

The Labour Standards Act (勞動基準法, "**LSA**") is the basic labour law setting out the minimum standards for the terms provided by an employer to the employees; however, if the employment contract between the employer and the employee provides more generous terms, then such terms will prevail. The LSA does not require an employment contract to be made in writing. If there is no written contract, the provisions of the LSA and the general rules imposed by the company, to the extent not in violation of the labour related laws and regulations, will govern the employment relationship.

The operation of any enterprise must comply with the relevant safety laws, including Labour Safety and Health Act (勞工安全衛生法), Protection for Workers Incurring Occupational Accidents Act (職業災害勞工保護法), Factory Management Act (工廠管理輔導法), and others. Lution is a holding company and does not have any employees. As far as the Directors are aware, no litigation, claim or administrative proceedings of material importance was pending or threatened against Sun Materials with respect to any violation of the LSA and the safety laws as at the Latest Practicable Date.

National health insurance and labour insurance

Pursuant to the National Health Insurance Act (全民健康保險法), employers are obligated to carry National Health Insurance for their employees. If an employer fails to fulfil this obligation, it will be subject to a fine in an amount equivalent to twice the premiums payable to the National Health Bureau. Furthermore, employers are also required to carry Labour Insurance for their employees according to the Labour Insurance Act (勞工保險條例). If such an obligation is not fulfilled, employers will be fined in an amount equivalent to twice the payable premiums. Meanwhile, employers have to compensate any loss incurred by the employees arising from the employer's failure to carry such Labour Insurance.

Lution is a holding company and does not have any employees. As far as the Directors are aware, Sun Materials is in compliance with the National Insurance and Labour Insurance obligations for paying the relevant premiums for the benefit of all of its employees as at the Latest Practicable Date.

Enterprise income tax

According to Taiwan's Income Tax Law (所得稅法), every company must file an income tax return with the tax office by the end of the fifth month following the end of each fiscal year. The current enterprise income tax rate is 17%. In general, within two to three years from the date a company files its income tax return, the tax office will issue an assessment notice ("**Assessment Notice**") to the company indicating whether it is satisfied with the tax return filed. If it is not satisfied, the Assessment Notice will state which portions appear incorrect and how much additional tax the company needs to pay. If the company does not agree with the assessment, it may file for re-examination.

Both Lution and Sun Materials filed income tax returns in accordance with the law each year since incorporation. As at the Latest Practicable Date, Lution has received the Assessment Notice for fiscal year of 2009 and Sun Materials has received the Assessment Notices for fiscal years of 2007 to 2009. Neither Lution nor Sun Materials is required to pay additional income tax as indicated in the Assessment Notices that they received.

Foreign exchange control

Pursuant to the Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions (外匯收支或交易申報辦法), foreign exchange purchased or sold within one calendar year by a company with an accumulated amount exceeding US$50,000,000 requires a prior approval from the Central Bank. Nonetheless, if the foreign exchange is made for the payment of the company's import/export of goods or services through international trade, such yearly limitation will not apply. Further, if the foreign shareholder of the company has acquired the approval from the IC for its investment in the Taiwan-invested company, neither such foreign shareholder's injection of capital into the company, nor the company's distribution of cash dividends to the foreign shareholder is subject to the yearly limitation on foreign exchange.

Therefore, (a) for the foreign exchange derived from Sun Materials' import/export of goods or services, including the sales of polysilicon, Sun Materials is not subject to any foreign exchange restrictions under Taiwan law; and (b) as the Target obtained the IC approval on 4 August 2010 for the acquisition of the entire issued shares of Lution, the distribution of cash dividends from Lution to the Target will not be subject to any foreign exchange restriction under Taiwan law.

Import/Export restrictions

According to the Trade Act (貿易法), a company can only engage in export/import business after it registers with the Bureau of Foreign Trade ("**BOFT**") as an exporter/importer. Sun Materials registered with the BOFT as an exporter/importer on 27 March 2007, and hence, is allowed to engage in export/import business under Taiwan law. There are no restrictions on the export of poly-crystal of silicon (as classified under Taiwan's commodities classification code) under Taiwan law, so Sun Materials is not restricted by Taiwan law to export poly-crystal of silicon.

Intellectual property right

There are no regulatory restrictions on the rights of using and the transferring or licensing of patents, trademarks or any other proprietary rights owned by Sun Materials to others under Taiwan law, provided, however that, according to the Regulations Governing Investment and Technology Cooperation in the Mainland China (在大陸地區從事投資或技術合作許可辦法), any licensing of an intellectual property right by a Taiwan company to a PRC citizen or legal entity requires a prior approval from the IC. As far as the Directors are aware, neither Lution nor Sun Materials has licensed any of its intellectual property right to any PRC citizen or legal entity as at the Latest Practicable Date.

As far as the Directors are aware, no litigation, claim or administrative proceedings of material importance was pending or threatened against, or engaged by any Target Group Company as at the Latest Practicable Date.

(d) Future expansion in the PRC

Sun Materials plans to expand its production capacity by commencing construction of a production plant in the PRC in the fourth quarter of 2011. Based on the preliminary expansion plan of Sun Materials and the legal advice by the Company's PRC lawyers, the material PRC laws and regulations which may be applicable are as follows:

Foreign ownership restrictions

Under PRC laws and regulations, foreign investments in the PRC are categorized into four categories: encouraged, permitted, restricted and prohibited. According to the Foreign Investment Catalogue (2007 revised) (外商投資產業指導目錄(2007修訂)), jointly promulgated by the National Development and Reform Commission ("**NDRC**") and Ministry of Commerce ("**MOFCOM**") on 31 October 2007, foreign investment in the polysilicon industry falls into the encouraged category, which entitles the foreign-invested enterprise to receive certain benefits and incentives extended by the government.

The Standard

The Standard, which was jointly promulgated by the Ministry of Industry and Information Technology ("**MIIT**"), the NDRC, and the Ministry of Environmental Protection ("**MEP**"), sets up the following major criteria for a polysilicon manufacturing enterprise in the PRC:

(i) Capital requirement. At least 30% of the total investment of a new polysilicon manufacturing enterprise must come from its own capital.

(ii) Site selection. Polysilicon enterprises must not be located within 1,000 metres of environmentally sensitive areas, such as primary agricultural reserve areas, nature preservation zones, scenic reserve areas, water resource reserve areas, residential areas, convalescent districts and lands reserved for food production.

(iii) Scale of production. The production capacity of solar grade polysilicon enterprise must exceed 3,000 metric tons per year.

(iv) Production equipment. Manufacturing enterprises must use energy saving and environmentally friendly equipment with innovated technologies.

(v) Resource recovery and power consumption

- The occupied land mass of newly established polysilicon enterprises must be less than 6 hectares per thousand tons.

– The power consumption restoration of solar grade polysilicon must be less than 80,000 watts per thousand grams. By the end of year 2011, the power consumption restoration must be less than 60,000 watt hours per thousand grams.

– Water resources shall be recycled and reused comprehensively. The water recycling rate must be greater than or equal to 95%.

In addition, with respect to other major issues of public concern, such as environmental protection and health and safety duties, all applicable laws and regulations must be strictly complied with.

Notwithstanding the above, according to the Standard, construction of new polysilicon projects is currently frozen, unless the project adopts innovated technology which is energy efficient and environmentally friendly, subject to the examination and approval of the state investment regulatory authority, i.e. the NDRC.

Regulatory approvals for a foreign-invested polysilicon manufacturing enterprise

Under current PRC laws and regulations, the establishment of a foreign-invested polysilicon manufacturing enterprise is subject to approvals from various PRC authorities, and the crucial approvals are summarized as follows:

• MOFCOM's approval

The establishment of a new foreign-invested polysilicon manufacturing enterprise requires the examination and approval by the MOFCOM or its local branches according to PRC Law on Foreign-invested Enterprises.

• NDRC's approval

Prior to the Standard, only polysilicon projects with a total investment exceeding US$300 million require approval from NDRC, while other projects were required to be approved by the local branches of NDRC. Since the promulgation of the Standard, any new polysilicon projects adopting innovative technology which is energy efficient and environmentally friendly will be subject to the approval by NDRC directly, notwithstanding its total investment amount.

- MIIT's inspection

  According to the Standard, the government will establish a "Qualified Company Name List" (多晶硅行業准入名單) listing all companies which have satisfied the requirements in the Standard and are qualified to make investment in the industry. The Standard requires a new polysilicon manufacturing enterprise to submit its application within half a year after commencing production. The MIIT jointly with the NDRC and the MEP at provincial level must inspect the production and issue an inspection opinion. The applicant will enter into the "Qualified Company Name List" which will be publicly announced if it passes the inspection. The applicant will be required to conduct rectification or even cease the production if it fails to meet the standard.

Income tax

The Enterprise Income Tax Law and its Implementation Regulations (企業所得稅法及其實施條例), which became effective on 1 January 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises. A resident enterprise is subject to enterprise income tax on the income derived both inside and outside the territory of the PRC. If an organisation or presence is set up in the PRC by a non-resident enterprise, such enterprise will be subject to enterprise income tax on the income derived from such organisation or presence in the PRC and the income derived from outside the PRC but with actual connection with such organisation or presence in the PRC. For a non-resident enterprise which has not set up an organisation or presence in the PRC, or has set up an organisation or presence but the income derived has no actual connection with such organisation or presence, only its income derived in the PRC will be subject to enterprise income tax.

A non-resident enterprise without a permanent establishment in the PRC or a non-resident enterprise which has set up a permanent establishment in PRC but its earned income is not connected with the permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10% or a lower tax rate if there are applicable treaties that reduce such rate.

Pursuant to the Provisional Regulations of the People's Republic of China on Value-Added Tax (中華人民共和國增值稅暫行條例) as amended on 5 November 2008 by the State Council and implemented since 1 January 2009 and its Implementation Regulations, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Potential tax incentives for polysilicon manufacturing enterprises

Under the Enterprise Income Tax Law, high and new technology enterprises that are supported by the state are entitled to a preferential enterprise income tax rate of 15%. To be considered a qualified high and new technology enterprise and thus be entitled to the preferential tax treatment, the enterprise must satisfy the following key criteria as prescribed in the Administrative Measures for the Determination of High and New Technology Enterprises (高新技術企業認定管理辦法):

(i) The products are within the range as prescribed in the "High and New Tech Fields under the Key Support of the State" (國家重點支持的高新技術領域). Polysilicon products with low cost and energy consumption are within such fields;

(ii) The enterprise has been established for at least one year in the PRC;

(iii) The enterprise possesses independent intellectual property of the core technologies;

(iv) Scientific and technical personnel with an educational background of junior college or higher account for at least 30% of the total number of employees of the enterprise, of whom the research and development personnel account for at least 10% of the total number of employees of the enterprise;

(v) Its total research and development expenditure during the recent 3 accounting years as a percentage of its total sales revenue meets the following requirements:

- If the sales revenue of the enterprise during the latest year is less than RMB 50 million, the proportion shall not be lower than 6%;
- If the sales revenue of the enterprise during the latest year is RMB50-200 million, the proportion shall not be less than 4%;
- If the sales revenue of the enterprise during the latest year is more than RMB200 million, the proportion shall not be less than 3%; and
- The enterprise's revenue from high and new tech products (services) accounts for at least 60% of its total revenue during the current year.

In addition, various regions in China may impose different local incentives, benefitting enterprises that are established within the region.

Labour laws

The PRC Labor Law (中華人民共和國勞動法) promulgated on 5 July 1994 and amended on 27 August 2009 and the PRC Labour Contract Law (中華人民共和國勞動合同法), which took effect on 1 January 2008, imposes certain requirements in respect of human resources management, including, among other things, signing written labour contracts with employees, stipulating maximum number of working hours per day and per week, paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labour Contract Law requires employers to provide remuneration packages which are not lower than the relevant local minimum standards.

The PRC Employment Promotion Law (中華人民共和國就業促進法), which took effect on 1 January 2008, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

The Regulation on Occupational Injury Insurance (工傷保險條例), which took effect on 1 January 2004, requires employers to pay occupational injury insurance fees for their employees.

Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (企業職工生育保險試行辦法), which took effect on 1 January 1995, employers must pay maternity insurance fees for their employees.

Under the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例), which were implemented on 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance (社會保險登記管理暫行辦法), which were adopted on 19 March 1999, employers in the PRC must apply for social insurance registration with the local social insurance authorities and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.

According to the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例), which was implemented on 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management centre and then open housing fund accounts with authorised banks for their employees and contribute to the fund an amount not less than 5% of the employee's average monthly salary in the previous year.

Environmental protection

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法), which took effect on 26 December 1989, the state environmental protection authority is authorised to formulate national environmental quality and discharge standards and monitor the environmental system at national level. The

Environmental Protection Law of the PRC aims to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. Enterprises discharging pollutants must register with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of the standards set by the State Environment Protection Administration of China shall be responsible for paying a sewage discharge fee for exceeding the standard and the cost of eliminating the pollutants.

Other major environmental regulations applicable to our Group include the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), together with the related implementation rules, the Law of the PRC on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法) together with the related implementation rules, the Law of the PRC on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法), the Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), the PRC regulations regarding the Administration of Construction Project Environmental Protection (中華人民共和國建設項目環境保護條例) and the Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法).

Violation of these laws, rules or regulations may result in the imposition of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

PART B – THE ACQUISITION

1. Sale and Purchase Agreement

The Company entered into the Sale and Purchase Agreement with the Seller to purchase the Sale Shares. Details of the Sale and Purchase Agreement are set out below.

Date

31 December 2010

Parties

Buyer: The Company.

Seller: Quinella International Incorporated, being the sole shareholder of the Target after completion of the Reorganisation.

Guarantor:	Ms Hsieh, as guarantor of the Seller's obligations under the Sale and Purchase Agreement. Ms Hsieh irrevocably and unconditionally guarantees to the Company the full, prompt and complete performance by the Seller of all its obligations under the Sale and Purchase Agreement, the due and punctual payment on demand of all sums now or subsequently due and payable by the Seller to the Company under the Sale and Purchase Agreement and the truth and correctness of the Seller's representations and warranties under the Sale and Purchase Agreement at the Signing Date and the Completion Date, respectively, and agreed as primary obligor to indemnify the Company on demand from and against any loss suffered or incurred by the Company as a result of any of the Seller's obligations under the Sale and Purchase Agreement being or becoming void, voidable, unenforceable or ineffective as against the Seller, in accordance with the terms of the Sale and Purchase Agreement. The aggregate liability of Ms Hsieh under the Sale and Purchase Agreement is limited to US$150,000,000.
Covenantor:	Dr Wu, in relation to the restrictions set out under the paragraphs under section 2 "Restrictions on and undertakings from Dr Wu" in part F of this letter from the Board.

Ms Hsieh is indirectly interested in the entire issued shares of the Seller. She is a director of the Target. Dr Wu is a director of the Seller, the Target, Lution and Sun Materials. As at the date of this circular, Dr Wu has no beneficial interest in the issued shares of the Seller or any Target Group Company. As far as the Directors are aware, having made all reasonable enquiries, Dr Wu will not have any interest in the Company or the Group at the Placing Completion Date and the Completion Date. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Seller, Ms Hsieh and Dr Wu are third parties independent of each of the Company and any of its connected persons. The principal business activity of the Seller is investment holding. The Group has not engaged in any previous transactions which were related to the Acquisition or with the Seller in the last 12 months which would otherwise require aggregation under Rule 14.22 of the Listing Rules.

Assets to be acquired

The Company will acquire the Sale Shares, being 50.1% of the entire allotted and issued shares of the Target. Further information in relation to the Target Group is set out in part A of this letter from the Board.

Consideration and payment method

The Consideration of US$150,000,000 shall be paid in cash on Completion by the Company to the Seller.

Basis for determining the Consideration

The Consideration was determined after arm's length negotiations between the Company and the Seller, taking into consideration (i) the Preliminary Business Valuation as at 30 June 2010 by the Valuer which ranges from US$274,000,000 to US$330,000,000, (ii) Sun Materials' plans to commence construction of five additional production plants, which will increase its production capacity from its current design production capacity of 3,500 metric tons of polysilicon to up to 21,000 metric tons of polysilicon by the end of the second quarter of 2012 (iii) the scarcity of technologies for reducing the production cost of solar grade polysilicon, and (iv) anticipated future demand for solar grade polysilicon. Accordingly, as at the Signing Date, the value attributable to the Sale Shares ranges from US$137,274,000 to US$165,330,000.

The Consideration represents (i) a discount of approximately 9.27% to the highest end of and a premium of approximately 9.27% to the lowest end of the range of value attributable to the Sale Shares as at the Signing Date as stated above and (ii) a premium of approximately 893% over the net asset value of Sun Materials as attributable to the Sale Shares. The net asset value of Sun Materials, as shown in the report on the financial information of Sun Materials as at 31 December 2010 set out in Appendix II, is NT$855,567,000 (equivalent to approximately US$30,164,221).

The Preliminary Business Valuation was conducted primarily by the guideline company method ("**GCM**") under the market approach and also made reference to the guideline transaction method ("**GTM**") under the market approach. The GCM and GTM relate to the market values of publicly-traded comparable companies and transaction price to measures of their operating results and other value drivers. Such multiples were applied to the relevant parameters of the Target by the Valuer in determining the Preliminary Business Valuation.

Since the date of the Preliminary Business Valuation of 23 December 2010, the Valuer has updated the business valuation of Sun Materials as at 31 December 2010, adopting primarily the GCM under the market approach (with reference to GTM), to US$306,000,000. Based on the updated business valuation, the value attributable to the Sale Share is now US$153,306,000. Nine publicly traded companies, which were engaged in the business of manufacturing polysilicon, were selected as comparable companies for the GCM. Although Sun Materials' technology differs from those of the comparable companies, polysilicon is a commodity commonly used in the photovoltaic industry as a key component for the production of solar cells. Further, the variances among business enterprises would eventually be reflected in the trading prices and economic measures in the guideline companies. The Valuer therefore considers the selection of the guidelines companies for the business valuation to be appropriate. Please refer to Appendix V – "Business Valuation Report" for the Business Valuation Report.

The most common technologies used for the production of solar grade polysilicon in the current market include two dominant processes, namely the "Siemens" process and the FBR process. Compared with these processes, the Target Group will use a process which significantly reduces plant construction costs and production costs, and alleviates the environmental hazards of polysilicon production. The Directors believe that the Target Group's technology is a "disruptive innovation" that has the potential to radically transform the industry landscape and reset the threshold for polysilicon production volume and the related production costs, and provides a safer production environment using a greener production process.

As stated in the Company's announcement of the Preliminary Agreement on 3 August 2010, the consideration for the Acquisition was expected to be not more than US$125,000,000. Since the date of Preliminary Agreement, the Company and Sun Materials have formed a strategic relationship with Hareon under the Strategic Cooperation Agreement. The Directors were also informed that Sun Materials received expressions of interest from a number of potential strategic partners in working with Sun Materials to expedite the completion the expansion plans so that a total of six operating plants will operate by the end of the second quarter of 2012. Taking into account the Preliminary Business Valuation and these positive responses in evaluating the business prospects of the Target Group, the Directors believe that the value of the Target Group's business exceeds its original evaluation in August 2010. The Directors noted that in January 2011, the Target completed the acquisition of Lution at a purchase price of NT$900,000,000. Please refer to the section headed "The history of the Target Group" above for more details. As informed by Ms Hsieh and the Seller, the purchase price was determined among the then shareholders of Lution in the course of the Reorganisation with reference to the then net asset value of Sun Materials and to optimize potential tax implications. The Directors believe the then net assets value of Sun Materials at the time of acquisition only reflected the historical costs of Core Technology and hence, such acquisition cost was determined for the purpose of internal reorganization and was not on arm's length basis. Therefore, in determining that the Consideration is fair and reasonable, the Directors have taken into account the foregoing reasons for the cost paid by Sun Mass for the acquisition of Lution during the internal restructuring in addition to the Preliminary Business Valuation and other commercial and market factors as stated above. Based on the above and the revised business valuation of Sun Materials, the Directors consider that the basis for determining the Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of the Sale and Purchase Agreement is conditional on the following Sale Conditions being satisfied or waived in accordance with the Sale and Purchase Agreement by noon on the day which is the ninetieth (90th) Business Day after the Signing Date, or such later date as the Company and the Seller may agree:

1. the Securities and Futures Commission not having indicated that any matter relating to the transactions contemplated under the Transaction Documents shall give rise to any obligations under the Takeovers Code;

2. no indication having been received from the Stock Exchange that the transactions contemplated under the Sale and Purchase Agreement will be treated as or, as the case may be, ruled by the Stock Exchange to be a reverse take-over under the Listing Rules, or that they may otherwise trigger mandatory general offer obligations under the Takeovers Code;

3. the Placing having been completed in accordance with its terms;

4. the resignation of Mr Chang Wen-Shan as director of Lution and Sun Materials before the despatch of this circular;

5. the completion of the Reorganisation to the satisfaction of the Company in its sole discretion;

6. the passing by the Shareholders at the SGM of a resolution to approve the Transaction Documents, the transactions contemplated under the Transaction Documents, and the appointment of Dr Wu as a Director, in accordance with the Listing Rules and the Company's articles of association;

7. the Company completing, to its satisfaction, a due diligence review of the Target Group, which shall include but not be limited to technical, legal, financial and operational aspects of the Target Group and its business and operations;

8. Hareon having confirmed to the Company in writing that the polysilicon production trials conducted by Sun Materials and the results of independent testing by Hareon of the polysilicon produced by Sun Materials satisfy the standards applicable to the polysilicon which Hareon uses in its manufacturing;

9. the Company being reasonably satisfied with the results of any intellectual property review on the manufacturing process of the Target Group that the Company or its agent may commission;

10. the Company having received a Business Valuation Report on the fair market value of the Target Group being not less than US$300,000,000 in form and substance satisfactory to the Company;

11. the Seller's warranties under the Sale and Purchase Agreement being true, accurate and not misleading on the Completion Date;

12. the Company's warranties under the Sale and Purchase Agreement being true, accurate and not misleading on the Completion Date;

13. all necessary waivers, consents, licenses and approvals (as defined in the Sale and Purchase Agreement), as applicable, from government or regulatory authorities and other third parties for the Seller to sell the Sale Shares

(including without limitation, the waiver of any first right of refusal from any existing Shareholders) having been obtained;

14. the Equipment Procurement Agreement being in full force and effect at Completion and no termination or material breach of the Equipment Procurement Agreement having occurred on or before Completion;

15. the Service Agreement being in full force and effect at Completion and no termination or material breach of the Service Agreement having occurred on or before Completion;

16. the Call Option Agreement being in full force and effect at Completion and no termination or material breach of the Call Option Agreement having occurred on or before Completion;

17. all applicable permits (as defined in the Sale and Purchase Agreement) in respect of the Acquisition or the transactions contemplated by the Transaction Documents or any other matter contemplated by the Transaction Documents having been obtained in terms satisfactory to the Company without requiring any modification to or attaching any condition, undertaking or obligation on the transactions contemplated by the Transaction Documents;

18. all authorisations, consents, approvals and waivers (other than the applicable permits) required to secure for the Group the benefit of the transactions contemplated by the Transaction Documents, including:

    (a) a foreign investment approval and investment verification letter issued by the Taiwanese Investment Commission for the Target's ownership of the entire issued share capital of Lution;

    (b) completion of the registration of such ownership with the MOEA;

    (c) factory license issued by Taiwan's Yi-Lan County Government for Sun Materials' operation of its factory in the Letzer Industrial Zone;

    (d) consent issued by the MOEA for Sun Materials' creation of a mortgage over its factory buildings in favour of Taiwan Cooperative Bank; and

    (e) consent issued by the MOEA for Sun Materials' sublease of office space to Lution,

    having been obtained (or deemed to have been obtained in compliance with the laws of the relevant jurisdiction) prior to Completion in all relevant jurisdictions in a form satisfactory to the Company and all necessary filings having been made and all necessary waiting periods under any applicable legislation or regulation of any jurisdiction having expired; and

19. no law or regulation being enacted or coming into force on or prior to the Completion Date which would require the Seller or any person acting in concert or deemed to be acting in concert with the Seller (as such phrase is integrated under the Takeovers Code) to make an offer to acquire Shares.

The Company and the Seller have agreed in writing to extend the date by which each Sale Condition must be satisfied to 31 August 2011.

Among the Sale Conditions, Sale Conditions 1, 2, 6 and 19 (being the key conditions precedent which are necessary to effect the Acquisition) cannot be waived by either the Buyer and the Seller unless both the Buyer and Seller agree in writing. Sale Conditions 3 to 5, 7 to 11 and 13 to 18 may be waived by the Company in whole or in part, and Sale Condition 12 may be waived by the Seller in whole or in part, As at the Latest Practicable Date, the Company has no intention to waive any Sale Conditions. The Directors will only exercise the discretion to waive a Sale Condition when it is in the best interests of the Company and the Shareholders as a whole to do so, having considered the cost, time and feasibility to have each relevant Sale Condition satisfied against the risks of waiving such Sale Condition in whole or in part. Completion is made conditional on, among other Sale Conditions, Sale Conditions 14 and 15 because of the importance of these agreements to the business of Sun Materials. Based on information provided by Sun Materials, the Directors are of the view that counterparty to the Equipment Procurement Agreement will not be a connected person of the Company on Completion. The Directors confirm that the Company is not a party to the agreements referred to in Sale Conditions 14 and 15, and has not agreed to make any payment to the counterparties of such agreements pursuant thereto.

Satisfaction of some of the Sale Conditions

As at the Latest Practicable Date, the Company is satisfied that Sale Conditions 4, 5, 8, 10 and 18 have been fulfilled.

Completion

Completion shall take place on the day which is the third Business Day after the date on which the last in time of the Sale Condition (except such Sale Conditions which are expressed to be satisfied on or as of the Completion Date but subject to the satisfaction or waiver of such Sale Conditions) to be satisfied or waived in accordance with the Sale and Purchase Agreement is first satisfied or waived.

2. Reasons for the Acquisition

The Company is engaged in the business of, among other things, the trading of investments, loan financing, property investment and the manufacturing of computer, photographic, video, phone and solar powered multi-media bags and accessories. The Company implemented a diversification strategy aimed at identifying suitable investment opportunities, including that of renewable energy related businesses.

Based on its experience in manufacturing solar powered multi-media bags and accessories, the Company wishes to embrace high technology ventures, specifically in the renewable energy industry through the acquisition of companies operating in that field. It understood from negotiations with the Seller and through its due diligence that Sun Materials developed a technology which has the potential to significantly reduce the cost of plant construction and the cost of manufacturing solar grade polysilicon. The technology will also assist in reducing workplace hazards and the adverse environmental effects in polysilicon production – the process of which is traditionally considered to be among the most polluting in the solar energy value chain. Compared to manufacturers of polysilicon which employ the "Siemens" and/or the FBR processes, Sun Materials' production process appears to have a broad based competitive advantage.

The Directors considered Sun Materials' technology, the competitive strengths of Sun Materials and the Enlarged Group (as set out in the sections headed "2. Sun Materials and its technology" and "3. Competitive strengths of Sun Materials" in part A of this letter from the Board) and believe that Sun Materials' production process is a "disruptive innovation" that has the potential to radically transform the industry landscape in the clean technology market and the Acquisition will give the Company the opportunity to benefit from the Target Group's technology, with the potential to capture a leading position in the solar grade polysilicon market.

As stated in the Company's announcements on 8 March 2010, 3 August 2010 and 27 September 2010 and 19 January 2011, the Company wishes to diversify through acquisition of companies in the renewable energy market. The Acquisition marks the Company's entry into this market. The Directors do not expect synergy between the Target Group's business and the Company's existing business, but synergies may be achieved as and when the Company identifies and invests in suitable companies in the solar energy value chain.

The Directors considered the risks associated with the Acquisition (as set out under the section headed "Risk Factors" in this circular), the potential financial impact of the Acquisition (as set out under the sections headed "5. Financial effects of the Acquisition on the Group" and "6. Financial and trading prospect of the Enlarged Group" in this part) and the results of the Company's due diligence exercise, the Business Valuation Report and the Technical Report.

In relation to the Technical Report, the Directors considered the findings of the Technical Adviser, being an independent expert, in assessing whether the Acquisition is in the interests of the Company and the Shareholders as a whole. In particular, the Directors noted that the Technical Adviser's findings in relation to the purity of Sun Materials' products were based on the test results in November 2010. Whilst such test results, according to the Technical Report, did not meet the typical international industry specifications for solar grade polysilicon and the customers' specifications in the purchase agreements between Sun Materials and its customers, the Board noted that two purity specifications for GB/T25074-2010 Grade 1 were met. However, the Board received the results of the outcome of the trial runs at Sun Materials' production plant and the independent testing conducted by Hareon subsequent to November 2010, which supported Sun Materials' claim that Sun Materials' product quality was acceptable. The Company has since obtained written confirmation from two of the customers that the customers accepted the quality of Sun Materials' sample products based on the customers' own test runs. The Directors are of the view that the written confirmations received from the customers indicate that the customers are satisfied with the quality of the products produced by Sun Materials. The Board is aware that the investment costs estimates and the cost model calculation contained in the Technical Report were different from the information provided by Sun Materials. The Board is of the views after discussing with Sun Materials, such difference is mainly attributable to the use of different bases and assumptions in performing the investment costs analysis and cost model calculations. The Board noted that the assumptions and bases used by the Technical Adviser were different from those of Sun Materials, and building and production equipment costs were benchmarked against international or European models, without taking into account the potential cost-savings that were specific to Sun Materials. As such, the Board considered that the differences were justified. Further assessment of Sun Materials' cost model will be made as Sun Materials commences commercial production. The Technical Adviser also commented on the production ramp-up schedule of Sun Materials, and the Directors noted the risk that commercial production may not commence and full production may not be achieved within the timeframe proposed by Sun Materials. In this respect, the Board has been provided with regular updates of Sun Materials' production ramp-up and noted that Sun Materials has been making progress. Nevertheless, shareholders' attention is drawn to the risk factor "If Sun Materials is unable to complete the expansion plan, to obtain relevant equipments, to bring the first production plant up to full capacity within budget and on schedule and to produce polysilicon that meets its customers' quality specifications, the results of its operations and business expansion strategies could be adversely affected" under the "Risk Factors" section.

Further, the Directors reviewed and considered the unaudited pro forma financial information of the Enlarged Group as at 31 December 2010 in Appendix III, and noted that a substantial portion of the Enlarged Group's assets relate to the value of the intangible assets (which is primarily attributable to the Core Technology). The Directors noted the reporting accountant issued a modified opinion on the unaudited pro forma financial information in respect of impairment of intangible asset acquired by the Group.

According to the Group's accounting policy, intangible assets that are acquired by the Group should be stated in the Group's statement of financial position at cost less accumulated amortisation and impairment losses. According to HKAS 36 "Impairment of Assets", an intangible asset not yet available for use should be tested for impairment annually, irrespective of whether there is an indication of impairment. An impairment loss is recognised when the recoverable amount of the asset is lower than its carrying amount. As disclosed in note 2a to the pro forma financial information, since the recoverability of the carrying amount of the Core Technology depends on the results of full scale commercial production and successful launch of Sun Materials' product, both of which are still at a preliminary stage, the Directors are unable to prepare an estimate of the future cash flows that the Group expects to derive from the Core Technology for the calculation of the recoverable amount of the Core Technology and assess whether an impairment loss would need to be recognised in respect of the Core Technology at this stage in accordance with HKAS 36 "Impairment of Assets".

The Board was informed by its delegate after inspection of Sun Materials' production plant and discussions with the management of Sun Materials in April 2011 that the first production line of Sun Materials is already operational and there is no indication that Sun Materials cannot commence commercial production on or before the end of May 2011. As such, the Directors expect that the Core Technology will be available for use on or before the first reporting period after Completion. According to HKAS 36, the Directors will then be required to assess whether there is any indication that the Core Technology may be impaired in the first annual results after Completion. Having considered the following factors, the Directors believe they will be able to prepare an estimate of the future cash flows that the Group expects toderive from the Core Technology for the calculation of the recoverable amount of the Core Technology in such annual results:

1. as at the Latest Practicable Date, the first production line of Sun Materials is already operational;

2. commercial production of polysilicon at Sun Materials' first production plant in Yi-Lan County is expected to commence at or before the end of May 2011 and production at its first production plant in Taiwan is expected to be ramped up within the scheduled timeframe;

3. Sun Materials is expected to commence construction of five additional production plants in Yi-Lan County by October 2011, which will increase its production capacity to up to 21,000 metric tons by the end of the second quarter of 2012; and

4. Sun Materials is expected to generate revenue from the sale of polysilicon to its customers at or before the end of May 2011.

Based on the Company's due diligence findings and the discussions with the management of Sun Materials, the Directors are satisfied that the factors stated above are fair and reasonable. The Directors are provided with regular updates of Sun Materials' production ramp-up and will continue to evaluate these factors accordingly.

Whilst the Directors are not aware of any event or circumstance which is likely to cause any material adverse effect on the market for polysilicon or the industry in which Sun Materials will operate, there is no assurance that circumstances will not change. The Directors wish to draw the Shareholders' attention to the Group's inability to assess the impairment loss (if any) on the Core Technology at this stage, and the risk that there may be a need to recognise an impairment loss on the Core Technology in the first annual results after Completion and commencement of commercial production. Please refer to the risk factor "An impairment loss on the intangible assets of the Enlarged Group may affect its financial position".

Having considered the above risks, and after deliberation and discussions, the Directors concluded that the terms of the Sale and Purchase Agreement were determined after arm's length negotiations and on normal commercial terms. The Directors consider the terms and conditions of the Sale and Purchase Agreement to be on normal commercial terms, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Shareholders' Agreement

Upon Completion, the Company, the Seller, Ms Hsieh and the Target intend to enter into the Shareholders' Agreement in relation to the management of the Target Group. The Shareholders' Agreement will provide, among other things, that the Company and the Target will enter into a facility agreement under which the Company will initially provide a facility of up to US$20,000,000 to the Target for the acquisition of certain equipment (to be specified and agreed) and the working capital requirements of Sun Materials after Completion. Subject to any necessary approval of its Directors and Shareholders, the Company may provide additional sums to the Target from time to time to fund the projected cash requirements under the business plan and budget of the Target Group, on terms and conditions to be agreed between the Company and the Target.

Under the latest draft Shareholders' Agreement (which is subject to further amendments as the parties may agree), the parties will agree, among other things, that no member of the Target Group may undertake the following reserved matters without the prior written consent of each of the Company and the Seller for as long as each of them holds not less than 25% of the issued shares of the Target:

1. the Target or any of its subsidiaries creating, issuing or granting a right to acquire (either by transfer or subscription), shares in its capital or securities giving a right over any shares in its capital;

2. the Target or any of its subsidiaries making any material change to the nature and scope of its business;

3. approving or amending the business plan ("**Business Plan**") and/or the budget ("**Budget**") of the Target and its subsidiaries;

4. save and except for the Facility described in part G of this letter from the Board, or otherwise expressly contemplated in the then current Business Plan and the Budget or the facility contemplated under the Shareholders' Agreement, the Target or any of its subsidiaries borrowing or raising money (other than trade credit or revolving facilities not exceeding US$100,000 all arising in the normal and proper course of its business) from third parties or granting any guarantee or indemnity to secure any indebtedness, or voluntarily repaying any loan or other financial facility;

5. creating, issuing or redeeming (i) any encumbrance in respect of all or any part of the Target's or any of its subsidiaries' undertaking, property or assets including unissued shares or (ii) any debenture or debenture stock;

6. the Target or any of its subsidiaries incurring any capital expenditure or entering into any capital commitment in respect of any item or project outside the scope of the Business Plan and Budget or writing off an amount in excess of any amount or aggregate amount as agree from time to time in the then current Business Plan and Budget;

7. the Target or any of its subsidiaries acquiring or disposing of (whether in a single transaction or series of transaction) any business or asset (including shares in the Target or any of its subsidiaries) where the value of the acquisition or disposal exceeds US$500,000, in each case, other than in the ordinary course of its business;

8. except pursuant to any of the Transaction Documents, the Target or any of its subsidiaries disposing of, creating or permitting any third party interest in, or granting any licence or other right relating to, any intellectual property rights owned or used by the Target or any of its subsidiaries;

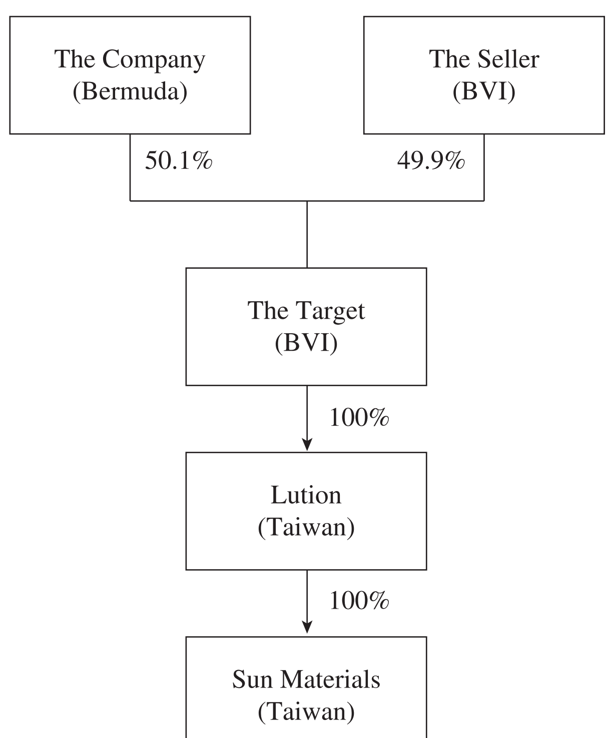
9. any transaction between the Target or any of its subsidiaries and a connected person of the Company, other than pursuant to the terms of the Equipment Procurement Agreement;

10. the Target or any of its subsidiaries adopting or amending its policies with respect to employee's remuneration and employment terms including the salary and bonus of directors and members of senior management;

11. initiation, conduct or settlement of any litigation or arbitration or similar proceedings that involves a payment or receipt (or a claim in which the Target or any of its subsidiaries is claimant) of any amount of US$100,000 or more. For these purpose a series of proceedings (or claims) arising out of the same or substantially the same originating cause shall be treated as one proceeding (or claim); or

12. the Target or any of its subsidiaries entering into any transaction that is not in the normal and proper course of conducting its business nor enter into any transaction which is not on arm's length terms or expressly contemplated in the then current Business Plan and the Budget.

4. The shareholding structure of the Target Group upon Completion



5. Financial effects of the Acquisition on the Group

Financial effects of the Acquisition on the Group

Earnings

Upon Completion of the Acquisition, Sun Materials will become a subsidiary of the Group. The financial results of the Target Group will be consolidated into the accounts of the Group.

As noted from the unaudited pro forma financial information on the Enlarged Group set out in Appendix III to this circular, the unaudited pro forma adjusted profit attributable to equity holders of the Company would be decreased by approximately 226% from HK$108.85 million to a loss of HK$137.56 million assuming Completion took place on 1 April 2009.

Assets

As noted from the unaudited pro forma financial information on the Enlarged Group set out in Appendix III to this circular, the unaudited pro forma adjusted net asset value attributable to the equity holders of the Company would be increased by approximately 520% from HK$661.535 million to approximately HK$4.10375 billion assuming Completion took place on 30 September 2010, being the latest date for the published results of the Company.

Liabilities

According to the unaudited consolidated balance sheet of the Company, as at 30 September 2010, the Group had a gearing ratio, calculated as total liabilities over total assets, of approximately 8.03%. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, the gearing ratio of the Enlarged Group, calculated as total liabilities over total assets would increase to approximately 29.04%.

6. Financial and trading prospects of the Enlarged Group

As stated in the Company's interim report for the six months ended 30 September 2010, the Group's operating segments comprise: (i) loan financing: provision of loan financing services, (ii) investments: trading of investments, (iii) manufacture and sale of goods: manufacture and trading of accessories for photographic, electrical and multimedia products; and (iv) property investment: holding properties for rental and capital appreciation. As at the Latest Practicable Date, the Group continues to operate in the above segments.

The manufacturing and sales of photographic, electrical and multimedia accessories has been established for many years and steadily contributed to the profits of the Group. The management will continue to adopt a prudent sales policy, whilst exploring new product lines and markets to satisfy the customer needs.

In terms of its securities investment arm, the outlook is uncertain. Although the majority of the world including the United States appears to have commenced recovery from the financial tsunami in 2008, there are some uncertainties which impact on the recovery, including among other things, the uncertainty on the pace of economic recovery in the Eurozone, the risks of political unrest spreading across the Middle East, the earthquake in Japan and the fears surrounding the nuclear disaster which may have far-reaching implications on regional and even global economy. However, the Directors believe that the Company is in a healthy position, as the Group remains debt-free and in a strong liquidity position.

The Group remains committed to its diversification strategy and seeks to broaden the Group's long term sustainable income base, as stated in the Company's interim report for the six months ended 30 September 2010, and the Company's announcements on 8 March 2010, 3 August 2010, 27 September 2010 and 19 January 2011. The Board believes that the Acquisition provides the Group with the opportunity to enter and position itself favourably in the renewable energy market.

Upon Completion, the Target Group will become subsidiaries of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the revenue and gross profit of the Group for the year ended 31 March 2010 was HK$241.871 million and HK$137.787 million, respectively, and the unaudited pro forma revenue and gross profit of the Enlarged Group will remain as HK$241.871 million and HK$137.787 million, respectively, assuming Completion took place on 1 April 2009.

A qualified opinion has been given in the accountants' report of Lution for the period from 15 September 2009 (date of incorporation) to 31 December 2009 and for the year ended 31 December 2010 as disclosed in Appendix II to this circular, in respect of the failure to prepare the financial information of Lution on a consolidation basis in accordance with HKAS 27 "Consolidated and Separate Financial Statements". The directors are of the opinion that the consolidated management account will be prepared in accordance with HKAS 27 when the Acquisition has been completed so that the auditors will issue an unqualified audit opinion for the next annual report of Lution.

The Directors are of the view that the Acquisition will enhance the future income base and customer base of the Group, having considered the growth potential in the renewable energy market, specifically the increased global demand in polysilicon and the recent dramatic increases in spot pricing for the product, which rose from a low last year of approximately US$50/kg to a current spot price US$79/kg. Recent supply disruptions in solar grade polysilicon production resulting from the earthquake in Japan, potentially creates supply constraints in Asia and should lend to a stable spot price in the near to medium term. The Placing to be conducted by the Company in connection with the Acquisition (details of which is set out in part D of this letter from the Board) is expected to enhance the shareholders base of the Company.

The Directors, having considered the risks associated with the Acquisition (as set out under the section headed "Risk Factors" in this circular) and the results of the Company's due diligence exercise, are not aware of any circumstances which are not known or anticipated by the general public, which could materially affect its assessment of the Acquisition. In view of the benefits of the Acquisition, the Directors believe that the risks associated with the Acquisition are outweighed by the potential benefits of the proposed Acquisition. The Directors further believe that there are few businesses as compelling as clean technology to acquire. The term "clean energy" was redefined on 11 March 2011, in the wake of the nuclear disasters in Japan, to exclude nuclear energy. The Directors believe that this creates a much stronger argument for the deployment of photovoltaic energy production and believe that the Acquisition is in the interest of the Company and its Shareholders as a whole.

7. Listing Rules implications

As one or more of the applicable percentage ratios (as defined under the Listing Rules) exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules and is therefore subject to the shareholders' approval requirements under Rule 14.49 of the Listing Rules.

PART C – GRANT OF THE CALL OPTION

The Seller granted the Company an option to buy and to require the Seller to sell the remaining 49.9% of interest in the Target in accordance with the terms of the Call Option Agreement.

1. Call Option Agreement

Date

31 December 2010

Parties

Grantee: The Company

Grantor: Quinella International Incorporated (i.e. the Seller)

Call Option

In consideration of the payment of the sum of US$1 by the Company to the Seller (receipt of which is acknowledged by the Seller), the Seller irrevocably agreed to grant the Company an option to buy, and to require the Seller to sell, all or any of the Option Shares in accordance with the terms of the Call Option Agreement.

Option Shares

The 4,990,000 shares of a single class of no par value of the Target legally and beneficially owned by the Seller and/or any shares, stock or other securities to which the Seller becomes legally or beneficially entitled as a result of a reorganisation (as defined in the Call Option Agreement) and which derive (directly or indirectly) from the Option Shares, less any Option Shares sold to a third party, in accordance with the Call Option Agreement. The 4,990,000 Option Shares represent 49.9% of the issued shares of the Target as at the Signing Date.

Call Option Period

The Company may exercise the Call Option in accordance with the Call Option Agreement during the period beginning on the first Business Day falling 12 months after the Completion Date and ending on the first Business Day falling 36 months after the Completion Date.

Exercise of the Call Option

The Company shall have absolute discretion to exercise the Call Option any number of times during the Call Option Period in accordance with the terms of the Call Option Agreement. Unless the Company and the Seller otherwise agree on the purchase price, the purchase price for the Option Shares shall be determined at the relevant time with reference to the business valuation of the Target Group by an independent valuer jointly appointed by the Company and the Seller or in default of such agreement, the Valuer.

To exercise the Call Option in respect of any Option Shares, the Company is required to serve a preliminary notice on the Seller specifying the number of Option Shares that the Company wishes to purchase. If, following the determination of the purchase price of the Option Shares, the Company wishes to proceed with the purchase of all or any of the Option Shares that are the subject of the preliminary notice, the Company is required to serve on the Seller a call option notice specifying the number of Option Shares that it wishes to purchase. Any remaining Option Shares which are not taken up by the Company may be sold, transferred or otherwise disposed of by the Seller in accordance with and subject to the terms of the Call Option Agreement.

Protection of the Company

Until the expiry of the Call Option Period, the Seller must not and must not agree to sell, assign, transfer or otherwise dispose of in any manner its legal or beneficial interest in or create or permit any Encumbrance over or any derivative of any of the Option Shares (or any interest in any of them) unless it has complied with the relevant provisions of the Call Option Agreement.

Non-solicitation

Until the expiry of the Call Option Period, the Seller shall not, directly or indirectly, participate in discussions or enter into any agreement or understanding with any person (other than the Company) for the sale, transfer or disposal of any Option Shares, or the disposal or creation of any interest therein, unless permitted to do so in accordance with the Call Option Agreement.

Conditions precedent to the purchase of the Option Shares

The purchase of the Option Shares by the Company is subject to the approval of the Shareholders and the completion of any placement of Shares by the Company or other transaction, if required by the Company, to finance the purchase of the Option Shares. If any of the above conditions is not satisfied within the prescribed time period, the call option notice will lapse and the Seller may sell, transfer or otherwise dispose of the untaken Option Shares in accordance with and subject to the terms of the Call Option Agreement.

Grant condition

The grant of the Call Option under the Call Option Agreement is conditional on Completion having occurred.

2. Reasons for the Call Option

The Call Option provides the Company with the opportunity to acquire the remaining 49.9% of the Target at a price to be agreed between the Company and the Seller or to be determined with reference to the business valuation of the Target Group at the time. The Directors consider the terms and conditions of the Call Option Agreement to be on normal commercial terms, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. No decision has been made by the Board as to whether or not the Call Option will be exercised and any such decision is a matter for the Board to deliberate at the relevant time. The Board will take into account various factors when deciding whether or not to exercise the Call Option, including without limitation, whether (i) the operations of Sun Materials will reach or be capable of reaching the rated operational capacity, (ii) Sun Materials will secure the contracts with potential customers and generate substantial demand, and utilise the production capacity of the future production plants as planned, (iii) Sun Materials is able to reach and maintain its profitability and a relatively stable margin structure, and (iv) whether Sun Materials is able to make material gain in market share.

3. Listing Rules implications

As stated in the Company's announcement on 19 January 2011, the grant of the Call Option to the Company does not fall within the classification set out in Rule 14.06 and will be exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2). The Company will comply with the relevant requirements under the Listing Rules, in particular, Rules 14.75 and 14A.70 of the Listing Rules in respect of notifiable transactions and connected transactions, as and when appropriate, in relation to any exercise of the Call Option to acquire any further interest in the Target.

PART D – PLACING OF PLACING SHARES AND CONVERTIBLE BONDS

As announced on 19 January 2011, the Company entered into the Placing Agreement with the Placing Agent for the conditional placing of the Placing Shares and the Convertible Bonds. As announced on 11 February 2011 and 30 March 2011, the Company entered into the Supplemental Agreements with the Placing Agent to vary and supplement the terms and conditions of the Placing Agreement. The Board seeks to issue the Placing Shares and Conversion Shares for the Placing by way of the Placing Mandate. Details of the Placing Agreement, as varied and supplemented by the Supplemental Agreements, are set out below.

1. The Placing Agreement

Date

17 January 2011 (as varied and supplemented by the Supplemental Agreements on 11 February 2011 and 30 March 2011)

Issuer

The Company

Placing Agent

Deutsche Bank AG, Hong Kong Branch, the Placing Agent, was appointed by the Company, as agent on an exclusive basis, the sole bookrunner and placing agent of the Company. Subject to the terms of the Placing Agreement and the definitive Bond Documents, the Placing Agent conditionally agreed, on a best effort basis, to procure the Placees to subscribe for the Placing Shares and the Convertible Bonds. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this circular, the Placing Agent and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Placees

The Placing Shares and the Convertible Bonds will be placed to not less than six Placees. The Placees and their ultimate beneficial owners will be third parties independent of and not connected with the Company and its connected persons. It is expected that none of the Placees under the Placing will become a substantial Shareholder immediately after completion of the Placing. Samuel Yang, Ms Hsieh and Dr Wu will not acquire any interest in the Company through the Placing. As far as the Directors are aware, no existing shareholder of the Company has any intention to acquire any Placing Shares or Convertible Bonds.

Placing Shares

A maximum of 5,000,000,000 Placing Shares will be allotted and issued pursuant to the Placing Agreement. Such number of Placing Shares represents (i) approximately 216.94% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 68.45% of the issued share capital of the Company immediately upon completion of the Placing, as enlarged by the issue and allotment of 5,000,000,000 Placing Shares; and (iii) approximately 44.24% of the issued share capital of the Company as enlarged by the allotment and issue of 5,000,000,000 Placing Shares and 4,000,000,000 Conversion Shares (assuming (a) 5,000,000,000 Placing Shares and Convertible Bonds in the aggregate principal amount of approximately HK$2,000,000,000 are issued pursuant to the Placing and (b) such Convertible Bonds are fully converted at the indicative Initial Conversion Price of HK$0.50).

The Placing Shares will be allotted and issued under the Placing Mandate to be approved by the Shareholders at the SGM. They will rank, upon issue, pari passu in all respects with the Shares in issue on the date of the allotment and issue of the Placing Shares.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Placing Price

The Placing Price will be agreed by the Company and the Placing Agreement after market demand for the Placing has been determined by the Placing Agent, and will not be less than HK$0.40. As at the Latest Practicable Date, the Placing Price has not been determined yet. At the minimum of HK$0.40, the Placing Price represents:

(i) a discount of approximately 14.89% to the closing price of the Shares of HK$0.47 per Share as quoted on the Stock Exchange on 31 December 2010;

(ii) a discount of approximately 11.50% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 5 trading days up to and including 31 December 2010 of approximately HK$0.452 per Share;

(iii) a discount of approximately 13.98% to the closing price of the Shares of HK$0.465 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 8.11% over the unaudited consolidated net assets attributable to equity holders of the Company as at 30 September 2010 of approximately HK$0.37 per Share.

The minimum Placing Price of HK$0.40 was determined after arm's length negotiation between the Company and the Placing Agent with reference to the closing price of the Shares on 31 December 2010.

Assuming that the maximum number of 5,000,000,000 Placing Shares are placed under the Placing at the minimum Placing Price of HK$0.40, and the estimated expenses, including placing commission are approximately HK$65 million for the Placing of the Placing Shares, the gross proceeds and net proceeds from the Placing of the Placing Shares will be HK$2 billion and approximately HK$1.935 billion respectively. On that basis, the net price per Placing Share is approximately HK$0.387.

The Directors consider that the terms upon which the Placing Shares are placed pursuant to the Placing Agreement are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole. Further announcements will be made by the Company after the final Placing Price is determined.

Placing Commission on the Placing Shares

The Placing Agent will receive a placing commission of 3% on the gross proceeds of the Placing of the Placing Shares. Such placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent under normal commercial terms and with reference to the prevailing market rate.

Convertible Bonds

The terms of the Convertible Bonds, including the Initial Conversion Price, will be determined by agreement of the Company and the Placing Agent in the Bond Documents. As at the Latest Practicable Date, the key indicative terms of the Convertible Bonds which are non-binding between the Company and the Placing Agent, are summarised as follows:

Aggregate Principal Amount	approximately HK$2,000,000,000
Issue Price	100% of the principal amount of the Convertible Bonds. The issue price was determined by the Company based on the face value of the Convertible Bonds
Maturity Date	36 months from the date of issue of the Convertible Bonds
Interest Rate	5% p.a., accruing daily and payable semi-annually
Final Redemption	unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at the Redemption Price (as defined below) within 10 business days after the Maturity Date

Early Redemption at Company's Option	the Company may redeem the Convertible Bonds in whole or in part, at the Redemption Price at any time before the Maturity Date by giving notice in writing to the bondholders ("**Company Early Redemption Notice**"). Redemption shall take place on the first business day falling 1 month after the date of the Company Early Redemption Notice ("**Company Early Redemption Date**"). The Redemption Price shall be paid to the bondholders within 10 business days after the Company Early Redemption Date. Notwithstanding the issue of a Company Early Redemption Notice, bondholders may exercise their Conversion Option until 7 business days prior to the Company Early Redemption Date
Early Redemption at bondholder's Option	**(a) Event of Default** each bondholder shall be entitled, upon giving written notice to the Company, to require the Company to redeem all (but not part of) the Convertible Bonds at the Redemption Price upon the occurrence of an event of default, as defined in the Bond Documents. The Redemption Price shall be paid to the bondholder within 5 business days of such notice. **(b) Delisting or Change of control** each bondholder shall be entitled, upon giving written notice to the Company, to require the Company to redeem all (but not part only) of the Convertible Bonds at the Redemption Price upon (i) a delisting of the Shares from the Stock Exchange or (ii) the occurrence of a Change of Control. A "Change of Control" shall be construed strictly to mean a reverse take-over as determined by the Stock Exchange under the Listing Rules, or otherwise a situation where the mandatory general offer obligations under the Takeovers Code are triggered. The Redemption Price shall be paid to the bondholder within 10 business days of such bondholder's notice. The bondholders shall not be entitled to require the early redemption of the Convertible Bonds under any other circumstances.

Redemption Price	The redemption price ("**Redemption Price**") shall be an amount in Hong Kong Dollars equal to: (a) 100% of the principal amount of the Convertible Bonds; plus (b) all interest accrued up to the date of Redemption
Conversion Option	each bondholder shall have the right to convert the Convertible Bonds held by it into shares in whole or in part at the Conversion Price on or before the date that is 7 business days prior to the earlier of (a) the Maturity Date and (b) the Company Early Redemption Date; provided, however, that no Convertible Bonds may be converted if any such conversion would either (i) result in any person being required to make a general offer for all or part of the Issuer's issued share capital under the Takeovers Code or (ii) result in the Issuer ceasing to satisfy the minimum public floatation requirement under the Listing Rules
Conversion Price	HK$0.50, subject to adjustment
Adjustment	customary adjustment events relating to subdivision or consolidation of Shares, capital distributions, bonus issues, rights issues and other dilutive events
Conversion Shares	a maximum number of Shares issuable upon full conversion of the Convertible Bonds is 4,000,000,000
Event of Default	customary events of default for a transaction of this type, including cross default
Transferability	freely transferable
Security	unsecured

Negative Pledge	so long as any of the Convertible Bonds remains outstanding, the Company will not, and will procure that none of its subsidiaries will, create or permit to subsist or arise any encumbrance upon the whole or any part of their respective present or future undertakings, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or any guarantee of or indemnity in respect of any such Relevant Indebtedness, unless, at the same time or prior thereto the Company's obligations under the Convertible Bonds are secured equally and rateably therewith or by such other encumbrance, guarantee, indemnity or such other security as the bondholders shall approve "Relevant Indebtedness" shall mean any future indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement). For the avoidance of doubt, Relevant Indebtedness shall not include any present indebtedness of any company within the listed group, any future indebtedness of any company within the listed group in the form of bank borrowings, trade debts, or other types of indebtedness incurred in the ordinary course of business of such group company
Listing and Trading	it is not expected that the Convertible Bonds will be listed. Application will be made to list the Conversion Shares
Use of Proceeds	the net proceeds from the issue of the Convertible Bonds will be used to fund the acquisition of the Target, as well as the capital expenditure, research and development costs, and working capital of the Target and its subsidiaries following Completion
Form and Registration	The Convertible Bonds may be issued in registered definitive form. The register of bondholders will be maintained by the Company outside Hong Kong

Fiscal Agent/Paying Agent	The Company will perform the Fiscal Agent's and the Paying Agent's functions
Governing Law	Hong Kong law

The Convertible Bonds, when issued, will constitute general, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company, except for obligations accorded preference by mandatory provisions of applicable law.

No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange, or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Further announcements will be made by the Company after the definitive terms of the Convertible Bonds and the final Initial Conversion Price are determined.

Conversion Price

The Initial Conversion Price will be agreed by the Company and the Placing Agent after market demand of the Placing is determined by the Placing Agreement, and in any event a price per Conversion Share of not less than (i) 110% of the Placing Price or (ii) HK$0.44, whichever is higher. At an indicative price of HK$0.50, the Initial Conversion Price represents:

(i) a premium of approximately 6.38% to the closing price of the Shares of HK$0.47 per Share as quoted on the Stock Exchange on 31 December 2010;

(ii) a premium of approximately 10.62% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 5 trading days up to and including 31 December 2010 of approximately HK$0.452 per Share;

(iii) a premium of approximately 7.53% to the closing price of the Shares of HK$0.465 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 35.14% over the unaudited consolidated net assets attributable to equity holders of the Company as at 30 September 2010 of approximately HK$0.37 per Share.

The Initial Conversion Price, which is referenced to the Placing Price, will be determined after arm's length negotiation between the Company and the Placing Agent. Further announcements will be made by the Company after the final Initial Conversion Price is determined.

Placing Commission on the Convertible Bonds

The Placing Agent will receive a placing commission of 3% on the gross proceeds of the Placing of the Convertible Bonds. Such placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent under normal commercial terms and with reference to the prevailing market rate.

Conversion Shares

Assuming that the aggregate principal amount of the Convertible Bonds is HK$2,000,000,000, 4,000,000,000 Conversion Shares are issuable at the indicative Initial Conversion Price of HK$0.50 upon full conversion of the Convertible Bonds. Such number of Conversion Shares represents (i) approximately 173.55% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 54.76% of the issued share capital of the Company immediately upon completion of the Placing, as enlarged by the issue and allotment of 5,000,000,000 Placing Shares; and (iii) approximately 35.38% of the issued share capital of the Company as enlarged by the allotment and issue of 5,000,000,000 Placing Shares and 4,000,000,000 Conversion Shares (assuming (a) 5,000,000,000 Placing Shares and Convertible Bonds in the aggregate principal amount of approximately HK$2 billion are issued pursuant to the Placing and (b) such Convertible Bonds are fully converted at the indicative Initial Conversion Price of HK$0.50).

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all issued Shares on the date of the allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the Placing Mandate to be approved by the Shareholders at the SGM. They will rank, upon issue, pari passu in all respects with the Shares in issue on the date of the allotment and issue of the Conversion Shares. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conditions of the Placing

Completion of the obligation of the Placing Agent under the Placing Agreement is conditional on:

1. no breach of, or any event rendering untrue or inaccurate or misleading, any of the representations, warranties or undertakings of the Company under the Placing Agreement having occurred (a) on the date of the Placing Agreement, (b) on the date when the Placing Price and the Initial Conversion Price is agreed, (c) on the date of each of the Bond Documents, (d) on each of the Placing Completion Dates (if more than one Placing Completion Date), (e) on the date of the circular to be issued by the Company for the Placing Mandate, (f) on the date of the offering circular (if any) in relation to the Convertible Bonds and (g) on the date(s) of launch of the Placing, with reference to the

facts then subsisting, provided that there shall be no breach of this condition if in the case of (b) to (g) (inclusive) a breach or event relates to a specified warranty (as defined in the Placing Agreement) and at such time the specified warranty (as defined in the Placing Agreement) is true and accurate in all material respects and not misleading in any material respect. For the avoidance of doubt, this paragraph shall not further qualify by reference to materiality any fact or matter in any specified warranty (as defined in the Placing Agreement) that is expressed to be qualified by reference to materiality (as defined in the Placing Agreement);

2. the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in the Placing Shares and the Conversion Shares (and such approval and permission not subsequently revoked prior to the completion of the Placing);

3. the Company having obtained the approval of its Shareholders in a general meeting for the Acquisition, the Placing including the issuance of the Placing Shares and the Conversion Shares and such approvals not having been or proposed to be revoked;

4. the Sale and Purchase Agreement becoming wholly unconditional (save for the condition requiring the Placing to have been completed and those conditions that will only be satisfied on the day on which Completion takes place) without any condition waived other than with the prior written consent of the Placing Agent (such consent not to be unreasonably withheld or delayed) and pending completion of the Placing can be completed in accordance with its terms;

5. there not having been any capital restructuring and/or capital reorganisation or redemptions or repurchase of any Shares or other securities (including any options, warrants or convertible securities) by the Company proposed, effected or completed after the date of the Placing Agreement;

6. there not having occurred any change or development (whether or not permanent) including, but not limited to, a prospective change in the condition, financial or otherwise, or in the general affairs, management, shareholders' equity, earnings, operations or business affairs or in the financial or trading position or prospects of the Group taken as a whole which, in the sole and absolute opinion of the Placing Agent after consultation with the Company, in its sole discretion:

   (a) is or is likely to be materially adverse to or materially or prejudicially affect, the business, financial or trading position, condition or prospects of the Group taken as a whole;

(b) has or is likely to have a material adverse effect on or materially impair the Placing or the marketing or distribution of the Placing Shares and/or the Convertible Bonds or dealings in the Placing Shares and/or the Convertible Bonds in the secondary market; or

(c) makes it unfavourable or impracticable to proceed with the Placing in the manner contemplated by the Placing Agreement;

7. the Placing Agent not becoming aware, after the date of the Placing Agreement, of any information or other matter (including any matter relating to financial models and underlying assumptions related to projections), other than any information contained in or matter referred to in the Announcement (as defined in the Placing Agreement) or the Previous Announcements (as defined in the Placing Agreement) affecting the Group, the Acquisition or the Placing that (in the Placing Agent's reasonable judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Placing Agent prior to the date of the Placing Agreement and would reasonably be expected to impair the Placing or the Acquisition;

8. the Company and the Placing Agent having entered into the Price Determination Agreement (as defined in the Placing Agreement); and

9. receipt by the Placing Agent of the legal opinions from the Company's Bermuda legal counsel and the Placing Agent's US legal counsel, certified copies of the board minutes of the Company approving the Placing, and the waivers, consents, authorisations, clearances and approvals which are required from relevant governmental and regulatory authorities which are necessary for the Completion of the Acquisition and the Placing and the issue and allotment of the Placing Shares and/or the Convertible Bonds, and the implementation of other matters contemplated under the Placing Agreement, each in a form reasonably satisfactory to the Placing Agent and in accordance with the Placing Agreement.

The specified warranties in the Placing Agreement are the following representations, warranties and undertakings:

- All statements of fact contained in the Announcement, any public announcement made by the Company between the date of the Placing Agreement and the final Placing Completion Date are true and accurate in all material respects and not misleading in any material respects in the form and context in which they appear, all expressions of opinion, intention or expectation contained therein are made on reasonable grounds and are truly and honestly held by the Directors and are fairly based, all forecasts and estimates therein are honest and fair and there are no other facts that are material in the context of the Placing or the Acquisition known or which could on reasonable enquiry have been known to the directors of the Company the omission of which would make any such statement or expression in the Announcement, any public announcement made by the Company between the date of the Placing Agreement and the final Placing Completion Date or the presentation materials mentioned above misleading and which are or might be material in the context of the Placing.

- All public disclosures published by the Company pursuant to the laws, regulation or direction (including without limitation the Listing Rules and the Securities and Futures Ordinance) and the laws of the place of incorporation of the Company do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they will be made, not misleading which is material in the context of the Acquisition or the Placing. No warranty is given in relation to information provided by the Placing Agent.

- All statements of fact contained in this circular and the offering circular in relation to the Convertible Bonds (if any) are true and accurate and not misleading in the form and context in which they appear, all expressions of opinion, intention or expectation contained therein have been made on reasonable grounds and are truly and honestly held by the directors of the Company and are fairly based, all forecasts and estimates therein are honest and fair and there are no other facts known or which could on reasonable enquiry have been known to the directors of the Company the omission of which would make any such statement or expression in the circular misleading and which are material in the context of the Placing; the Company has not authorised anyone to provide the Placing Agent with any information that is different from that contained in the Placing Agreement, the Announcement, this circular or any other public announcement issued by the Company in connection with the Placing or the Acquisition. The representations and warranties in this paragraph shall not apply to any information supplied by or on behalf of the Placing Agent to the Company or its agents for the purpose of or in connection with the Placing.

- No indebtedness (actual or contingent) and no contract or arrangement is outstanding between any member of the Group and any director of any member of the Group or any of his associates (as defined in the Listing Rules).

Completion of the Placing

Completion of the Placing will take place on the Placing Completion Date.

Restrictions on further issue of securities

Among other things, the Company has undertaken to the Placing Agent that it will not, from the date of the Placing Agreement and to the date being 180 days after the final Placing Completion Date or the termination of the Placing Agreement, allot, issue, offer to allot or issue, grant any option, right or warrant to subscribe, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Share or any interests therein or any securities convertible into or exercisable or exchangeable for any such shares or interests, or enter into any swap or similar agreement that transfers to another, in whole or in part, the economic risk of ownership of such shares of the Company, in accordance with the terms of the Placing Agreement and subject to the exceptions set out in the Placing Agreement. This restriction does not apply to, among other things, the issue of the Subscription Shares.

Termination

The Placing Agreement may be terminated on any of the following grounds:

1. If any of the conditions of the Placing (as set out above) have not been satisfied or waived by the Placing Agent on or before the Placing Completion Date, the Placing Agent may terminate the Placing Agreement by written notice to the Company, in which case the Placing Agent shall not be bound to proceed with the Placing and the Placing Agreement shall cease to have effect save as otherwise provided in the Placing Agreement.

2. The Placing Agreement shall terminate if no completion of the Placing of Placing Shares or the Convertible Bonds has occurred by 110 days after the date of the SGM, or such other time or date as the Company and the Placing Agent shall agree in writing.

3. The Placing Agent may, in its absolute discretion, terminate the Placing Agreement by written notice to the Company at any time prior to the final Placing Completion Date, and such terminate shall have immediate effect, if there shall develop, occur, exist or come into effect:

   (a) trading generally having been suspended or materially limited on, or by, any of the Stock Exchange, the Shanghai Stock Exchange, the New York Stock Exchange or the London Stock Exchange, which in the sole and absolute opinion of the Placing Agent is or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing;

(b) trading of any securities of the Company being suspended on the Stock Exchange for a period in excess of 3 trading days (as defined in the Placing Agreement), other than in connection with the Acquisition or the Placing;

(c) a material disruption in securities settlement, payment or clearance services in the United States, the PRC or Hong Kong having occurred, which in the sole and absolute opinion of the Placing Agent is or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing;

(d) any moratorium on commercial banking activities having been declared by any PRC, Federal or New York State or Hong Kong authorities, which in the sole and absolute opinion of the Placing Agent is or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing;

(e) any event or series of events (whether or not permanent) in the nature of force majeure (including, without limitation, acts of government, labour disputes strikes, lock-outs, riots, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, outbreak of diseases or epidemics, interruption or delay in transportation, economic sanction and any local, national, regional or international outbreak or escalation of hostilities, or other state of emergency or calamity or crisis), in each case, which in the sole and absolute opinion of the Placing Agent is or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing;

(f) any new law or regulation or change in existing laws or regulations which in the sole and absolute opinion of the Placing Agent has or may be or is likely to have a material adverse effect on the financial position of the Company and its subsidiaries taken as a whole, which in the sole and absolute opinion of the Placing Agent is or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing;

(g) any change (whether or not permanent) in local, national or international financial, political, monetary or economic conditions, banking, capital markets, currency exchange rates, credit default swap prices, secondary bond prices, exchange controls, or the occurrence of any event or series of events outside of the Placing Agent's control, in each case, which in the sole and absolute opinion of the Placing Agent is or may be or is likely to materially prejudice the success of the Placing or distribution of the Placing Shares or the Convertible Bonds or dealings in the Placing Shares or the Convertible Bonds in the secondary market, or makes it unfavourable or impracticable to proceed with the Placing; or

(h) there is any breach of any of the representations, warranties and undertakings by the Company in the Placing Agreement which comes to the knowledge of the Placing Agent or any event occurring or any matter arising on or after the date of the Placing Agreement and prior to the final Placing Completion Date which, if it had occurred or arisen before the date of the Placing Agreement, would have rendered any of such representations, warranties and undertaking untrue or incorrect in any material respect in such a manner as in the sole and absolute opinion of the Placing Agent is or is likely to materially and adversely affect the financial position or business of the Group as a whole.

4. The Placing Agent may also terminate the Placing Agreement at any time by notice in writing to the Company if any of the Placing Shares or the Convertible Bonds are not issued and delivered in accordance with the Placing Agreement.

5. The Placing Agreement may be terminated by either party at any time prior to the final completion of the Placing in accordance with the terms of the Placing Agreement if the other party fails or refuses to comply with the terms of the Placing Agreement as applicable to it and such failure or refusal is material in the context of the Placing or the Acquisition.

If the Placing Agreement is terminated pursuant to any of the above grounds, all obligations of the parties under the Placing Agreement shall cease and no party to the Placing Agreement will have any claim against any other party to the Placing Agreement in respect of any matter arising out of or in connection with the Placing Agreement except: (i) in relation to obligations, agreements, liabilities arising prior to such termination (including liabilities arising prior to such termination under the representations, warranties and undertakings under the Placing Agreement), (ii) the Company shall remain liable for the payment of the relevant costs and expenses (as set out in the Placing Agreement) already incurred or to be incurred by the Placing Agent in consequence of such termination and (iii) the indemnity and the governing law provisions in the Placing Agreement will remain in full force and effect.

2. The Placing Mandate

The Directors proposes to issue up to 9,550,000,000 Placing Shares and/or Conversion Shares in aggregate, pursuant to the Placing and on full conversion of the Convertible Bonds to be issued pursuant to the Placing. The Placing Mandate is proposed pursuant to Rule 13.36(1)(a) of the Listing Rules, subject to all of the following conditions:

1. The aggregate maximum number of Placing Shares and Conversion Shares which can be allotted and issued shall be 9,550,000,000 Shares.

2. Any allotment and issue of Placing Shares and Conversion Shares shall be made on the terms and conditions of the Placing Agreement and such other terms and conditions as the Directors (or a duly authorised committee thereof) consider to be appropriate and in the best interests of the Company.

3. The Placing Price and the Initial Conversion Price shall not be lower than HK$0.40 and HK$0.44 respectively.

4. Any Placing Shares and Conversion Shares which may be allotted and issued pursuant to this ordinary resolution shall be offered to investors who are independent of and not connected with the Company and its connected persons.

5. The application for listing of, and permission to deal in, any Placing Shares and Conversion Shares to be allotted and issued pursuant to this ordinary resolution shall be granted by the Stock Exchange.

6. The Placing Mandate, if approved shall lapse on 25 September 2011 being the date falling 110 days following the SGM.

3. Reasons for the Placing and use of proceeds

It is anticipated that the gross proceeds from the Placing, if approved and successful, will be approximately HK$4.0 billion. The net proceeds (after deducting the Placing commission, legal and professional fees and publication fees payable by the Company) will be approximately HK$3.88 billion. The net proceeds of the Placing will be used to fund the Acquisition, as well as the capital expenditure, research and development costs, and working capital of the Target Group Companies following completion of the Acquisition.

The Company may provide a facility of up to US$50,000,000 to the Target on Completion to allow the Target to repay the amount outstanding under the Facility Agreement, assuming that the Facility Agreement becomes unconditional. The Company entered into the Facility Agreement with the Target for the acquisition of certain equipment (to be specified and agreed) and the immediate working capital requirements of the Target Group. Details of the US$50M Facility are set out under part G of this letter from the Board.

Based on the expansion plan of Sun Materials, it expects to commence construction of five additional production plants in October 2011 and the total capital expenditure for such additional production plants up to the second quarter of 2012 will be approximately US$250,000,000. The Directors expect that part of the net proceeds from the Placing will be used to fund such working capital and capital expenditures of both the expansion of the existing site in Yi-Lan County, Taiwan and in the PRC.

The Directors consider that the Placing is an appropriate and preferred means of funding capital expenditure and working capital of the Target Group the Acquisition in view of the current market conditions, the nature and the timing of the Acquisition. The Directors believe that the Placing would provide the Company and the Target with the market recognition and profile to help the Enlarged Group to achieve its expansion goals. The Directors note that holdings of the current shareholders will be diluted after completion of the Placing. But given that the Target Group plans to achieve its expansion goals by the end of 2012 and significant capital expenditure is anticipated for such expansion goals, it will not be appropriate for the Company to use pre-emptive fund raising methods exclusively or in conjunction with the Placing, to fund the expansion. The Directors believe that the interests of the Shareholders are better served by conducting the Placing, as pre-emptive fund raising method is typically limited in funding size and will unnecessarily divert the Company's resources and complicate the structure of the fund raising.

The Directors consider that the Placing is fair and reasonable to the Shareholders and the Company as a whole on the basis that the Placing represents an opportunity to raise capital for the Target Group to materialise its production goals and plans for future technology.

The Company has no intention to undertake any equity fund raising, including but not limited to the Placing, which will lead to a change in control of the Company for the purposes of the Takeovers Code.

4. Fund raising activities of the Company for the past 12 months

The following table summarises the capital raising activities of the Group for the 12 months immediately before the date of this circular:

Date of Initial Announcement	Description	Net Proceeds (Approximate)	Intended Use of Proceeds	Actual Use of Proceeds as at the Latest Practicable Date
19 January 2011	Issue of the Subscription of Shares to Improve Forever	HK$141,000,000	Capital expenditure and working capital required for potential investments in the renewable energy related industry	The Subscription was completed on 28 January 2011. The proceeds were applied as to HK$108 million for acquisition of listed securities for trading purposes and as to the balance of HK$33 million for general working capital.

Whilst the Directors sought and evaluated potential investments in the renewal energy related industry, part of the proceeds from the placing that was completed on 28 January 2011 was invested in liquid listed securities held for short term trading in view of the negligible interest which could have been earned had the funds been placed in bank deposits.

Save as disclosed above, the Company has not conducted any other equity fund raising activities in the past twelve months before the date of this circular.

5. Effect on the Shareholding Structure

The following table sets out the effect of the issue of the Placing Shares and the Conversion Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue and allotment of 5,000,000,000 Placing Shares pursuant to the Placing; and (iii) immediately upon conversion of the Convertible Bonds (assuming (a) 5,000,000,000 Placing Shares and Convertible Bonds in the aggregate principal amount of approximately HK$2 billion are issued pursuant to the Placing, and (b) such Convertible Bonds are fully converted at the indicative Initial Conversion Price of HK$0.50):

	As at the Latest Practicable Date		**FOR ILLUSTRATIVE PURPOSE ONLY Upon completion of the Placing** *(Note 1)*		**FOR ILLUSTRATIVE PURPOSE ONLY After the Placing and upon full conversion of the Convertible Bonds** *(Note 1)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Pearl Decade Limited *(Note 2)*	135,697,500	5.89	135,697,500	1.86	135,697,500	1.20
Mr Lo Yuen Wa Peter *(Note 3)*	2,500,000	0.11	2,500,000	0.03	2,500,000	0.02
Mr Peter Temple Whitelam *(Note 3)*	1,250,000	0.05	1,250,000	0.02	1,250,000	0.01
Improve Forever	354,100,608	15.36	354,100,608	4.85	354,100,608	3.13
Sub-total	493,548,108	21.41	493,548,108	6.76	493,548,108	4.36
Placees (Placing Shares)	–	–	5,000,000,000	68.45	5,000,000,000	44.24
Placees (Convertible Bonds)	–	–	–		4,000,000,000	35.38
Other Public Shareholders	1,811,230,844	78.59	1,811,230,844	24.79	1,811,230,844	16.02
Total Public Shareholders	1,811,230,844	78.59	6,811,230,844	93.24	10,811,230,844	95.64
Total	2,304,778,952	100.00	7,304,778,952	100.00	11,304,778,952	100.00

Note 1: Based on the issued share capital of the Company as at the Latest Practicable Date and assuming that no Share is issued pursuant to the share option scheme adopted by the Company on 21 August 2003.

Note 2: Pearl Decade Limited holds 135,697,500 Shares. Willie International Holdings Limited (Stock Code: 273), a company listed on the Stock Exchange is interested in the share capital of the Company indirectly through its direct wholly owned subsidiary Willie Resources Incorporated and its indirectly wholly owned subsidiaries, Rawcliffe International Limited, Nice Hill International Limited and Pearl Decade Limited.

Note 3: Mr Lo Yuen Wa Peter and Mr Peter Temple Whitelam are Directors.

PART E – INCREASE OF AUTHORISED SHARE CAPITAL

In order to facilitate the issue of the Placing Shares and the Conversion Shares, the Board proposes to the Shareholders an increase in authorised share capital of the Company from HK$1,000,000,000 (divided into 10,000,000,000 Shares) to HK$2,000,000,000 (divided into 20,000,000,000 Shares) by creating an additional 10,000,000,000 Shares. Of the additional 10,000,000,000 Shares, up to 1,854,778,952 Shares may be issued as Placing Shares and/or Conversion Shares pursuant to the Placing Mandate (assuming that the entire Placing Mandate is utilised), if approved.

An ordinary resolution for the increase of authorised share capital will be proposed at the SGM.

PART F – PARTICULARS OF THE DIRECTOR TO BE APPOINTED

1. Information on Dr Wu

It is proposed that Dr Wu will be appointed as an executive Director following Completion. Set out below is the biography of Dr Wu:

Dr Wu Yi-Shuen (吳以舜), also known as Mark Wu, aged 51, is a director of the Target, Lution and Sun Materials. He is also the chief executive officer and chief technical officer of Sun Materials. Dr Wu currently serves as the chairman of the board of directors of Enerage, Inc, a company focussed on the research and development of clean technology applications. He received a Bachelor of Science degree with high honours in chemistry from the National Taiwan University in 1981 and a Ph.D in chemical physics from the California Institute of Technology ("**Caltech**") in 1992. Previously, Dr Wu had served as a lecturer at the IBM Europe Summer Institute in Switzerland, a scientific research staff at the Center for Concurrent Supercomputing Facility of Caltech, a project reviewer of the "U.S. High Performance Computing and Communications (HPCC): Grand Challenge Supercomputing Program", and a senior research fellow at the Center for Advanced Supercomputing of Caltech. He had also worked as consultants at various organizations, including the Jet Propulsion Laboratory of the National Aeronautics and Space Administration ("**NASA**") of the United States, IBM and San Diego Supercomputing Center.

In recent years, Dr Wu has focused his research in the area of inorganic materials for lithium battery, fuel cell and solar photovoltaic energy application.

Pursuant to the Service Agreement between Sun Materials and Dr Wu, Sun Materials appointed Dr Wu as its chief executive officer. Dr Wu is responsible for the day-to-day and overall management, strategic planning and development of Sun Materials. The Directors confirm that the Company is not a party to the Service Agreement and has not agreed to make any payment to Dr Wu under such agreement.

As at the date of this circular, Dr Wu has no beneficial interest in the issued shares of the Seller or any Target Group Company. As far as the Directors are aware, having made all reasonable enquiries, he will not have any interest in the Company or the Group at the Placing Completion Date and the Completion Date.

The Company will make further announcement(s) and comply with the relevant requirements of the Listing Rules, as and when appropriate, in relation to the proposed appointment of Dr Wu as an executive Director. Dr Wu has not entered and is not expected to enter into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

2. Restrictions on and undertakings from Dr Wu

Non-Compete Undertaking

Except with the Company's prior permission and subject to the exceptions set out in the Sale and Purchase Agreement, Dr Wu shall not at any time during the Restricted Period:

(a) engage in or operate or be concerned or interested in a Restricted Business, or encourage or assist another person to engage in or operate or be concerned or interested in a Restricted Business;

(b) (i) seek to obtain orders or accept orders from a person who has been a customer of a Target Group Company during the 24 months ending on the Completion Date for the supply of any goods or services substantially similar to or otherwise competing with those supplied by a Target Group Company in the normal course of the Restricted Business; or

(ii) induce or seek to induce a person of the kind described in (b)(i) above to stop being a customer of a Target Group Company or to reduce its custom or change the terms on which it deals with a Target Group Company;

(c) solicit or entice away or knowingly encourage an Employee in the research and development department of a Target Group Company or an Employee employed as an operation manager of (or otherwise holds any other more senior position in) a Target Group Company to leave the employment of the Target Group Company (whether or not the Employee would by reason of so leaving commit a breach of his or her employment contract), provided that the foregoing shall not prohibit the solicitation or employment of such Employee (i) resulting from general advertisements for employment conducted by Dr Wu or his affiliates; (ii) if such Employee approaches Dr Wu or his affiliates on an unsolicited basis; or (iii) after the date which is 3 months after the cessation of such Employee's office or employment with a Target Group Company; or

(d) at any time during the Restricted Period disclose any confidential information relating to any intellectual property in connection with the Patented and Related Technology to any third party, except for the purposes of (i) protecting or enforcing his rights in such intellectual property, or (ii) developing and exploiting such Patented and Related Technology for use in, or in connection with, any business or production processes of a Target Group Company.

Dr Wu currently has no interest in any entity engaged in the manufacture of polysilicon which competes with the business of Sun Materials.

First Right of Refusal on the Relevant Technology

In consideration of the payment of the sum of US$1 by the Company to Dr Wu (receipt of which is acknowledged by Dr Wu), Dr Wu undertakes that during the Restricted Period and thereafter, where applicable, for as long as he has any beneficial interest in the Shares, if he proposes to transfer, assign, license or otherwise grant any right or interest in respect of the intellectual property subsisting in the Relevant Technology to a third party, he will first offer the Company and Sun Materials the right to enter into such arrangement on terms no less favourable than those he would offer to a third party in accordance with the Sale and Purchase Agreement. He also represents, warrants and undertakes that he has not disclosed and will not disclose any confidential information relating to any Relevant Technology to any third party, except for the purposes of (i) protecting or enforcing his rights in such Relevant Technology, (ii) developing and/or exploiting such Relevant Technology for use in, or in connection with, any business or production processes, or (iii) offering such arrangement to a third party, if no agreement is reached between Dr Wu, the Company and Sun Materials on such arrangement in accordance with the Sale and Purchase Agreement.

It is proposed that Dr Wu will be appointed as a Director upon Completion. Following such appointment, Dr Wu will be a connected person of the Company. The grant of the right of first refusal on the Relevant Technology to the Company will be exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.31(2) since the applicable percentage ratios for such grant will be less than 0.1%. The Company will comply with the relevant requirements under the Listing Rules, in particular, Rules 14.75 and 14A.70 of the Listing Rules in respect of notifiable transactions and connected transactions, as and when appropriate, in relation to any exercise of the first right on the Relevant Technology.

PART G – FACILITY TO SUN MASS ENERGY LIMITED

As announced on 7 March 2011, the Company entered into the Facility Agreement with the Target. Details of the Facility Agreement are set out below.

1. The Facility Agreement

Date

7 March 2011

Lender

The Company

Borrower

The Target

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Target and the ultimate beneficial owner of the Target are third parties independent of and not connected with the Company and its connected persons, save as disclosed in this circular.

Principal amount of the Facility

Up to but not exceeding US$50,000,000.

Purpose of the Facility

The Facility shall be used by the Borrower solely to fund shareholder loans to be made by the Borrower to Lution and thereafter by Lution to Sun Materials, the proceeds of which will be used by Sun Materials solely to fund the capital expenditure in respect of the expansion of its polysilicon production capacity, including the payment of deposits in respect of related plant and other equipment.

Term

Three (3) months commencing on the date on which the last in time of the conditions in the Facility Agreement (as set out below) to be satisfied, or waived in accordance with the Facility Agreement, is first satisfied or waived.

Security

The loan will be unsecured.

Repayment

The Facility shall be repayable by the Borrower no later than the earlier of (i) the date which is ten (10) Business Days after Completion and (ii) the date which is six (6) months from the Signing Date, or such later date as is agreed by the Lender.

Interest

12 per cent (12%) per annum.

Automatic Acceleration

If at any time:

(a) any corporate action, legal proceedings or other procedure or step is taken in relation to:

 (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration, provisional supervision or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Borrower or any of its subsidiaries;

 (ii) a composition, assignment or arrangement with any creditor of the Borrower or any of its subsidiaries;

 (iii) the appointment of a liquidation committee or group, liquidator, receiver, administrator, administrative receiver, compulsory manager, provisional supervisor or other similar officer in respect of the Borrower or any of its subsidiaries or any of their respective assets; or

 (iv) enforcement of any security over any assets of the Borrower or any of its subsidiaries;

(b) the Sale and Purchase Agreement is terminated, expires or otherwise ceases to be in full force and effect or any material breach of the Sale and Purchase Agreement occurs;

(c) any of the representations or warranties in the Facility Agreement ceases to be true, accurate and not misleading;

(d) the Borrower is not in compliance in all respects with the undertakings in the Facility Agreement;

(e) any expropriation, attachment, sequestration, distress or execution affects any asset or assets of the Borrower or any of its subsidiaries;

(f) any authorisation required for the Borrower or any of its subsidiaries to carry on their respective business under applicable laws, regulations or other rules is cancelled, revoked or made subject to conditions unacceptable to the Lender or, on the expiry of any of the foregoing authorisations, such authorisation cannot be renewed for any reason; or

(g) anything analogous to any of the events specified in paragraphs (a) to (f) above occur under the laws of any applicable jurisdiction,

then upon the written demand of the Lender to the Borrower, the Facility shall become due and payable in whole and the Borrower must repay the whole of the outstanding balance of the Facility immediately to the Lender.

Conditions of the Facility

Drawdown of the Facility is conditional upon the satisfaction, or waiver by the Lender, of each of the conditions below:

(a) the passing by the Shareholders in the SGM, or other general meetings of the Shareholders of

(i) a resolution to approve the Sale and Purchase Agreement and all transactions contemplated thereunder;

(ii) a resolution to approve the Placing Agreement and all transactions contemplated thereunder; and

(iii) a resolution to approve the Facility Agreement and all transactions contemplated thereunder;

(b) no event or circumstance described under the paragraph headed "Automatic Acceleration" above having occurred.

If a Condition has not been satisfied or waived by noon on 30 April 2011, or such later date as the Lender may agree, the Facility Agreement automatically terminates.

2. Reasons for provisions of the Facility

The terms of the Facility Agreement, including the interest rate applicable, were agreed by the parties after arm's length negotiations having taken into account the prevailing market interest rates and practices. The Board considers that the interest rate under the Facility Agreement is favourable to the Group and the arrangements contemplated under the Facility Agreement allow the Group to generate revenues and good short term profits.

In addition, Sun Materials has imminent needs for funding its capital expenditure in respect of the expansion of its polysilicon production capacity in Taiwan to meet its anticipated demand for 2012. The completion of the Placing and the Sale and Purchase Agreement are subject to the satisfaction of certain conditions and are expected to take place towards the end or after the second quarter of 2011. The Board considers the Facility to be an appropriate means to allow Sun Materials to meet its near term capital needs in the interim. The Facility, if granted, will ultimately be used by Sun Materials solely to fund capital expenditure for its expansion plan. If the transactions contemplated under the Sale and Purchase Agreement proceed, the Company will indirectly own 50.1% of the equity interest in Sun Materials and such expansion by Sun Materials will be beneficial for the Group. In such event, it is expected that the Borrower, a subsidiary of the Company, will have access to more sources of financing, including but not limited to intra-group loan facilities from the Company.

Based on the above, the Board considers that the terms of the Facility Agreement and the transactions contemplated therein are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3. Financial effects of the Facility

The Facility is expected to be recorded as loan and interest receivables under current asset of the Group. The granting of the Facility under the Facility Agreement will increase the loan and interest receivable of the Group and will decrease the bank balances and cash of the Group. The receipt of the interest income from the Facility will increase the revenue and earnings of the Group.

4. Listing Rules requirements

The provision of the Facility under the Facility Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules as one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Facility exceed 25% but is below 100%. Pursuant to the requirements of the Listing Rules, the Facility is subject to the reporting, announcement and Shareholders' approval requirements.

PART H – ADDITIONAL INFORMATION

Information on the Group

Mascotte Holdings Limited, is a company incorporated in Bermuda as an exempted company with limited liability, the Shares of which have been listed on the Main Board of the Stock Exchange since 1997. The Group is engaged in the business of, among other things, the trading of investments, loan financing, property investment and the manufacturing and sale of computer, photographic, video, phone and solar powered multi-media bags and accessories. The Company implemented a diversification strategy aimed at identifying suitable investment opportunities, including that of renewable energy related businesses. The Group implemented a diversification strategy aimed at identifying suitable investment opportunities and wishes to expand its involvement in the renewable energy market.

PART I – SGM

Set out on pages 373 to 376 is a notice convening the SGM to be held at 30/F., China United Centre, 28 Marble Road, North Point, Hong Kong on 7 June 2011 at 9:00 a.m. at which relevant resolution(s) will be proposed to the Shareholders to consider and, if thought fit, approve the Transactions.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no shareholder has a material interest in the proposed Transactions and no Shareholder is required to abstain from voting at the SGM.

A form of proxy is also enclosed herewith. Whether or not you intend to be present at the SGM, you are requested to complete the form of proxy and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for holding of the SGM or any adjourned meeting. Completion of the form of proxy and its return will not preclude you from attending and voting in person at the SGM or any adjourned meeting, if you so wish. Pursuant to Rule 13.39(4) of the Listing Rules, voting by the Shareholders at the SGM will be by poll.

PART J – RECOMMENDATION

The Board considers that the terms of the Sale and Purchase Agreement, the Placing Agreement, the Facility Agreement and the transactions contemplated under the above agreements (including but not limited to the Acquisition, the grant of the Call Option, the appointment of Dr Wu as a Director, the Shareholders' Agreement and the facility contemplated thereof, the increase in authorised share capital, the Placing and the Placing Mandate and the US$50M Facility) are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of ordinary resolutions 1 to 5 as set out in the notice of the SGM.

By order of the board
Mascotte Holdings Limited
Lo Yuen Wa Peter
Acting Chief Executive Officer

Hong Kong, 20 May 2011

1. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE YEARS ENDED 31 MARCH 2010

The audited consolidated financial statements of the Group for each of the three years ended 31 March 2008, 2009 and 2010 together with the relevant notes to the financial statements, which are incorporated by reference in this circular, could be found in the annual reports of the Company published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (http://www.irasia.com/listco/hk/mascotte/index.htm). The following is the financial results of the Group for each of the three years ended 31 March 2010 as extracted from the published annual reports of the Company.

(a) Financial Statements for the year ended 31 March 2010

Set out below is the audited consolidated financial statements of the Group for the year ended 31 March 2010 together with comparative figures, as extracted from the 2010 annual report of the Company.

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000*
Turnover	*4*	241,871	134,872
Cost of sales		(104,084)	(143,514)
Gross profit (loss)		137,787	(8,642)
Other income	*6*	850	44,290
Net unrealised holding gain (loss) on financial assets at fair value through profit or loss		18,087	(139,008)
Impairment loss on assets held for sale	*25*	(48,742)	–
Selling and distribution costs		(7,737)	(8,742)
Administrative expenses		(71,444)	(49,547)
Reversal of impairment loss (Impairment loss) for loan and interest receivables	*22(a)*	80,000	(182,500)
Gain on fair value changes on investment properties		1,711	360
Finance costs	*7*	(5)	(43)
Profit (Loss) before taxation	*8*	110,507	(343,832)
Income tax expense	*10*	(1,657)	(1,458)
Profit (Loss) for the year		108,850	(345,290)
Other comprehensive income			
Exchange differences on translating foreign operations		–	3,200
Total comprehensive income (loss) for the year		108,850	(342,090)

	Notes	2010 HK$'000	2009 HK$'000
Profit (loss) attributable to:			
Owners of the parent		108,631	(345,273)
Non-controlling interests		219	(17)
		108,850	(345,290)
Total comprehensive income (loss) attributable to:			
Owners of the parent		108,631	(342,135)
Non-controlling interests		219	45
		108,850	(342,090)
Earnings (Loss) per share	*12*		
Basic		HK$0.23	HK$ (1.34)
Diluted		HK$0.23	HK$ (1.34)

Consolidated Statement of Financial Position
As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties	13	20,350	18,639
Property, plant and equipment	14	5,050	5,948
Prepaid lease payments	15	4,703	5,368
Goodwill	16	–	–
Available-for-sale financial assets	17	45,000	20,000
Loan and interest receivables	22	11,929	–
		87,032	49,955
Current assets			
Financial assets at fair value through profit or loss	19	357,648	152,576
Inventories	20	8,727	5,586
Prepaid lease payments	15	665	665
Trade and bills receivables	21	20,258	24,358
Loan and interest receivables	22	50,285	105,920
Other receivables and prepayments	23	19,513	20,782
Bank balances and cash	24	75,720	33,228
		532,816	343,115
Assets classified as held for sale	25	79,242	–
		612,058	343,115
Current liabilities			
Trade payables	26	9,327	7,548
Other payables and accrued charges		22,161	14,962
Income tax payable		12,642	10,839
		44,130	33,349
Liabilities directly associated with assets classified as held for sale	25	42	–
		44,172	33,349
Net current assets		567,886	309,766
Total assets less current liabilities		654,918	359,721
Capital and reserves			
Share capital	27	59,052	28,592
Reserves		592,202	327,684
Equity attributable to owners of the parent		651,254	356,276
Non-controlling interests		3,664	3,445
Total equity		654,918	359,721

Statement of Financial Position

At 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	14	31	37
Available-for-sale financial assets	17	25,000	–
Investments in subsidiaries	18	89,261	89,261
		114,292	89,298
Current assets			
Financial assets at fair value through profit or loss	19	351,492	134,167
Loan and interest receivables	22	–	–
Amount due from subsidiaries	35	149,656	136,912
Other receivables and prepayments	23	8,474	843
Bank balances and cash	24	47,104	18,789
		556,726	290,711
Current liabilities			
Other payables and accrued charges		5,088	2,074
Amount due to subsidiaries	35	89,191	89,601
		94,279	91,675
Net current assets		462,447	199,036
Total assets less current liabilities		576,739	288,334
Capital and reserves			
Share capital	27	59,052	28,592
Reserves		517,687	259,742
Total equity		576,739	288,334

Consolidated Statement of Changes in Equity
Year ended 31 March 2010

		Attributable to the owners of the parent										
	Notes	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 Note (a)	Translation reserve HK$'000	Reserve fund HK$'000 Note (b)	Enterprise expansion reserve HK$'000 Note (b)	Share option reserve HK$'000 Note (c)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2008		190,616	517,582	47,231	10,575	1,084	1,083	–	(162,050)	606,121	3,400	609,521
Total comprehensive income for the year		–	–	–	3,138	–	–	–	(345,273)	(342,135)	45	(342,090)
Issue of shares on rights issues, net of expenses		95,308	42,654	–	–	–	–	–	–	137,962	–	137,962
Release of special and translation reserves upon disposal of subsidiaries		–	–	(33,330)	(12,342)	–	–	–	–	(45,672)	–	(45,672)
Capital reorganisation, net of expenses		(257,332)	–	–	–	–	–	–	257,332	–	–	–
At 31 March 2009		28,592	560,236	13,901	1,371	1,084	1,083	–	(249,991)	356,276	3,445	359,721
At 1 April 2009		28,592	560,236	13,901	1,371	1,084	1,083	–	(249,991)	356,276	3,445	359,721
Total comprehensive income for the year		–	–	–	–	–	–	–	108,631	108,631	219	108,850
Recognition of equity-settled share-based payment	32	–	–	–	–	–	–	12,199	–	12,199	–	12,199
Issue of shares upon conversion of convertible notes, net of expenses	27(a)	26,000	104,000	–	–	–	–	–	–	130,000	–	130,000
Issue of shares upon exercise of share options	27(b)	4,460	49,649	–	–	–	–	(9,961)	–	44,148	–	44,148
At 31 March 2010		59,052	713,885	13,901	1,371	1,084	1,083	2,238	(141,360)	651,254	3,664	654,918

Notes:

(a) The special reserve at 1 April 2008 represented the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation on 5 September 1997. On 24 July 2006, the Group acquired assets and liabilities from the substantial shareholder of the Group by way of acquisition of a subsidiary at a discount of HK$33,330,000, which represented the excess of fair value of assets and liabilities acquired through the acquisition of a subsidiary over the consideration paid and was deemed as capital contribution from the substantial shareholder and credited to special reserve. During the year, the deemed capital contribution of amount HK$33,330,000 together with cumulative translation reserve related to the disposed subsidiary has been released in full.

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

(c) The share option reserve relates to share options granted under the share option scheme. Further information about share-based payments is set out in note 32.

Statement of Changes in Equity

Year ended 31 March 2010

	Notes	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2008		190,616	517,582	–	72,201	(283,002)	497,397
Total comprehensive loss for the year		–	–	–	–	(347,025)	(347,025)
Issue of shares on rights issues, net of expenses		95,308	42,654	–	–	–	137,962
Capital reorganisation, net of expenses		(257,332)	–	–	–	257,332	–
At 31 March 2009		28,592	560,236	–	72,201	(372,695)	288,334
Total comprehensive income for the year		–	–	–	–	102,058	102,058
Recognition of equity-settled share-based payment	32	–	–	12,199	–	–	12,199
Issue of shares upon conversion of convertible notes, net of expenses	27(a)	26,000	104,000	–	–	–	130,000
Issue of shares upon exercise of share options	27(b)	4,460	49,649	(9,961)	–	–	44,148
At 31 March 2010		59,052	713,885	2,238	72,201	(270,637)	576,739

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

Consolidated Statement of Cash Flows
For the year ended 31 March 2010

	2010	2009
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (Loss) before taxation	110,507	(343,832)
Adjustments for:		
Bank interest income	(82)	(87)
Interest income from loan receivables	(3,417)	(24,206)
Dividend income from listed investments	(1,363)	(764)
Amortisation of intangible assets	2,054	–
Interest expenses	5	43
Impairment allowance for other receivables	–	416
Reversal of allowance for inventories	–	(252)
(Reversal of impairment loss) Impairment loss for loan and interest receivables	(80,000)	182,500
Impairment loss on assets held for sales	48,742	–
Release of prepaid lease payments	665	665
Depreciation of property, plant and equipment	1,576	1,667
Loss (Gain) on disposal of property, plant and equipment	33	(2,870)
Gain on disposal of subsidiaries	–	(40,708)
Net unrealised holding (gain) loss on financial assets at fair value through profit or loss	(18,087)	139,008
Equity-settled share-based payment	12,199	–
Gain on fair value changes on investment properties	(1,711)	(360)
Operating cash flows before movements in working capital	71,121	(88,780)
Changes in working capital:		
Financial assets at fair value through profit or loss	(186,985)	(5,656)
Inventories	(3,141)	2,907
Trade and bills receivables	4,100	(2,218)
Loan and interests receivables	123,071	(62,500)
Other receivables and prepayments	1,269	1,978
Trade payables	1,779	(5,723)
Other payables and accrued charges	7,203	5,270
Cash generated from (used in) operations	18,417	(154,722)
Interest received from loan receivables	4,052	25,039
Dividend received from listed investments	1,363	764
Tax refunded (paid)	146	(113)
Net cash from (used in) operating activities	23,978	(129,032)

	2010	2009
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Addition of property, plant and equipment	(720)	(1,190)
Disposal of subsidiaries	–	(349)
Proceeds from disposal of property, plant and equipment	9	4,352
Addition of available-for-sale financial assets	(25,000)	(20,000)
Interest received	82	87
Net cash used in investing activities	(25,629)	(17,100)
FINANCING ACTIVITIES		
Proceeds from issue of new shares on rights issue, net of expenses	–	137,962
Proceeds from issue of new shares upon exercise of share options	44,148	–
Interest paid	(5)	(43)
Net cash from financing activities	44,143	137,919
Net increase (decrease) in cash and cash equivalents	42,492	(8,213)
Cash and cash equivalents at beginning of the year	33,228	41,426
Effect of foreign exchange rate changes	–	15
Cash and cash equivalents at end of the year, representing bank balances and cash	75,720	33,228

Notes to the Financial Statements

For the year ended 31 March 2010

1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office and principal place of business of the Company are disclosed in the directory of the annual report.

The Company and its subsidiaries (the "**Group**") is principally engaged in loan financing, trading of investments, manufacture and sale of accessories for photographic, electrical and multimedia products and property investment.

These financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2009 financial statements. The adoption of the new/revised HKFRSs that are relevant to the Group and the Company and effective from the current year had no significant effects on the results and financial position of the Group and the Company for the current and prior years, except certain presentation and disclosures of consolidated financial statements items have been revised. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new/revised HKFRS

HKAS 1 (Revised): Presentation of Financial Statements

HKAS 1 (Revised) requires transactions with owners to be presented separately from all other income and expenses in a revised statement of changes in equity. The revised Standard however allows non-owner changes in equity to be shown in a single statement (the statement of comprehensive income) or two statements (the income statement and the statement of other comprehensive income). The Group has elected to prepare one statement. In addition, the revised Standard requires that when comparative information is restated or reclassified, a statement of financial position as at the beginning of the comparative period, in addition to the statements of financial position as at the end of the current period and the comparative period, should be presented. Since the Group and the Company did not restate comparative information during the year, this new requirement has no impact on these financial statements.

Amendments to HKAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to HKAS 27 remove the distinction between dividends distributed from pre- and post-acquisition profits from the definition of the cost method and replace it with a requirement to recognise all dividends received in profit or loss once the entity's right to receive the dividend is established. As from 1 April 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities are recognised in the Company's profit or loss regardless of whether they are made out of the pre- or post-acquisition profits. The carrying amount of the investment in the investee however is assessed for impairment as a result of the investee declaring the dividend. In accordance with the transitional provision in the amendment, the new policy is applied only prospectively from the current period and thus no restatement is made to prior periods.

Amendments to HKFRS 7: Financial Instruments: Disclosures

Amendments to HKFRS 7 require additional disclosure about fair value measurements and liquidity risk. The fair value measurement disclosures are presented in note 3 to the consolidated financial statements, and the liquidity risk disclosures are not significantly impacted by the amendments. The Group has taken advantage of the transitional provisions set out in the amendments under which comparative information for the newly required disclosures about the fair value measurements of financial instruments are not provided in the financial statements.

HKFRS 8: Operating Segments

The Standard replaces HKAS 14: *Segment Reporting*. It requires segment information to be reported based on internal information used by the Group's chief operating decision maker to evaluate the performance of operating segments and allocate resources to those segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments previously identified under HKAS 14. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14.

Improvements to HKFRS (2008)

Improvements to HKFRS (2008) contain improvements to a number of standards aiming to remove inconsistencies and clarify wording in the standards. The adoption of those improvements had resulted in a number of changes in the details of the accounting policies.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for investment properties and certain financial instruments, which are measured at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from owners of the parent. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investments is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's relevant cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is recognised directly in the consolidated profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets that are acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to the profit or loss on a straight-line basis over the assets' estimated useful lives which are determined by the period over which it is expected to bring economic benefits to the Group. The intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful live of 47.5 years.

The Group reviews the estimated useful life and amortisation method for these intangible assets annually and makes adjustment when necessary.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

Revenue recognition

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

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

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

Handling fees income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Net income (loss) from the sales of financial assets at fair value through profit or loss is recognised on the transaction date when the relevant sale and purchase contract is entered into.

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.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at costs including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at its fair value. Gains or losses arising from changes in the fair value of investment properties 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 and 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 profit or loss in the year in which the item is derecognised.

Property, plant and equipment

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

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 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 profit or loss in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to profit or loss.

Impairment of non-financial assets (other than goodwill (see the accounting policy in respect of goodwill))

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

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.

As lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

As lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments and on a trade date basis. 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 liabilities (other than financial assets or 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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period, subsequent to initial recognition, loans and receivables (including trade and bills receivables, loan and interest receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss. 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to profit or loss. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount at the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss 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.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits/accumulated losses.

Other financial liabilities

Other financial liabilities including trade payables, other payables and income tax payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts, if any.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. 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 purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit scheme/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Long service payment

The Group's net obligation in respect of long service payment under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets including retirement scheme benefit, is deducted.

Share-based payment transactions

Equity-settled transactions

The Group's employees and consultants receive remuneration in the form of share-based payment transactions, whereby the employees and consultants rendered services in exchange for shares or rights over shares. The cost of such transactions with employees and consultants is measured by reference to the fair value at the transaction date. The fair value of share options granted to employees and consultants is recognised as staff costs and consultancy fee respectively with a corresponding increase in a reserve within equity. The fair value is determined using applicable valuation techniques, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees and consultants become fully entitled to the award (i.e. vesting date). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to reserve within equity. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of the customers, the methods used to provide the services, and the nature of the regulatory. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A party is related to the Group if

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

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group;

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

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

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Allowance for inventories

The Group's management reviews the carrying amount of inventories at the end of each reporting period, and make allowance for obsolete and slow-moving items identified that are no longer recoverable or suitable for use in production. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

Impairment allowance for doubtful debts

The provisioning policy for doubtful debts of the Group is based on the evaluation of collectability of the accounts receivables and loan and interest receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/borrower. If the financial conditions of these customers / borrowers were to deteriorate and result in an impairment of their ability to make payments, additional allowance will be required.

Fair value of investment properties and unlisted convertible notes

Investment properties and unlisted convertible notes are stated at fair value based on the valuations performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation reports, the directors of the Group have exercised their judgement and are satisfied that the method of valuations is reflective of the current market conditions.

3. FUTURE CHANGES IN HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/ revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted. The directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRS, but are not yet in a position to reasonably estimate their impact on the financial statements.

HKFRS 1 (Revised)	*First-time adoption of HKFRS*[1]
Amendments to HKFRS 1	*First-time adoption of HKFRS – Additional exemptions for first-time adopters*[3]
Amendments to HKFRS 1	*Limited Exemption from Comparative HKFRS 7 Disclosures for first-time adopters*[5]
Amendments to HKFRS 2	*Share-based Payment – Group Cash-settled Share-based Payment Transactions*[3]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[7]
HKAS 24 (Revised)	*Related Party Disclosures*[6]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
Amendments to HKAS 32	*Financial Instruments: Presentation – Classification of Rights Issues*[4]
Amendments to HKAS 39	*Eligible Hedged Items*[1]
Improvements to HKFRS 2009	*Improvements to HKFRS 2009*[2]
HK(IFRIC) – Int 14	*Prepayment of a Minimum Funding Requirement*[6]
HK(IFRIC) – Int 17	*Distributions of non-cash Assets to Owners*[1]
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[5]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	*Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for annual periods beginning on or after 1 February 2010

5 Effective for annual periods beginning on or after 1 July 2010

6 Effective for annual periods beginning on or after 1 January 2011

7 Effective for annual periods beginning on or after 1 January 2013

4. TURNOVER

	2010	**2009**
	HK$'000	*HK$'000*
Dividend income from listed investments	1,363	764
Interest income from loan receivables	3,417	24,206
Handling fee income	–	5,000
Gross rental income	854	4,937
Net profit (loss) from the sales of financial assets at fair value through profit or loss	88,143	(86,246)
Sales of goods	148,094	186,211
	241,871	134,872

5. SEGMENT INFORMATION

The directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments based on the Group's internal reporting in respect of these segments. The directors consider loan financing, investments, manufacture and sales of goods and property investment (i.e. rental of properties) are the Group's major operating segments. Segment results represent the profit before taxation earned or loss incurred by each segment. The following analysis is the measure reported to the directors for the purposes of resources allocation and assessment of segment performance.

Operating segments of the Group comprise the following:

(i) *Investments:* Trading of investments

(ii) *Loan financing:* Provision of loan financing services

(iii) *Manufacture and sales of goods:* Manufacture and trading of accessories for photographic, electrical and multimedia products

(iv) *Property investment:* Holding properties for rental and capital appreciation

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all property, plant and equipment, prepaid lease payments, financial assets at fair value through profit or loss, available-for-sales financial assets, loans and interest receivables, trade and bills receivables and certain other receivables and prepayments. Segment liabilities include trade payables and certain other payables and accrued charges.

Revenues and expenses are allocated to the reporting segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments.

The measure used for reporting segment results is profit before taxation. To arrive at profit before taxation the Group's results are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation, and impairment losses of and additions to non-current segment assets used by the segments in their operations.

Segment revenues and results for the year ended 31 March 2010

The following is an analysis of the Group's revenue and results by reportable segment:

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
To external customers	3,417	89,506	148,094	854	241,871
Segment results	83,406	107,584	5,221	865	197,076
Unallocated other income					768
Unallocated corporate expenses					(87,332)
Finance costs					(5)
Profit before taxation					110,507
Income tax expense					(1,657)
Profit for the year					108,850

There were no inter-segment sales during the year ended 31 March 2010 (2009: Nil).

Segment assets and liabilities at 31 March 2010

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	62,214	411,037	39,479	20,450	533,180
Unallocated corporate assets					165,910
Consolidated total assets					699,090
Liabilities					
Segment liabilities	–	–	26,734	–	26,734
Unallocated corporate liabilities					17,438
Consolidated total liabilities					44,172

Other segment information for the year ended 31 March 2010

	Loan financing *HK$'000*	Investments *HK$'000*	Manufacture and sales of goods *HK$'000*	Property investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Addition of available-for-sales financial assets	–	25,000	–	–	–	25,000
Amortisation of intangible assets	–	–	–	–	2,054	2,054
Bank interest income	–	–	(82)	–	–	(82)
Capital expenditures	–	–	720	–	–	720
Depreciation of property, plant and equipment	–	–	1,570	–	6	1,576
Loss on disposal of property, plant and equipment	–	–	33	–	–	33
Impairment loss on assets held for sale	–	–	–	–	48,742	48,742
Gain on fair value changes on investment properties	–	–	–	(1,711)	–	(1,711)
Net unrealised holding gain on financial assets at fair value through profit or loss	–	(18,087)	–	–	–	(18,087)
Release of prepaid lease payments	–	–	–	665	–	665
Reversal of impairment loss for loan and interest receivables	(80,000)	–	–	–	–	(80,000)

Segment revenues and results for the year ended 31 March 2009

The following is an analysis of the Group's revenue and results by reportable segment:

	Loan financing *HK$'000*	Investments *HK$'000*	Manufacture and sales of goods *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
Turnover					
To external customers	29,206	(85,482)	186,211	4,937	134,872
Segment results	(155,703)	(224,825)	9,653	42,314	(328,561)
Unallocated other income					3,282
Unallocated corporate expenses					(18,510)
Finance costs					(43)
Loss before taxation					(343,832)
Income tax expense					(1,458)
Loss for the year					(345,290)

Segment assets and liabilities at 31 March 2009

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	105,920	186,821	47,708	18,739	359,188
Unallocated corporate assets					33,882
Consolidated total assets					393,070
Liabilities					
Segment liabilities	–	–	20,612	–	20,612
Unallocated corporate liabilities					12,737
Consolidated total liabilities					33,349

Other segment information for the year ended 31 March 2009

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition of available-for-sales financial assets	–	20,000	–	–	–	20,000
Bank interest income	–	–	(17)	–	(70)	(87)
Capital expenditures	–	–	1,150	–	40	1,190
Depreciation of property, plant and equipment	–	–	1,659	5	3	1,667
Gain on disposal of property, plant and equipment	–	–	–	–	(2,870)	(2,870)
Gain on disposal of subsidiaries	–	–	(1,221)	(39,487)	–	(40,708)
Impairment allowance on other receivables	300	–	–	–	116	416
Impairment loss on loan and interest receivables	182,500	–	–	–	–	182,500
Gain on fair value changes on investment properties	–	–	–	(360)	–	(360)
Net unrealised holding loss on financial assets at fair value through profit or loss	–	139,008	–	–	–	139,008
Release of prepaid lease payments	–	–	–	665	–	665

Geographical information

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 is carried out in other regions in the PRC. Investments trading and loan financing are carried out in Hong Kong.

The following tables set out information about the geographical location of (i) the Group's turnover from external customers and (ii) the Group's investment properties, property, plant and equipment, and non-current portion of prepaid lease payments ("**Specified Non-current Assets**"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the Specified Non-current Assets is based on the physical location of the assets.

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

	2010	2009
	HK$'000	*HK$'000*
Europe	65,192	104,364
United States of America	30,748	31,344
Hong Kong	101,547	(47,774)
Other regions in the PRC	17,621	12,437
Others	26,763	34,501
	241,871	134,872

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

	Carrying amount of segment assets		Additions to property, plant and equipment		Specified Non-current Assets	
	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	494,748	321,303	620	713	2,046	2,295
Other regions in the PRC	38,432	37,885	100	477	28,057	27,660
	533,180	359,188	720	1,190	30,103	29,955

Information about major customer

Included in revenues arising from external sales of accessories for photographic, electrical and multimedia products of HK$148,094,000 (2009: HK$186,211,000) are revenues of HK$15,727,000 (2009: HK$24,391,000) which arose from sales to the Group's largest customer (manufacture and sales of goods segment).

6. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Bank interest income	82	87
Gain on disposal of subsidiaries	–	40,708
Gain on disposal of property, plant and equipment	–	2,870
Sundry income	768	625
	850	44,290

7. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	5	43

8. PROFIT (LOSS) BEFORE TAXATION

	2010	2009
	HK$'000	*HK$'000*
Profit (Loss) before taxation has been arrived at after charging/(crediting):		
Amortisation of intangible assets	2,054	–
Auditor's remuneration	1,552	1,050
Cost of inventories recognised as expenses	104,084	143,514
Depreciation of property, plant and equipment	1,576	1,667
Equity-settled share-based payment	12,199	–
Impairment allowance on other receivables	–	416
Operating leases payments in respect of premises	2,084	3,478
Release of prepaid lease payments	665	665
Staff costs including directors' emoluments and contributions to retirement benefits schemes	37,285	38,556
Exchange loss, net	9	127
Loss (Gain) on disposal of property, plant and equipment	33	(2,870)
Gain on disposal of subsidiaries	–	(40,708)
Gross rental income from investment properties	(854)	(4,937)
Less: direct operating expenses that generated rental income	663	649
	(191)	(4,288)

9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

(a) Directors' emoluments

The emoluments paid or payable to each of the directors are as follows:

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Share-based payments *(note)*	Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010								
Executive Directors								
Au Yeung Kai Chor	–	–	–	900	12	480	223	1,615
Peter Temple Whitelam	–	–	–	513	–	–	112	625
Lam Suk Ping	–	–	–	576	12	–	223	811
Lo Yuen Wa Peter	–	–	–	840	12	–	223	1,075
Song Jiajia	16 June 2009	–	–	–	–	–	–	–
Woo Eddie	30 March 2010	–	–	–	–	–	–	–
Independent Non-Executive Directors								
Chan Sze Hung	–	–	200	–	–	–	–	200
Hui Wai Man, Shirley	–	–	120	–	–	–	–	120
Kristi L Swartz	–	29 December 2009	90	–	–	–	–	90
Miu Frank H.	28 December 2009	–	30	–	–	–	–	30
Que Agustin V.	27 January 2010	–	–	–	–	–	–	–
			440	2,829	36	480	781	4,566

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme (note 32).

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009							
Executive Directors							
Au Yeung Kai Chor	–	–	–	581	12	295	888
Chan Oi Ling, Maria Olimpia	–	7 April 2008	–	57	–	22	79
Chung, Wilson	–	24 July 2008	–	94	4	–	98
Peter Temple Whitelam	–	–	–	526	–	–	526
Lam Suk Ping	7 April 2008	–	–	583	12	–	595
Lo Yuen Wa Peter	24 July 2008	–	–	594	8	–	602
Independent Non-Executive Directors							
Chan Sze Hung	–	–	200	–	–	–	200
Cheung Ngai Lam	–	7 April 2008	–	–	–	–	–
Hui Wai Man, Shirley	–	–	120	–	–	–	120
Kristi L Swartz	–	–	120	–	–	–	120
Lui Wai Shan, Wilson	–	7 April 2008	1	–	–	–	1
			441	2,435	36	317	3,229

(b) Highest paid employees

The five highest paid individuals of the Group included two (2009: none) directors of the Company, details of whose emoluments are set out in note 9(a). The emoluments remaining three (2009: five) highest paid individuals are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	6,598	8,865
Retirement benefits scheme contributions	12	36
Rentals paid/rateable value in respect of quarters provided	960	1,128
	7,570	10,029

The emoluments were within the following bands:

	No. of individuals	
	2010	**2009**
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	1	2
HK$4,000,001 to HK$4,500,000	1	1
	3	5

10. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Current year		
Hong Kong	1,130	809
Other regions in the PRC	461	615
	1,591	1,424
Under provision in prior years		
Other regions in the PRC	66	34
	1,657	1,458

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on 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.

Subsidiaries in the PRC are subject to Enterprise Income Tax. PRC Enterprise Income Tax is calculated at the prevailing tax rate at 25% (2009: 25%) on taxable income determined in accordance with the relevant laws and regulations in the PRC.

The income tax expense for the year can be reconciled from profit (loss) before taxation per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit (Loss) before taxation	110,507	(343,832)
Tax at the Hong Kong Profits tax rate of 16.5% (2009: 16.5%)	18,234	(56,732)
Non-deductible expenses	11,727	27,231
Tax exempt revenue	(13,275)	(7,393)
Underprovision in prior years	44	23
Unrecognised tax losses	1,604	38,207
Unrecognised temporary differences	(200)	(29)
Utilisation of tax losses previously not recognised	(16,735)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	247	44
Others	11	107
Income tax expense for the year	1,657	1,458

At 31 March 2010, the Group has unused tax losses of HK$364,762,000 (2009: HK$456,092,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

11. DIVIDENDS

No dividend has been proposed by the directors for the years ended 31 March 2010 and 2009.

12. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share attributable to owners of the parent is based on the following data:

	2010	2009
	HK$'000	*HK$'000*
Earnings (Loss)		
Profit (Loss) for the purpose of basic and diluted earnings (loss) per share	108,631	(345,273)

	Number of shares	
	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	468,455,508	258,415,148
Effect of dilutive potential ordinary shares:		
Convertible notes	8,499,873	–
Share options	180,017	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	477,135,398	258,415,148

The Company had no dilutive potential ordinary shares for the year ended 31 March 2009. Accordingly, the diluted loss per share was same as the basic loss per share.

13. INVESTMENT PROPERTIES

	2010	2009
	HK$'000	*HK$'000*
At fair value		
At beginning of the year	18,639	133,373
Exchange adjustments	–	2,842
Disposal of assets through disposal of subsidiaries	–	(117,936)
Gain on fair value changes	1,711	360
At end of the year	20,350	18,639

The carrying values of the Group's investment properties at 31 March 2010 are analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Situated in the PRC held under medium-term leases	20,350	18,639

All of the Group's property interests in land held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The investment properties have been valued as at 31 March 2010 on the basis carried out at that date by Chung, Chan & Associates, Chartered Surveyors, independent qualified professional valuers not connected with the Group, who are members of Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards, was arrived at using two primary methods, namely the comparison approach and the income capitalisation approach.

Certain of the Group's investment properties are rented out under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold land and buildings	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Plant and machinery**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 April 2008	8,508	2,284	2,610	18,319	6,501	38,222
Exchange adjustments	125	10	2	248	31	416
Additions	–	120	161	362	547	1,190
Disposal of subsidiaries	–	(44)	(20)	–	–	(64)
Disposals	(1,601)	(74)	–	(4)	(750)	(2,429)
At 31 March 2009	7,032	2,296	2,753	18,925	6,329	37,335
Additions	–	–	144	108	468	720
Disposals	–	–	–	(1)	(418)	(419)
At 31 March 2010	7,032	2,296	2,897	19,032	6,379	37,636
Accumulated Depreciation						
At 1 April 2008	3,662	1,872	2,012	17,865	4,934	30,345
Exchange adjustments	64	7	2	245	26	344
Provided for the year	338	96	161	467	605	1,667
Eliminated on disposal of subsidiaries	–	(15)	(7)	–	–	(22)
Eliminated on disposals	(160)	(37)	–	–	(750)	(947)
At 31 March 2009	3,904	1,923	2,168	18,577	4,815	31,387
Provided for the year	339	73	150	355	659	1,576
Eliminated on disposals	–	–	–	(1)	(376)	(377)
At 31 March 2010	4,243	1,996	2,318	18,931	5,098	32,586
Carrying values						
At 31 March 2010	2,789	300	579	101	1,281	5,050
At 31 March 2009	3,128	373	585	348	1,514	5,948

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

Leasehold land and 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 carrying values of the Group's leasehold land and buildings at 31 March 2010 are analysed as follows:

	2010 *HK$'000*	**2009** *HK$'000*
Situated in the PRC held under medium-term leases	2,789	3,128

The Company

	Furniture, fixtures and equipment *HK$'000*
Cost	
At 1 April 2008	–
Additions	40
At 31 March 2009 and at 31 March 2010	40
Accumulated Depreciation	
At 1 April 2008	–
Provided for the year	3
At 31 March 2009	3
Provided for the year	6
At 31 March 2010	9
Carrying values	
At 31 March 2010	31
At 31 March 2009	37

The Company's furniture, fixture and equipment are depreciated on straight-line basis at a rate of 15% per annum.

15. PREPAID LEASE PAYMENTS

	2010	2009
	HK$'000	*HK$'000*
Leasehold interests in land in the PRC under medium-term lease	5,368	6,033
Analysed for reporting purposes as:		
Current	665	665
Non-current	4,703	5,368
	5,368	6,033

16. GOODWILL

	HK$'000
Cost	
At 1 April 2008, 1 April 2009 and 31 March 2010	7,042
Impairment	
At 1 April 2008, 1 April 2009 and 31 March 2010	7,042
Carrying amount	
At 31 March 2009 and 2010	–

For the purpose of impairment testing in previous years, goodwill was allocated to an individual cash generating unit (CGU) which was engaged in manufacture and sales of goods and was expected to benefit from that business combination.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	45,000	20,000	25,000	–

The directors are of the opinion that their fair values cannot be measured reliably because the above available-for-sale investments do not have a quoted market price in an active market. Accordingly, they are measured at cost less impairment at the end of each reporting period.

No impairment loss has been provided in respect of the above financial assets.

18. INVESTMENTS IN SUBSIDIARIES

	2010	2009
	HK$	*HK$*
Unlisted shares, at cost	89,261	89,261
Less: impairment loss	–	–
	89,261	89,261

Details of the Company's subsidiaries at 31 March 2010 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
Direct subsidiary				
Mascotte Group Limited	British Virgin Islands/ Hong Kong	US$100	100%	Investment holding
Indirect subsidiaries				
Allied Loyal International Investments Limited	British Virgin Islands/ Hong Kong	50,000 Ordinary shares of no par value	100%	Forestry investments
東莞德雅皮具製品廠有限公司 Dongguan Tak Ya Leather Goods Manufactory Limited *(note a)*	PRC	HK$10,400,000	76.9% *(note b)*	Manufacture of accessories for photographic, electrical and multimedia products
Greatest Splendour Investment Limited	British Virgin Islands	US$100	100%	Loan financing
March Professional Bags Company Limited	Hong Kong	HK$50,000	100%	Inactive
Marvel Century Limited	British Virgin Islands/ Hong Kong	US$1	100%	Investment holding
Mascotte Industrial Associates Group Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Mascotte Industrial Associates (Hong Kong) Limited	Hong Kong	HK$2	100%	Trading of accessories for photographic, electrical and multimedia products
馬斯葛志豪照相器材(惠州)有限公司 Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co. Ltd. *(note a)*	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/ The PRC	US$1	100%	Investment holding
Mascotte Overseas Limited	British Virgin Islands	US$1,795,000	100%	Inactive
Mascotte Photographic Trading Limited	British Virgin Islands	US$1	100%	Inactive
Newland Kingdom Limited	Hong Kong	HK$9,998 HK$2*	100%	Inactive

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
Richful Zone Investment Limited	British Virgin Islands/ Hong Kong	US$17,478,973	100%	Investment holding
Tak Ya Leather Goods Manufactory Limited	British Virgin Islands/ the PRC	US$1	100%	Investment holding
Time Beyond Limited	Hong Kong	HK$1,000,000	100%	Loan financing
Union Glory Finance Inc.	British Virgin Islands/ Hong Kong	US$1	100%	Loan financing and investments

* These represent non-voting deferred shares (note c).

Notes:

(a) These companies are equity joint ventures.

(b) 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 profits derived from its operations up to 31 December 2011.

(c) These deferred shares, which are not held by the Group, practically carry no rights 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.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		The Group		The Company	
		2010	2009	2010	2009
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investments held for trading – Equity securities, listed in Hong Kong	*(a)*	343,445	126,463	337,289	108,054
Investments designated as at fair value through profit or loss upon initial recognition – Unlisted convertible notes	*(b)*	14,203	26,113	14,203	26,113
		357,648	152,576	351,492	134,167

(a) The fair value of listed equity securities is based on quoted market prices in active markets at the end of the reporting period.

(b) The fair value of unlisted convertible notes at the end of reporting period has been measured by an independent qualified professional valuer, Asset Appraisal Limited, based on reliable estimates of prices obtained in actual market transactions.

20. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Raw materials	5,157	2,900
Work-in-progress	1,504	1,366
Finished goods	2,066	1,320
	8,727	5,586

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

21. TRADE AND BILLS RECEIVABLES

		2010	2009
	Note	*HK$'000*	*HK$'000*
Trade and bills receivables		28,245	32,345
Less: Allowances for doubtful debts	*(b)*	(7,987)	(7,987)
		20,258	24,358

(a) Ageing analysis

The Group allowed a credit period ranging from 30 days to 150 days to its trade customers. The ageing analysis of trade and bills receivables (net of allowances for doubtful debts) is as follows:

	2010	2009
	HK$'000	*HK$'000*
Ageing analysis of trade and bills receivables:		
Within 60 days	14,056	12,725
61 – 150 days	4,812	11,615
More than 150 days	1,390	18
	20,258	24,358

(b) Allowances for doubtful debts

	2010	2009
	HK$'000	*HK$'000*
At beginning of the year	7,987	8,085
Disposal of subsidiaries	–	(10)
Uncollectible amounts written off	–	(88)
At end of the year	7,987	7,987

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which the impairment loss is written off against trade receivables directly.

All allowances for doubtful debts as at 31 March 2010 and 2009 were made for specific unsecured trade receivables, which recoverability is considered doubtful by the directors. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that neither individually nor collectively considered to be impaired is as follows:

	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	10,216	20,897
Within 90 days	9,348	3,443
More than 90 days	694	18
	20,258	24,358

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully receivable. The Group does not hold any collateral over these balances.

22. LOAN AND INTEREST RECEIVABLES

		The Group		The Company	
		2010	2009	2010	2009
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate loan receivables		11,929	162,000	–	160,000
Variable-rate loan receivables		72,500	125,500	–	–
		84,429	287,500	–	160,000
Interest receivables		285	920	–	–
		84,714	288,420	–	160,000
Less: Impairment allowance	*(a)*	(22,500)	(182,500)	–	(160,000)
		62,214	105,920	–	–
Less: Balance due within one year included in current assets		(50,285)	(105,920)	–	–
Balance due after one year included in non-current assets		11,929	–	–	–
Effective interest rate:					
Fixed-rate loan receivables		20% per annum	12% to 18% per annum	N/A	12% per annum
Variable-rate loan receivables		Hong Kong HSBC Prime rate plus 2%	Hong Kong HSBC Prime rate minus 1% to Hong Kong HSBC Prime rate plus 6%	N/A	N/A

(a) Impairment allowance

The Group determines the allowance for impaired debts based on the evaluation of collectability and ageing analysis of accounts and on management's judgement, including assessment of change of credit quality, collaterals and the past collection history of each borrower.

Movement in allowance for impaired debts is as follows:

		The Group		The Company	
		2010	**2009**	**2010**	**2009**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year		182,500	–	160,000	–
Increase during the year					
Key Rise International Limited ("**Key Rise**")		–	160,000	–	160,000
Tack Fat Group International Limited		–	22,500	–	–
Decrease during the year in respect of allowance made on Key Rise					
– Recovered following the arrangement of debt assignment	*(i)*	(80,000)	–	(80,000)	–
– Written off following the arrangement of debt assignment	*(i)*	(80,000)	–	(80,000)	–
Balance at end of the year		22,500	182,500	–	160,000

(i) Arrangement of debt assignment

On 3 August 2009, the Company and Wellsmart Limited ("**Wellsmart**") entered into a deed of assignment (the "**Deed**") and pursuant to which the Company agreed to sell and Wellsmart agreed to purchase the right to recover the total outstanding principal sum due from Key Rise and the interest accrued thereof as of the date of the Deed (i.e. approximately HK$207,000,000), with a consideration of HK$80,000,000. The consideration has been paid by Wellsmart in 5 equal installments during the year.

The management considers that the impairment allowance made on the amount due from Key Rise should be reversed up to the extent of the amount recovered from Wellsmart, i.e. HK$80,000,000, through the arrangement of debt assignment. The remaining unsettled amount of HK$80,000,000 due from Key Rise should be considered as uncollectible and written off together with the impairment allowance of the same amount accordingly.

An ordinary resolution to approve the Deed was duly passed by the shareholders of the Company at the special general meeting held on 5 October 2009.

(b) Loan and interest receivables that are not impaired

The ageing analysis of loan and interest receivables that neither individually nor collectively considered to be impaired is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	62,214	105,920

Receivables that were neither past due nor impaired relate to a wide range of borrowers for whom there was no recent history of default. The Group does not hold any collateral over these balances. Except the loan and interest receivables due after 1 year which is classified as non-current assets, the remaining balances of loan and interest receivables are repayable within 6 months.

23. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments are expected to be recovered within one year.

24. BANK BALANCES AND CASH

Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made with maturity of three months or less depending on the immediate cash requirement of the Group and the Company, and earn interest at prevailing short-term deposit rates.

25. ASSETS CLASSIFIED AS HELD FOR SALE

		2010
	Note	*HK$'000*
Assets classified as held for sale		
Intangible assets	*(b)*	127,984
Less: Impairment allowance		(48,742)
		79,242
Liabilities directly associated with assets classified as held for sales		42

(a) Subsequent to the end of reporting period, the Group disposed entire equity interest of Richful Zone International Limited ("**Disposal Group**"), a subsidiary of the Company, to a wholly-owned subsidiary of Forefront Group Limited ("**Forefront**"), a company whose shares are listed on the Stock Exchange of Hong Kong, at a consideration of HK$79.2 million which is satisfied by the issuance of 330 million new shares of Forefront at HK$0.24 each. As the selling price is lower than the carrying amount of net assets of the Disposal Group, an impairment loss has been recognised in these consolidated financial statements accordingly.

(b) The intangible assets represented the rights to (i) obtain the 50% of forestry land use rights and forestry trees entitlement of three forestry sites in Simao District, Puer City Yunnan Province, the PRC and (ii) share 50% of distributable profits of these forests.

The term of forestry land use rights and forestry tree entitlement of these three forestry tree sites are 50 years from 24 January 2007 to 23 January 2057.

Reconciliation of carrying amount – year ended 31 March 2010

	Note	HK$'000
At beginning of the year		–
Addition through the acquisition of subsidiaries	28	130,038
Less: Amortisation		(2,054)
At end of the year, classified as held for sale		127,894

26. TRADE PAYABLES

	2010 HK$'000	2009 HK$'000
Ageing analysis of trade payables:		
Within 60 days or on demand	9,214	7,478
61 – 150 days	20	–
More than 150 days	93	70
	9,327	7,548

27. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

	Note	Number of shares 2010	Number of shares 2009	Nominal value 2010 HK$'000	Nominal value 2009 HK$'000
Ordinary shares of HK$0.10 each:					
Authorised:					
At 1 April and 31 March		10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:					
At beginning of the year		285,924,015	1,906,160,100	28,592	190,616
Issue of shares on rights issues, net of expenses		–	953,080,050	–	95,308
Capital reorganisation, net of expenses		–	(2,573,316,135)	–	(257,332)
Issue of shares upon conversion of convertible notes, net of expenses	(a)	260,000,000	–	26,000	–
Issue of shares upon exercise of share options	(b)	44,592,401	–	4,460	–
At end of the year		590,516,416	285,924,015	59,052	28,592

Notes:

(a) During the year, the Group has acquired the entire equity interest of Richful Zone International Limited ("**Richful Zone**") at a consideration of HK$130M satisfied by the issuance of 3 years 4% convertible note of the Company. Richful Zone through its wholly-owned subsidiary owns 50% of the concession rights and interests in respect of a forestry land in the PRC. All of the convertible notes have been converted during the year at a conversion price of HK$0.5 each and 260,000,000 ordinary shares have been issued accordingly.

(b) On 3 March 2010, 54,592,401 shares options were granted to the employees and consultants under the share option scheme at an exercise price of HK$0.99 per ordinary share of HK$0.1 each. An aggregate of 44,592,401 share options granted were exercised during the year.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

28. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the entire equity interests in the following companies.

Acquisition date	Name of acquired companies	Place of incorporation	Principal activities	Consideration
				HK$'000
30 June 2009	Richful Zone (with its subsidiary, Allied Loyal International Investments Limited)	British Virgin Islands	Investment holding	130,000

The aggregate fair value of the identifiable assets and liabilities of the acquired subsidiaries as at the date of acquisition and their carrying value determined in accordance with HKFRS immediately before combination are as follows:

	Carrying value	Fair value
	HK$'000	*HK$'000*
Intangible assets	130,505	130,038
Other payables	(38)	(38)
	130,467	
Total consideration satisfied by issuance of convertible notes *(Note 27)*		130,000

As detailed in note 27, the Group acquired the entire interest in Richful Zone at a consideration of HK$130,000,000 which was satisfied by the issuance of convertible notes by the Company in the principal amount of HK$130,000,000.

The convertible notes were issued on 6 July 2009 and the fair value of the convertible notes issued is determined with reference to a valuation report prepared by Asset Appraisal Limited, a firm of independent qualified valuers not connected to the Group. The fair value of the liability portion of the convertible notes was calculated based on the present value of the contractually determined stream of future cash flows discounted at the interest and providing substantially the same cash flows, on the same terms, but without conversion option. The term structure of the interest rate is equal to benchmark interest rate plus spread rate. The benchmark interest rate is the HKD Fund Note and the spread rate is determined with reference credit analysis of the Company and the market rate with similar credit ratio. The implied discount rate of the liability portion is 18.0%. The equity portion of the convertible notes represents the residual value of the principal after deduction of fair value of the liability portion.

The subsidiaries acquired contributed HK$Nil to the Group's revenue and decreased the Group's profit before tax by HK$2,058,000 for the year ended 31 March 2010.

Had the business combination been effected on 1 April 2009, the revenue of the Group would have been no change and the profit for the year of the Group would have been decreased by HK$3,452,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the business combination been completed on 1 April 2009, nor is it intended to be a projection of future results.

29. MAJOR NON-CASH TRANSACTIONS

As detailed in note 28 to the financial statements, the Group acquired the entire interests of Richful Zone at a consideration of HK$130,000,000 which was satisfied by the issuance of convertible notes by the Company in the principal amount of HK$130,000,000.

30. OPERATING LEASE ARRANGEMENTS

As lessee:

At 31 March 2010, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,867	3,157	140	595
In the second to fifth year inclusive	1,489	2,664	–	–
	3,356	5,821	140	595

Leases are negotiated for term of one to five year with fixed monthly rentals over the lease term.

As lessor:

The Group leases out its investment properties under operating leases with lease term of one to fifteen years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Within one year	1,085	2,040
In the second to fifth year inclusive	542	2,320
	1,627	4,360

31. MARGIN FACILITIES

Margin facilities of HK$168,870,000 (2009:HK$58,875,000) from a regulated securities broker were granted to the Group under which financial assets at fair value through profit or loss of HK$354,442,000 (2009:HK$152,576,000) were made available to be charged for the facilities granted . As the Group has not utilised any of these facilities as at 31 March 2010 (2009:HK$Nil), therefore, no financial assets at fair value through profit or loss (2009: Nil) was charged to the securities broker.

32. SHARE-BASED PAYMENT

Pursuant to the Company's share option scheme (the "**Scheme**") adopted on 21 August 2003, for the primary purpose of providing incentive to directors and eligible employees and suppliers of goods or services of the Group 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 consultants and eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price of (i) the closing price of the shares of the Stock Exchange on the date of grant of the option, which must be a trading day or (ii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or (iii) 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 30% of the total number of the issued share of the Company from time to time. The shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company shall not exceed 10% of the shares in issue on the day of approval by shareholders of the Company.

The maximum number of shares in respect of which options may be granted to each participant (including both exercised and outstanding options) in any 12-month period cannot exceed 1% of the total number of the issued share of the Company. Upon acceptance of option, the grantee shall pay HK$1 to the Company by way of consideration of the grant. An option may be exercised at any time during the validity period of the options.

(a) Movements in share option scheme

Name of category of participant	Date of grant *(note i)*	As at 1 April 2008, 31 March 2009 and 1 April 2009	Granted during the year	Exercised during the year	As at 31 March 2010	Exercise Price *HK$*	Share price at the date of grant *(note ii)* *HK$*	Share price at the date of exercise *(note iii)* *HK$*
Executive directors								
Mr. Peter Temple Whitelam	3 March 2010	–	500,000	–	500,000	0.99	0.99	–
Mr. Lo Yuen Wa Peter	3 March 2010	–	1,000,000		1,000,000	0.99	0.99	–
Mr. Au Yeung Kai Chor	3 March 2010	–	1,000,000		1,000,000	0.99	0.99	–
Mr. Lam Suk Ping	3 March 2010	–	1,000,000	–	1,000,000	0.99	0.99	–
Staff and consultants	3 March 2010	–	51,092,401	(44,592,401)	6,500,000	0.99	0.99	0.99

Notes:

(i) The share options are fully vested upon the date of grant and may be exercised in whole or in part by the respective grantees at any time not later than 2 March 2020.

(ii) The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

(iii) The share price at the date of exercise is the Stock Exchange closing price on the trading date at the date of exercise of the options.

(b) Fair value of share options and assumptions

The fair value of share option granted under the share option scheme at the grant date was HK$0.223 per share option, which is calculated using the Black-Scholes Option Pricing Model with the following inputs:

Grant date share price:	HK$0.99
Exercise price:	HK$0.99
Dividend yield:	0%
Expected volatility:	80.99%
Expected life:	0.5 year
Risk-free rate:	0.17%

The expected volatility is based on historic volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value of the share options granted.

33. RETIREMENT BENEFIT SCHEME

Prior to 1 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 1 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 profit or loss 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$1,337,000 (2009: HK$1,715,000).

As at 31 March 2010 and 2009, there were no 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.

34. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

(i) Transactions with a non-controlling shareholder

Name of party	**Nature of transactions**	**2010**	**2009**
		HK$'000	*HK$'000*
東莞市橋光實業集團公司 Dongguan City Qiao Guang Industrial Group Company	Rental expense	1,106	927

(ii) Transactions with other related companies

Name of party	**Relationship**	**Nature of transactions**	**2010**	**2009**
			HK$'000	*HK$'000*
Mascotte Investments Limited	A company controlled by a key management personnel	Rental expense	862	930

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	11,736	12,363
Post-employment benefits	115	403
Share-based payments	782	–
	12,633	12,766

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. AMOUNTS DUE FROM/ TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed repayment term.

36. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, loan and interest receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, bank balances and cash and other financial liabilities. Details of these financial instruments 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.

Equity price risk

The Group is exposed to equity price risk arising from investments held for trading classified as financial assets at fair value through profit or loss in the statements of financial position. The sensitivity analysis has been determined based on the exposure to equity price risk.

At the end of the reporting period, if the quoted market prices of the trading securities had been 17% (2009: 37%) higher or lower while all other variables were held constant, the Group's net profit would be increased or decreased by HK$58 million (2009: net loss would be decreased or increased by HK$45 million) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent directors' assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next end of annual reporting period. The analysis is performed on the same basis for 2009.

Foreign currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi, Euros and United States dollars.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	2010			2009		
	United States Dollars *('000)*	**Euros** *('000)*	**Renminbi** *('000)*	**United States Dollars** *('000)*	**Euros** *('000)*	**Renminbi** *('000)*
Trade and other receivables	3,263	86	–	3,804	162	34
Cash and cash equivalents	687	1,020	–	1,231	66	–
Trade and other payables	(40)	–	–	(47)	–	(132)
Overall net exposure	3,910	1,106	–	4,988	228	(98)

Sensitivity analysis

The following table indicates the approximate change in the Group's net profit (2009: net loss) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in net profit** *HK$'000*	**Increase/ (decrease) in foreign exchange rates**	**(Decrease)/ increase in net loss** *HK$'000*
United States Dollars	1%	302	1%	(386)
	(1%)	(302)	(1%)	386
Euros	2%	231	17%	(396)
	(2%)	(231)	(17%)	396
Renminbi	–	–	2%	2
	–	–	(2%)	(2)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at the date, and that all other variables, in particular interest rates, remain constant. No impact on the other equity reserves is expected. The analysis is performed on the same basis for 2009.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of annual reporting period. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies.

Cash flow interest rate risk

The Group is exposed to cash flow interest risk in relation to certain variable-rate loans and advances. The Group currently does not have a cash flow interest rate hedging policy. However, the Group is closely monitoring its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's certain variable interest rate loan receivables. However, cash flow interest rate risk is considered minimal as the variable interest rate loan receivables have short maturity date.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of reporting period. Management therefore carefully manages its exposure to credit risk.

The Group's credit risk is primarily attributable to its trade receivables and loan and interest receivables.

Credit risk attributable to trade receivables

The Group is exposed to concentration of credit risk on trade receivable as a substantial portion of its trade receivables is generated from a limited number of counterparties and customers respectively. As at 31 March 2010, the top five customers, in term of trade receivables, of the Group accounted for about 70% (2009: 66%) of the Group's trade receivables. The Group manages its credit risk on trade receivables by closely monitoring the granting of credit period.

Credit risk attributable to loan and interest receivables

The Group also has exposed to concentration of credit risk on certain loan and interest receivables. At 31 March 2010, 100% (2009: 77%) of loan and interest receivables, before impairment allowances, is generated from the Group's top four borrowers of the loan financing segment.

The Group manages its credit risk on loan and interest receivables through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group reviews the recoverable amount of each individual debt at end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Credit risk attributable to bank balances

Although the bank balances held by the Group are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are creditworthy licensed banks.

Other than the above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	The Group		The Company	
	On demand or within 1 year		On demand or within 1 year	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	9,327	7,548	–	–
Other payables and accrued charges	22,161	14,962	5,088	2,074
Income tax payable	12,642	10,839	–	–
Amount due to subsidiaries	–	–	89,191	89,601
	44,130	33,349	94,279	91,675

Fair value of financial instruments

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices. The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value disclosures

The following presents the carrying value of financial instruments measured at fair value at 31 March 2010 across the three levels of the fair value hierarchy defined in HKFRS 7: *Financial Instruments:* Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

		The Group			
2010		**Level 1**	**Level 2**	**Level 3**	**Total**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:					
Equity securities, listed in Hong Kong		343,445	–	–	343,445
Unlisted convertible notes	*(a)*	–	14,203	–	14,203

		The Company			
2010		**Level 1**	**Level 2**	**Level 3**	**Total**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:					
Equity securities, listed in Hong Kong		337,289	–	–	337,289
Unlisted convertible notes	*(a)*	–	14,203	–	14,203

During the year ended 31 March 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

(a) The fair value of unlisted convertible notes at the end of reporting period has been measured by an independent qualified professional valuer, Asset Appraisal Limited, based on reliable estimates of prices obtained in actual market transactions.

37. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2010 and 2009.

The Group monitors capital using a gearing ratio, which is total of trade and other payables and tax payable, net of cash and bank balances divided by the equity attributable to owners of the parent. The gearing ratio at the end of the reporting periods was as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	31,488	22,510	5,088	2,074
Tax payable	12,642	10,839	–	–
Less: Cash and bank balances	(75,720)	(33,228)	(47,104)	(18,789)
	(31,590)	121	(42,016)	(16,715)
Equity attributable to owners of the parent	651,254	356,276	576,739	288,334
Gearing ratio	N/A	0.03%	N/A	N/A

38. EVENTS AFTER THE REPORTING PERIOD

In addition to the events happened after the reporting period and disclosed elsewhere in these consolidated financial statements, a summary of events after the reporting period is set out below:

(a) Placing of shares

On 8 March 2010, the Company and Chung Nam Securities Limited ("**CNSL**"), a placing agent entered into a placing agreement pursuant to which CNSL conditionally agreed to place an aggregate of 109,184,800 placing shares at a price of HK$0.99. The placing was completed on 28 April 2010.

(b) Bonus issue of shares

The directors of the Company have recommended a bonus issue of three new shares, credited as fully paid, for every two shares held by the shareholders of the Company whose names appear on the register of members of the Company on 29 July 2010 and subject to the following conditions: (i) the passing by the shareholders of the Company at a special general meeting of an ordinary resolution approving the bonus issue; and (ii) the Listing Committee of the Stock Exchange agreeing to grant the approval for the listing of, and permission to deal in, the bonus shares to be issued pursuant to the bonus issue. Such bonus shares credited as fully paid will rank pari passu in all respects with the existing issued shares of the Company.

(b) Financial statements for the year ended 31 March 2009

Set out below is the audited consolidated financial statements of the Group for the year ended 31 March 2009 together with comparative figures, as extract from 2009 annual report of the Company.

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000* (restated)
Turnover	*4*	134,872	148,455
Cost of sales		(143,514)	(149,799)
Gross loss		(8,642)	(1,344)
Other income	*6*	44,290	18,720
Net unrealised holding loss on financial assets at fair value through profit or loss		(139,008)	(161,349)
Selling and distribution costs		(8,742)	(6,396)
Administrative expenses		(49,547)	(47,013)
Impairment allowance for loan and interest receivables	*21(a)*	(182,500)	–
Gain (Loss) on fair value changes on investment properties		360	(29,295)
Finance costs	*7*	(43)	(2,607)
Loss before taxation	*8*	(343,832)	(229,284)
Income tax expense	*10*	(1,458)	(3,504)
Loss for the year		(345,290)	(232,788)
Attributable to:			
Equity holders of the Company		(345,273)	(232,808)
Minority interests		(17)	20
		(345,290)	(232,788)
Loss per share	*12*		
Basic		HK$(1.34)	HK$(1.92)

Consolidated Statement of Financial Position
As at 31 March 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000* (restated)
Non-current assets			
Investment properties	*13*	18,639	133,373
Property, plant and equipment	*14*	5,948	7,877
Prepaid lease payments	*15*	5,368	5,926
Available-for-sale financial assets	*18*	20,000	–
Goodwill	*16*	–	–
		49,955	147,176
Current assets			
Financial assets at fair value through profit or loss	*17*	152,576	173,928
Inventories	*19*	5,586	8,100
Prepaid lease payments	*15*	665	653
Trade and bills receivables	*20*	24,358	28,541
Loan and interest receivables	*21*	105,920	226,753
Other receivables and prepayments	*22*	20,782	23,846
Income tax recoverable		–	22
Bank balances and cash	*23*	33,228	41,426
		343,115	503,269
Current liabilities			
Trade payables	*24*	7,548	13,467
Other payables and accrued charges		14,962	17,549
Income tax payable		10,839	9,908
		33,349	40,924
Net current assets		309,766	462,345
Total assets less current liabilities		359,721	609,521
Capital and reserves			
Share capital	*25*	28,592	190,616
Reserves		327,684	415,505
Equity attributable to equity holders of the Company		356,276	606,121
Minority interests		3,445	3,400
Total equity		359,721	609,521

Consolidated Statement of Changes in Equity
For the year ended 31 March 2009

		Attributable to equity holders of the Company									
	Notes	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 Note (a)	Translation reserve HK$'000	Reserve fund HK$'000 Note (b)	Enterprise expansion reserve HK$'000 Note (b)	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2007		44,400	73,272	48,231	(2,313)	1,084	1,083	70,758	236,515	3,038	239,553
Exchange movement during the year recognised directly in equity		–	–	–	12,888	–	–	–	12,888	342	13,230
Loss for the year		–	–	–	–	–	–	(232,808)	(232,808)	20	(232,788)
Total recognised income (losses) for the year		–	–	–	12,888	–	–	(232,808)	(219,920)	362	(219,558)
Issue of share, net of expenses		16,976	57,506	–	–	–	–	–	74,482	–	74,482
Share options granted and exercised		4,240	24,304	–	–	–	–	–	28,544	–	28,544
Convertible notes issued and converted, net of expenses		125,000	362,500	–	–	–	–	–	487,500	–	487,500
Release of special reserve upon disposal of subsidiaries		–	–	(1,000)	–	–	–	–	(1,000)	–	(1,000)
At 31 March 2008		190,616	517,582	47,231	10,575	1,084	1,083	(162,050)	606,121	3,400	609,521
At 1 April 2008		190,616	517,582	47,231	10,575	1,084	1,083	(162,050)	606,121	3,400	609,521
Exchange movement during the year recognised directly in equity		–	–	–	3,138	–	–	–	3,138	62	3,200
Loss for the year		–	–	–	–	–	–	(345,273)	(345,273)	(17)	(345,290)
Total recognised income (losses) for the year		–	–	–	3,138	–	–	(345,273)	(342,135)	45	(342,090)
Issue of shares on rights issues, net of expenses	25(a)	95,308	42,654	–	–	–	–	–	137,962	–	137,962
Release of special and translation reserves upon disposal of subsidiaries	26	–	–	(33,330)	(12,342)	–	–	–	(45,672)	–	(45,672)
Capital reorganisation, net of expenses	25(b)	(257,332)	–	–	–	–	–	257,332	–	–	–
At 31 March 2009		28,592	560,236	13,901	1,371	1,084	1,083	(249,991)	356,276	3,445	359,721

Notes:

(a) The special reserve at 1 April 2007 represented the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation on 5 September 1997. On 24 July 2006, the Group acquired assets and liabilities from the substantial shareholder of the Group by way of acquisition of a subsidiary at a discount of HK$33,330,000, which represented the excess of fair value of assets and liabilities acquired through the acquisition of a subsidiary over the consideration paid and was deemed as capital contribution from the substantial shareholder and credited to special reserve. During the year, the deemed capital contribution of amount HK$33,330,000 together with cumulative translation reserve related to the disposed subsidiary has been released in full.

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

Consolidated Cash Flow Statement
For the year ended 31 March 2009

	Note	2009 HK$'000	2008 HK$'000 (restated)
OPERATING ACTIVITIES			
Loss before taxation		(343,832)	(229,284)
Adjustments for:			
Bank interest income		(87)	(801)
Other interest income		–	(576)
Interest income from loan receivables		(24,206)	(1,753)
Dividend income from listed investments		(764)	–
Interest expenses		43	2,607
Impairment allowance for other receivables		416	44
(Reversal of allowance) Allowance for inventories		(252)	150
Impairment allowance for loan and interest receivables		182,500	–
Release of prepaid lease payments		665	639
Depreciation of property, plant and equipment		1,667	2,340
Gain on disposal of investment properties		–	(300)
Gain on disposal of property, plant and equipment		(2,870)	(10,289)
Gain on disposal of subsidiaries	26	(40,708)	(3,955)
Net unrealised holding loss on financial assets at fair value through profit or loss		139,008	161,349
Equity-settled share-based payment		–	4,024
(Gain) Loss on fair value changes on investment properties		(360)	29,295
Operating cash flows before movements in working capital		(88,780)	(46,510)
Changes in working capital:			
Financial assets at fair value through profit or loss		(5,656)	(335,277)
Inventories		2,907	5,579
Trade and bills receivables		(2,218)	10,458
Loan and interest receivables		(62,500)	(218,115)
Other receivables and prepayments		1,978	(16,712)
Trade payables		(5,723)	(1,021)
Other payables and accrued charges		5,270	3,540
Cash used in operations		(154,722)	(598,058)
Interest received from loan receivables		25,039	–
Other interest received		–	576
Dividend received from listed investments		764	–
Tax paid		(113)	(3,431)
Net cash used in operating activities		(129,032)	(600,913)

	Note	**2009** *HK$'000*	**2008** *HK$'000* (restated)
INVESTING ACTIVITIES			
Addition of investment properties		–	(5,242)
Addition of property, plant and equipment		(1,190)	(819)
Proceeds from disposal of subsidiaries		–	58,299
Disposal of subsidiaries	*26*	(349)	–
Proceeds from disposal of property, plant and equipment		4,352	33,438
Proceeds from disposal of investment properties		–	28,300
Addition of available-for-sale financial assets		(20,000)	–
Interest received		87	801
Net cash (used in) from investing activities		(17,100)	114,777
FINANCING ACTIVITIES			
Repayment of bank loans		–	(71,252)
Proceeds from issue of convertible notes, net of expenses		–	487,500
Proceeds from issue of new shares, net of expenses		–	74,482
Proceeds from issue of new shares on rights issue, net of expenses		137,962	–
Proceeds from issue of new shares based on share option scheme		–	24,520
Interest paid		(43)	(2,607)
Net cash from financing activities		137,919	512,643
Net (decrease) increase in cash and cash equivalents		(8,213)	26,507
Cash and cash equivalents at beginning of the year		41,426	14,672
Effect of foreign exchange rate changes		15	247
Cash and cash equivalents at end of the year, representing bank balances and cash		33,228	41,426

Notes to the Consolidated Financial Statements

For the year ended 31 March 2009

1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office and principal place of business of the Company are disclosed in the directory of the annual report.

The Company and its subsidiaries (the "**Group**") is principally engaged in loan financing, trading of investments, manufacture and sale of accessories for photographic, electrical and multimedia products and property investment.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2008 consolidated financial statements. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for investment properties and certain financial instruments, which are measured at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from equity holders of the parent. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's relevant cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

Revenue recognition

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

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

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

Handling fees income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Net income (loss) from the sales of financial assets at fair value through profit or loss is recognised on the transaction date when the relevant sale and purchase contract is entered into.

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.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at costs including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at its fair value. Gains or losses arising from changes in the fair value of investment properties 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 and 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 consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

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

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 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 consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Impairment of non-financial assets (other than goodwill (see the accounting policy in respect of goodwill))

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or 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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, loan and interest receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss. 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to income statement. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits/accumulated losses.

Other financial liabilities

Other financial liabilities including trade payables, other payables and income tax payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts, if any.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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 income statement 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 purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit scheme/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Long service payment

The Group's net obligation in respect of long service payment under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets including retirement scheme benefit, is deducted.

Share based payment transactions

Equity-settled transactions

The Group's employees and consultants receive remuneration in the form of share-based payment transactions, whereby the employees and consultants rendered services in exchange for shares or rights over shares. The cost of such transactions with employees and consultants is measured by reference to the fair value at the transaction date. The fair value of share options granted to employees and consultants is recognised as staff costs and consultancy fee respectively with a corresponding increase in a reserve within equity. The fair value is determined using the binominal model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees and consultants become fully entitled to the award (i.e. vesting date). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to reserve within equity. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of investment properties, plant and equipment, prepaid lease payments, available-for-sale financial assets, financial assets at fair value through profit or loss, inventories, receivables, operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

In respect of geographical segment reporting, sales are based on the destination of shipment of merchandise and total assets and capital expenditure are where the assets are located.

Related parties

A party is related to the Group if

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

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group;

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

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

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Allowance for inventories

The Group's management reviews the carrying amount of inventories at each balance sheet date, and make allowance for obsolete and slow-moving items identified that are no longer recoverable or suitable for use in production. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

Impairment allowance for doubtful debts

The provisioning policy for doubtful debts of the Group is based on the evaluation of collectability of the accounts receivables and loan and interest receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/borrower. If the financial conditions of these customers/borrowers were to deteriorate and result in an impairment of their ability to make payments, additional allowance will be required.

Fair value of investment properties and unlisted convertible notes

Investment properties and unlisted convertible notes are stated at fair value based on the valuations performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation reports, the directors of the Group have exercised their judgement and are satisfied that the method of valuations is reflective of the current market conditions.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective for the current year and which have not been early adopted.

The directors are in the process of assessing the possible impact on the future adoption of those new/revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

3. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, loan and interest receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, bank balances and cash and other financial liabilities. Details of these financial instruments 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.

Equity price risk

The Group is exposed to equity price risk arising from investments held for trading classified as financial assets at fair value through profit or loss in the consolidated balance sheet. The sensitivity analysis has been determined based on the exposure to equity price risk.

At the balance sheet date, if the quoted market prices of the trading securities had been 37% (2008: 30%) higher or lower while all other variables were held constant, the Group's net loss would decrease or increase by HK$45.2 million (2008: HK$52.7 million) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent directors' assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

Foreign currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi, Euros and United States dollars.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	2009			2008		
	United States Dollars *('000)*	**Euros** *('000)*	**Renminbi** *('000)*	**United States Dollars** *('000)*	**Euros** *('000)*	**Renminbi** *('000)*
Trade and other receivables	3,804	162	34	3,127	91	–
Cash and cash equivalents	1,231	66	–	579	19	–
Trade and other payables	(47)	–	(132)	(137)	–	(1,024)
Overall net exposure	4,988	228	(98)	3,569	110	(1,024)

Sensitivity analysis

The following table indicates the approximate change in the Group's net loss (2008: net loss) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in net loss** *HK$'000*	**Increase/ (decrease) in foreign exchange rates**	**(Decrease)/ increase in net loss** *HK$'000*
United States Dollars	1%	(386)	1%	(277)
	(1%)	386	(1%)	277
Euros	17%	(396)	17%	(231)
	(17%)	396	(17%)	231
Renminbi	2%	2	10%	114
	(2%)	(2)	(10%)	(114)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at the date, and that all other variables, in particular interest rates, remain constant. No impact on the other equity reserves is expected. The analysis is performed on the same basis for 2008.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies.

Cash flow interest rate risk

The Group is exposed to cash flow interest risk in relation to variable-rate loans and advances. The Group currently does not have a cash flow interest rate hedging policy. However, the Group is closely monitoring its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's variable interest rate loan receivables.

For the year ended 31 March 2009, if the interest rate of loan receivables had been 25 basis point (2008: 25 basis point) higher/lower, the Group's net loss would decrease/ increase by HK$72,000 (2008: HK$4,000). This is mainly attributable to the loan interest income derived from loan receivables.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are made for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different form those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group's credit risk is primarily attributable to its trade receivables and loan and interest receivables.

The Group is exposed to concentration of credit risk on trade receivable as a substantial portion of its trade receivables is generated from a limited number of counterparties and customers respectively. As at 31 March 2009, the top five customers, in term of trade receivables, of the Group accounted for about 66% (2008: 54%) of the Group's trade receivables. The Group manages its credit risk on trade receivables by closely monitoring the granting of credit period.

The Group also has exposed to concentration of credit risk on loan and interest receivables. At 31 March 2009, 56% (2008: 88%) of loan and interest receivables, before impairment allowances, is generated from a single borrower. A full provision of impairment allowance had been made for the loan and interest receivables from this single borrower during the year. The Group manages its credit risk on loan and interest receivables through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are creditworthy licensed banks.

Other than the above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from financing cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	On demand or within 1 year	
	2009	**2008**
	HK$'000	*HK$'000*
Trade payables	7,548	13,467
Other payables and accrued charges	14,962	17,549
Income tax payable	10,839	9,908
	33,349	40,924

Capital management

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2009 and 2008.

The Group monitors capital using a gearing ratio, which is total of trade and other payables and tax payable, net of cash and bank balances divided by the equity attributable to equity holders of the Company. The gearing ratio as at the balance sheet dates was as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Trade and other payables	22,510	31,016
Tax payable	10,839	9,908
Less: Cash and bank balances	(33,228)	(41,426)
	121	(502)
Equity attributable to equity holders of the Company	356,276	606,121
Gearing ratio	0.03%	N/A

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of investments held for trading is based on the quoted market bid prices available on the relevant Stock Exchange.

4. TURNOVER

		2009	**2008**
	Notes	*HK$'000*	*HK$'000*
			(restated)
Dividend income from listed investments		764	–
Interest income from loan receivables	*(a)*	24,206	1,753
Handling fee income		5,000	–
Gross rental income		4,937	7,410
Net losses from the sales of financial assets at fair value through profit or loss	*(b)*	(86,246)	(59,653)
Sales of goods		186,211	198,945
		134,872	148,455

Notes:

(a) The Group classified the interest income from loan receivables as other income in the prior year's consolidated income statement. During the year, loan financing became one of the major lines of business and was presented as a separate business segment for account presentation purpose. In the opinion of the directors, it is more appropriate to classify the related activities as operating activities so as to provide more relevant information in respect of the Group's operations. The effect of this change in presentation was to increase turnover and decrease other income for the year ended 31 March 2009 by HK$24,206,000.

To conform with the current year's presentation, turnover was increased and other income was decreased by HK$1,753,000 for the year ended 31 March 2008. This has resulted in no change in the results of the Group in respect of the current and prior years.

(b) The Group's proceeds from the sales of financial assets at fair value through profit or loss and the corresponding carrying amount were separated into "Turnover" and "Cost of investments held for trading" respectively, in prior year's consolidated income statement. During the year, the Group changed its presentation, as in the opinion of the directors, to conform with market practice, it is more appropriate to present the losses or gains from the sales of financial assets at fair value through profit or loss in "Turnover" on a net basis.

The effect of this change in presentation was to decrease turnover and cost of investments held for trading for the year ended 31 March 2009 by HK$268,407,000, representing the carrying amount of investments at fair value through profit or loss disposed of during the year.

To conform with the current year's presentation, the carrying amount of financial assets at fair value through profit or loss disposed of for the year ended 31 March 2008 of HK$502,582,000 has been offset against turnover, resulting in a decrease in turnover and cost of investments held for trading for that year by the same amount. This has resulted in no change in the results of the Group in respect of the current and prior years.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Consolidated income statement for the year ended 31 March 2009

	Loan financing	**Investments**	**Manufacture and sales of goods**	**Property investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
To external customers	29,206	(85,482)	186,211	4,937	134,872
Segment results	(155,703)	(224,825)	9,653	42,314	(328,561)
Unallocated other income					3,282
Unallocated corporate expenses					(18,510)
Finance costs					(43)
Loss before taxation					(343,832)
Income tax expense					(1,458)
Loss for the year					(345,290)

Consolidated balance sheet at 31 March 2009

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	105,920	186,821	47,708	18,739	359,188
Unallocated corporate assets					33,882
Consolidated total assets					393,070
Liabilities					
Segment liabilities	–	–	20,612	–	20,612
Unallocated corporate liabilities					12,737
Consolidated total liabilities					33,349

Other information for the year ended 31 March 2009

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reversal of allowance for inventories	–	–	(252)	–	–	(252)
Capital expenditures	–	–	1,150	–	40	1,190
Depreciation of property, plant and equipment	–	–	1,659	5	3	1,667
Gain on disposal of property, plant and equipment	–	–	–	–	(2,870)	(2,870)
Gain on disposal of subsidiaries	–	–	(1,221)	(39,487)	–	(40,708)
Impairment allowance on other receivables	300	–	–	–	116	416
Impairment allowance on loan and interest receivables	182,500	–	–	–	–	182,500
Gain on fair value changes on investment properties	–	–	–	(360)	–	(360)
Net unrealised holding loss on financial assets at fair value through profit or loss	–	139,008	–	–	–	139,008
Release of prepaid lease payments	–	–	–	665	–	665

Consolidated income statement for the year ended 31 March 2008 (restated)

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
To external customers	1,753	(59,653)	198,945	7,410	148,455
Segment results	1,753	(229,199)	15,944	(13,815)	(225,317)
Unallocated other income					12,183
Unallocated corporate expenses					(13,543)
Finance costs					(2,607)
Loss before taxation					(229,284)
Income tax expense					(3,504)
Loss for the year					(232,788)

Consolidated balance sheet at 31 March 2008 (restated)

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	226,753	190,455	52,437	138,138	607,783
Unallocated corporate assets					42,662
Consolidated total assets					650,445
Liabilities					
Segment liabilities	–	–	24,082	5,965	30,047
Unallocated corporate liabilities					10,877
Consolidated total liabilities					40,924

Other information for the year ended 31 March 2008

	Loan financing	Investments	Manufacture and sales of goods	Property investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Allowance for inventories	–	–	150	–	–	150
Capital expenditures	–	–	819	5,242	–	6,061
Depreciation of property, plant and equipment	–	–	1,923	–	417	2,340
Gain on disposal of property, plant and equipment	–	–	–	–	(10,289)	(10,289)
Gain on disposal of investment properties	–	–	–	(300)	–	(300)
Gain on disposal of subsidiaries	–	–	–	(3,955)	–	(3,955)
Impairment loss on receivables	–	–	44	–	–	44
Loss on fair value changes on investment properties	–	–	–	29,295	–	29,295
Net unrealised holding loss on financial assets at fair value through profit or loss	–	161,349	–	–	–	161,349
Release of prepaid lease payments	–	–	639	–	–	639

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 is carried out in other regions in the PRC. Investments trading and loan financing are carried out in Hong Kong.

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

	2009	2008
	HK$'000	*HK$'000* (restated)
Europe	104,364	117,894
United States of America	31,344	28,842
Hong Kong	(47,774)	(49,226)
Other regions in the PRC	12,437	18,585
Others	34,501	32,360
	134,872	148,455

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

	Carrying amount of segment assets		Additions to property, plant and equipment		Additions to investment properties	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	321,303	448,674	713	450	–	292
Other regions in the PRC	37,885	159,109	477	369	–	4,950
	359,188	607,783	1,190	819	–	5,242

6. OTHER INCOME

	2009	**2008**
	HK$'000	*HK$'000* (restated)
Bank interest income	87	801
Other interest income	–	576
Exchange gains, net	–	2,132
Gain on disposal of subsidiaries	40,708	3,955
Gain on disposal of investment properties	–	300
Gain on disposal of property, plant and equipment	2,870	10,289
Sundry income	625	667
	44,290	18,720

7. FINANCE COSTS

	2009	**2008**
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	43	743
Bank and other borrowings not wholly repayable within five years	–	1,864
	43	2,607

8. LOSS BEFORE TAXATION

	2009	2008
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging/(crediting):		
(Reversal of allowance) Allowance for inventories	(252)	150
Auditor's remuneration	1,050	980
Change in fair value of investment properties	(360)	29,295
Cost of inventories recognised as expenses	143,514	149,649
Depreciation of property, plant and equipment	1,667	2,340
Equity-settled share-based payment	–	4,024
Impairment allowance on other receivables	416	44
Impairment allowance on loan and interest receivables	182,500	–
Minimum lease payments for operating leases in respect of rented premises	3,478	3,548
Release of prepaid lease payments	665	639
Staff costs including directors' emoluments and contributions to retirement benefits schemes	38,556	38,791
Exchange loss (gain), net	127	(2,132)
Gain on disposal of property, plant and equipment	(2,870)	(10,289)
Gain on disposal of investment properties	–	(300)
Gain on disposal of subsidiaries	(40,708)	(3,955)
Gross rental income from investment properties	(4,937)	(7,410)
Less: direct operating expenses that generated rental income	649	640
	(4,288)	(6,770)

9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The emoluments paid or payable to each of the directors are as follows:

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009							
Executive Directors							
Au Yeung Kai Chor	–	–	–	581	12	295	888
Chan Oi Ling, Maria Olimpia	–	7 April 2008	–	57	–	22	79
Chung, Wilson	–	24 July 2008	–	94	4	–	98
Peter Temple Whitelam	–	–	–	526	–	–	526
Lam Suk Ping	7 April 2008	–	–	583	12	–	595
Lo Yuen Wa Peter	24 July 2008	–	–	594	8	–	602
Independent Non-Executive Directors							
Chan Sze Hung	–	–	200	–	–	–	200
Cheung Ngai Lam	–	7 April 2008	–	–	–	–	–
Hui Wai Man, Shirley	–	–	120	–	–	–	120
Kristi L Swartz	–	–	120	–	–	–	120
Lui Wai Shan, Wilson	–	7 April 2008	1	–	–	–	1
			441	2,435	36	317	3,229

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008							
Executive Directors							
Au Yeung Kai Chor	6 June 2007	–	–	400	10	–	410
Chan Oi Ling, Maria Olimpia	–	–	–	4,760	12	909	5,681
Chung, Wilson	28 January 2008	–	–	50	–	–	50
Lam Yu Ho, Daniel	–	28 January 2008	–	1,900	–	–	1,900
Peter Temple Whitelam	1 August 2007	–	–	240	–	–	240
Wong, Dickie *(note)*	6 June 2007	28 January 2008	–	909	8	–	917
Independent Non-Executive Directors							
Chan Sze Hung	6 June 2007	–	164	–	–	–	164
Cheung Ngai Lam	–	–	50	–	–	–	50
Hui Wai Man, Shirley	31 March 2008	–	–	–	–	–	–
Kristi L Swartz	12 November 2007	–	46	–	–	–	46
Lui Wai Shan, Wilson	–	–	55	–	–	–	55
Wong Yui Leung, Larry	–	12 November 2007	57	–	–	–	57
			372	8,259	30	909	9,570

Note: During the year 2008, the Group paid salaries and allowances of HK$1,412,000 in aggregate to Ms. Dickie Wong in which HK$917,000 was paid for the capacity as director of the Company as disclosed above; the balance was paid during the period of which she was not acting as director of the Company.

Highest paid employees

The five highest paid individuals of the Group did not include any director (2008: included three directors, details of whose emoluments are set out above). The emoluments of the five (2008: two) highest paid individuals are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Salaries and other benefits	8,865	2,309
Retirement benefits scheme contributions	36	12
Rentals paid/rateable value in respect of quarters provided	1,128	216
	10,029	2,537

The emoluments were within the following bands:

	No. of employees	
	2009	**2008**
HK$1,000,001 to HK$1,500,000	2	2
HK$1,500,001 to HK$2,000,000	2	–
HK$4,000,001 to HK$4,500,000	1	–
	5	2

10. INCOME TAX EXPENSE

	2009	**2008**
	HK$'000	*HK$'000*
The charge comprises:		
Current year		
Hong Kong	809	1,709
Other regions in the PRC	615	1,795
	1,424	3,504
Under provision in prior years		
Other regions in the PRC	34	–
	1,458	3,504

Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) on 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.

Subsidiaries in the PRC are subject to new Enterprise Income Tax Law with effect from 1 January 2008. The new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, subject to certain transitional arrangements. Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries was exempted from PRC income tax for two years starting from its first profit-making year (i.e calendar year 2005), followed by a 50% reduction for the next three years.

The income tax expense for the year can be reconciled from loss before taxation per the consolidated income statement as follows:

	2009	2008
	HK$'000	*HK$'000*
Loss before taxation	(343,832)	(229,284)
Tax at the Hong Kong Profits tax rate of 16.5% (2008: 17.5%)	(56,732)	(40,125)
Non-deductible expenses	27,231	9,369
Tax exempt revenue	(7,393)	(4,616)
Underprovision in prior years	23	–
Unrecognised tax losses	38,207	39,221
Unrecognised temporary differences	(29)	52
Effect of different tax rates of subsidiaries operating in other jurisdictions	44	(357)
Others	107	(40)
Income tax expense for the year	1,458	3,504

At 31 March 2009, the Group has unused tax losses of HK$456,092,000 (2008:HK$222,729,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

11. DIVIDENDS

No dividend has been proposed by the directors for the years ended 31 March 2009 and 2008.

12. LOSS PER SHARE – BASIC

The calculation of basic loss per share attributable to equity holders of the Company is based on the following data:

	2009	2008
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	(345,273)	(232,808)

	No. of shares	
	2009	2008
		(restated)
Weighted average number of ordinary shares for the purpose of basic loss per share	258,415,148	121,381,565

No diluted loss per share is presented for the year 2009 as there were no potential ordinary shares in issue during the year. No diluted loss per share was presented for the year 2008 as all of the Company's share options granted and convertible notes issued, which had been fully exercised and converted respectively during the year 2008, have an anti-dilutive effect.

The weighted average number of ordinary shares adopted in the calculation of the basic loss per share for years 2009 and 2008 has been adjusted to reflect the impacts of share consolidation and rights issue during the year.

13. INVESTMENT PROPERTIES

	Note	2009 HK$'000	2008 HK$'000
At fair value			
At beginning of the year		133,373	210,575
Exchange adjustments		2,842	15,399
Additions		–	5,242
Disposal of assets through disposal of subsidiaries	26	(117,936)	(40,548)
Disposal		–	(28,000)
Gain (Loss) on fair value changes		360	(29,295)
At end of the year		18,639	133,373

The carrying values of the Group's investment properties at 31 March 2009 are analysed as follows:

	2009 HK$'000	2008 HK$'000
Situated in the PRC held under medium-term leases	18,639	133,373

All of the Group's property interests in land held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The investment properties have been valued as at 31 March 2009 on the basis carried out at that date by Chung, Chan & Associates, Chartered Surveyors, independent qualified professional valuers not connected with the Group, who are members of Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards, was arrived at using two primary methods, namely the comparison approach and the income capitalisation approach.

Certain of the Group's investment properties are rented out under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 April 2007	56,464	3,606	3,736	22,384	6,869	93,059
Exchange adjustments	684	39	13	1,799	190	2,725
Additions	–	331	210	278	–	819
Disposal of subsidiaries	(19,664)	(1,081)	(163)	–	–	(20,908)
Disposals	(28,976)	(611)	(1,186)	(6,142)	(558)	(37,473)
At 31 March 2008	8,508	2,284	2,610	18,319	6,501	38,222
Exchange adjustments	125	10	2	248	31	416
Additions	–	120	161	362	547	1,190
Disposal of subsidiaries	–	(44)	(20)	–	–	(64)
Disposals	(1,601)	(74)	–	(4)	(750)	(2,429)
At 31 March 2009	7,032	2,296	2,753	18,925	6,329	37,335
Depreciation						
At 1 April 2007	13,705	2,791	2,959	21,507	4,617	45,579
Exchange adjustments	363	36	10	1,747	139	2,295
Provided for the year	658	144	187	751	600	2,340
Eliminated on disposal of subsidiaries	(4,527)	(895)	(123)	–	–	(5,545)
Eliminated on disposals	(6,537)	(204)	(1,021)	(6,140)	(422)	(14,324)
At 31 March 2008	3,662	1,872	2,012	17,865	4,934	30,345
Exchange adjustments	64	7	2	245	26	344
Provided for the year	338	96	161	467	605	1,667
Eliminated on disposal of subsidiaries	–	(15)	(7)	–	–	(22)
Eliminated on disposals	(160)	(37)	–	–	(750)	(947)
At 31 March 2009	3,904	1,923	2,168	18,577	4,815	31,387
Carrying values						
At 31 March 2009	3,128	373	585	348	1,514	5,948
At 31 March 2008	4,846	412	598	454	1,567	7,877

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

Leasehold land and 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 carrying values of the Group's leasehold land and buildings at 31 March 2009 are analysed as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Situated in the PRC held under medium-term leases	3,128	4,846

15. PREPAID LEASE PAYMENTS

	2009	**2008**
	HK$'000	*HK$'000*
Leasehold interests in land in the PRC under medium-term lease	6,033	6,579
Analysed for reporting purposes as:		
Current	665	653
Non-current	5,368	5,926
	6,033	6,579

16. GOODWILL

	HK$'000
Cost	
At 1 April 2007, 1 April 2008 and 31 March 2009	7,042
Impairment	
At 1 April 2007, 1 April 2008 and 31 March 2009	7,042
Carrying amount	
At 31 March 2008 and 2009	–

For the purpose of impairment testing in previous years, goodwill was allocated to an individual cash generating unit (CGU) which was engaged in manufacture and sales of goods and was expected to benefit from that business combination.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2009 HK$'000	2008 HK$'000
Investments held for trading			
– Equity securities, listed in Hong Kong	*(a)*	126,463	173,928
Investments designated as at fair value upon initial recognition			
– Unlisted convertible notes	*(b)*	26,113	–
		152,576	173,928

(a) The fair value of listed equity securities is based on quoted market prices in active markets at the balance sheet date.

(b) The fair value of unlisted convertible notes at the balance sheet has been measured by an independent qualified professional valuer, Asset Appraisal Limited, based on reliable estimates of prices obtained in actual market transactions.

(c) Included in the amount of listed equity securities above is the Group's investment in Unity Investments Holdings Limited ("**Unity**"), a limited liability company incorporated in the Cayman Islands with shares listed on the Stock Exchange. The investment represents about 27.81% of the ordinary shares of Unity. Management is of view that there is no intention to appoint any representative to the board of Unity.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 HK$'000	2008 HK$'000
Unlisted investments, at cost	20,000	–

The directors of the Company are of the opinion that their fair values cannot be measured reliably because the above available-for-sale investments do not have a quoted market price in an active market. Accordingly, they are measured at cost less impairment at each balance sheet date.

No impairment loss has been provided in respect of the above financial assets.

19. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	2,900	5,000
Work-in-progress	1,366	843
Finished goods	1,320	2,257
	5,586	8,100

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

20. TRADE AND BILLS RECEIVABLES

	Note	2009 HK$'000	2008 HK$'000
Trade and bills receivables		32,345	36,626
Less: Allowances for doubtful debts	*(b)*	(7,987)	(8,085)
		24,358	28,541

(a) Ageing analysis

The Group allowed a credit period ranging from 30 days to 150 days to its trade customers. The aged analysis of trade and bills receivables (net of allowances for doubtful debts) is as follows:

	2009 HK$'000	2008 HK$'000
Aged analysis of trade and bills receivables:		
Within 60 days	12,725	17,906
61 – 150 days	11,615	10,635
More than 150 days	18	–
	24,358	28,541

(b) Allowances for doubtful debts

	2009 HK$'000	2008 HK$'000
At beginning of year	8,085	8,084
Disposal of subsidiaries	(10)	–
Uncollectible amounts written off	(88)	–
Exchange adjustment	–	1
At balance sheet date	7,987	8,085

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which the impairment loss is written off against trade receivables directly.

All allowances for doubtful debts as at 31 March 2009 and 2008 were made for specific unsecured trade receivables, which recoverability is considered doubtful by the directors. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that neither individually nor collectively considered to be impaired is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Neither past due nor impaired	20,897	24,089
Within 60 days	3,443	4,452
More than 60 days	18	–
	24,358	28,541

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully receivable. The Group does not hold any collateral over these balances.

21. LOAN AND INTEREST RECEIVABLES

		2009	**2008**
	Note	*HK$'000*	*HK$'000*
			(restated)
Fixed-rate loan receivables		162,000	200,000
Variable-rate loan receivables		125,500	25,000
		287,500	225,000
Interest receivables		920	1,753
		288,420	226,753
Less: impairment allowance	*(a)*	(182,500)	–
		105,920	226,753
Effective interest rate:			
Fixed-rate loan receivables		12% to 18% per annum	2.2% per annum
Variable-rate loan receivables		Hong Kong HSBC Prime rate minus 1% to Hong Kong HSBC Prime rate plus 6%	Hong Kong HSBC Prime rate

(a) Impairment allowance

The Group determines the allowance for impaired debts based on the evaluation of collectability and aging analysis of accounts and on management's judgement, including assessment of change of credit quality, collaterals and the past collection history of each borrower.

Movement in allowance for impaired debts is as follows:

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
Balance at beginning of the year		–	–
Increase during the year			
Key Rise International Limited	*(i)*	160,000	–
Tack Fat Group International Limited	*(ii)*	22,500	–
At balance sheet date		182,500	–

*(i) Key Rise International Limited ("**Key Rise**")*

In November 2007, a facility letter together with a supplementary facility letter was entered into between the Company and Leadup Resources Investment Limited (the "**Borrower**") pursuant to which the Company granted a loan facility in an amount of HK$200,000,000 to the Borrower. The loan is secured by the personal guarantee of the ultimate equity owner of the Borrower (the "**Guarantor**"). The original repayment date was on 19 May 2008 and interest was originally charged at the rate of 2.2% per annum. The repayment date was subsequently extended for several times and interest rate was adjusted upwards. Since the loan was granted, the Borrower has repaid the loan principal in an amount of HK$40,000,000, interest of HK$21,006,000 and extension fee (handling fee) of HK$5,000,000.

On 5 December 2008, the Company entered into a deed of novation (the "**Deed of Novation**") with the Borrower, the Guarantor and Key Rise and pursuant to which a novated loan agreement (the "**Novated Loan Agreement**") is created. Under the Novated Loan Agreement, the loan is novated from the Borrower to Key Rise and the Guarantor executed a new guarantee in favour of the Company in support of the obligation and liabilities of Key Rise to the Company under the Novated Loan Agreement. The principal outstanding at the date of novation was HK$160,000,000.

On the same date, the Company entered into an amendment agreement to amend the Novated Loan Agreement with Key Rise (the "**Amendment Agreement**") and pursuant to which the repayment date of the Loan is extended from 4 December 2008 to 4 February 2009. As disclosed in the Company's announcements on 25 June 2009 and 16 July 2009, the Company agreed to further extend the repayment date of the loan to 31 July 2009.

The Company has sought legal advice from its legal advisers on possible enforcement proceedings against Key Rise and the Guarantor and the chance of success of recovering the loan from Key Rise and the Guarantor. Based on the information available to the directors at 16 July 2009, date of announcement, it appears to the directors that Key Rise and the Guarantor may not have sufficient means to repay the loan even though the Company will eventually succeed in the enforcement proceedings. In view of above, the directors considered full impairment allowance is required.

*(ii) Tack Fat Group International Limited ("**Tack Fat**")*

Tack Fat, a company with shares listed on Stock Exchange started its process of liquidation on 12 September 2008. The directors considered the collectibility of the loan receivable from Tack Fat is remote, a full impairment allowance was made accordingly.

(b) Loan receivables that are not impaired

The ageing analysis of loan receivables that neither individually nor collectively considered to be impaired is as follows:

	2009 *HK$'000*	**2008** *HK$'000*
Neither past due nor impaired	105,920	226,753

Receivables that were neither past due nor impaired relate to a wide range of borrowers for whom there was no recent history of default. The Group does not hold any collateral over these balances, these loans are repayable within 6 months.

22. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments are expected to be recovered within one year.

23. BANK BALANCES AND CASH

Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made with maturity of three months or less depending on the immediate cash requirement of the Group, and earn interest at prevailing short-term deposit rates.

24. TRADE PAYABLES

	2009	**2008**
	HK$'000	*HK$'000*
Ageing analysis of trade payables:		
Within 60 days or on demand	7,478	13,392
61 – 150 days	–	5
More than 150 days	70	70
	7,548	13,467

25. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

		Number of shares		Nominal value	
		2009	2008	2009	2008
	Notes			*HK$'000*	*HK$'000*
Ordinary shares of HK$0.10 each:					
Authorised:					
At beginning of the year		10,000,000,000	1,000,000,000	1,000,000	100,000
Increased during the year		–	9,000,000,000	–	900,000
At end of the year		10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:					
At beginning of the year		1,906,160,100	444,000,100	190,616	44,400
Issue of shares on rights issue	*(a)*	953,080,050	–	95,308	–
Exercise of share options granted to employees under share option scheme		–	16,000,000	–	1,600
Exercise of share options granted to consultants under share option scheme		–	26,400,000	–	2,640
Placement of shares		–	169,760,000	–	16,976
Issue of shares pursuant to conversions of convertible notes		–	1,250,000,000	–	125,000
Capital reorganisation	*(b)*	(2,573,316,135)	–	(257,332)	–
At end of the year		285,924,015	1,906,160,100	28,592	190,616

Notes:

(a) On 1 August 2008, the Company issued 953,080,050 rights shares of HK$0.1 each at HK$0.15 per rights share on the basis of one rights share for every two existing shares held on record date (i.e. 9 July 2008) by qualifying shareholders.

(b) At the special general meeting of the Company held on 3 March 2009, the special resolutions in respect of the capital reduction and the share consolidation of the Company (the "**Capital Reorganisation**") were approved by the shareholders. The effects of the Capital Reorganisation were as follows:

(i) Under the capital reduction, the nominal value of all issued existing shares was reduced from HK$0.1 each to HK$0.01 each by cancelling HK$0.09 paid up on each issued existing share by way of a reduction of capital.

(ii) Under the share consolidation, every ten reduced issued shares of HK$0.01 each was consolidated into one adjusted issued share of HK$0.10 each.

(iii) The credit arising from such reduction was applied towards cancelling the accumulated deficit of the Company with the balance, if any, transferred to the contributed surplus account of the Company.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

26. DISPOSAL OF SUBSIDIARIES

(a) Jet Star Industries Limited ("Jet Star")

On 8 September 2008, Mascotte Group Limited ("**MGL**"), a wholly-owned subsidiary of the Company, Perfect Time Investments Limited ("**Perfect Time**"), Willie International Limited ("**Willie**") and the Company entered into a sales and purchases agreement ("**the Agreement**") in relation to disposal of Jet Star which is a wholly-owned subsidiary of MGL.

Pursuant to the Agreement, Perfect Time agreed to purchase and MGL agreed to sell 998 ordinary shares of HK$1 each and 2 non-voting deferred shares of HK$1 each in the capital of Jet Star, representing the entire issued share capital of Jet Star and the assignment of unsecured interest free loan of approximately HK$35,000,000, which is payable on demand, owing by Jet Star to MGL for an aggregate consideration of HK$112 million.

The consideration is satisfied by the allotment and issue of 800,000,000 shares of HK$0.1 each in the capital of Willie at an issue price of HK$0.14. The disposal was completed in October 2008.

(b) Mana Industrial Limited ("Mana")

On 30 March 2009, the Group disposed of its entire interest in Mana to Lustreway Enterprises Limited, a company owned and controlled by a director of Mana at a consideration of HK$1.

The disposal had the following effect on the Group's assets and liabilities:

	Mana	**Jet Star**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net assets disposal of			
Investment properties	–	117,936	117,936
Properties, plant and equipment	–	42	42
Other receivables and prepayments	114	6,428	6,542
Bank balances and cash	193	156	349
Other creditors and accrued charges	(1,528)	(5,907)	(7,435)
Income tax payable	–	(470)	(470)
	(1,221)	118,185	116,964
Release of special reserve	–	(33,330)	(33,330)
Release of translation reserve	–	(12,342)	(12,342)
Gain on disposal	1,221	39,487	40,708
Total consideration	–	112,000	112,000
Satisfied by:			
Cash consideration	–	–	–
Listed shares included in financial assets at fair value through profit or loss	–	112,000	112,000
	–	112,000	112,000

Analysis of net outflow of cash and cash equivalents in respect of disposal of subsidiaries:

	Mana	Jet Star	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration	–	–	–
Less: cash and cash equivalents disposed	193	156	349
	(193)	(156)	(349)

27. MAJOR NON-CASH TRANSACTIONS

As detailed in note 26 (a) to the consolidated financial statements, the Group disposed of its entire interest in Jet Star at a consideration of HK$112,000,000 which was satisfied by the allotment and issue of 800,000,000 shares of HK$0.1 each in the capital of Willie at an issue price of HK$0.14 per share.

28. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At 31 March 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	3,157	2,949
In the second to fifth year inclusive	2,664	4,823
	5,821	7,772

Leases are negotiated for term of two to five year with fixed monthly rentals over the lease term.

The Group as lessor:

The Group leases out its investment properties under operating leases with lease term of one to fifteen years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	2,040	5,359
In the second to fifth year inclusive	2,320	4,955
	4,360	10,314

29. PLEDGE OF ASSETS

At 31 March 2009, no assets had been pledged by the Group to secure banking facilities granted to the Group. At 31 March 2008, investment properties, leasehold land and buildings and prepaid lease payments with an aggregate carrying value of HK$131,993,000, HK$3,299,000 and HK$6,579,000 respectively had been pledged by the Group to secure banking facilities granted to the Group.

At 31 March 2009, margin facilities from a regulated securities broker were granted to the Group which were secured by the Group's financial assets at fair value through profit or loss. At 31 March 2009, the Group has not utilise these facilities and the carrying amount of the financial assets at fair value through profit or loss charged to the securities broker is HK$152,576,000 (2008: HK$173,928,000).

30. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "**Scheme**") adopted on 21 August 2003, for the primary purpose of providing incentive to directors and eligible employees and suppliers of goods or services of the Group, including consultants ("**consultants**"), and which will expire 10 years after the date of adoption (the "**Option Period**"), the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors and consultants, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price of (i) the closing price of the shares of the Stock Exchange on the date of grant of the option, which must be a trading day or (ii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or (iii) 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 30% of the total number of the issued share of the Company from time to time. The maximum number of shares in respect of which options may be granted to each participant (including both exercised and outstanding options) in any 12-month period cannot exceed 1% of the total number of the issued share of the Company. Upon acceptance of option, the grantee shall pay HK$1 to the Company by way of consideration of the grant. An option may be exercised at any time during the Option Period.

(a) No share option was granted and exercised during the year ended 31 March 2009 (2008: 42,400,000 share options were granted and exercised).

(b) Movement in share option scheme during the year ended 31 March 2008:

Name of category of participant	Date of grant	As at 1 April 2007	Granted during the year	Exercised during the year	As at 31 March 2008	Exercise price	Share price at the date of grant	Share price at the date of exercise
						HK$	*(note i)*	*(note ii)*
Staff	4 May 2007	–	16,000,000	(16,000,000)	–	0.46	0.46	0.60
Consultants	6 November 2007	–	26,400,000	(26,400,000)	–	0.65	0.65	0.94
		–	42,400,000	(42,400,000)	–			

Notes:

(i) The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

(ii) The share price at the date of exercise is the Stock Exchange closing price on the trading date at the date of exercise of the options.

31. RETIREMENT BENEFIT SCHEME

Prior to 1 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 1 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 consolidated 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$1,715,000 (2008: HK$1,617,000).

As at 31 March 2009 and 2008, there were no 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.

32. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

(i) Transactions with directors' related companies

Name of party	**Directors who have interest**	**Nature of transactions**	**2009**	**2008**
			HK$'000	*HK$'000*
Techford Development Ltd.	Family member of Ms. Chan Oi Ling, Maria Olimpia	Rental expense	156	156
Wing Nin Trading Co. Ltd.	Family member of Ms. Chan Oi Ling, Maria Olimpia	Rental expense	–	144
Mascotte Investments Limited	Ms. Chan Oi Ling, Maria Olimpia	Rental expense	930	743

(ii) Transactions with a minority shareholder

Name of party	**Nature of transactions**	**2009**	**2008**
		HK$'000	*HK$'000*
東莞市橋光實業集團公司 Dongguan City Qiao Guang Industrial Group Company	Rental expense	927	909

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Short-term benefits	12,363	10,520
Post-employment benefits	403	24
	12,766	10,544

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

33. SUBSIDIARIES

Particulars of the subsidiaries at 31 March 2009 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
Direct subsidiary				
Mascotte Group Limited	British Virgin Islands/ Hong Kong	US$100	100%	Investment holding
Indirect subsidiaries				
東莞德雅皮具製品廠有限公司 Dongguan Tak Ya Leather Goods Manufactory Limited *(note a)*	PRC	HK$8,000,000	70% *(note b)*	Manufacture of accessories for photographic, electrical and multimedia products
Greatest Splendour Investment Limited	British Virgin Islands	US$100	100%	Inactive
March Professional Bags Company Limited	Hong Kong/PRC	HK$50,000	100%	Inactive
Mascotte Industrial Associates Group Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Mascotte Industrial Associates (Hong Kong) Limited	Hong Kong	HK$2	100%	Trading of accessories for photographic, electrical and multimedia products
馬斯葛志豪照相器材(惠州)有限公司 Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co. Ltd. *(note a)*	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	US$1,795,000	100%	Inactive
Mascotte Photographic Trading Limited	British Virgin Islands	US$1	100%	Inactive
Newland Kingdom Limited	Hong Kong	HK$9,998 HK$2*	100%	Inactive

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
Tak Ya Leather Goods Manufactory Limited	British Virgin Islands/ PRC	US$1	100%	Investment holding
Time Beyond Limited	Hong Kong	HK$1,000,000	100%	Loan financing
Union Glory Finance Inc.	British Virgin Islands/ Hong Kong	US$1	100%	Loan financing and investments

* These represent non-voting deferred shares (note c).

Notes:

(a) These companies are equity joint ventures.

(b) 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 profits derived from its operations up to 31 December 2011.

(c) These deferred shares, which are not held by the Group, practically carry no rights 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.

34. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Group acquired the entire equity interest of Richful Zone International Limited ("**Richful Zone**"), a company incorporated in the British Virgin Islands, from its immediate holding company at a consideration of HK$130 million, satisfied by the issuance of 3 years 4% convertible bond of the Company. Upon full conversion of the convertible bond at the initial conversion price of HK0.50 per share (subject to customary anti-dilutive adjustment), an aggregate of 260,000,000 shares will be issued, representing approximately (i) 90.93% of the issued share capital, before issue of conversion shares, of the Company (ii) 47.63% of the issued share capital of the Company as enlarged by the issue of the conversion shares. Up to 9 July 2009, 200,000,000 shares had been issued upon conversion of convertible bond at HK$0.50 each.

Richful Zone, through its wholly-owned subsidiary owns 50% of the concession rights and interests in respect of a forestry land in the PRC, with a total site area of approximately 37,000 Chinese Mu.

(b) On 27 March 2009, the Company and Union Glory Finance Inc. ("**Union Glory**"), a subsidiary of the Company, accepted the provisional allotment of 142,449,836 rights shares of Unity at a subscription price of HK$0.10 each. The total subscription amount of HK$14,245,000 had been paid before year end and included in other receivables and prepayments in the consolidated balance sheet at 31 March 2009.

Subsequent to the balance sheet date, on 6 April 2009, total of 142,449,836 ordinary shares of Unity at HK$0.10 each were issued and allotted to the Company and Union Glory. Together with the existing shareholding immediately before the allotment of rights shares, the Company and Union Glory jointly owned about 23.75% of the entire issued share capital of Unity, the Group becomes a substantial shareholder of Unity. Management is of the view that there is no intention to appoint any representative to the board of Unity. The Group would account for the allotted shares of Unity, together with the existing shareholding immediately before the allotment, as "Financial assets at fair value through profit or loss" in the consolidated balance sheet.

35. COMPARATIVE FIGURES

Certain comparative figures in consolidated income statement, consolidated balance sheet, consolidated cash flow statements, turnover, business segments and other income have been reclassified to conform with the current year's presentation.

(a) New business segment of loan financing

In prior year, loan interest receivable was presented in the consolidated balance sheet within other receivables and prepayments and loan interest income was presented in the consolidated income statement within other income and the loan interest income was presented as unallocated other income under business segments. In addition, loan advanced to and repaid from borrowers were presented in consolidated cash flow statement within investing activities.

In current year, the Group changed its presentation of turnover and other income in the consolidated income statement; loan and interest receivables and other receivables and prepayments in the consolidated balance sheet; operating activities and investing activities in the consolidated cash flow and the result of loan financing and unallocated income under business segments. In the opinion of the directors, loan financing became one of the major lines of business and was presented as a separate business segment. It is more appropriate to classify the related activities as operating activities so as to provide more relevant information in respect of the Group's operations.

(b) Sales proceeds and related cost of sales of investments held for trading

In prior year, sale proceeds and related cost of sales of investments held for trading were presented in the consolidated income statement within turnover and cost of investments held for trading respectively.

In current year, the Group changed its presentation of turnover and cost of sales, as in the opinion of the directors, it is more appropriate to present the gain/loss on investments held for trading disposed of during the year on a net basis so as to provide more relevant information in respect of the Group's operations and to conform with market practices.

The effects of this change in presentation have been accounted for retrospectively with comparative figures reclassified accordingly.

(c) Financial Statements for the year ended 31 March 2008

Set out below is the audited consolidated financial statements of the Group for the year ended 31 March 2008 together with comparative figures, as extracted from the 2008 annual report of the Company.

Consolidated Income Statement

For the year ended 31 March 2008

	Notes	2008 HK$	2007 HK$
Turnover	4	649,284,414	232,495,986
Cost of sales		(652,380,952)	(162,376,080)
Gross (loss)/profit		(3,096,538)	70,119,906
Other income	6	20,472,863	1,277,518
Net unrealised holding loss on investments held for trading		(161,349,037)	–
Selling and distribution costs		(6,395,637)	(7,444,937)
Administrative expenses		(47,013,314)	(43,790,021)
Impairment loss on goodwill		–	(4,242,843)
(Loss)/gain on fair value changes on investment properties		(29,294,811)	1,872,833
Finance costs	7	(2,607,416)	(2,941,632)
(Loss)/Profit before taxation	8	(229,283,890)	14,850,824
Income tax expense	10	(3,503,788)	(4,545,643)
(Loss)/Profit for the year		(232,787,678)	10,305,181
Attributable to:			
Equity holders of the Company		(232,807,416)	10,540,043
Minority interests		19,738	(234,862)
		(232,787,678)	10,305,181
Dividend paid	11	–	4,240,001
			(Restated)
(Loss)/earnings per share	12		
Basic		(19.2) cents	2.3 cents

Consolidated Balance Sheet
At 31 March 2008

	Notes	2008 HK$	2007 HK$
Non-current assets			
Investment properties	13	133,372,944	210,575,000
Property, plant and equipment	14	7,876,989	47,479,261
Prepaid lease payments	15	5,926,114	5,927,024
Goodwill	16	–	–
		147,176,047	263,981,285
Current assets			
Investments held for trading	17	173,928,275	–
Inventories	18	8,100,370	12,764,156
Prepaid lease payments	15	652,883	588,183
Trade and bills receivables	19	28,540,690	38,898,292
Loan receivables	20	225,000,000	6,884,950
Other receivables and prepayments	21	25,598,628	7,187,720
Income tax recoverable		21,819	21,819
Bank balances and cash	22	41,425,921	14,895,312
		503,268,586	81,240,432
Current liabilities			
Trade payables	23	13,466,688	13,535,064
Other payables and accrued charges		17,548,353	14,024,848
Income tax payable		9,908,359	8,915,190
Bank borrowings	24	–	28,740,106
Bank overdrafts		–	223,035
		40,923,400	65,438,243
Net current assets		462,345,186	15,802,189
Total assets less current liabilities		609,521,233	279,783,474
Capital and reserves			
Share capital	25	190,616,010	44,400,010
Reserves		415,505,371	192,115,081
Equity attributable to equity holders of the Company		606,121,381	236,515,091
Minority interests		3,399,852	3,037,543
Total equity		609,521,233	239,552,634
Non-current liabilities			
Bank borrowings	24	–	40,230,840
		609,521,233	279,783,474

Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

	Attributable to equity holders of the Company									
	Share capital	Share premium	Special reserve	Translation reserve	Reserve fund	Enterprise expansion reserve	Retained profits	Total	Minority interests	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 April 2006	42,400,010	66,672,487	14,900,773	(23,904)	1,083,258	1,083,258	64,457,847	190,573,729	3,204,909	193,778,638
Exchange movement during the year recognised directly in equity	–	–	–	(2,289,117)	–	–	–	(2,289,117)	67,496	(2,221,621)
Profit for the year	–	–	–	–	–	–	10,540,043	10,540,043	(234,862)	10,305,181
Total recognised income for the year	–	–	–	(2,289,117)	–	–	10,540,043	8,250,926	(167,366)	8,083,560
Dividend paid	–	–	–	–	–	–	(4,240,001)	(4,240,001)	–	(4,240,001)
Issue of share	2,000,000	6,600,000	–	–	–	–	–	8,600,000	–	8,600,000
Acquisition of assets and liabilities through acquisition of a subsidiary	–	–	33,330,437	–	–	–	–	33,330,437	–	33,330,437
At 31 March 2007	44,400,010	73,272,487	48,231,210	(2,313,021)	1,083,258	1,083,258	70,757,889	236,515,091	3,037,543	239,552,634
At 1 April 2007	44,400,010	73,272,487	48,231,210	(2,313,021)	1,083,258	1,083,258	70,757,889	236,515,091	3,037,543	239,552,634
Exchange movement during the year recognised directly in equity	–	–	–	12,887,724	–	–	–	12,887,724	342,571	13,230,295
Loss for the year	–	–	–	–	–	–	(232,807,416)	(232,807,416)	19,738	(232,787,678)
Total recognised income for the year	–	–	–	12,887,724	–	–	(232,807,416)	(219,919,692)	362,309	(219,557,383)
Issue of share, net of expenses	16,976,000	57,506,200	–	–	–	–	–	74,482,200	–	74,482,200
Share options granted and exercised	4,240,000	24,303,782	–	–	–	–	–	28,543,782	–	28,543,782
Convertible notes issued and converted, net of expenses	125,000,000	362,500,000	–	–	–	–	–	487,500,000	–	487,500,000
Release of special reserve upon disposal of subsidiaries	–	–	(1,000,000)	–	–	–	–	(1,000,000)	–	(1,000,000)
At 31 March 2008	190,616,010	517,582,469	47,231,210	10,574,703	1,083,258	1,083,258	(162,049,527)	606,121,381	3,399,852	609,521,233

The special reserve at 1 April 2006 represented the difference between the nominal amount of the share capital issued by the Company and the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation on 5 September 1997. On 24 July 2006, the Group acquired assets and liabilities from the substantial shareholder of the Group by way of acquisition of a subsidiary at a discount of HK$33,330,437, which represented the excess of fair value of assets and liabilities acquired through the acquisition of a subsidiary over the consideration paid and was deemed as capital contribution from the substantial shareholder and credited to special reserve.

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

Consolidated Cash Flow Statements

For the year ended 31 March 2008

	Note	2008 HK$	2007 HK$
OPERATING ACTIVITIES			
(Loss)/Profit before taxation		(229,283,890)	14,850,824
Adjustments for:			
Interest expenses		2,607,416	2,941,632
Impairment loss on receivables		44,024	5,669,243
Allowance for inventories		150,401	1,017,365
Release of prepaid lease payments		639,454	452,091
Depreciation of property, plant and equipment		2,339,660	2,740,432
Gain on disposal of investment properties		(300,000)	–
(Gain)/Loss on disposal of property, plant and equipment		(10,288,621)	58,674
Gain on disposal of subsidiaries	26	(3,955,433)	–
Net unrealised holding loss on investments held for trading		161,349,037	–
Interest income		(3,130,124)	(879,942)
Impairment loss on goodwill		–	4,242,843
Equity-settled share-based payment		4,023,782	–
Loss/(Gain) on fair value changes on investment properties		29,294,811	(1,872,833)
Operating cash flows before movements in working capital		(46,509,483)	29,220,329
Changes in working capital:			
Investments held for trading		(335,277,312)	–
Inventories		5,578,707	(4,818,551)
Trade and bills receivables		10,458,443	(16,791,879)
Other receivables and prepayments		(18,464,561)	4,926,796
Trade and other payables		(1,021,296)	(1,090,305)
Other payables and accrued charges		3,539,939	(5,734,160)
Cash (used in) generated from operations		(381,695,563)	5,712,230
Tax paid		(3,431,287)	(2,544,955)
Net cash (used in) from operating activities		(385,126,850)	3,167,275

	Note	2008 HK$	2007 HK$
INVESTING ACTIVITIES			
Addition of investment properties		(5,242,281)	(4,582,000)
Addition of property, plant and equipment		(819,334)	(2,927,255)
Purchase of prepaid lease land		–	(1,633,108)
Proceeds from disposal of subsidiaries	26	58,299,436	–
Proceeds from disposal of property, plant and equipment		33,437,715	300,885
Proceeds from disposal of investment properties		28,300,000	–
New loan receivables raised		(250,000,000)	(13,000,000)
Repayment of loan receivables		31,884,950	52,488,050
Interest received		3,130,124	879,942
Acquisition of subsidiaries		–	(101,874,096)
Net cash used in investing activities		(101,009,390)	(70,347,582)
FINANCING ACTIVITIES			
New bank loans raised		–	67,487,085
Repayment of bank loans		(71,252,361)	(23,130,335)
Proceeds from issue of convertible notes, net of expenses		487,500,000	–
Proceeds from issue of new shares, net of expenses		74,482,200	–
Proceeds from issue of new shares based on share option scheme		24,520,000	–
Dividend paid		–	(4,240,001)
Interest paid		(2,607,416)	(2,941,632)
Net cash from financing activities		512,642,423	37,175,117
Net increase (decrease) in cash and cash equivalents		26,506,183	(30,005,190)
Cash and cash equivalents at beginning of the year		14,672,277	44,619,398
Effect of foreign exchange rate changes		247,461	58,069
Cash and cash equivalents at end of the year		41,425,921	14,672,277
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		41,425,921	14,895,312
Bank overdrafts		–	(223,035)
		41,425,921	14,672,277

Notes to the Consolidated Financial Statements

For the year ended 31 March 2008

1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office and principal place of business of the Company are disclosed in the directory of the annual report.

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

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2006/07 financial statements except for the adoption of the following new/revised HKFRS that are effective from the current year. The adoption of the following new/revised HKFRS had no material impact on the results and financial position for the current or prior accounting periods have been prepared and presented. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new/revised HKFRS

HKAS 1 (Amendment): Capital disclosures

The amendment requires financial statements to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 3 to the financial statements.

HKFRS 7: Financial instruments: Disclosures

HKFRS 7 superseded HKAS 30 Disclosures in the financial statements of banks and similar financial institution and incorporated all the disclosure requirements previously in HKAS 32, while the presentation requirements in HKAS 32 remain unchanged. HKFRS 7 requires financial statements to disclose information for the purpose of evaluating the significance of the Group's financial instruments, the nature and risks arising from those financial instruments to which the Group is exposed to and how the Group manages them. The new disclosures are included throughout the financial statements.

HK(IFRIC)-Int 8: Scope of HKFRS 2

This interpretation clarifies the presumption under HKFRS 2 that for transactions in which share-based payments are made to parties other than employees, the fair value of goods or services can be measured reliably even the entity cannot specifically identify some or all the goods or services received. During the year, the Group had issued equity instruments to parties other than employees ("**qualified allottees**") in accordance with share option schemes. The interpretation had been adopted and the fair value had been measured and accounted for in the financial statements.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for investment properties and investments held for trading, which are measured at fair value.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from equity holders of the parent. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's relevant cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

Proceeds from sales of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

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.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at costs including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at its fair value. 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 and 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 consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

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

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 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 consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

Impairment of non-financial assets (other than goodwill (see the accounting policy in respect of goodwill))

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Loans and receivables

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

Bank borrowings

Bank borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Other financial liabilities

Other financial liabilities including trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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 income statement 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 purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit scheme/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Long service payment

The Group's net obligation in respect of long service payment under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets including retirement scheme benefit, is deducted.

Share based payment transactions

Equity-settled transactions

The Group's employees and consultants receive remuneration in the form of share-based payment transactions, whereby the employees and consultants rendered services in exchange for shares or rights over shares. The cost of such transactions with employees and consultants is measured by reference to the fair value at the transaction date. The fair value of share options granted to employees and consultants is recognised as staff costs and consultancy fee respectively with a corresponding increase in a reserve within equity. The fair value is determined using the binominal model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees and consultants become fully entitled to the award (i.e. vesting date). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to reserve within equity. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables, operating cash and investments held for trading. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

In respect of geographical segment reporting, sales are based on the destination of shipment of merchandise and total assets and capital expenditure are where the assets are located.

Related parties

A party is related to the Group if

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

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group;

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

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

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Allowance for inventories

The Group's management reviews the carrying amount of inventories at each balance sheet date, and make allowance for obsolete and slow-moving items identified that are no longer recoverable or suitable for use in production. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

Allowance for doubtful debts

The provisioning policy for doubtful debts of the Group is based on the evaluation of collectability of the accounts and loan receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer/borrower. If the financial conditions of these customers/borrowers were to deteriorate and result in an impairment of their ability to make payments, additional allowance will be required.

Fair value of investment properties

Investment properties are stated at fair value based on the valuations performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation reports, the directors of the Group have exercised their judgement and are satisfied that the method of valuations is reflective of the current market conditions.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective for the current year and which have not been early adopted.

The directors are in the process of assessing the possible impact on the future adoption of those new/revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

3. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's principal financial instruments are bank balances and cash, investments held for trading, loans and other receivables, bank borrowings and other financial liabilities. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are equity price risk, credit risk, foreign currency risk and liquidity risk. The directors regularly review and implement a number of strategies on its risk management to limits the Group's exposure to those risks to a minimum. The directors review and agree policies for managing each of these risks and they are summarized below.

Equity price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as investments held for trading in the balance sheet. The sensitively analysis has been determined based on the exposure to equity risk.

At the balance sheet date, if the quoted market prices had been 30% higher or lower while all other variables were held constant, the Group's net loss would decrease or increase by HK$52.7 million (2007: HK$nil) as a result of changes in fair value of investments.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's investments held for trading would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent directors' assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. No analysis is performed last years as there were no investments held for trading as at 31 March 2007.

Foreign currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi, Euro dollars and United States dollars. As at 31 March 2007, certain bank borrowings of the Group are denominated in HK$ which was not the functional currencies of those subsidiaries. However, foreign currency risk for bank borrowings would not have significant effect for the Group as the Group did not have any outstanding bank borrowings as at 31 March 2008.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	2008			**2007**		
	United States Dollars	**Euros**	**Renminbi**	**United States Dollars**	**Euros**	**Renminbi**
Trade and other receivables	3,127,219	91,125	–	4,735,787	32,661	–
Cash and cash equivalents	579,500	19,562	–	689,539	68,713	–
Trade and other payables	(137,779)	–	(1,024,594)	(4,012)	–	(846,873)
Overall net exposure	3,568,940	110,687	(1,024,594)	5,421,314	101,374	(846,873)

Sensitivity analysis

The following table indicates the approximate change in the Group's net loss (2007: net profit) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2008		**2007**	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in net loss** *HK$*	**Increase/ (decrease) in foreign exchange rates**	**Increase/ (decrease) in net profit** *HK$*
United States Dollars	1%	(277,424)	1%	421,415
	(1%)	277,424	(1%)	(421,415)
Euros	17%	(231,447)	17%	172,336
	(17%)	231,447	(17%)	(172,336)
Renminbi	10%	113,730	10%	(84,687)
	(10%)	(113,730)	(10%)	84,687

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at the date, and that all other variables, in particular interest rates, remain constant. No impact on the other equity reserves is expected. The analysis is performed on the same basis for 2007.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between Hong Kong dollar and United States dollar would be materially unaffected by any changes in movement in value of United States dollar against other currencies.

Cash flow interest rate risk

The Group has exposures to interest rate risk as its bank borrowings are subject to floating interest rates. However, cash flow interest rate risk is considered minimal as the Group repaid most of bank borrowings during the year.

The interest rate risk for bank balances exposed is considered minimal as such amounts are placed in banks with maturity less than three months.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its loan receivables and trade receivables. The Group is exposed to concentration of credit risk as full amount of its loan receivables and a substantial portion of its trade receivables is generated from a limited number of counterparties and customers respectively. As at 31 March 2008, the top five customers of the Group accounted for about 54% (2007: 44%) of the Group's trade receivables. The Group manages its credit risk by closely monitoring the granting of credit period.

The Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also entered into hedging arrangement to manage the risk exposure on the loan receivables as detailed in note 20(b) to the financial statements. In this regard, the directors of the Company consider that the Group'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 licensed banks.

Other than the above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient banking facilities and cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

The table below analyses the Group financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Within 1 year *HK$*	Between 1 and 2 years *HK$*	Between 2 and 5 years *HK$*	Over 5 years *HK$*	Total *HK$*
As at 31 March 2008					
Trade payables	13,466,688	–	–	–	13,466,688
Other payables and accrued charges	17,548,353	–	–	–	17,548,353
Income tax payable	9,908,359	–	–	–	9,908,359
	40,923,400	–	–	–	40,923,400
As at 31 March 2007					
Trade payables	13,535,064	–	–	–	13,535,064
Other payables and accrued charges	14,024,848	–	–	–	14,024,848
Income tax payable	8,915,190	–	–	–	8,915,190
Bank overdrafts	223,035	–	–	–	223,035
Bank borrowings	28,740,106	6,500,377	17,650,540	16,079,923	68,970,946
	65,438,243	6,500,377	17,650,540	16,079,923	105,669,083

Capital management

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 2007.

The Group monitors capital using a gearing ratio, which is total of interest-bearing bank borrowings and overdrafts, trade and other payables and tax payable, net of cash and bank balances divided by the equity attributable to equity holders of the Company. The gearing ratio as at the balance sheet dates were as follows:

	2008 *HK$*	2007 *HK$*
Interest-bearing bank borrowings and overdrafts	–	69,193,981
Trade and other payables	31,015,041	27,559,912
Tax payable	9,908,359	8,915,190
Less: Cash and bank balances	(41,425,921)	(14,672,277)
	(502,521)	90,996,806
Equity attributable to equity holders of the Company	606,121,381	236,515,091
Gearing ratio	N/A	38%

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of investments held for trading is based on the quoted market bid prices available on the relevant Stock Exchange.

4. TURNOVER

	2008	**2007**
	HK$	*HK$*
Gross rental income	7,409,650	5,454,328
Proceeds from sales of investments held for trading	442,928,857	–
Sales of goods	198,945,907	227,041,658
	649,284,414	232,495,986

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Consolidated income statement for the year ended 31 March 2008

	Trading of investments	**Manufacture and sales of goods**	**Property investment**	**Consolidated**
	HK$	*HK$*	*HK$*	*HK$*
Turnover				
To external customers	442,928,857	198,945,907	7,409,650	649,284,414
Segment results	(229,198,537)	15,944,139	(13,815,423)	(227,069,821)
Unallocated other income				13,936,443
Unallocated corporate expenses				(13,543,096)
Finance costs				(2,607,416)
Loss before taxation				(229,283,890)
Income tax expense				(3,503,788)
Loss for the year				(232,787,678)

Consolidated balance sheet at 31 March 2008

	Trading of investments *HK$*	Manufacture and sales of goods *HK$*	Property investment *HK$*	Consolidated *HK$*
Assets				
Segment assets	190,454,834	52,437,092	138,137,948	381,029,874
Unallocated corporate assets				269,414,759
Consolidated total assets				650,444,633
Liabilities				
Segment liabilities	–	24,082,039	5,965,445	30,047,484
Unallocated corporate liabilities				10,875,916
Consolidated total liabilities				40,923,400

Other information for the year ended 31 March 2008

	Trading of investments *HK$*	Manufacture and sales of goods *HK$*	Property investment *HK$*	Unallocated *HK$*	Consolidated *HK$*
Allowance for inventories	–	150,401	–	–	150,401
Capital additions	–	819,334	5,142,281	–	5,961,615
Depreciation of property, plant and equipment	–	1,922,542	–	417,118	2,339,660
Gain on disposal of property, plant and equipment	–	–	–	(10,288,621)	(10,288,621)
Gain on disposal of investment properties	–	–	(300,000)	–	(300,000)
Gain on disposal of subsidiaries	–	–	(3,955,433)	–	(3,955,433)
Impairment loss on receivables	–	44,204	–	–	44,204
Loss on fair value changes on investment properties	–	–	29,294,811	–	29,294,811
Net unrealised holding loss on investments held for trading	161,349,037	–	–	–	161,349,037
Release of prepaid lease payments	–	639,454	–	–	639,454

Consolidated income statement for the year ended 31 March 2007

	Manufacture and sales of goods *HK$*	Property investment *HK$*	Consolidated *HK$*
Turnover			
To external customers	227,041,658	5,454,328	232,495,986
Segment results	25,863,886	3,033,401	28,897,287
Unallocated other income			879,942
Unallocated corporate expenses			(11,984,773)
Finance costs			(2,941,632)
Profit before taxation			14,850,824
Income tax expense			(4,545,643)
Profit for the year			10,305,181

Consolidated balance sheet at 31 March 2007

	Manufacture and sales of goods *HK$*	Property investment *HK$*	Consolidated *HK$*
Assets			
Segment assets	78,977,573	215,906,834	294,884,407
Unallocated corporate assets			50,337,310
Consolidated total assets			345,221,717
Liabilities			
Segment liabilities	23,720,359	2,220,553	25,940,912
Unallocated corporate liabilities			79,728,171
Consolidated total liabilities			105,669,083

Other information for the year ended 31 March 2007

	Manufacture and sales of goods	Property investment	Unallocated	Consolidated
	HK$	*HK$*	*HK$*	*HK$*
Allowance for inventories	1,017,365	–	–	1,017,365
Capital additions	2,469,994	158,973,311	454,481	161,897,786
Depreciation of property, plant and equipment	1,540,152	55,828	1,144,452	2,740,432
Gain on fair value changes on investment properties	–	(1,872,833)	–	(1,872,833)
Impairment loss on goodwill	4,242,843	–	–	4,242,843
Impairment loss on receivables	5,332,243	–	337,000	5,669,243
Loss on disposal of property, plant and equipment	58,674	–	–	58,674
Release of prepaid lease payments	452,091	–	–	452,091

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 is carried out in Hong Kong and other regions in the PRC. Trading of investments is carried out in Hong Kong.

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

	2008	2007
	HK$	*HK$*
Europe	117,893,556	144,230,581
United States of America	28,842,268	26,142,551
Hong Kong	451,602,626	12,150,703
Other regions in the PRC	18,585,254	17,051,948
Others	32,360,710	32,920,203
	649,284,414	232,495,986

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

	Carrying amount of segment assets		Additions to property, plant and equipment		Additions to investment properties	
	2008	2007	2008	2007	2008	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Hong Kong	221,920,645	97,463,788	450,470	2,504,359	292,500	20,830,167
Other regions in the PRC	159,109,229	197,420,619	368,864	458,260	4,849,781	138,105,000
	381,029,874	294,884,407	819,334	2,962,619	5,142,281	158,935,167

6. OTHER INCOME

	2008	2007
	HK$	*HK$*
Bank interest income	801,112	257,992
Dividend income from investments held for trading	152,655	–
Other interest income	2,329,012	621,950
Exchange gains, net	2,132,166	–
Gain on disposal of subsidiaries	3,955,433	–
Gain on disposal of investment properties	300,000	–
Gain on disposal of property, plant and equipment	10,288,621	–
Sundry income	513,864	397,576
	20,472,863	1,277,518

7. FINANCE COSTS

	2008	2007
	HK$	*HK$*
Interest on:		
Bank borrowings wholly repayable within five years	743,561	2,440,319
Bank borrowings not wholly repayable within five years	1,863,855	501,313
	2,607,416	2,941,632

8. (LOSS)/PROFIT BEFORE TAXATION

	2008	2007
	HK$	*HK$*
(Loss)/Profit before taxation has been arrived at after charging/(crediting):		
Allowance for inventories	150,401	1,017,365
Auditor's remuneration	980,000	930,000
Change in fair value of investment properties	29,294,811	(1,872,833)
Cost of inventories recognised as expenses	149,648,944	161,358,715
Cost of investments held for trading	502,581,607	–
Depreciation of property, plant and equipment	2,339,660	2,740,432
Equity-settled share-based payment	4,023,782	–
Impairment loss on receivables	44,204	5,669,243
Minimum lease payments for operating leases in respect of rented premises	3,548,381	2,191,341
Release of prepaid lease payments	639,454	452,091
Staff costs including directors' emoluments and contributions to retirement benefits schemes	38,790,798	35,356,563
Exchange (gain)/loss, net	(2,132,166)	1,897,771
(Gain)/Loss on disposal of property, plant and equipment	(10,288,621)	58,674
Gain on disposal of investment properties	(300,000)	–
Gain on disposal of subsidiaries	(3,955,433)	–
Gross rental income from investment properties	(7,409,650)	(5,454,328)
Less: direct operating expenses that generated rental income	639,798	1,391,681
	(6,769,852)	(4,062,647)

9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The emoluments paid or payable to each of the directors are as follows:

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Total
			HK$	*HK$*	*HK$*	*HK$*	*HK$*
2008							
Executive Directors							
Au Yeung Kai Chor	6 June 2007	–	–	400,000	10,000	–	410,000
Chan Oi Ling, Maria Olimpia	–	–	–	4,760,000	12,000	908,947	5,680,947
Chung, Wilson	28 January 2008	–	–	50,000	–	–	50,000
Lam Yu Ho, Daniel	–	28 January 2008	–	1,900,000	–	–	1,900,000
Peter Temple Whitelam	1 August 2007	–	–	240,000	–	–	240,000
Wong, Dickie *(note)*	6 June 2007	28 January 2008	–	909,041	7,792	–	916,833
Independent Non-Executive Directors							
Chan Sze Hung	6 June 2007	–	164,247	–	–	–	164,247
Cheung Ngai Lam	–	–	50,000	–	–	–	50,000
Hui Wai Man, Shirley	31 March 2008	–	–	–	–	–	–
Kristi L Swartz	12 November 2007	–	46,027	–	–	–	46,027
Lui Wai Shan, Wilson	–	–	54,726	–	–	–	54,726
Wong Yui Leung, Larry	–	12 November 2007	56,877	–	–	–	56,877
			371,877	8,259,041	29,792	908,947	9,569,657

Note: During the year, the Group paid salaries and allowances of HK$1,412,000 in aggregate to Ms. Dickie Wong, in which HK$916,833 was paid for the capacity as director of the Company as disclosed above; the balance was paid during the period of which she was not acting as director of the Company.

Name of Director	Appointed during the year	Resigned during the year	Fees	Salaries and other benefits	Retirement benefits scheme contribution	Rental paid/ rateable value in respect of quarters provided	Total
			HK$	*HK$*	*HK$*	*HK$*	*HK$*
2007							
Executive Directors							
Chan Oi Ling, Maria Olimpia	–	–	–	3,900,000	12,000	871,800	4,783,800
Lam Yu Ho, Daniel	–	–	–	1,720,000	–	–	1,720,000
Cheng Lok Hing	–	31 January 2007	–	471,329	–	–	471,329
Cheng Chun Kit	–	31 January 2007	–	471,329	–	–	471,329
Ji Hong	–	31 January 2007	–	46,729	–	15,323	62,052
Independent Non-Executive Directors							
Wong Yui Leung, Larry	–	–	80,000	–	–	–	80,000
Lui Wai Shan, Wilson	–	–	50,000	–	–	–	50,000
Cheung Ngai Lam	–	–	50,000	–	–	–	50,000
			180,000	6,609,387	12,000	887,123	7,688,510

Highest paid employees

The five highest paid individuals of the Group included three (2007: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2007: three) highest paid individuals are as follows:

	2008	2007
	HK$	*HK$*
Salaries and other benefits	2,309,179	2,887,073
Retirement benefits scheme contributions	12,000	20,000
Rentals paid/rateable value in respect of quarters provided	216,000	252,600
	2,537,179	3,159,673

The emoluments were within the following bands:

	No. of employees 2008	2007
Nil to HK$1,000,000	–	2
HK$1,000,001 to HK$1,500,000	2	1
	2	3

10. INCOME TAX EXPENSE

	2008	2007
	HK$	*HK$*
The charge comprises:		
Current year		
Hong Kong	1,708,563	3,285,714
Other regions in the PRC	1,795,225	1,201,879
	3,503,788	4,487,593
(Over) under provision in prior years		
Hong Kong	–	(1,062)
Other regions in the PRC	–	59,112
	–	58,050
	3,503,788	4,545,643

Hong Kong Profits Tax is calculated at 17.5% (2007: 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.

On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "**new EIT Law**"), which is effective from 1 January 2008. In December 2007, the State Council promulgated the Implementation Regulations to the new EIT Law, or the EIT Implementation, which is also effective from 1 January 2008. Pursuant to the new EIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, subject to certain transitional arrangements. Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries was exempted from PRC income tax for two years starting from its first profit-making year (i.e. calendar year 2005), followed by a 50% reduction for the next three years.

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

	2008	2007
	HK$	*HK$*
(Loss)/Profit before taxation	(229,283,890)	14,850,824
Tax at the Hong Kong Profits tax rate of 17.5% (2007: 17.5%)	(40,124,681)	2,598,894
Non-deductible expenses	9,368,943	3,138,314
Tax exempt revenue	(4,615,639)	(1,673,529)
Underprovision in prior years	–	58,050
Unrecognised tax losses	39,221,292	92,114
Unrecognised temporary differences	51,549	(53,301)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(357,399)	430,912
Others	(40,277)	(45,811)
Income tax expense for the year	3,503,788	4,545,643

At 31 March 2008, the Group has unused tax losses of HK$222,729,000 (2007: HK$11,022,746) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

11. DIVIDEND

No dividend has been proposed by the directors for the years ended 31 March 2008 and 2007.

On 25 September 2006, a dividend of HK1 cent per share amounting to HK$4,240,001 was paid to shareholders as the final dividend in respect of 2006.

12. (LOSS)/EARNINGS PER SHARE – BASIC

The calculation of basic (loss)/earnings per share attributable to equity holders of the Company is based on the following data:

	2008	**2007**
	HK$	*HK$*
(Loss)/Earnings for the purpose of basic earnings per share	(232,807,416)	10,540,043

	No. of shares	
	2008	**2007**
		(Restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,213,815,645	454,173,870

No diluted loss per share is presented for the year 2008 as all of the Company's share options granted and convertible notes issued, which had been fully exercised and converted respectively during the year, have an anti-dilutive effect. No diluted earnings per share were presented for the year 2007 as there were no potential ordinary shares in issue.

The weighted average number of ordinary shares adopted in the calculation of the basic (loss)/earnings per share for both years has been adjusted to reflect the impact of the rights issue effected subsequent to the balance sheet date.

13. INVESTMENT PROPERTIES

		2008	**2007**
	Note	*HK$*	*HK$*
At fair value			
At beginning of the year		210,575,000	34,650,000
Exchange adjustments		15,397,974	(2,883,000)
Acquisition of assets through acquisition of subsidiaries		–	154,353,167
Additions		5,242,281	4,582,000
Transferred from deposit paid		–	18,000,000
Disposal of assets through disposal of subsidiaries	*26*	(40,547,500)	–
Disposal		(28,000,000)	–
(Loss)/Gain on fair value changes		(29,294,811)	1,872,833
At end of the year		133,372,944	210,575,000

The carrying values of the Group's investment properties at 31 March 2008 are analysed as follows:

	2008	**2007**
	HK$	*HK$*
Situated in Hong Kong held under long leases	–	40,065,000
Situated in other regions in the PRC held under medium-term leases	133,372,944	170,510,000
	133,372,944	210,575,000

All of the Group's property interests in land held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The investment property held by Jet Star Industries Limited was valued as HK$115,000,000 (RMB104,000,000) by RHL Appraisal Limited. The Group's remaining investment properties were valued by Chung, Chan & Associates, Chartered Surveyors.

The investment properties have been valued as at 31 March 2008 on the basis carried out at that date by the aforesaid independent qualified professional valuers not connected with the Group, who are members of Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards, was arrived at using two primary methods, namely the comparison approach and the income capitalisation approach.

Certain of the Group's investment properties are rented out under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost						
At 1 April 2006	56,224,387	3,089,280	3,677,370	21,549,980	5,851,302	90,392,319
Exchange adjustments	239,338	11,724	4,022	624,865	55,139	935,088
Acquisition of subsidiaries	–	15,011	20,353	–	–	35,364
Additions	–	489,521	280,549	209,353	1,947,832	2,927,255
Disposals	–	–	(246,448)	–	(984,840)	(1,231,288)
At 31 March 2007	56,463,725	3,605,536	3,735,846	22,384,198	6,869,433	93,058,738
Exchange adjustments	684,507	39,014	13,223	1,798,692	189,941	2,725,377
Additions	–	332,066	209,739	277,529	–	819,334
Disposal of subsidiaries	(19,663,527)	(1,081,516)	(163,143)	–	–	(20,908,186)
Disposals	(28,976,388)	(611,491)	(1,185,749)	(6,141,552)	(558,231)	(37,473,411)
At 31 March 2008	8,508,317	2,283,609	2,609,916	18,318,867	6,501,143	38,221,852
Depreciation						
At 1 April 2006	12,328,424	2,574,179	2,909,015	20,525,294	4,617,008	42,953,920
Exchange adjustments	98,349	11,396	3,687	600,736	42,686	756,854
Provided for the year	1,278,804	205,835	216,099	380,684	659,010	2,740,432
Eliminated on disposals	–	–	(169,948)	–	(701,781)	(871,729)
At 31 March 2007	13,705,577	2,791,410	2,958,853	21,506,714	4,616,923	45,579,477
Exchange adjustments	363,878	35,950	9,502	1,746,926	138,734	2,294,990
Provided for the year	657,726	143,578	187,493	751,085	599,778	2,339,660
Eliminated on disposal of subsidiaries	(4,527,041)	(895,321)	(122,585)	–	–	(5,544,947)
Eliminated on disposals	(6,537,033)	(203,981)	(1,021,480)	(6,140,204)	(421,619)	(14,324,317)
At 31 March 2008	3,663,107	1,871,636	2,011,783	17,864,521	4,933,816	30,344,863
Carrying values						
At 31 March 2008	4,845,210	411,973	598,133	454,346	1,567,327	7,876,989
At 31 March 2007	42,758,148	814,126	776,993	877,484	2,252,510	47,479,261

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

Leasehold land and 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 carrying values of the Group's leasehold land and buildings at 31 March 2008 are analysed as follows:

	2008	2007
	HK$	*HK$*
Situated in Hong Kong held under long leases	–	11,399,677
Situated in Hong Kong held under medium-term leases	–	26,519,235
Situated in other regions in the PRC held under medium-term leases	4,845,210	4,839,236
	4,845,210	42,758,148

15. PREPAID LEASE PAYMENTS

	2008	2007
	HK$	*HK$*
Leasehold interests in land in other regions in the PRC under medium-term lease	6,578,997	6,515,207
Analysed for reporting purposes as:		
Current	652,883	588,183
Non-current	5,926,114	5,927,024
	6,578,997	6,515,207

16. GOODWILL

	HK$
Cost	
At 1 April 2006, 1 April 2007 and 31 March 2008	7,042,015
Impairment	
At 1 April 2006	2,799,172
Impairment loss recognised	4,242,843
At 31 March 2007 and 2008	7,042,015
Carrying amount	
At 31 March 2007 and 2008	–

For the purpose of impairment testing in previous years, goodwill was allocated to an individual cash generating unit (CGU) which was engaged in manufacture and sales of goods and was expected to benefit from that business combination. During the year ended 31 March 2007, the Group recognised an impairment loss of HK$4,242,843.

17. INVESTMENTS HELD FOR TRADING

	2008	2007
	HK$	*HK$*
At fair value		
Equity securities, listed in Hong Kong	173,928,275	–

The fair value of listed equity securities is based on quoted market prices in active markets at the balance sheet.

18. INVENTORIES

	2008	2007
	HK$	*HK$*
Raw materials	5,000,022	6,310,889
Work-in-progress	842,725	1,014,571
Finished goods	2,257,623	5,438,696
	8,100,370	12,764,156

All inventories, excluding those fully provided for with nil carrying value, are stated at cost.

19. TRADE AND BILLS RECEIVABLES

	2008	2007
	HK$	*HK$*
Trade and bills receivables	36,625,712	46,982,329
Less: Allowances for doubtful debts *(note 19 (b))*	8,085,022	8,084,037
	28,540,690	38,898,292

(a) Ageing analysis

The Group allowed a credit period ranging from 30 days to 150 days to its trade customers. The aged analysis of trade and bills receivables (net of allowances for doubtful debts) is as follows:

	2008	2007
	HK$	*HK$*
Aged analysis of trade and bills receivables:		
Within 60 days	17,906,260	14,779,000
61 – 150 days	10,634,430	22,632,207
	28,540,690	37,411,207
Discounted bills receivables aged within 60 days	–	1,487,085
	28,540,690	38,898,292

(b) Allowances for doubtful debts

	2008	2007
	HK$	*HK$*
At beginning of year	8,084,037	4,275,049
Impairment loss recognised	–	5,332,243
Uncollectible amounts written off	–	(1,523,255)
Exchange adjustment	985	–
At balance sheet date	8,085,022	8,084,037

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which the impairment loss is written off against trade receivables directly.

All allowances for doubtful debts as at 31 March 2008 and 2007 were made for specific unsecured trade receivables, which recoverability is considered doubtful by the directors. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that neither individually nor collectively considered to be impaired is as follows:

	2008	2007
	HK$	*HK$*
Neither past due nor impaired	24,088,701	36,439,046
Within 60 days	4,451,989	2,459,246
	28,540,690	38,898,292

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully receivable. The Group does not hold any collateral over these balances.

20. LOAN RECEIVABLES

		2008	2007
	Notes	*HK$*	*HK$*
Loans advanced for management of investment properties	*(a)*	–	6,884,950
Loan to Leadup Resources Investments Limited	*(b)*	200,000,000	–
Loan to an independent third party	*(c)*	25,000,000	–
		225,000,000	6,884,950

Notes:

(a) Pursuant to various agreements signed between the Group and certain companies which developed and managed the investment properties of the Group in the PRC on 29 September 2006 and 7 November 2006, the Group advanced totalling HK$13,000,000 to those companies for property management purpose. The loans outstanding at 31 March 2007 amounted to HK$6,884,950 had been fully repaid during the year.

(b) A facility letter together with a supplementary facility letter ("**Facility Letter**") were entered into between the Company and Leadup Resources Investments Limited (the "**Borrower**") pursuant to which the Company granted a term loan facility in an amount of HK$200,000,000 to the Borrower for the purpose of proposed acquisition/investment ("**Acquisition**") in a mining business in northwest PRC (the "**Borrower's investments**"). The Company was granted a first right of refusal ("**First Refusal Rights**") to invest in the Borrower's investments if there is an independent third party proposes to acquire the Borrower's investments. The loan is secured by the personal guarantee of the ultimate equity owner of the Borrower. The original repayment date was on 19 May 2008 and interest bearing at 2.2% per annum.

Subsequent to the balance sheet date, the Facility Letter was amended and supplemented. Pursuant to the latest letter of agreement dated 26 June 2008 made between the Borrower and the Company, the repayment date of the outstanding loan receivable from the Borrower of amount HK$167,266,667 (the "**Debt**"), which comprises the outstanding principal amount of HK$160,000,000 and accrued interest of HK$7,266,667, is extended to 1 August 2008.

To reduce the risk exposure on the recoverability of the Debt, on 16 July 2008, the Company and Hennabun PT Limited ("**HPT**"), a securities investment company, entered into an agreement ("**Agreement**") pursuant to which the Company obtained an irrevocable option granted by HPT, subject to an option fee of HK$2,400,000, to require HPT to, inter alia, acquire at the Company's sole and absolute discretion, all or part of the Debt at its face value together with all other rights, including the First Refusal Rights obtained by the Company. As of 16 July 2008, the directors are not aware of any further development on the Acquisition and the exercise of the First Refusal Rights.

(c) The loan is unsecured, interest bearing at HSBC prime rate and repayable on 25 July 2008.

(d) The directors assessed the collectability of the above loan receivables at the balance sheet date individually with reference to borrowers' past collection history, quality of the undertaking obtained and current creditworthiness. In the directors' opinion, no allowance for impairment loss was considered necessary.

21. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments are expected to be recovered within one year.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry fixed interest rate at 0.3% (2007: 1.9%) per annum with an original maturity of three months or less.

23. TRADE PAYABLES

	2008	**2007**
	HK$	*HK$*
Aged analysis of trade payables:		
Within 60 days or on demand	13,391,426	13,535,064
61 – 150 days	5,405	–
More than 150 days	69,857	–
	13,466,688	13,535,064

24. BANK BORROWINGS

	2008	2007
	HK$	*HK$*
Bank borrowings comprise the following:		
Bank loans		
– secured	–	57,483,861
– unsecured	–	11,487,085
	–	68,970,946
The bank borrowings are repayable as follows:		
Within one year	–	28,740,106
More than one year and not more than two years	–	6,500,377
More than two years and not more than three years	–	6,768,752
More than three years and not more than four years	–	5,851,389
More than four years and not more than five years	–	5,030,399
More than five years	–	16,079,923
	–	68,970,946
Less: amounts due within one year shown under current liabilities	–	(28,740,106)
Amounts due after one year	–	40,230,840

The carrying amounts of the Group's borrowings are analysed as follows:

Denominated in	**2008**	**2007**	**Interest rate (2007)**
	HK$	*HK$*	
Hong Kong dollars	–	19,113,800	Hong Kong Inter-bank Offered Rate plus 1.5% to 2.25%
Hong Kong dollars	–	39,857,146	Hong Kong Prime Rate or Hong Kong Prime Rate minus 1.5%
Renminbi	–	10,000,000	5% discount on The People's Bank of China lending rate
	–	68,970,946	

The Group did not have any bank borrowings as at 31 March 2008. At 31 March 2007, there were bank borrowings amounting to approximately HK$40,370,000 denominated in Hong Kong dollars which was not the functional currency of those subsidiaries.

25. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

		Number of shares		Nominal value	
		2008	2007	2008	2007
	Note			*HK$*	*HK$*
Ordinary shares of HK$0.10 each:					
Authorised:					
At beginning of the year		1,000,000,000	1,000,000,000	100,000,000	100,000,000
Increased during the year	*(a)*	9,000,000,000	–	900,000,000	–
At end of the year		10,000,000,000	1,000,000,000	1,000,000,000	100,000,000
Issued and fully paid:					
At beginning of the year		444,000,100	424,000,100	44,400,010	42,400,010
Issue of shares for acquisition		–	20,000,000	–	2,000,000
Exercise of share options granted to employees under share option scheme	*(b)*	16,000,000	–	1,600,000	–
Exercise of share options granted to consultants under share option scheme	*(c)*	26,400,000	–	2,640,000	–
Placement of shares	*(d)*	64,800,000	–	6,480,000	–
Placement of shares	*(e)*	104,960,000	–	10,496,000	–
Issue of shares pursuant to conversions of convertible notes	*(f)*	1,250,000,000	–	125,000,000	–
At end of the year		1,906,160,100	444,000,100	190,616,010	44,400,010

Notes:

(a) At the special general meeting held on 11 July 2007, the authorized share capital of the Company were increased from HK$100,000,000 divided into 1,000,000,000 shares to HK$1,000,000,000 divided into 10,000,000,000 shares by the creation of additional 9,000,000,000 unissued shares of HK$0.1 each.

(b) On 4 May 2007, 16,000,000 shares options were granted to the employees under the share option scheme at an exercise price of HK$0.46 per ordinary shares of HK$0.1 each. These granted share options were fully exercised on 7 May 2007.

(c) On 6 November 2007, 26,400,000 shares options were granted to the consultants of the Company under the share option scheme at an exercise price of HK$0.65 per ordinary shares of HK$0.1 each. These granted share options were fully exercised on 7 November 2007.

(d) On 8 June 2007, the Company entered into a placing agreement with Chung Nam Securities Limited ("**Chung Nam**"), as placing agent, pursuant to which the Company conditionally agreed to place, through the placing agent on an underwritten basis, 64,800,000 shares to independent investors at a price of HK$0.45 per share.

(e) On 17 July 2007, the Company entered into a placing agreement with Chung Nam, as placing agent, pursuant to which the placing agent agreed to place on an underwritten basis, 104,960,000 shares to independent investors at a price of HK$0.45 per share.

(f) On 17 July 2007, the Company entered into a placing agreement ("**CN Placing Agreement**") with Chung Nam, as placing agent, pursuant to which, the placing agent agreed, on a best effort basis, to place up to HK$500,000,000 principal amount of non-interest bearing convertible notes due on 15 December 2010, convertible into 1,250,000,000 shares at the initial conversion price of HK$0.40 per share to independent investors.

During the year, the Company had allotted and issued a total of 1,250,000,000 shares to 38 independent placees at the conversion price of HK$0.40 per conversion shares in aggregate principal amount of HK$500,000,000.

There was no outstanding unconverted convertible note at 31 March 2008.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

26. DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2008, the Group disposed of its entire interest in a subsidiary, Hop Shing Trading Limited ("**Hop Shing**"), to a third party, Great Asia Properties Limited, at a consideration of HK$30,000,000 in cash.

In addition, during the year, the Group also disposed of its entire interest in a subsidiary, Mascotte Investments Limited ("**MIL**") to Kada International Limited, an investment company wholly-owned by the substantial shareholder of the Group, at a consideration of HK$29,000,000 in cash.

The disposal had the following effect on the Group's assets and liabilities:

	MIL	**Hop Shing**	**2008**
	HK$	*HK$*	*HK$*
Net assets disposal of			
Investment properties	9,755,000	30,792,500	40,547,500
Property, plant and equipment	15,363,239	–	15,363,239
Other debtor and prepayment	130,004	102,829	232,833
Cash and bank balances	628,564	72,000	700,564
Other creditors and accruals	(291,017)	(508,552)	(799,569)
	25,585,790	30,458,777	56,044,567
Release of special reserve	(1,000,000)	–	(1,000,000)
Gain/(Loss) on disposal	4,414,210	(458,777)	3,955,433
Total consideration satisfied by cash consideration	29,000,000	30,000,000	59,000,000

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

Cash consideration	29,000,000	30,000,000	59,000,000
Cash and cash equivalents disposed	(628,564)	(72,000)	(700,564)
Net inflow of cash and cash equivalents	28,371,436	29,928,000	58,299,436

27. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 31 March 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2008	2007
	HK$	*HK$*
Within one year	2,949,557	680,790
In the second to fifth year inclusive	4,822,609	–
	7,772,166	680,790

Leases are negotiated for term of two to five year with fixed monthly rentals over the lease terms.

The Group as lessor

The Group leases out all its investment properties under operating leases with lease term of one to fifteen years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2008	2007
	HK$	*HK$*
Within one year	5,358,555	4,729,936
In the second to fifth year inclusive	4,955,252	6,746,416
Over five years	–	400,960
	10,313,807	11,877,312

28. PLEDGE OF ASSETS

At 31 March 2008, the Group had the following pledges over its assets to secure banking facilities granted to the Group.

(a) Investment properties with an aggregate carrying value of HK$131,992,944 (2007: HK$154,170,000).

(b) Leasehold land and buildings with an aggregate carrying value of HK$3,299,203 (2007: HK$26,645,549).

(c) Prepaid lease payments with an aggregate carrying value of HK$6,578,997 (2007: HK$6,515,207).

29. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme (the "**Scheme**") adopted on 21 August 2003, for the primary purpose of providing incentive to directors and eligible employees and suppliers of goods or services of the Group, including consultants ("**consultants**"), and which will expire 10 years after the date of adoption (the "**Option Period**"), the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors and consultants, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price of (i) the closing price of the shares of the Stock Exchange on the date of grant of the option, which must be a trading day or (ii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or (iii) 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 30% of the total number of the issued share of the Company from time to time. The maximum number of shares in respect of which options may be granted to each participant (including both exercised and outstanding options) in any 12-month period cannot exceed 1% of the total number of the issued share of the Company. Upon acceptance of option, the grantee shall pay HK$1 to the Company by way of consideration of the grant. An option may be exercised at any time during the Option Period.

(a) Movement in share option scheme during the year ended 31 March 2008:

Name of category of participant	**Date of grant**	**As at 1 April 2007**	**Granted during the year**	**Exercised during the year**	**As at 31 March 2008**	**Exercise price** *HK$*	**Share price at the date of grant** *(note i)* *HK$*	**Share price at the date of exercise** *(note ii)* *HK$*
Staff	4 May 2007	–	16,000,000	(16,000,000)	–	0.46	0.46	0.60
Consultants	6 November 2007	–	26,400,000	(26,400,000)	–	0.65	0.65	0.94
		–	42,400,000	(42,400,000)	–			

Notes:

(i) The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

(ii) The share price at the date of exercise is the Stock Exchange closing price on the trading date at the date of exercise of the options.

No share options were granted, lapsed, exercised or expired under the Scheme during the year ended 31 March 2007.

(b) Fair value of share options and assumptions

The fair value of share options granted under the share option scheme at the grant dates was ranged from HK$0.07553 to HK$0.10664 per share option, which was calculated using the Binominal Model (Hull-White Sub-Optimal) with the following inputs:

Weighted average exercise price	HK$0.46 to HK$0.65
Expected volatility	76.33% to 90.08%
Expected life	5.75 to 6.25 years
Risk free rate	3.314% to 4.177%
Exercise multiple	1.2
Expected dividend	–

The expected volatility is based on the historic volatility of share prices of the Company and the exercise multiple defines the early exercise strategy. Changes in the subjective input assumptions could materially affect the fair value of the share options granted.

30. RETIREMENT BENEFIT SCHEME

Prior to 1 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 1 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 consolidated 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 the 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$1,616,926 (2007: HK$657,957).

As at 31 March 2008 and 2007, there were no 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.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

(i) Transactions with directors' related companies

Name of party	**Directors who have interest**	**Nature of transactions**	**2008**	**2007**
			HK$	*HK$*
Techford Development Ltd.	Ms. Chan Oi Ling, Maria Olimpia	Rental expense	156,000	156,000
Wing Nin Trading Co. Ltd.	Family member of Ms. Chan Oi Ling, Maria Olimpia	Rental expense	144,000	192,000
Mascotte Investments Limited	Ms. Chan Oi Ling, Maria Olimpia	Rental expense	742,816	–

(ii) Transactions with a minority shareholder

Name of party	**Nature of transactions**	**2008**	**2007**
		HK$	*HK$*
東莞市橋光實業集團公司 Dongguan City Qiao Guang Industrial Group Company	Rental expense	908,773	926,815

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2008	2007
	HK$	*HK$*
Short-term benefits	10,519,669	9,012,319
Post-employment benefits	24,000	24,000
	10,543,669	9,036,319

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

32. SUBSIDIARIES

Particulars of the subsidiaries at 31 March 2008 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
Direct subsidiary				
Mascotte Group Limited	British Virgin Islands/ Hong Kong	US$100	100%	Investment holding
Indirect subsidiaries				
東莞德雅皮具製品廠有限公司 Dongguan Tak Ya Leather Goods Manufactory Limited *(note a)*	PRC	HK$8,000,000	70% *(note b)*	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; inactive since January 2008
Mascotte Industrial Associates Group Limited	British Virgin Islands/ Hong Kong	US$4	100%	Investment holding
Mascotte Industrial Associates (Hong Kong) Limited	Hong Kong	HK$2	100%	Trading of accessories for photographic, electrical and multimedia products

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 Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co. Ltd. *(note a)*	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	US$1,795,000	100%	Inactive
Mascotte Photographic Trading Limited	British Virgin Islands	US$1	100%	Inactive
Newland Kingdom Limited	Hong Kong	HK$9,998 HK$2*	100%	Inactive
Jet Star Industries Limited	Hong Kong/PRC	HK$9,998 HK$2*	100%	Property holding
Tak Ya Leather Goods Manufactory Limited	British Virgin Islands/PRC	US$1	100%	Investment holding
Union Glory Finance Inc.	British Virgin Islands/ Hong Kong	US$1	100%	Inactive

* *These represent non-voting deferred shares (note c).*

Notes:

(a) These companies are equity joint ventures.

(b) 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 profits derived from its operations up to 31 December 2011.

(c) These deferred shares, which are not held by the Group, practically carry no rights 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

In addition to the post balance sheet events disclosed elsewhere in these financial statements, subsequent to the balance sheet date, pursuant to the prospectus of the Company dated 10 July 2008, the Company proposed to issue 953,080,050 rights shares of HK$0.10 each at HK$0.15 per rights share on the basis of one rights share for every two existing shares held on record date (i.e. 9 July 2008) by qualifying shareholders (the "**Rights Issue**"). The Rights Issue is expected to be completed on 1 August 2008, raising net proceeds of approximately HK$138 million.

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 March 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this circular:

(a) the Group had an outstanding balance of HK$525,520 drawn under a margin facility of HK$12,864,600 granted by a regulated securities broker to the Group in respect of which financial assets with carrying amount of HK$28,588,000 have been pledged to the securities broker as collateral for the facility granted.

(b) the Target Group had (i) outstanding bank borrowing amounted to approximately HK$44.0 million (NT$160,000,000) which was secured by buildings of the Target Group with a carrying amount of approximately HK$86.0 million (NT$313,366,488); and (ii) unsecured outstanding borrowings of approximately HK$82.5 million (NT$300,000,000) due to a former beneficial owner of the Target Group.

Save as aforesaid, and apart from intra-group liabilities, the Group and the Target Group did not have outstanding at the close of business on 31 March 2011, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

(a) After taking into account the Enlarged Group's:

(i) internal financial resources;

(ii) present available banking facilities;

(iii) cash flows to be generated from the operating activities of existing group and the Target Group following the commencement of its full scale commercial production before 31 May 2011;

(iv) net proceeds of approximately HK$141 million received from the Subscription under the Subscription Agreement;

(v) the estimated net proceeds of approximately HK$3.88 billion to be received from the Placing under the Placing Agreement, the completion of which is a precedent condition of the Acquisition in accordance with the Sale and Purchase Agreement;

(vi) net cash outflow arising on the Acquisition;

(vii) cash requirement for the loan advance to the Target of approximately HK$390 million to be paid pursuant to the Facility Agreement; and

(viii) the total capital expenditure and working capital requirement planned to be incurred for the construction of the additional production plants of the Target Group based on liquid funds available from time to time,

the Directors are of the opinion that the Enlarged Group will have sufficient working capital for at least twelve months from the date of this circular to meet its present requirements in the absence of unforeseen circumstances.

Deloitte.
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35/F One Pacific Place
88 Queensway
Hong Kong

20 May 2011

The Directors
Mascotte Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding Sun Mass Energy Limited (previously known as Trifecta International Incorporated) ("**Sun Mass**") for the period from 17 May 2010 (date of incorporation) to 31 December 2010 (the "**Relevant Period**"), for inclusion in the circular of Mascotte Holdings Limited (the "**Company**") dated 20 May 2011 in connection with the very substantial acquisition relating to proposed acquisition of a 50.1% interests in Sun Mass at a consideration of US$150,000,000 (the "**Circular**").

Sun Mass was incorporated with limited liability in the British Virgin Islands ("**BVI**") on 17 May 2010. It is inactive since its incorporation. The address of Sun Mass is Nemours Chambers, Road Town, Tortola, BVI.

Sun Mass has not conducted any business transactions since its date of incorporation apart from the issuing of shares as set out below. No audited financial statements or management accounts of Sun Mass have been prepared up to the date of this report.

Sun Mass is authorized to issue 100,000,000 shares of no par value at date of its incorporation. On 25 June 2010, 2,000,000 shares of no par value and 8,000,000 shares of no par value in Sun Mass were issued to Double Resources Limited and Radiance Resources Limited. On 26 July 2010, all of these 10,000,000 shares were cancelled by Sun Mass, and 10,000,000 new shares of no par value in Sun Mass were issued to Quinella International Incorporated ("**Quinella**"), a company incorporated in BVI with limited liabilities. Quinella became the sole shareholder of Sun Mass and also the holding company of Sun Mass since 26 July 2010.

Sun Mass had a bank balance of HK$8,000 as at 31 December 2010 which the amount was advanced from a shareholder with an amount due to a shareholder of the same amount recorded as at 31 December 2010. The amount is unsecured, interest-free and repayable on demand.

Subsequent to the Relevant Period and on 15 January 2011, Sun Mass purchased 50,000,000 shares representing the entire issued and outstanding shares in Lution International Holdings Co., Ltd. for the total sum of NT$900,000,000 (representing a purchase price of NT$18 per share).

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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35/F One Pacific Place
88 Queensway
Hong Kong

20 May 2011

The Directors
Mascotte Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding Lution International Holdings Co., Ltd. ("**Lution**") for the period from 15 September 2009 (date of incorporation) to 31 December 2009 and the year ended 31 December 2010 (the "**Relevant Periods**"), for inclusion in the circular of Mascotte Holdings Limited (the "**Company**") dated 20 May 2011 in connection with the very substantial acquisition relating to the proposed acquisition of a 50.1% interests in Lution at a consideration of US$150,000,000 via the acquisition of 50.1% interests in Sun Mass Energy Limited ("**Sun Mass**") (the "**Circular**"). Sun Mass is a company incorporated in the British Virgin Islands with limited liability.

Lution was incorporated with limited liability in Taiwan on 15 September 2009. It is an investment holding company.

The financial year end of Lution is 31 December. No statutory audited financial statements of Lution has been prepared since its date of incorporation.

During the Relevant Periods and as of the date of this report, Lution has the following subsidiary:

Name of subsidiary	Place and date of incorporation	Issue and fully paid share capital	Proportion of nominal value of issued share capital held directly by Lution	Principal activities
Sun Materials Technology Company Limited 山陽科技股份有限公司 ("**Sun Materials**")	Taiwan 19 March 2007	NT$1,000,000,000	100%	Manufacture of solar grade polysilicon

The statutory financial statements of Sun Materials for the year ended 31 December 2009 and 2010 were prepared in accordance with accounting principles generally accepted in Taiwan and were audited by Deloitte & Touche, 勤業眾信會計師事務所, certified public accountants registered in Taiwan.

For the purpose of this report, the directors of the Lution have prepared the financial statements of Lution for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards except for the failure to prepare consolidated financial statements of the Lution Group in accordance with the requirements of Hong Kong Accounting Standard 27 "Consolidated and separate financial statements" ("**HKAS 27**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by HKICPA and issued a qualified opinion on the Underlying Financial Statements.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Lution for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements without adjustment. There is no consolidated financial information of Lution Group included in this report.

The Underlying Financial Statements are the responsibility of the directors of Lution who approve their issue. The directors of the Company 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 give, for the purpose of this report, a true and fair view of the state of affairs of Lution as at 31 December 2009 and 2010, and of the results and cash flows of Lution for the Relevant Periods.

- Because of the significance of the matter discussed above regarding the failure to prepare consolidated financial information of Lution Group, the Financial Information does not give a true and fair view of the state of affairs of the Lution Group as at 31 December 2009 and 2010 and of the results and cash flows of Lution Group for the Relevant Periods.

A. FINANCIAL INFORMATION

Statements of Comprehensive Income

	Note	For the period from 15 September 2009 (date of incorporation) to 31 December 2009	For the year ended 31 December 2010
		NT$'000	*NT$'000*
Bank interest income		–	7
Administrative expenses		(211)	(402)
Loss for the period/year and total comprehensive expense for the period/year	*5*	(211)	(395)

Statements of Financial Position

	Notes	2009 NT$'000	2010 NT$'000
NON-CURRENT ASSETS			
Investment in a subsidiary	8	693,488	893,488
CURRENT ASSETS			
Other receivables		–	4
Bank balances and cash	9	34,559	530
		34,559	534
CURRENT LIABILITIES			
Other payables		–	140
Amount due to a subsidiary	10	–	1,000
Amounts due to shareholders	10	34,770	–
		34,770	1,140
NET CURRENT LIABILITIES		(211)	(606)
NET ASSETS		693,277	892,882
CAPITAL AND RESERVES			
Share capital	11	400,000	500,000
Reserves		293,277	392,882
TOTAL EQUITY		693,277	892,882

Statements of Changes in Equity

	Share capital	**Share premium**	**Accumulated losses**	**Total**
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*
AUDITED				
Issue of shares on 15 September 2009	400,000	293,488	–	693,488
Loss and total comprehensive expense for the period	–	–	(211)	(211)
At 31 December 2009	400,000	293,488	(211)	693,277
Issue of shares	100,000	100,000	–	200,000
Loss and total comprehensive expense for the year	–	–	(395)	(395)
At 31 December 2010	500,000	393,488	(606)	892,882

Statements of Cash Flows

	For the period from 15 September 2009 (date of incorporation) to 31 December 2009	For the period from 1 January 2010 to 31 December 2010
	NT$'000	*NT$'000*
OPERATING ACTIVITIES		
Loss before tax	(211)	(395)
Bank interest income	–	(7)
Operating cash flows before movements in working capital	(211)	(402)
Increase in other receivables	–	(4)
Increase in other payables	–	140
NET CASH USED IN OPERATING ACTIVITIES	(211)	(266)
CASH USED IN INVESTING ACTIVITIES		
Investment in a subsidiary	–	(200,000)
Interest received	–	7
NET CASH USED IN INVESTING ACTIVITIES	–	(199,993)
FINANCING ACTIVITIES		
Issue of new shares	–	200,000
Advance from a subsidiary	–	1,000
Advance from (repayment to) shareholders	34,770	(34,770)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	34,770	166,230
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,559	(34,029)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	–	34,559
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR represented by bank balances and cash	34,559	530

Notes to the Financial Information

1. GENERAL

Lution is a private limited company incorporated in Taiwan on 15 September 2009. It acts as investment holding company. Details of its subsidiary are set out in note 8.

The Financial Information is presented in New Taiwan Dollar ("**NT$**"), which is the same as the functional currency of Lution. The address of Lution is at No. 15, Ligong Second Road, Wujie Township, Yilan County 26643, Republic of China.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information had been prepared on a going concern basis because the existing shareholders had agreed to provide adequate funds to enable Lution to meet in full its financial obligations as they fall due in the twelve months from the date of this report.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Lution adopted Hong Kong Accounting Standards ("**HKAS**"), Hong Kong Financial Reporting Standards ("**HKFRS**") amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are effective for Lution's financial year beginning on 1 January 2010 consistently for the Relevant Periods.

At the date of this report, the HKICPA has issued the following new or revised standards, amendments or interpretations which are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendments)	Classification of Rights Issues[3]
HKFRS 1 (Amendments)	Limited Exemption from comparative HKFRS 7 Disclosures for First-time Adopter[4]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[6]
HKFRS 7 (Amendments)	Disclosures: Transfer of Financial Assets[6]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

[2] Effective for annual periods beginning on or after 1 January 2011

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 July 2010

[5] Effective for annual periods beginning on or after 1 January 2013

[6] Effective for annual periods beginning on or after 1 July 2011

[7] Effective for annual periods beginning on or after 1 January 2012

The directors of Lution anticipate that the application of the new or revised standards, amendments and interpretations will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below which conform with HKFRS except for the failure to prepare consolidated financial statements in accordance with HKAS 27 "Consolidated and Separate Financial Statements" issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and by the Hong Kong Companies Ordinance.

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 on initial recognition.

Investments in a subsidiary

Investment in a subsidiary effected by Lution issuing equity instruments in exchange for the existing equity instruments of the subsidiary (the "**share swap**"), where (i) the assets and liabilities of the Lution together with the subsidiary and the subsidiary are the same both before and after the share swap and (ii) the owners of the subsidiary before the share swap have the same absolute and relative interests in the net assets of the subsidiary and Lution together with the subsidiary immediately before and after the share swap, are initially measured at the share of the equity items shown in the financial statements of the subsidiary at the date of the share swap.

In subsequent periods, the investment in a subsidiary is measured at cost less impairment.

Impairment on tangible assets

At the end of each reporting period, Lution reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of tangible asset is estimated to be less than its carrying amount, the carrying amount of the tangible asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the tangible asset is increased to the revised estimate of its recoverable amount, but 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 expense represents 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 profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability of Lution for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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 the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Lution expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or 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.

Financial assets

The financial assets of Lution are classified as loans and receivables (including other receivables and bank balances and cash).

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from immediate holding company, restricted bank deposit, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loan and receivables below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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.

For financial assets carried at amortised cost, 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.

The carrying amount of all loans and receivables is reduced by the impairment loss directly.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Lution are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Lution after deducting all of its liabilities.

Financial liabilities

The financial liabilities of Lution (including amounts due to shareholders and amount due to a subsidiary) are measured at cost.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by Lution are recorded at the proceeds received, net of direct issue costs. For equity instruments issued in exchange for equity instruments of a subsidiary, please refer to the accounting policy for "investment in a subsidiary".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Sun Materials has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. LOSS FOR THE PERIOD/YEAR

	For the period from 15 September 2009 (date of incorporation) to 31 December 2009	For the year ended 31 December 2010
	NT$'000	*NT$'000*
Loss for the period/year has been arrived at after charging:		
Auditor's remuneration	–	100
Directors' emoluments	–	–
Staff cost *(Note)*	–	–

Note: Throughout the Relevant Periods, no staff has been employed by Lution.

6. TAXATION

Pursuant to relevant Taiwan Income Tax Law, Lution is subject to Taiwan Income Tax of 20% for the Relevant Periods.

No provision for Taiwan Income Tax has been made in the Financial Information as Lution had no assessable profit for the Relevant Periods.

No provision for Hong Kong Profits Tax has been made as Lution did not operate in Hong Kong.

The tax charge for the Relevant Periods can be reconciled to the loss for the period per the statements of comprehensive income as follows:

	For the period from 15 September 2009 (date of incorporation) to 31 December 2009	For the year ended 31 December 2010
	NT$'000	*NT$'000*
Loss for the period/year	(211)	(395)
Tax at domestic tax rates	(42)	(79)
Tax effect of tax losses not recognised	42	79
Tax charge for the period/year	–	–

At 31 December 2009 and 2010, Lution had unused tax losses of approximately NT$211,000 and NT$606,000 respectively. No deferred tax asset has been recognised in respect of unused tax losses as the tax losses estimated by Lution will be subject to the approval from local tax authority.

7. DIVIDENDS

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

8. INVESTMENT IN A SUBSIDIARY

	2009	2010
	NT$'000	*NT$'000*
Unlisted investment, at cost	693,488	893,488

The above investment cost represents Lution's interest in the total equity of Sun Materials. At 15 September 2009, the date of incorporation of Lution, 40,000,000 shares at NT$17.3372 each were issued to the then shareholders of Sun Materials to acquire the active share capital of Sun Materials. NT$693,488,000 represents the total equity of Sun Materials on that date.

On 6 April 2010, Lution further subscribed 20,000,000 new shares issued by Sun Materials at NT$10 each.

The directors of Lution have not prepared consolidated financial statements in accordance with HKAS27 "Consolidated and Separate Financial Statements" issued by the HKICPA because the preparation of consolidated financial statements would involve expenses and delay out of proportion to the value to the members of Lution.

9. BANK BALANCES AND CASH

The bank balances of Lution are all denominated in the functional currency of Lution and carry floating interest at the following rates:

	2009	2010
Range of interest rates per annum	0.13% – 0.15%	0.1% – 0.11%

10. AMOUNT DUE TO A SUBSIDIARY/AMOUNTS DUE TO SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand.

11. SHARE CAPITAL

	Number of shares	Share capital
	'000	*NT$'000*
Shares of NT$10 each		
Issued and fully paid		
Issued on date of incorporation	40,000	400,000
As at 31 December 2009	40,000	400,000
Issued during the period for cash	10,000	100,000
As at 31 December 2010	50,000	500,000

On 15 September 2009, Lution issued 40,000,000 shares at NT$17.3372 each to the then shareholders of Sun Materials at a premium of NT$293,488,000 to acquire the active share capital of Sun Materials (see note 8).

During the year ended 31 December 2010, Lution issued 10,000,000 shares at NT$20 each to the existing shareholders at a premium of NT$100,000,000 to finance further investment in Sun Materials.

12. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

The Company entered into the following significant transactions with related parties during the Relevant Periods.

Name of related party	Nature of transaction	For the period from 15 September 2009 (date of incorporation) to 31 December 2009	For the year ended 31 December 2010
		NT$'000	*NT$'000*
Sun Materials	Rental paid	–	36
Enerage Inc. 安炬科技股份有限公司 *(Note)*	Rental paid	11	–

Note: The related party is a company in which the shareholders of Lution have beneficial interests.

(b) Balances

Details of the Company's outstanding balances with related parties are set out in the statements of financial position and note 10.

13. CAPITAL RISK MANAGEMENT

Lution manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Lution overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Lution consists cash and cash equivalent and equity attributable to the owners, comprising issued share capital and accumulated losses.

The directors of Lution review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on recommendations of the directors, Lution will balance its overall capital structure through raising of new capital and the issue of debt.

14. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009	2010
	NT$'000	*NT$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	34,559	530
Financial liabilities		
Amortised cost	34,770	1,000

(b) Financial risk management objectives and policies

Lution's major financial instruments include other receivables, bank balances and cash, amounts due to shareholders and amount due to a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate credit risks and liquidity risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

At the end of each reporting period, Lution's maximum exposure to credit risk which will cause a financial loss to them due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

Lution is exposed to liquidity risk of being unable to finance its future investing activities in the subsidiary upon the commencement of full commercial production by the subsidiary. The existing shareholders of Lution have agreed to support Lution's investments and inject sufficient funds in Lution and its subsidiary when necessary. Lution is also looking for new investors to explore new fundings to support the operation and expansion in the future. In the management of the liquidity risk, Lution monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operation of Lution and its subsidiary and mitigate the effects of fluctuations in cash flows.

In the opinion of the directors, Lution will be able to mitigate its liquidity risk through the above measures.

The following tables detail remaining contractual maturity of Lution for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Lution can be required to pay.

Liquidity risk tables

	On demand and total undiscounted cash flows	Carrying amount
	NT$'000	*NT$'000*
At 31 December 2009		
Amounts due to shareholders	34,770	34,770

	On demand and total undiscounted cash flows	Carrying amount
	NT$'000	*NT$'000*
At 31 December 2010		
Amount due to a subsidiary	1,000	1,000

(c) Fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at cost in the Financial Information approximate their fair values.

15. NON-CASH TRANSACTIONS

The consideration for the acquisition of a subsidiary during the period ended 31 December 2010 was made by issuing of shares as disclosed in note 8.

B. DIRECTORS' REMUNERATION

No remuneration was paid or is payable by Lution to the directors of Lution in respect of the Relevant Periods.

C. SUBSEQUENT EVENTS

Subsequent to the Relevant Periods and on 15 January 2011, Sun Mass purchased 50,000,000 shares representing the entire issued and outstanding shares in Lution for the total sum of NT$900,000,000 (representing a purchase price of NT$18 per share). Sun Mass became the holding company of Lution thereafter.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Lution have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
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35/F One Pacific Place
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Hong Kong

20 May 2011

The Directors
Mascotte Holding Limited

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding Sun Materials Technology Company Limited ("**Sun Materials**") for the three years ended 31 December 2010 (the "**Relevant Periods**"), for inclusion in the circular of Mascotte Holding Limited (the "**Company**") dated 20 May 2011 in connection with the very substantial acquisition relating to the purchases of 50.1% of the issued shares of Sun Mass Energy Limited ("**Sun Mass**"), a company incorporated in the British Virgin Islands ("**BVI**") from Quinella International Incorporated, a company incorporated with limited liability in the BVI. Sun Mass will also be the holding company of Sun Materials after the completion of the Reorganisation as disclosed under Letter from the Board of the circular (the "**Circular**").

Sun Materials was incorporated with limited liability in Taiwan on 19 March 2007. The activity of Sun Materials is development of the technology for manufacturing of solar grade polysilicon. Sun Materials completed the construction of its first production plant in Taiwan in October 2010. It plans to commence operation on or before 31 May 2011.

The financial year end of Sun Materials is 31 December. The statutory financial statements of Sun Materials for the year ended 31 December 2008, were prepared in accordance with accounting principles generally accepted in Taiwan and were audited by Ernst & Young, Taiwan, certified public accountants registered in Taiwan.

The statutory financial statements of Sun Materials for the year ended 31 December 2009 and 2010 were prepared in accordance with accounting principles generally accepted in Taiwan and were audited by Deloitte & Touche, 勤業眾信會計師事務所, certified public accountants registered in Taiwan.

For the purpose of this report, the directors of Sun Materials have prepared the financial statements of Sun Materials for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Sun Materials for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments has been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

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

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Sun Materials as at 31 December 2008, 2009, and 2010 and of the results and cash flows of Sun Materials for the Relevant Periods.

A. FINANCIAL INFORMATION

Statements of Comprehensive Income

	Notes	2008 NT$'000	2009 NT$'000	2010 NT$'000
Other income	4	572	791	12,606
Administrative expenses		(7,143)	(16,156)	(28,957)
Other expenses		(9,971)	(34,546)	(52,239)
Written off on deposit paid for acquisition of property, plant and equipment		(6,600)	(3,497)	–
Net loss on investments held for trading		(1,182)	–	–
Finance costs	5	–	(162)	(2,458)
Loss for the year and total comprehensive expense for the year	6	(24,324)	(53,570)	(71,048)
Attributable to:				
Owners of the Company		(24,324)	(53,570)	(71,048)

Statements of Financial Position

	Notes	2008 NT$'000	2009 NT$'000	2010 NT$'000
NON-CURRENT ASSETS				
Property, plant and equipment	10	121,649	395,751	423,030
Intangible asset	11	19,337	19,402	19,402
Deposit paid for property, plant and equipment	12	26,377	351,726	465,205
Restricted bank deposit	13	20,581	21,009	21,009
		187,944	787,888	928,646
CURRENT ASSETS				
Amount due from intermediate holding company	14	–	–	1,000
Other receivables and prepayments	15	6,744	31,780	23,622
Bank balances and cash	16	114,975	85,674	110,871
		121,719	117,454	135,493
CURRENT LIABILITIES				
Other payables and accruals	17	1,465	18,727	48,572
Amounts due to shareholders	18	138,000	–	–
Bank borrowings – due within one year	19	–	160,000	–
		139,465	178,727	48,572
NET CURRENT (LIABILITIES) ASSETS		(17,746)	(61,273)	86,921
TOTAL ASSETS LESS CURRENT LIABILITIES		170,198	726,615	1,015,567
NON-CURRENT LIABILITIES				
Bank borrowings – due after one year	19	–	–	160,000
NET ASSETS		170,198	726,615	855,567
CAPITAL AND RESERVES				
Share capital	20	190,013	800,000	1,000,000
Reserves		(19,815)	(73,385)	(144,433)
TOTAL EQUITY		170,198	726,615	855,567

Statements of Changes in Equity

	Share capital	Share premium	Accumulated losses	Total
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*
At 1 January 2008	150,013	14,986	(10,477)	154,522
Issue of shares	40,000	–	–	40,000
Loss for the year	–	–	(24,324)	(24,324)
At 31 December 2008	190,013	14,986	(34,801)	170,198
Issue of shares	609,987	–	–	609,987
Loss for the year	–	–	(53,570)	(53,570)
At 31 December 2009	800,000	14,986	(88,371)	726,615
Issue of shares	200,000	–	–	200,000
Loss for the year	–	–	(71,048)	(71,048)
At 31 December 2010	1,000,000	14,986	(159,419)	855,567

Statements of Cash Flows

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
OPERATING ACTIVITIES			
Loss before tax	(24,324)	(53,570)	(71,048)
Adjustments for:			
Interest expenses	–	162	2,458
Interest income	(572)	(602)	(124)
Depreciation of property, plant and equipment	9,971	20,354	33,614
Net loss on investment held for trading	1,182	–	–
Written off on deposit paid for acquisition of property, plant and equipment	6,600	3,497	–
Operating cash flows before movements in working capital	(7,143)	(30,159)	(35,100)
Proceeds on disposal of fund investment	25,475	–	–
(Increase) decrease in other receivables and prepayments	(2,446)	(25,036)	8,158
(Decrease) increase in other payables and accruals	(225)	17,262	29,845
NET CASH FROM (USED IN) OPERATING ACTIVITIES	15,661	(37,933)	2,903
INVESTING ACTIVITIES			
Additions of property, plant and equipment	(46,952)	(278,231)	(58,017)
Deposit paid for acquisition of property, plant and equipment	(30,998)	(345,071)	(116,355)
Additions in intangible asset	(4,337)	(65)	–
Advance to holding company	–	–	(1,000)
Interest received	63	174	124
NET CASH USED IN INVESTING ACTIVITIES	(82,224)	(623,193)	(175,248)

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
FINANCING ACTIVITIES			
Advance from shareholders	138,000	–	–
Issue of new shares	40,000	471,987	200,000
New bank borrowings raised	–	160,000	160,000
Interest paid	–	(162)	(2,458)
Repayment of bank borrowings	–	–	(160,000)
NET CASH FROM FINANCING ACTIVITIES	178,000	631,825	197,542
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	111,437	(29,301)	25,197
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,538	114,975	85,674
CASH AND CASH EQUIVALENTS AT END OF THE YEAR represented by bank balances and cash	114,975	85,674	110,871

Notes to the Financial Information

1. GENERAL

Sun Materials is a private limited company incorporated in Taiwan on 19 March 2007. The activity of Sun Materials is development of the technology for manufacturing of solar grade polysilicon. Sun Materials completed the construction of its first production plant in Taiwan in October 2010. It plans to commence operation on or before 31 May 2011.

On 15 September 2009, the shareholders of Sun Materials transferred their shares in Sun Materials to Lution International Holdings Limited ("**Lution**"), a company incorporated with limited liability in Taiwan in return of shares of Lution on the same percentage of their shareholdings in Sun Materials.

The Financial Information is presented in New Taiwan Dollar ("**NT$**"), which is the same as the functional currency of Sun Materials. The address of Sun Materials is at No. 15, Ligong Second Road, Wujie Township, Yilan County 26643, Taiwan.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Sun Materials adopted Hong Kong Accounting Standards ("**HKAS**"), Hong Kong Financial Reporting Standards ("**HKFRS**") amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are effective for Sun Materials' financial year beginning on 1 January 2010 consistently for the Relevant Periods.

At the date of this report, the HKICPA has issued the following new or revised standards, amendments or interpretations which are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 32 (Amendments)	Classification of Rights Issues[3]
HKFRS 1 (Amendments)	Limited Exemption from comparative HKFRS 7 Disclosures for First-time Adopter[4]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[6]
HKFRS 7 (Amendments)	Disclosures: Transfer of Financial Assets[2]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 January 2011

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for annual periods beginning on or after 1 January 2013

6 Effective for annual periods beginning on or after 1 July 2011

7 Effective for annual periods beginning on or after 1 January 2012

The directors of Sun Materials anticipate that the application of these new or revised standards, amendments and interpretations will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below which conform with HKFRS.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and by the Hong Kong Companies Ordinance.

Revenue recognition

Compensation income is recognised when it is probable that the economic benefits will flow to Sun Materials and the amount can be measured reliably.

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 on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) 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 (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include directly attributable costs and, for qualifying assets, borrowing costs capitalised in accordance with Sun Materials' accounting policy. Such construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in profit or loss.

Leasing

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

Sun Materials as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, contingent rents are recognised as expenses in the period they are incurred.

Intangible assets

Intangible assets with finite useful lives are carried at cost less subsequent accumulated amortisation and any accumulated impairment losses. The amortisation of intangible assets commences when Sun Materials starts commercial production and is calculated on a straight-line basis over their estimated useful lives from the date of commercial production.

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment on tangible assets and intangible assets

At the end of each reporting period, the directors of Sun Materials review the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of the tangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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.

Foreign currencies

In preparing the financial statements of Sun Materials, transactions in currencies other than its functional currency (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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that Sun Materials will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or loses already incurred or for the purpose of giving immediate financial support to Sun Materials with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expense when employees have rendered service entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability of Sun Materials for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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 the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Sun Materials expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

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

Financial assets

The financial assets of Sun Materials are classified into one of the two categories, including loans and receivables and financial assets at fair value through profit or loss. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from holding company, restricted bank deposit, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loan and receivables below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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.

For financial assets carried at amortised cost, 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.

The carrying amount of all loans and receivables is reduced by the impairment loss directly.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Sun Materials are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Sun Materials after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The financial liabilities of Sun Materials (including other payables, amounts due to shareholders and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Sun Materials are recorded at the proceeds received, net of direct issue costs or by reference to the fair value of assets contributed by the shareholders, as appropriate.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Sun Materials has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. OTHER INCOME

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Compensation from a related company for late delivery of machinery *(note 12)*	–	–	11,733
Bank interest income	572	602	124
Government grant *(note)*	–	189	713
Others	–	–	36
	572	791	12,606

Note:

Government grant represented the subsidy from local government regarding recruitment of new graduates.

5. FINANCE COSTS

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Interest on:			
Bank borrowings wholly repayable within five years	–	162	–
Bank borrowings wholly repayable after five years	–	–	2,458
	–	162	2,458

6. LOSS FOR THE YEAR

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Loss for the year has been arrived at after charging:			
Auditor's remuneration	50	653	200
Directors' emolument	–	–	–
Staff costs			
Salaries and other staff benefits	2,079	5,939	5,178
Retirement benefit scheme	255	299	292
	2,334	6,238	5,470
Depreciation for property, plant and equipment	9,971	20,354	33,614

7. TAXATION

No provision for Hong Kong Profits Tax has been made as Sun Materials did not operate in Hong Kong.

Pursuant to relevant Taiwan Income Tax Law, Sun Materials is subject to corporate income tax rate of 25% for the two years ended 31 December 2008 and 2009. On 27 May 2009, the Taiwan government announced that the corporate income tax rate was reduced from 25% to 20% from 1 January 2010 onwards.

No provision for Taiwan Income Tax has been made in the Financial Information as Sun Materials had no assessable profit for the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the loss for the period/year per the statements of comprehensive income as follows:

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Loss for the year	(24,324)	(53,570)	(71,048)
Tax at corporate income tax rate of 25%, 25% and 20%	(6,081)	(13,393)	(14,210)
Tax effect of expenses not deductible for tax purposes	1,988	4,516	3,760
Tax effect of tax losses not recognised	4,093	8,877	10,450
Tax charge for the year	–	–	–

At 31 December 2008, 2009 and 2010, Sun Materials had unused tax losses of approximately NT$16,372,000, NT$51,880,000 and NT$104,130,000 respectively available for offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses as the tax losses estimated by Sun Materials will be subject to the approval from local tax authority when Sun Materials commences its operation in future.

8. EMPLOYEES' EMOLUMENTS

Employees

Of the five highest paid individuals of Sun Materials for the Relevant Periods, all of them are employees, details are as follows:

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Directors	–	–	–
Employees	274	3,575	2,160
	274	3,575	2,160

The remuneration of the five highest paid individuals for the Relevant Periods are as follows:

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Salaries and other allowances	258	3,387	2,041
Retirement benefit scheme contributions	16	188	119
	274	3,575	2,160

Note: The emolument of each of the above employees is below NT$4,000,000 (approximately HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Sun Materials to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining Sun Materials or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

9. DIVIDENDS

No dividend has been paid or declared by Sun Materials since its date of incorporation.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*
COST						
At 1 January 2008	–	–	1,910	416	–	2,326
Additions	–	127,619	–	863	898	129,380
At 31 December 2008	–	127,619	1,910	1,279	898	131,706
Additions	–	18,371	–	3,246	272,839	294,456
At 31 December 2009	–	145,990	1,910	4,525	273,737	426,162
Additions	–	–	–	2,949	57,944	60,893
Transfer	328,836	–	–	2,845	(331,681)	–
At 31 December 2010	328,836	145,990	1,910	10,319	–	487,055
DEPRECIATION						
At 1 January 2008	–	–	80	6	–	86
Provided for the year	–	9,529	318	124	–	9,971
At 31 December 2008	–	9,529	398	130	–	10,057
Provided for the year	–	19,454	318	582	–	20,354
At 31 December 2009	–	28,983	716	712	–	30,411
Provided for the year	11,555	20,220	318	1,521	–	33,614
At 31 December 2010	11,555	49,203	1,034	2,233	–	64,025
CARRYING VALUES						
At 31 December 2008	–	118,090	1,512	1,149	898	121,649
At 31 December 2009	–	117,007	1,194	3,813	273,737	395,751
At 31 December 2010	317,281	96,787	876	8,086	–	423,030

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

Buildings	5%
Plant and machinery	12.5% – 33%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

11. INTANGIBLE ASSET

	Core Technology
	NT$'000
COST	
As at 1 January 2008	15,000
Additions	4,337
As at 31 December 2008	19,337
Additions	65
As at 31 December 2009 and 31 December 2010	19,402

On 24 May 2007, Sun Materials issued 1,500,000 shares to Dr. Wu Yi Shuen ("**Dr. Wu**") at NT$10 each to acquire the technology in connection with a new proprietary technology to manufacture of solar grade polysilicon (the "Core Technology").

In the opinion of the directors, the total value of shares issued amounting to NT$15,000,000 approximated to the fair value of the Core Technology by reference to a valuation carried out by Taiwan Economic & Technology Research Institute of Consortium Corporation.

No amortisation has been recognised during the Relevant Periods because production was not yet commenced.

The additions in 2008 and 2009 represented development expenditure in connection with the development of the Core Technology.

12. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Deposit paid for acquisition of property, plant and equipment			
Related party	–	342,857	455,000
Third parties	32,977	12,366	10,205
Less: Written-off during the year	(6,600)	(3,497)	–
	26,377	351,726	465,205

On 1 April 2009, Sun Materials entered into an agreement with Enerage Inc. 安炬科技股份有限公司 ("**安炬**") to acquire plant and machinery at a total consideration of NT$514,500,000 with delivery date on or before 31 March 2010 for the manufacturing of polysilicon.

Included in the above balances, NT$342,857,000 and NT$455,000,000 as of 31 December 2009 and 2010 respectively represented deposit paid to 安炬 in accordance with the agreement. 安炬 is an entity in which the shareholders of Sun Materials have beneficial interests.

Pursuant to the agreement, 安炬 has to preserve the confidentiality of the Core Technology during the construction of the plant and machinery and subject to penalty for any late delivery of the plant and machinery. During the year ended 31 December 2010, a penalty of NT$11,733,000 was paid by 安炬.

13. RESTRICTED BANK DEPOSIT

The amount represents restricted bank deposit placed to secure the lease of certain land at No. 186-46, 186-47, 186-48, 186-49, 186-50, 186-51, 186-52, 186-53 of Ligong Road, Lizhe Industrial Centre, Yilan County, Taiwan (see note 21). The restricted bank deposit would be released after the sixth year of the lease term upon termination or cancellation of lease. The lease term of the land commenced in 2007, accordingly, the restricted bank deposit are classified as non-current asset.

All the restricted bank deposit is denominated in NT$, the functional currency of Sun Materials.

The restricted bank deposit of Sun Materials carried interest at the following interest rate range:

	2008	**2009**	**2010**
Interest rates per annum	1.65%–2.04%	0.2%–2.04%	0.2%–1.175%

14. AMOUNT DUE FROM HOLDING COMPANY

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

15. OTHER RECEIVABLES AND PREPAYMENTS

	2008	**2009**	**2010**
	NT$'000	*NT$'000*	*NT$'000*
Prepayments	224	68	70
Rental deposits	18	8	8
Other tax receivables	3,005	31,704	23,544
Other receivables	3,497	–	–
	6,744	31,780	23,622
Other receivables and prepayments:			
Third parties	6,734	31,780	23,622
Related party – 鼎翰 (as defined in note 24(i))	10	–	–
	6,744	31,780	23,622

16. BANK BALANCES AND CASH

The bank balances of Sun Materials are all denominated in NT$, the functional currency of Sun Materials and carried floating interest at the following rates:

	2008	**2009**	**2010**
Interest rates per annum	0.15%–0.2%	0.13%–0.15%	0.1%–0.27%

17. OTHER PAYABLES AND ACCRUALS

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Accruals	71	466	815
Payables for acquisition of plant and equipment	1,386	18,246	47,750
Others	8	15	7
	1,465	18,727	48,572
Other payables and accruals:			
Third parties	1,465	18,727	822
Related party – 安炬	–	–	47,750
	1,465	18,727	48,572

18. AMOUNTS DUE TO SHAREHOLDERS

The amount is unsecured, non-interest bearing and repayable on demand. It was capitalised as share capital in 2009 (see note 20).

19. BANK BORROWINGS

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Analysed as:			
Secured	–	–	160,000
Unsecured	–	160,000	–
	–	160,000	160,000
The above amounts are repayable as follows:			
Within one year	–	160,000	–
Between one and two years	–	–	13,333
Between two and five years	–	–	43,636
Over five years	–	–	103,031
	–	160,000	160,000
Amount due within one year under current liabilities	–	(160,000)	–
Amount due after one year	–	–	160,000
The effective interest rates (which are also equal to contracted interest rate) of the borrowings are as follows:			
Variable-rate borrowings *(note)*	–	P+0.87%	P+0.18% to P+1.3%

Note: P represents the local bank interest rate (當時定儲指數利率).

The secured bank borrowings at 31 December 2010 was secured by the buildings of Sun Materials at carrying amount of NT$317,281,000 as disclosed in note 10 and note 25.

20. SHARE CAPITAL

Sun Materials was incorporated on 19 March 2007 with authorized share capital of NT$1,000,000,000 divided into 100,000,000 ordinary shares at NT$10 each.

	Number of ordinary shares	Share capital
	'000	*NT$'000*
Ordinary share of NT$10 each		
At 1 January 2008	15,001	150,013
Issue of shares *(note 1)*	4,000	40,000
At 31 December 2008	19,001	190,013
Capitalisation *(note 2)*	13,800	138,000
Issued of shares *(note 3)*	47,199	471,987
At 31 December 2009	80,000	800,000
Issue of shares *(note 4)*	20,000	200,000
At 31 December 2010	100,000	1,000,000

Notes:

(1) On 24 July 2008, Sun Materials issued 4,000,000 ordinary shares to certain existing shareholders of Sun Materials for cash at NT$10 each.

(2) On 14 April 2009, the amounts due to shareholders of NT$138,000,000 was capitalised as share capital with 13,800,000 ordinary shares issued to the shareholders at NT$10 each.

(3) On 14 April 2009, Sun Materials issued 9,000,000 ordinary shares to certain existing shareholders of Sun Materials for cash at NT$10 each. On 5 August 2009, Sun Materials issued 38,198,700 ordinary shares to certain existing shareholders of Sun Materials for cash at NT$10 each.

(4) On 6 April 2010, 20,000,000 ordinary shares for cash at NT$10 each to Lution.

21. OPERATING LEASE ARRANGEMENTS

Sun Materials as lessee

Minimum lease payments paid under operating leases during the Relevant Periods are as follows:

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Office premises	1,844	1,665	227
Office equipments	68	68	68
Land lease	–	14,192	18,625
	1,912	15,925	18,920

Sun Materials had commitments for future minimum lease payments in relation to office premises and equipments under non-cancellable leases which fall due as follows:

	2008	2009	2010
	NT$'000	*NT$'000*	*NT$'000*
Within one year	1,308	278	36
In the second to fifth years inclusive	168	6	72
	1,476	284	108

Operating lease payments represent rentals payable by Sun Materials for certain of its office premises. Leases are negotiated for terms of one to three years and rentals are fixed during the lease period except for the operating lease commitments for the land are for non-cancellable terms of six years.

Sun Materials and Economic Department of Taiwan entered into a lease agreement regarding the land located at No. 186-46, 186-47, 186-48, 186-49, 186-50, 186-51, 186-52, 186-53 of Ligong Road, Lizhe Industrial Centre, Yilan County, Taiwan for 20 years lease period from 16 May 2007 to 15 May 2027.

Pursuant to the Land Lease agreement, the first two years are rent-free. The rental after the second year is calculated by reference to an adjusted annual rental rate ("**Adjusted Rent**") on a semi-annual basis. The adjusted annual rental rent is (i) adjusted twice every year in accordance with the long term loan interest published by the relevant government authority and (ii) adjusted annually in accordance with the consumer index published by relevant government authority.

For the third and fourth year of the lease term, the rental expense to be paid by Sun Materials is 60% of the Adjusted Rent.

For the fifth and sixth year of the lease term, the rental expense to be paid by Sun Materials is 80% of the Adjusted Rent.

Starting from the seventh year and until the termination of the lease, the rental expense to be paid by Sun Materials is 100% of the Adjusted Rent.

22. SHARE OPTIONS SCHEME

A share option scheme was adopted by Sun Materials pursuant to a resolution passed on 10 December 2007 (the "**2007 Scheme**"). Under the 2007 Scheme, the board of directors of Sun Materials may grant options to directors or any employees of Sun Materials.

The 2007 Scheme was set up for issue of share option with the primary purpose to attract, retain and motivate talented participants to strive for future developments and expansion of Sun Materials and to provide Sun Materials with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the participants.

Sun Materials has not recognised the expense for the Relevant Periods in relation to the share options granted as the directors consider the amount is not significant.

Details of the share options held by the employees and a director are as follows:

Exercise price	Outstanding at 1.1.2008	Forfeited during the year ended 31.12.2008	Outstanding at 31.12.2008, 2009 and 2010
NT$11.5	700,000	(700,000)	–

23. RETIREMENT BENEFIT PLANS

The employees employed in the Taiwan are members of the state-managed retirement benefit schemes operated by the Taiwan government. Sun Materials is required to contribute certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of Sun Materials with respect to the retirement benefit schemes is to make the required contributions under the schemes.

24. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the Relevant Periods, Sun Materials entered into the following transactions and balances with related parties:

Name of related party	Nature of transactions/balances	2008 *NT$'000*	2009 *NT$'000*	2010 *NT$'000*
Lution International Holdings Co. Ltd.	Rental Income	–	–	36
台灣半導體股份有限公司 ("**台半**") (Taiwan Semiconductor Company Ltd) *(note 1)*	Rental expenses under operating leases	1,680	–	–
鼎翰科技股份有限公司 ("**鼎翰**") (TSC Auto ID Technology Co. Ltd.) *(note 2)*	Rental expenses under operating leases	60	15	–
安炬	Rental expenses under operating leases	100	1,200	100
	Compensation income for late delivery of machinery	–	–	11,733

Note:

1. 台半 was a shareholder of Sun Materials since incorporation and ceased as a shareholder on 17 July 2009.

2. The companies are subsidiaries of 台半.

Details of operating lease commitments under rental agreements with related parties are set out in note 21.

(ii) Related party balances

Sun Materials had the following balances with related parties:

Name of related party	Nature of balances	2008 NT$'000	2009 NT$'000	2010 NT$'000
鼎翰	Rental deposit	10	–	–
安炬	Deposit paid for acquisition of property, plant and equipment	–	342,857	455,000
	Payable for acquisition of plant and equipment	–	–	47,750

(iii) Compensation of key management personnel

No emolument has been paid to the directors who are also identified as members of key management of Sun Materials during the Relevant Periods as set out in note 8.

25. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to banks to secure the bank borrowings. As required by a local government, Sun Materials had pledged the fixed deposits to secure the obligation under operating lease.

	2008	**2009**	**2010**
	NT$'000	*NT$'000*	*NT$'000*
Restricted bank deposit	20,581	21,009	21,009
Buildings	–	–	317,281
	20,581	21,009	338,290

26. CAPITAL RISK MANAGEMENT

Sun Materials manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Sun Materials' overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Sun Materials consists cash and cash equivalent and reserves comprising issued share capital, share premium and accumulated losses.

The directors of Sun Materials review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on recommendations of the directors, Sun Materials will balance its overall capital structure through raising of new capital and the issue of debt.

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008	**2009**	**2010**
	NT$'000	*NT$'000*	*NT$'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	139,071	106,691	132,888
Financial liabilities			
Amortised cost	139,394	178,261	207,757

(b) Financial risk management objectives and policies

Sun Materials' major financial instruments include amount due from holding company, restricted bank deposit, other receivables, bank balances and cash, other payables, amounts due to shareholders and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate credit risks, liquidity risks and market risks are set out below. The directors of Sun Materials manage and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate

There has been no change to Sun Materials' exposure to market risk or the manner in which it manages and measures the risk throughout the Relevant Periods.

Sun Materials is exposed to fair value interest rate risk in relation to variable rate bank borrowings.

Sun Materials' cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from Sun Materials' bank borrowings, restricted bank deposit and bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings and bank balances at the end of each reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period was outstanding for the whole year. A 10 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, the potential effect on profit/loss for the year is as follows:

	2008	**2009**	**2010**
	NT$'000	*NT$'000*	*NT$'000*
Increase (decrease) in profit for the year	135	(53)	(28)

Credit risk

At the end of each reporting period, Sun Materials' maximum exposure to credit risk which will cause a financial loss to it due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the directors of Sun Materials review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Sun Materials has concentration of credit risk by geographical location mainly in Taiwan. Sun Materials has no other significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

Sun Materials is exposed to liquidity risk of being unable to finance its future working capital and financial obligations when they fall due upon the commencement of full commercial production. In managing the liquidity risk, the directors of Sun Materials monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance Sun Materials' operation and mitigate the effects of fluctuations in cash flows. The directors of Sun Materials are also actively looking for investments to provide funding for its future operations and expansion plans.

In the opinion of the directors, Sun Materials will be able to mitigate its liquidity risk through the above measures.

The following tables detail remaining contractual maturity of Sun Materials for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Sun Materials can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 month or on demand and total undiscounted cash flows	Carrying amount
	%	*NT$'000*	*NT$'000*
At 31 December 2008			
Other payables	–	1,395	1,395
Amounts due to shareholders	–	138,000	138,000
		139,395	139,395

	Weighted average effective interest rate	Less than 1 month or on demand	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*
At 31 December 2009								
Other payables	–	18,261	–	–	–	–	18,261	18,261
Bank borrowings	1.98	–	–	161,584	–	–	161,584	160,000
		18,261	–	161,584	–	–	179,845	178,261

	Weighted average effective interest rate	Less than 1 month or on demand	1–3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*
At 31 December 2010								
Other payables	–	47,757	–	–	–	–	47,757	47,757
Bank borrowings	1.6	–	–	–	65,249	108,937	174,186	160,000
		47,757	–	–	65,249	108,937	221,943	207,757

(c) Fair value

The fair value of financial assets and financial liabilities of Sun Materials are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of Sun Materials consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statement of financial position approximate their fair values.

B. DIRECTORS' REMUNERATION

No remuneration was paid or is payable by Sun Materials to its directors in respect of the Relevant Periods.

C. SUBSEQUENT EVENTS

Subsequent to the Relevant Periods and on 31 January 2011, Sun Materials entered into a loan agreement with a former beneficial owner of Sun Materials in respect of the loan facilities at NT$300,000,000 with non-interest bearing and will be repayable within twelve months from 31 January 2011.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Sun Materials have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

INTRODUCTION

On 31 December 2010, the Company entered into a Sale and Purchase Agreement to acquire 50.1% equity interest in Sun Mass Energy Limited ("**Sun Mass**"), which will acquire 100% interest in Lution through a Reorganisation, whose principal asset is 100% equity interest in Sun Materials (the "**Acquisition**"). The consideration for the acquisition is US$150,000,000 (approximately HK$1,170,000,000) which will be paid in cash by the Company on completion.

Among others, the Sale and Purchase Agreement is conditional upon the completion of the Reorganisation and the Company successfully raising funds from a proposed Placing. The Company has entered into a Placing Agreement on 17 January 2011 and Supplemental Agreements on 11 February 2011 and 30 March 2011 respectively for the placing of 5 billion new shares for a gross proceed of HK$2 billion and convertible bonds with aggregate principal amount of HK$2 billion.

The Company entered into a Subscription Agreement with Improve Forever Investments Limited on 12 January 2011 for 354,100,608 shares at HK$0.4 each and such subscription of shares was duly completed on 28 January 2011. As the Acquisition is not conditional upon the completion of Subscription Agreement, the accompanying unaudited pro forma financial information has not given effect to this subscription of shares.

Accordingly, the accompanying unaudited pro forma financial information of the Enlarged Group, has been prepared to illustrate the effect of (I) the Acquisition; (II) the Reorganisation; and (III) the Placing.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 September 2010, is prepared based on:

(i) the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2010, as extracted from the interim report of the Company for the six months ended 30 September 2010;

(ii) the audited statement of financial position of Sun Mass at 31 December 2010, as extracted from the accountants' report thereon sets out in Appendix II to this Circular (after translation to Hong Kong dollars for presentation purpose);

(iii) the audited statement of financial position of Lution at 31 December 2010, as extracted from the accountants' report thereon sets out in Appendix II to this Circular (after translation to Hong Kong dollars for presentation purpose); and

(iv) the audited statement of financial position of Sun Materials at 31 December 2010, as extracted from the accountants' report thereon sets out in Appendix II to this Circular (after translation to Hong Kong dollars for presentation purpose);

after making pro forma adjustments relating to the Acquisition, the Reorganisation and the Placing, as if the Acquisition were completed on 30 September 2010.

The unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flow of the Enlarged Group are prepared based on:

(i) the audited consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 March 2010, as extracted from the annual report of the Company for the year ended 31 March 2010 thereon set out in Appendix I;

(ii) the audited statement of comprehensive income and statement of cash flow of Lution for the year ended 31 December 2010, as extracted from the accountants' report thereon set out in Appendix II to this Circular (after translation to Hong Kong dollars for presentation purpose); and

(iii) the audited statement of comprehensive income and statement of cash flows of Sun Materials for the year ended 31 December 2010, as extracted from the accountants' report thereon set out in Appendix II to this Circular (after translation to Hong Kong dollars for presentation purpose),

after making pro forma adjustments relating to the Acquisition, the Reorganisation and the Placing, as if the Acquisition were completed at the beginning of the period, i.e. 1 April 2009.

A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group and the Target and (iii) factually supportable, is summarized in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

These transactions are to accounted for in the unaudited pro forma financial information as acquisition of assets and liabilities as the companies proposed to be acquired have not carried out business activities and do not constitute a business under Hong Kong Financial Reporting Standard 3"Business Combinations". The principal asset of the companies to be acquired is the technology for manufacturing of solar grade polysilicon owned by Sun Materials (the "Core Technology").

Unaudited Pro Forma Statement of Financial Position of the Enlarged Group as at 30 September 2010 as if the Acquisition had been completed on 30 September 2010

	The Group	Sun Mass	Lution	Sun Materials	Pro forma adjustments								Pro forma Enlarged Group
	30/9/2010	31/12/2010	31/12/2010	31/12/2010									
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(note 1a & 1d)	*(note 1b)*	*(note 1c)*	*(note 2a)*	*(note 2b)*	*(note 2c)*	*(note 3)*	*(note 4)*	
Non-current assets													
Investment properties	20,538	–	–	–									20,538
Investment in a subsidiary	–	–	245,709	–	(245,709)	247,500	(247,500)						–
Available-for-sale financial assets	45,000	–	–	–									45,000
Property, plant and equipment	4,923	–	–	116,333									121,256
Prepaid lease payments	4,417	–	–	–									4,417
Loan and interest receivables	50,000	–	–	–									50,000
Intangible asset	–	–	–	5,336				2,100,214					2,105,550
Deposit paid for property, plant and equipment	–	–	–	127,931									127,931
Restricted bank deposits	–	–	–	5,777									5,777
	124,878	–	245,709	255,378									2,480,470
Current assets													
Financial assets at fair value through profit or loss	394,431	–	–	–									394,431
Inventories	11,417	–	–	–									11,417
Prepaid lease payments	672	–	–	–									672
Trade and bills receivables	41,087	–	–	–									41,087
Loan and interest receivables	63,558	–	–	–									63,558
Other receivables and prepayments	29,845	–	1	6,496									36,342
Bank balances and cash	53,385	8	146	30,490				(1,170,000)	1,935,000	1,940,000		(33,930)	2,755,098
Amount due from immediate holding company	–	–	–	275	(275)								–
	594,395	8	147	37,261									3,302,605
Current liabilities													
Trade payables	17,592	–	39	–									17,631
Amount due to a subsidiary	–	–	275	–	(275)								–
Other payables and accrued charges	15,086	8	–	13,357									28,451
Margin facilities utilised	9,435	–	–	–									9,435
Income tax payable	15,625	–	–	–									15,625
	57,738	8	314	13,357									71,142
Net current assets	536,657	–	(167)	23,903									3,231,464
Total assets less current liabilities	661,535	–	245,543	279,281									5,711,933
Non-current liabilities													
Convertible bonds	–	–	–	–						1,489,920			1,489,920
Deferred tax liability	–	–	–	–							74,263		74,263
Bank borrowings – due after one year	–	–	–	44,000									44,000
	–	–	–	44,000									1,608,183
Net assets	661,535	–	245,543	235,281									4,103,750
Capital and reserves													
Share capital	177,050	–	137,500	275,000	(275,000)	247,500	(137,500)	(247,500)	1,935,000				2,112,050
Reserves	480,598	–	108,043	(39,719)	29,291		(110,000)	12,385					446,667
Convertible bonds reserves	–	–	–	–						450,080	(74,263)	(33,930)	375,817
Equity attributable to owners of the parent	657,648	–	–	–									2,934,534
Non-controlling interests	3,887	–	–	–				1,165,329					1,169,216
Total Equity	661,535	–	245,543	235,281									4,103,750

Unaudited Pro Forma Statement of Comprehensive Income of the Enlarged Group for the year ended 31 March 2010 as if the Acquisition had been completed on 1 April 2009

	The Group For the year ended 31/3/2010	Sun Mass For the year ended 31/12/2010	Lution For the year ended 31/12/2010	Sun Materials For the year ended 31/12/2010	Pro forma adjustments				Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(note 4)	*(note 5)*	*(note 6)*	*(note 7)*	
Turnover	241,871	–	–	–					241,871
Cost of Sales	(104,084)	–	–	–					(104,084)
Gross Profit	137,787	–	–	–					137,787
Other Income	850	–	2	3,467					4,319
Net unrealised holding (loss) gain on financial assets at fair value through profit or loss	18,087	–	–	–					18,087
Impairment loss on assets held for sale	(48,742)	–	–	–					(48,742)
Selling and distribution costs	(7,737)	–	–	–					(7,737)
Administrative expenses	(71,444)	–	(111)	(7,963)					(79,518)
Reversal of impairment allowance for loan and interest receivable	80,000	–	–	–					80,000
Gain on fair value changes on investment properties	1,711	–	–	–					1,711
Other expenses	–	–	–	(14,366)	(33,930)				(48,296)
Finance costs	(5)	–	–	(676)			(230,938)		(231,619)
(Loss) Profit before taxation	110,507	–	(109)	(19,538)					(174,008)
Income tax expense	(1,657)	–	–	–				38,105	36,448
(Loss) Profit for the period	108,850	–	(109)	(19,538)					(137,560)
Other Comprehensive income:									
Total comprehensive (loss) income for the period	108,850	–	(109)	(19,538)					(137,560)
(Loss) Profit attributable to:									
Owners of the parent	108,631	–	(109)	(19,538)	(33,930)	9,804	(230,938)	38,105	(127,975)
Non-controlling interests	219	–	–	–		(9,804)			(9,585)
	108,850	–	(109)	(19,538)					(137,560)

Unaudited Pro Forma Statement of Cash Flow of the Enlarged Group for the year ended 31 March 2010 as if the Acquisition had been completed on 1 April 2009

	The Group For the year ended 31/3/2010 HK$'000	Sun Mass For the year ended 31/12/2010 HK$'000	Lution For the year ended 31/12/2010 HK$'000	Sun Materials For the year ended 31/12/2010 HK$'000	Pro forma adjustments HK$'000 (note 2a)	HK$'000 (note 2b)	HK$'000 (note 2c)	HK$'000 (note 4)	HK$'000 (note 6&8)	HK$'000 (note 9)	Pro forma Enlarged Group HK$'000
OPERATING ACTIVITIES											
Profit before taxation	110,507	–	(109)	(19,538)				(33,930)	(230,938)		(174,008)
Adjustments for:											
Bank interest income	(82)	–	(2)	(34)							(118)
Interest income from loan receivables	(3,417)	–	–	–							(3,417)
Dividend income from listed investments	(1,363)	–	–	–							(1,363)
Amortisation of intangible asset	2,054	–	–	–							2,054
Interest expenses	5	–	–	676					230,938		231,619
Reversal of impairment loss for loan and interest receivables	(80,000)	–	–	–							(80,000)
Impairment loss on assets held for sales	48,742	–	–	–							48,742
Release of prepaid lease payments	665	–	–	–							665
Depreciation of property, plant and equipment	1,576	–	–	9,244							10,820
Loss on disposal of property, plant and equipment	33	–	–	–							33
Net unrealised holding gain on financial assets at fair value through profit or loss	(18,087)	–	–	–							(18,087)
Equity-settled share-based payment	12,199	–	–	–							12,199
Gain on fair value changes on investment properties	(1,711)	–	–	–							(1,711)
Operating cash flows before movements in working capital	71,121	–	(111)	(9,653)							27,428
Financial assets at fair value through profit or loss	(186,985)	–	–	–							(186,985)
Increase in inventories	(3,141)	–	–	–							(3,141)
Decrease in trade and bills receivables	4,100	–	–	–							4,100
Decrease in loan and interests receivables	123,071	–	–	–							123,071
Decrease (increase) in other receivables and prepayments	1,269	–	(1)	2,243							3,511
Increase in trade payables	1,779	–	–	–							1,779
Increase in other payables and accrued charges	7,203	–	39	8,207							15,449
NET CASH FROM (USED IN) OPERATING ACTIVITIES	18,417	–	(73)	798							(14,788)
Interest received from loan receivables	4,052	–	–	–							4,052
Dividend received from listed investments	1,363	–	–	–							1,363
Tax refunded	146	–	–	–							146
NET CASH FROM (USED IN) OPERATING ACTIVITIES	23,978	–	(73)	798							(9,227)
INVESTING ACTIVITIES											
Addition of property, plant and equipment	(720)	–	–	(15,955)							(16,675)
Additions in intangible asset	–	–	–	–	(1,170,000)					33,064	(1,136,936)
Deposits paid for acquisition of property,plant and equipment	–	–	–	(31,998)							(31,998)
Increase in restricted bank deposits	–	–	–	–							–
Investment in subsidiary	–	–	(55,000)	–							(55,000)
Advance to holding company	–	–	–	(275)							(275)
Proceeds from disposal of property, plant and equipment	9	–	–	–							9
Addition of available-for-sale financial assets	(25,000)	–	–	–							(25,000)
Interest received	82	–	2	34							118
NET CASH USED IN INVESTING ACTIVITIES	(25,629)	–	(54,998)	(48,193)							(1,265,756)
FINANCING ACTIVITIES											
Proceeds from issue of new shares upon exercise of share options	44,148	–	–	–							44,148
Proceeds from issue of new shares and convertible bonds	–	–	–	–		2,000,000	2,000,000				4,000,000
Transaction costs on issue of new shares and covertible bonds	–	–	–	–		(65,000)	(60,000)				(125,000)
Interested paid	(5)	–	–	(676)				(74,496)			(75,177)
New bank borrowings raised	–	–	–	44,000							44,000
Issue of new shares	–	–	55,000	55,000							110,000
Repayment of bank borrowings	–	–	–	(44,000)							(44,000)
Advanced from a subsidiary	–	–	275	–							275
Increase (repayment) in amounts due to shareholders	–	–	(9,562)	–							(9,562)
NET CASH FROM FINANCING ACTIVITIES	44,143	–	45,713	54,324							3,944,684
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,492	–	(9,358)	6,929							2,669,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	33,228	–	9,504	23,560						(33,064)	33,228
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD represented by bank balances and cash	75,720	–	146	30,490							2,702,929

Notes:

1. This adjustment represents the elimination of investment cost in the Target and the elimination of inter-company balances between Lution and Sun Materials.

   (a) Elimination on the investment cost of HK$245,709,000 against the net asset value of Sun Materials at the date of incorporation of Lution. The net asset value of Sun Materials included share capital of HK$275,000,000 and pre acquisition reserve of HK$29,291,000 at the date of incorporation of Lution.

   (b) Sun Mass will acquire the entire interest in Lution (which is the holding company of Sun Materials) through issue of 50,000,000 new shares at NT$18 each in Sun Mass to shareholders of Lution at aggregated total of NT$900,000,000 (approximately HK$247,500,000) and become the immediate and intermediate holding company of Lution and Sun Materials respectively after completion of the Reorganisation (Sun Mass, Lution and Sun Materials hereinafter referred to as the "Target Group").

   (c) Elimination on the investment cost of HK$247,500,000 against the net asset value of Lution at the date of share issued mention in point (b) above.

   (d) Elimination of inter-company balance between Lution and Sun Materials.

2. According to the Sale and Purchase Agreement the Company entered into to acquire 50.1% in Sun Mass, the Consideration amounting to US$150,000,000 (approximately HK$ 1,170,000,000) will be settled by cash and financed through the Placing of shares and convertible bonds.

   (a) The transaction is to be accounted for as acquisition of the assets and liabilities as the companies proposed to be acquired do not constitute a business under Hong Kong Financial Reporting Standard 3 "Business Combinations". For the purpose of preparing the unaudited pro forma consolidated financial position of the Enlarged Group, the fair value of the identifiable assets and liabilities (except for intangible asset) of the Target Group is assumed to be the same as their carrying amounts.

Consideration for acquisition of 50.1% interest in Sun Mass	HK$1,170,000,000
Deemed fair value of 100% interest in net assets of Sun Mass	HK$2,335,329,000
Assumed fair value of the net assets (other than intangible assets) of Sun Mass at 31 December 2010	HK$ 235,115,000
Deemed fair value of the intangible asset	HK$2,100,214,000

   The non-controlling interest of HK$1,165,329,000 represented 49.9% interest on assets (including the intangible assets) and liabilities of the Target Group as at 31 December 2010.

   The deemed cost of the identifiable assets and liabilities (including intangible asset) of the Target Group will be re-assessed at the completion date of the Acquisition by reference to a valuation to be carried out by professional valuer and is therefore subject to change.

   For the purpose of preparing of unaudited pro forma consolidated financial information, the directors of the Company have assessed whether intangible asset which is not yet available for use may be impaired and whenever there is an indication that they may be impaired as of 30 September 2010 in accordance with Hong Kong Financial Reporting Standard 36 "Impairment of Assets" and concluded because the recoverability of the carrying values of the intangible asset depends upon the results of full scale commercial production and successful launch of the product by using the Core Technology to manufacture, both of which are still at preliminary stage, the directors are unable to prepare an estimate of the future cash flows the Group expects to derive from the intangible for the calculation of the recoverable amount of the intangible asset and assess whether an impairment loss need to be recognised in respect of the intangible asset.

Upon completion of the Acquisition, commencement of the commercial production and successful launch of the product, valuation of the intangible asset will be performed in subsequent reporting periods for the purpose of determining the deemed cost or recoverable amount of the intangible asset.

(b) This adjustment represents the net proceeds from the Placing of 5,000,000,000 shares at HK$0.4 each pursuant to the Placing Agreement and the Supplemental Agreements, net of share issues expenses of HK$65,000,000.

(c) This adjustment represents the issuance of Convertible Bonds with aggregate principal amount of HK$2 billion pursuant to the Placing Agreement, net of issuing expenses of HK$60,000,000. The Convertible Bonds are denominated in Hong Kong Dollar and carries interest at 5% per annum with maturity of three years. Convertible bonds to be issued by the Company, in accordance with Hong Kong Accounting Standard 39 “Financial Instruments: Recognition and Measurement” contain two elements, liability component and equity component as the conversion will be settled by the exchange of fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments. For the purpose of this unaudited pro forma consolidated financial position, the directors of the Company have determined the fair value of liability component and equity component amounting to approximately HK$1,489,920,000 and HK$450,080,000 respectively in accordance with the valuation as at 31 December 2010 carried out by American Appraisal, the independent qualified professional valuers not connected with the Group. On completion of the Acquisition, the fair value of liability component and equity component of convertible bonds will have to be reassessed. As a result of reassessment, their respective fair values may be different from the estimated amount as shown above.

3. This adjustment represents the deferred tax liability recognized in respect of the interest of convertible bonds of HK$74,263,000 at tax rate of 16.5%.

4. The estimated professional fee attributable to the Acquisition of HK$33,930,000 assuming the Acquisition has been completed on 1 April 2009.

5. This adjustment represents the non-controlling interest of 49.9% on the Target Group’s loss, assuming the Acquisition has been completed on 1 April 2009.

6. This adjustment represents the interest on convertible bonds of HK$230,938,000 at effective interest rate of 15.5% per annum on liability component of HK$1,489,920,000, which would be charged to the statement of comprehensive income based on 3 years maturity, in accordance with the valuation as at 31 December 2010 carried out by American Appraisal, the independent qualified professional valuers not connected with the Group, assuming that the Placing was completed on 1 April 2009.

7. This adjustment represents the deferred tax credit in respect of the interest of convertible bonds of HK$38,105,000 at tax rate of 16.5% on interest of HK$230,938,000 recognized in the statement of comprehensive income, assuming that the Acquisition has been completed on 1 April 2009.

8. This adjustment represents the interest on convertible bonds of HK$74,496,000 at 5% per annum to be paid on the liability component of HK$1,489,920,000, assuming that the Placing was completed on 1 April 2009.

9. This adjustment represents the elimination of cash and cash equivalent of Sun Materials at 1 April 2009.

10. The financial statements of Sun Mass, Lution and Sun Materials were translated to Hong Kong dollars at translation rates of NT$1= HK$0.2750.

B. LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is the text of letter, prepared for the sole purpose of inclusion in this circular, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in A of Appendix III to this circular.

Deloitte.
德勤

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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 of the Company for illustrative purposes only, to provide information about how the very substantial acquisition relating to the acquisition of 50.1% of the issued share capital of Sun Mass Energy Limited ("**Sun Mass**") and Lution International Holdings Company (the "**Acquisition**") might have affected the financial information presented, for inclusion in Appendix III to the circular of the Company dated 20 May 2011 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information included is set out in Section A of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 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 FOR MODIFIED 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.

Except as described in the paragraph below, 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.

Included in the unaudited pro forma consolidated statement of financial position is an intangible asset with a deemed cost of approximately HK$2,100,214,000 which represents certain technology for manufacturing of solar grade polysilicon which is not yet available for use (the "**Core Technology**") that will be acquired by the Group upon completion of the Acquisition. According to the Group's accounting policy, intangible assets that are not yet available for use are tested for impairment annually irrespective of whether there is an indication that they may be impaired in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("**HKAS 36**"). An impairment loss is recognised when the recoverable amount of the asset is lower than its carrying amount. As set out in note 2a to the pro forma financial information, since the recoverability of the carrying amount of the Core Technology depends upon the results of full scale commercial production and successful launch of the Core Technology-related product, both of which are still at preliminary stage, the directors of the Company are unable to prepare an estimate of the future cash flows the Group expects to derive from the Core Technology for the calculation of the recoverable amount of the Core Technology and assess whether an impairment loss would need to be recognised in respect of the Core Technology. We are therefore unable to obtain the information and explanations we consider necessary to assess (i) the recoverable amount of the Core Technology and (ii) whether the intangible asset is fairly stated in the unaudited pro forma at HK$2,100,214,000 and is not subject to any impairment in accordance with the requirements of HKAS 36. If the deemed cost of the Core Technology were higher than its recoverable amount, an adjustment would be required in the pro forma consolidated statement of financial position and the pro forma consolidated statement of comprehensive income to reflect the effect of the impairment loss.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments 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 2010 or any future date; or
- The results and cash flows of the Group for the year ended 31 March 2010 or any future period.

Modified 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, except for the failure to apply HKAS 36 in respect of the Core Technology, is consistent with the accounting policies of the Group; and

(c) the adjustments, except for any adjustments that may result from the failure to apply HKAS 36 in respect of the Core Technology, are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 May 2011

The following discussion is based on the Group's and each Target Group Company's historical results, respectively. As a result of the factors discussed under the section headed "Risk Factors" in this circular, such results may not be indicative of the Enlarged Group's future operating performance.

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The following is a summary of the assets and liabilities and results of the Group as at and for each of the three years ended 31 March 2010 as extracted from the annual reports of the Company, and assets and liabilities and results for the six months ended 30 September 2010 as extracted from the interim report of the Company.

Consolidated Statement of Comprehensive Income

	Six months ended 30 September	For the year ended 31 March		
	2010	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	75,951	241,871	134,872	649,284
Cost of sales	(75,560)	(104,084)	(143,514)	(652,381)
Gross profit (loss)	391	137,787	(8,642)	(3,097)
Other income	1,510	850	44,290	20,473
Net unrealised holding gain (loss) on financial assets at fair value through profit or loss	(73,410)	18,087	(139,008)	(161,349)
Impairment loss on assets held for sale	–	(48,742)	–	–
Selling and distribution costs	(5,470)	(7,737)	(8,742)	(6,396)
Administrative expenses	(27,343)	(71,444)	(49,547)	(47,013)
Reversal of impairment loss (Impairment loss) for loan and interest receivables	–	80,000	(182,500)	–
Gain/(loss) on fair value changes on investment properties	–	1,711	360	(29,295)
Finance costs	–	(5)	(43)	(2,607)
Profit (Loss) before taxation	(104,322)	110,507	(343,832)	(229,284)
Income tax expense	(2,934)	(1,657)	(1,458)	(3,504)
Profit (Loss) for the year	(107,256)	108,850	(345,290)	(232,788)
Other comprehensive income				
Exchange differences on translating foreign operations	273	–	3,200	–
Total comprehensive income (loss) for the year	(106,983)	108,850	(342,090)	(232,788)
Profit (loss) attributable to:				
Owners of the parent	(107,440)	108,631	(345,273)	(232,808)
Non-controlling interests	184	219	(17)	20
	(107,256)	108,850	(345,290)	(232,788)
Total comprehensive income (loss) attributable to:				
Owners of the parent	(107,206)	108,631	(342,135)	(232,808)
Non-controlling interests	223	219	45	20
	(106,983)	108,850	(342,090)	(232,788)

Assets and Liabilities

	As at 30 September 2010	As at 31 March 2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment properties	20,538	20,350	18,639	133,373
Property, plant and equipment	4,923	5,050	5,948	7,877
Prepaid lease payments	4,417	4,703	5,368	5,926
Goodwill	–	–	–	–
Available-for-sale financial assets	45,000	45,000	20,000	–
Loan and interest receivables	50,000	11,929	–	–
	124,878	87,032	49,955	147,176
Current assets				
Financial assets at fair value through profit or loss	394,431	357,648	152,576	173,928
Inventories	11,417	8,727	5,586	8,100
Prepaid lease payments	672	665	665	653
Trade and bills receivables	41,087	20,258	24,358	28,541
Loan and interest receivables	63,558	50,285	105,920	225,000
Other receivables and prepayments	29,845	19,513	20,782	25,599
Income tax recoverable	–	–	–	22
Bank balances and cash	53,385	75,720	33,228	41,426
	594,395	532,816	343,115	503,269
Assets classified as held for sale*	–	79,242	–	–
	594,395	612,058	343,115	503,269

* *The assets classified as held for sales are the intangible assets in the form of the rights to (i) obtain the 50% of forestry land use rights and forestry tress entitlement of three forestry sits in Simao District, Puer City, Yunnan Provide, the PRC and (ii) share 50% of the distributable profits from these forests.*

	As at 30 September		As at 31 March	
	2010	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade payables	17,592	9,327	7,548	13,467
Other payables and accrued charges	15,086	22,161	14,962	17,549
Income tax payable	15,625	12,642	10,839	9,908
	57,738	44,130	33,349	40,924
Liabilities directly associated with assets classified as held for sale	–	42	–	–
	57,738	44,172	33,349	40,924
Net current assets	536,657	567,886	309,766	462,345
Total assets less current liabilities	661,535	654,918	359,721	609,521
Capital and reserves				
Share capital	177,050	59,052	28,592	190,616
Reserves	480,598	592,202	327,684	415,505
Equity attributable to owners of the parent	657,648	651,254	356,276	606,121
Non-controlling interests	3,887	3,664	3,445	3,400
Total equity	661,535	654,918	359,721	609,521

(a) Management discussion and analysis of the six months ended 30 September 2010

Set out below is an extract from page 26 to 29 of the interim report of the Company for the six months ended 30 September 2010.

"***Financial results***

As anticipated in the Company's profit warning announcement of 15 October 2010, the Group has recorded a loss for the first half of the year primarily due to realised and unrealised losses of investments held for trading. The loss attributable to shareholders amounted to approximately HK$107.4 million for the six months ended 30 September 2010, as compared to the profit of approximately HK$162.2 million in the previous period.

Turnover for the period was approximately HK$76.0 million, a decrease of 41% from approximately HK$128.7 million for the corresponding period last year.

Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2010 (2009: Nil).

Business review and prospects

Investment

The Group's securities trading activities registered realised and unrealised losses totalling approximately HK$105.5 million for the period (2009: gains of approximately HK$89.9 million). The realised loss for the period of approximately HK$31.8 million was recorded as a negative turnover for this business segment, as compared to the realised gain and turnover of approximately HK$49.1 million for the corresponding period last year.

Manufacturing

The Group's manufacturing segment reported a contribution of approximately HK$10.2 million for the six months ended 30 September 2010 (2009: approximately HK$2.0 million), following recovery of sales in the major markets to levels achieved prior to the financial tsunami. Total turnover for this segment has increased by 35% to approximately HK$103.5 million from approximately HK$76.7 million in the previous period.

Loan financing

Turnover from the provision of loan financing amounting to HK$3.6 million as compared to approximately HK$2.1 million corresponding period in last year. The segments' results have however decreased to approximately HK$3.6 million from approximately HK$82.1 million corresponding period in last year, as last year's results included an HK$80.0 million reversal of impairment allowance made previously. In the six months period ended 30 September 2010, no material provision or write back have been made.

Outlook for the second half of the year is rather mixed. Continual recovery of the economy together with low interest rate and rising inflation should provide the momentum to drive the market to higher levels in the months ahead. However, government measures to prevent the formation of asset bubble due to the abundance of liquidity may unsettle the market. In addition, there remain plenty of uncertainties in the global economic environment such as the pace of economic recovery in the United States and the sovereign debt problems of certain Eurozone countries and these factors may add to the volatility of the market.

The Group would continue to exercise caution and adopt a prudent approach in conducting our business. We also remain committed to our strategy of diversification and broadening of the Group's long term sustainable income base; and to actively explore suitable investment opportunities to enhance the Company's value to our shareholders. To this end, as announced in August 2010, the Company has entered into a preliminary agreement in relation to the possible acquisition of a 50.1% majority interest in Sun Materials Technology Co., Ltd., a company which has developed and patented a new and innovative technology to manufacture polysilicon, the primary raw material used in the solar energy value chain. Negotiation and finalisation of the terms of the acquisition are still proceeding. The Directors believe that the acquisition, if it materialises, will give the Company the opportunity to position itself favourably in the clean technology market.

Liquidity and capital resources

During the period under review, the Company has successfully completed a share placement in April 2010 of 109,184,800 shares at a placing price of HK$0.99 per share which raised net proceeds of HK$105.2 million. In addition, in August 2010, the Company issued 1,049,551,824 new shares pursuant to the bonus issue of three new shares for two exiting shares as approved by the shareholders at the Company's special general meeting held on 29 July 2010.

As at 30 September 2010, the Group recorded a total bank balances and cash of HK$53.4 million (As at 31 March 2010 of HK$75.7 million). Moreover, the Group had current assets of HK$594.4 million (As at 31 March 2010 of HK$612.1 million). The Equity attributable to equity holders of the Company was of HK$657.6 million (As at 31 March 2010 of HK$651.3 million). Apart from the margin facilities utilised of HK$9.4 million (As at 31 March 2010: Nil), the Group had no outstanding bank and other borrowing as at 30 September 2010 and 31 March 2010.

Pledge of assets

At 30 September 2010, margin facilities from regulated securities brokers were granted to the Group which were secured by the Group's financial assets at fair value through profit or loss of HK$394,431,000 (As at 31 March 2010: HK$354,442,000). The carrying amount of the financial assets at fair value through profit or loss charged under the utilised facilities to the securities broker is HK$26,383,000 (As at 31 March 2010: Nil).

Contingent liabilities

The Group has no material contingent liabilities as at the end of reporting period.

Currency risk management

The majority of the Group's assets are held in Hong Kong Dollars with no foreign exchange exposure. The Group's manufacturing business has its largest sale market Europe, which alone accounts for around 42.3% of the Group's sales turnover. In safeguarding the volatile Euro Dollars currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting US Dollar quoted sale orders, which in turn the management can maintain a stable currency exchange condition for normal trading business development.

Number of employees and remuneration policy

As at 30 September 2010, the Group had more than 600 employees, around 93% of them were employed in the People's Republic of China for the manufacturing business. The Group remunerates its employee based on their work performance and with reference to prevailing condition of labour markets."

In addition to the above extract from the interim report of the Company for the six months ended 30 September 2010, set out below is further information in relation to:

Significant investments held

As at 30 September 2010, significant investments of the Group included listed investments held for trading which amounted to HK$394.4 million.

Material acquisitions and disposal of subsidiaries

During the period, the Group disposed entire equity interest of Richful Zone International Limited (with its subsidiary, Allied Loyal International Investments Limited) ("**Disposal Group**"), a subsidiary of the Company, to a wholly-owned subsidiary of Forefront Group Limited ("**Forefront**"), a company whose shares are listed on the Stock Exchange of Hong Kong, at a consideration of HK$79.2 million which is satisfied by the issuance of 330 million new shares of Forefront at HK$0.24 each. As the selling price was lower than the carrying amount of net assets of the Disposal Group as at 31 March 2010, an impairment loss was recognised in consolidated financial statements for the year ended 31 March 2010 accordingly.

Staff cost incurred

Total staff costs for the period, including directors' emoluments, amounted to HK$18,037,000.

Future plans for material investments or capital assets

The Company remain committed to our strategy of diversification and broadening of the Group's long term sustainable income base. Despite the acquisition of Sun Mass Energy Limited as disclosed, there is no a solid future plans for the material investments.

Gearing ratio

The gearing ratio of the Company, calculated as total liabilities over total assets, was 8.0%.

(b) Management discussion and analysis of the year ended 31 March 2010

Set out below is an extract from page 6 to 8 of the final report of the Company for year ended 31 March 2010.

"***Financial results and business review***

As anticipated in the Company's positive profit alert announcement issued on 30 April 2010, the Group has achieved a turnaround from loss of the previous year. Profit attributable to shareholders for the year ended 31 March 2010 amounted to HK$108.6 million, as compared to a loss of HK$345.3 million last year. Turnover for the year amounted to HK$241.9 million, representing an increase of approximately HK$107.0 million from HK$134.9 million for the previous year. The increase in turnover was largely brought about by the turnover of HK$88.1 million derived from the trading of securities for which a negative turnover of HK$86.2 million was recorded last year; such increase was partially offset by the decrease in sales of the manufacturing division to HK$148.0 million this year from HK$186.2 million for the previous year. The basic and diluted earnings per share was HK$0.23, as compared to the basic and diluted loss per share of HK$1.34 for the previous year.

The recovery of the Hong Kong stock market which saw the benchmark Hang Seng Index rebounded to 21,239.35 points at the end of the year under review from 13,576.02 points a year earlier had substantial contribution to the turnaround of the Group's financial results for the current year. Benefitting from this recovery, the Group's securities trading activities registered net realized and unrealized gains of HK$106.2 million in respect of the year ended 31 March 2010, as compared to net realized and unrealized loss of HK$225.2 million for the previous year when the market was hard hit by the global financial tsunami. In addition, a HK$80 million partial reversal of impairment allowance in respect of a loan receivable was recorded in the current year, as compared to impairment allowances of HK$182.5 million made in the previous financial year.

The Group's profit for the current year was reduced by the impairment allowance of HK$48.7 million made in respect of the Group's 50% economic interests in certain forestry land in Puer City in the Yunnan Province of the People's Republic of China through the wholly owned subsidiary of Richful Zone International Limited. The Group has disposed the project subsequent to the end of the financial year at a loss equivalent to the amount of impairment allowance made.

Sales for the Group's manufacturing business dropped by HK$38.1 million or 20.5% from the previous year as demand for the European Market has not recovered to the previous level as the result of the economic downturn. Contribution from this segment to the Group's results was HK$5.2 million, as compared to HK$9.7 million for the previous year.

Final dividend

The Board does not recommend the payment of a final dividend for the year ended 31 March 2010 (2009: Nil).

Bonus issue of shares

The directors of the Company have recommended a bonus issue of three (3) new shares, credited as fully paid, for every (two) 2 shares held by the shareholders of the Company whose names appear on the register of members of the Company on 29 July 2010 and subject to the following conditions: (i) the passing by the shareholders of the Company at a special general meeting of an ordinary resolution approving the bonus issue; and (ii) the Listing Committee of the Stock Exchange agreeing to grant the approval for the listing of, and permission to deal in, the bonus shares to be issued pursuant to the bonus issue. Such bonus shares credited as fully paid will rank pari passu in all respects with the existing issued shares in the Company.

The Board proposes the bonus issue in recognition of the continual support of the shareholders. In addition, the Board believes that the bonus issue will enhance the liquidity of the shares in the market and thereby strengthening the capital base of the Company.

Liquidity and capital resources

As at 31 March 2010, the Group's total equity amounted to HK$651.3 million (31 March 2009: HK$356.3 million); net current assets totalled HK$567.9 million (31 March 2009: HK$309.8 million), which included cash and cash equivalents totalling HK$75.7 million (31 March 2009: HK$33.2 million). The Group did not have any outstanding bank borrowings as at 31 March 2010 (31 March 2009: nil).

Currency risk management

The Group's securities trading and loan financing activities are conducted in Hong Kong Dollar. For manufacture and sale of goods segment, the Group's largest sale market is Europe, which alone accounts for around 44% of this segment sale turnover. In safeguarding the volatile Euro/ United States Dollar currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting United States Dollar quoted sale orders, which in turn the management can maintain a stable currency exchange condition for normal trading business development.

Number of employees and remuneration policy

As at 31 March 2010, the Group had more than 600 employees, around 93% of them were employed in the People's Republic of China for the manufacturing business.

The Group remunerates its employees based on their work performance and with reference to prevailing conditions of labour markets."

In addition to the above extract from the final report of the Company for the year ended 31 March 2010, set out below is further information in relation to:

Significant investments held

As at 31 March 2010, significant investments of the Group included listed investments held for trading which amounted to HK$357.6 million.

Material acquisitions and disposal of subsidiaries

During the year, the Group acquired the entire interest in Richful Zone International Limited (with its subsidiary, Allied Loyal International Investments Limited) at a consideration of HK$130.0 million which was satisfied by the issuance of convertible notes by the Company in the principal amount of HK$130.0 million.

Subsequent to the end of balance sheet date, the Group disposed entire equity interest of Richful Zone, to a wholly-owned subsidiary of Forefront Group Limited ("**Forefront**"), a company whose shares are listed on the Stock Exchange of Hong Kong, at a consideration of HK$79.2 million which is satisfied by the issuance of 330 million new shares of Forefront at HK$0.24 each. As the selling price is lower than the carrying amount of net assets of the Disposal Group, an impairment loss has been recognised in these consolidated financial statements accordingly.

Staff cost incurred

Total staff costs for the year, including directors' emoluments, amounted to HK$37,285,000.

Future plans for material investments or capital assets

The Company remain committed to our strategy of diversification and broadening of the Group's long term sustainable income base. We endeavour to make the Group financially solid and to put the Group in a favourable position to capitalize on investment opportunities as they arise. To this end, the Company successfully completed a share placement in April 2010 of 109,184,800 new shares at a price of HK$0.99 per share which raised net proceeds of HK$105.2 million and further enlarged our capital base. The Group remains debt-free and is in a strong liquidity position. We are actively exploring suitable investment opportunities to enhance the Company's value to our shareholders. The Group is currently looking into many projects including but not limited to a possible investment in a renewable energy related project which, if it materializes, has good potential for long term growth and return.

Gearing ratio

The gearing ratio of the Company, calculated as total liabilities over total assets, was 6.3%.

(c) Management discussion and analysis of the year ended 31 March 2009

Set out below is an extract from page 6 to 9 of the final report of the Company for year ended 31 March 2009.

"***Financial results***

As anticipated in the Company's profit warning announcements dated 28 April 2009 and 16 July 2009, a substantial loss was recorded for the year ended 31 March 2009. Loss attributable to equity holders for the year was HK$345.3 million, as compared the loss of HK$232.8 million in the previous year. Loss per share for the year ended 31 March 2009 was HK$1.34 (2008: HK$1.92 (restated)).

Final dividend

The Board does not recommend the payment of a final dividend for the year ended 31 March 2009 (2008: Nil).

Business review and prospects

Securities investments

As a consequence of the severe downturn in the stock market, the Group's securities trading activities have badly suffered and reported realised and unrealised losses totalling HK$225.2 million for the year (2008: HK$221.0 million). Some cautious optimism can, however, be drawn from the stock market rebound occurring after the financial year end which may bring about an improvement in securities trading results for the new year.

Manufacture and Sale of Photographic, Electrical and Multimedia Accessories

During the year, this segment's turnover decreased from HK$198.9 million to HK$186.2 million, representing a decrease of 6.4% as compared with last year. Fuelled by encouraging demand for the Group's photographic products, the first half was relatively strong with steady customer demand. However, the economic recession began to impact this segment's business in the second half of the year. The increase in material and labour costs and the appreciation of the Renminbi, has eroded the gross margin of this segment by around 2% as compared to last corresponding year.

Europe continued to be this segment's largest market, accounting for approximately 56.0% of the segment's turnover of this year (2008: 59.3%). Total export sales to Europe decreased to HK$104.4 million (2008: HK$117.9 million), representing a decrease of 11.5% as compared to that of the last corresponding 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.

Management continues to focus on new revenue channels in the business of accessories for photographic, multimedia and electrical products. The high street retail markets have taken a hard hit with the recession and this is reflected in the overall results. This was due to many retailers depleting their warehouses before reordering and all players in the market taking wait and see approach towards economic recovery. As predicted our main photographic market has picked up for the Group. However, this was not enough to cover the shortfall in the electronics and multimedia market, where we are facing fierce competition in terms of pricing – in particular from China and other low cost production bases such as Vietnam. Nevertheless, we are still providing service, quality and flexibility at a competitive price to the A brand hardware manufacturers. Improving green standards in manufacturing and materials paired with meeting the high requirements for product specifications in our major markets gives us the opportunity to serve not only our existing customer at the highest level, but is opening opportunities to attain business from more A brand customers. G24 Innovations will be able to supply merchantable solar panels by the third quarter of 2009 and we continue to remain confident that solar bag products will have a good and unique potential even in poorer economic times. There has been major interest not only from our traditional customer segment but also the fashion and leisure sports industry for solar bags.

Loan financing

The Group commenced providing loan financing to third party borrowers in the previous year. In the year under review, interest income from loan receivables amounted to HK$24.2 million, which represented a substantial increase from the amount of HK$1.8 million for the previous year. However, there exists significant uncertainties relating to the repayment abilities of certain borrowers to whom loans totalling HK$182.5 million have been advanced and accordingly an impairment allowance for this amount in full has been made this year which has a substantial negative impact on the results for the year.

Property investment

During the year property rental income amounted to HK$4.9 million, as compared to HK$7.4 million last year. Such decrease is mainly caused by the disposal of the investment property in Guangzhou via the disposal of Jet Star Industries Limited in the second half of the year, following which the Group's property portfolio has become relatively minor in scale.

Liquidity and capital resources

In August 2008, the Company completed a rights issue of 953,080,050 shares (before the capital reorganisation referred to below) raising net proceeds of approximately HK$138 million. In March 2009, the Company completed a capital reorganisation pursuant to which (i) the nominal value of the Company's issued shares was reduced from HK$0.10 each to HK$0.01 each by way of a capital reduction with the credit arising from the capital reduction of HK$257.3 million applied to set off against the Company's accumulated losses; and (ii) every ten shares of the reduced nominal value of HK$0.01 each were consolidated into one share with nominal value of HK$0.10 each. On completion of the capital reorganisation and as at the end of the current final year, the number of issued shares of the Company was 285,924,015 with nominal value of HK$28.6 million.

As at 31 March 2009, the Group's total equity amounted to HK$356.3 million (31 March 2008: HK$606.1 million); net current assets totalled HK$309.8 million (31 March 2008: HK$462.3 million), which included cash and cash equivalents totalling HK$33.2 million (31 March 2008: HK$41.4 million). The Group did not have any outstanding bank borrowings as at 31 March 2009 (31 March 2008: nil).

Currency risk management

The Group's securities trading and loan financing activities are conducted in Hong Kong Dollar. For manufacture and sale of goods segment, the Group's largest sale market is Europe, which alone accounts for around 56% of this segment sale turnover. In safeguarding the volatile Euro/ Dollar currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting United States Dollar quoted sale orders, which in turn the management can maintain a stable currency exchange condition for normal trading business development.

Number of employees and remuneration policy

As at 31 March 2009, the Group had more than 700 employees, around 93% of them were employed in the People's Republic of China for the manufacturing business. The Group remunerates its employees based on their work performance and with reference to prevailing conditions of labour markets."

In addition to the above extract from the final report of the Company for the year ended 31 March 2009, set out below is further information in relation to:

Significant investments held

As at 31 March 2009, significant investments of the Group included listed investments held for trading which amounted to HK$152.6 million.

Material acquisitions and disposal of subsidiaries

On 8 September 2008, Mascotte Group Limited ("**MGL**"), a wholly-owned subsidiary of the Company, Perfect Time Investments Limited ("**Perfect Time**"), Willie International Limited ("**Willie**") and the Company entered into a sales and purchases agreement ("**the Agreement**") in relation to disposal of Jet Star which is a wholly-owned subsidiary of MGL. Pursuant to the Agreement, Perfect Time agreed to purchase and MGL agreed to sell 998 ordinary shares of HK$1 each and 2 non-voting deferred shares of HK$1 each in the capital of Jet Star, representing the entire issued share capital of Jet Star and the assignment of unsecured interest free loan of approximately HK$35,000,000, which is payable on demand, owing by Jet Star to MGL for an aggregate consideration of HK$112 million. The consideration is satisfied by the allotment and issue of 800,000,000 shares of HK$0.1 each in the capital of Willie at an issue price of HK$0.14. The disposal was completed in October 2008.

On 30 March 2009, the Group disposed of its entire interest in Mana Industrial Limited to Lustreway Enterprises Limited, a company owned and controlled by a director of Mana at a consideration of HK$1.

Staff cost incurred

Total staff costs for the year, including directors' emoluments, amounted to HK$38,556,000.

Future plans for material investments or capital assets

Recognising the challenging economic environment surrounding us, the Group is adopting a cautious approach in conducting its business and is exercising strict control over operating costs. At the same time the Group remains committed to its diversification strategy aiming to invest in suitable projects, particularly natural resources investment opportunities in the People's Republic of China, to broaden the Group's long term sustainable income base. Subsequent to the financial year end, the Group has made its first move in natural resources investment through the acquisition of certain interests in forestry lands in the Yunnan Province. The acquisition was financed by convertibles bonds of the Company, part of which were subsequently converted into 200 million new shares issued by the Company which further enlarged our capital base.

Gearing ratio

The gearing ratio of the Company, calculated as total liabilities over total assets, was 8.5%.

Contingent liabilities, charges and pledges

The Company did not have any material contingent liabilities as at 31 March 2009. A motor vehicle of the Group with its net book value of approximately HK$0.1 million has been pledged under a hire purchase contract as at 31 March 2009.

(d) Management discussion and analysis of the year ended 31 March 2008

Set out below is an extract from page 4 to 6 of the final report of the Company for year ended 31 March 2008.

"***Financial Results***

Turnover for the year ended 31 March 2008 amounted to HK$649.3 million, an increase of 179% when compared with HK$232.5 million in the previous year. The increase in turnover is mainly attributable to the HK$442.9 million derived from the disposal of securities investment during the year, while no such activity took place last year. Loss attributable to equity holders for the year was HK$232.8 million, as compared to a profit of HK$10.5 million in the previous year. The significant adverse change in results is primarily due to the realized and unrealized losses on investment trading amounting to HK$59.7 million and HK$161.3 million respectively, while no such losses arose in the previous year. Loss per share for the year ended 31 March 2008 was HK19.2 cents (2007: Earnings per share of HK2.3 cents (restated)).

Final dividend

The Board does not recommend the payment of a final dividend for the year ended 31 March 2008 (2007: Nil).

Business review and prospects

Manufacture and Sale of Photographic, Electrical and Multimedia Accessories

During the year, this segment's turnover decreased from HK$227.0 million to HK$198.9 million, representing a decrease of 12.4% as compared with last year. The drop in sales was mainly caused by one of the Group's electronics partners being put into receivership in October 2007, and which caused the revenues for electrical accessories decreased by HK$25 million as compared with previous year.

Europe continued to be this segment's largest market, accounting for approximately 59.3% of the segment's turnover of this year (2007: 64.4%). Total export sales to Europe decreased to HK$117.9 million (2007: HK$144.2 million), representing a decrease of 18.3% as compared to that of the last corresponding 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.

The management continues to focus on new revenue channels within the Group's core business of accessories for photographic, multimedia and electrical products. The demand for digital SLR camera bags is still increasing steadily with more SLR cameras having been sold in 2007 than ever before in the history of photography. Respectively the Group is concentrating on expanding the business with existing clients in this segment. Even though sales have been dampened by the current global outlook the Group has managed to increase its sales by 3.2% over the year in this product area. 2008 is a Photokina year, which is the major photographic tradeshow held every 2 years during the month of September in Cologne, Germany, which Mascotte is attending for the 15th time. The Group is looking for a push in sales respectively, with new models coming online for Photokina. One of Mascotte's electronics partners was put into receivership in October 2007, which caused the revenues for electrical accessories plunge by 34.3% and the loss of related products caused a 16.8% decrease in multimedia accessory turnover for the year on year comparison. The Group has signed a Letter of Intent with G24 Innovations Ltd. of Wales, for the exclusive use of their dye sensitized film based flexible solar panels to integrate into bags. The Group will officially launch bags to charge batteries and devices in the photographic and multimedia industry at the Photokina and Hong Kong Fall Electronic Show leveraging on the utility patents it holds for solar bags. For expansion and further exposure in the Asian market, Mascotte is looking to sign a license agreement with a leading brand in the travel bag and luggage industry for photo, video, gaming, mobile and multimedia bags within the Asia Pacific Region. In light of the imminent downturn of business in the US which was hit by the sub prime market crisis and negative sentiment in Europe, Mascotte aims to expand its operation in the Asia Pacific Region for both branded and OEM products with the exposure this license will offer.

Even though the world economy and the US economy in particular are currently hard hit, the Group continues to focus on the prospects of increasing its market share in the US. With an increase of 10.3% in the US market for the year the employment of key staff to focus on the US market is bearing fruits. The overall sentiment in the market for green and renewable energy sources gives Mascotte an advantage having obtained the ISO 14000 qualification for environmental management of our manufacturing facilities. Paired with the revolutionary solar technology of G24 Innovations and the use of recycled materials in our bags, Mascotte will make a major impact to this movement in markets worldwide. With these new developments and keeping costs tight and concentrating on its core competencies, the management is looking for steady growth in the coming year.

Property investment

During the year, the Group's property letting income was approximately HK$7.4 million (2007: HK$5.5 million), an increases of 34.5% when compared with last year. The increase was mainly attributable to the inclusion of property letting income of Jifu Plaza, a commercial property located in Guangzhou, the PRC, which was acquired in July 2006.

Having regard to the recent property market in Hong Kong and the PRC, the directors had reviewed the property portfolio and disposed of certain properties in order to realize the appreciation in property value. The total consideration of properties disposed of during the year amounted to HK$122.5 million, which have been applied for the repayment of bank borrowings and the balance retained for general working capital purposes. Total gains arising from disposal of properties during the year amounted to HK$14.5 million (2007: Nil).

Following the abovementioned disposals the sole remaining major property is the Jifu Plaza which, on a fully occupied basis, is expected to generate satisfactory return and steady cashflow. The investment properties have been revalued at year end and gave rise to a loss of HK$29.3 million (2007: Gain of HK$1.9 million).

Securities investment

During the year the Group has acquired significant working capital from disposal of property assets and a series of fund raising activities. While this has financially strengthened the Group's position and paved the way for future strategic growth, the working capital acquired became surplus to normal operating requirements pending the identification of appropriate investment opportunities. Accordingly, with the intention to achieve a return better than deposit rate, part of the surplus working capital was utilized for short term investments in the equity market as part of the Group's treasury function. The market value of the Group's securities investment has, however, declined significantly particularly since the beginning of the year 2008, primarily as a result of the global stock market downturn fuelled by the subprime mortgage crisis in the United States and, consequently, the Group incurred a significant loss. The total realized and unrealized losses from trading securities investment for the year ended 31 March 2008 amounted to approximately HK$221.0 million (2007: Nil); and the turnover generated from the sale of securities investment amounted to approximately HK$442.9 million (2007: Nil).

As an integral part of its treasury operations, the Group will continue to manage a portion of its surplus working capital through securities investment and trading. However, it is anticipated that the securities market will remain volatile in the foreseeable future and accordingly management will exercise extreme caution and adopt a prudent approach in conducting the Group's activities in this respect. Meanwhile, in perfecting its treasury operations the Group is striving to make further improvements in the relevant policies and procedures particularly in the areas of risk management, control and monitoring.

Liquidity and capital resources

During the year the Company has completed two share placements for a total of 169,760,000 shares and has issued convertible notes with a total principal amount of HK$500 million which were fully converted into 1,250,000,000 shares. In addition, 42,400,000 shares were issued upon the exercise of share options granted during the year. As a result, the Company's issued share capital has been enlarged by more than three times, from HK$44.4 million to HK$190.6 million, and equity funding raised amounted to HK$600.9 million before expenses.

As at 31 March 2008, the Group's total equity amounted to HK$606.1 million (31 March 2007: HK$236.5 million); net current assets totalled HK$462.3 million (31 March 2007: HK$15.8 million), which included cash and cash equivalents totalling HK$41.4 million (31 March 2007: HK$14.9 million. The Group did not have any outstanding bank borrowings as at 31 March 2008 (31 March 2007: HK$69.0 million).

Currency risk management

For manufacture and sale of goods segment, the Group's largest sale market is Europe, which alone accounts for around 60% of this segment sale turnover. In safeguarding the volatile Euro Dollars currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting US Dollar quoted sale orders, which in turn the management can maintain a stable currency exchange condition for normal trading business development.

Number of employees and remuneration policy

As at 31 March 2008, the Group had more than 800 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 labour markets."

In addition to the above extract from the final report of the Company for the year ended 31 March 2008, set out below is further information in relation to:

Significant investments held

As at 31 March 2008, significant investments of the Group included listed investments held for trading which amounted to HK$173.9 million.

Material acquisitions and disposal of subsidiaries

During the year ended 31 March 2008, the Group disposed of its entire interest in a subsidiary, Hop Shing Trading Limited ("**Hop Shing**"), to a third party company, Great Asia Properties Limited, at a consideration of HK$30,000,000 in cash.

In addition, during the year, the Group also disposed of its entire interest in a subsidiary, Mascotte Investments Limited ("**MIL**") to Kada International Limited, an investment company wholly-owned by the substantial shareholder of the Group, at a consideration of HK$29,000,000 in cash.

Staff cost incurred

Total staff costs for the year, including directors' emoluments, amounted to HK$38,791,000.

Future plans for material investments or capital assets

Given the uncertainty associated with the economic environment of the Group's major export markets and the escalating costs in running a manufacturing operation in the Mainland, the Board is of the view that reliance on the manufacturing of accessories would limit the long term growth prospects of the Group as a whole. Against this background the directors have implemented a diversification strategy aiming to identify suitable investment opportunities to broaden the Group's long term sustainable income base. The Board's focus is on evaluating potential investment in (a) natural resources projects and (b) manufacturing concerns which offer the opportunity to maximize operational synergies with the Group's existing business. A prudent approach has been taken in such evaluation and no suitable investment projects have been identified yet.

On the other hand, we have completed a series of capital raising activities during the year. Coupled with the rights issue exercise, the Company has substantially enlarged its capital base and strengthened its financial resources in the course of twelve months. Furthermore, the Group has repaid all its outstanding bank borrowings. A solid foundation has therefore been established to enable us to take advantage of suitable investment opportunities as they arise.

Gearing ratio

The gearing ratio of the Company, calculated as total liabilities over total assets, was 6.3%.

Contingent liabilities, charges and pledges

The Company did not have any material contingent liabilities as at 31 March 2008. A motor vehicle of the Group with its net book value of approximately HK$0.2 million has been pledged under a hire purchase contract as at 31 March 2008.

As at 31 March 2008, investment properties, leasehold land and buildings and prepaid lease payments with an aggregate carrying value of HK$131,993,000, HK$3,299,000 and HK$6,579,000 respectively had been pledged by the Group to secure banking facilities granted to the Group.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

(a) Management discussion and analysis of the financial position of Sun Materials

Set out below is the management discussion and analysis on the operation results and financial performance of Sun Materials for the three years ended 31 December 2010.

(i) Management discussion and analysis of Sun Materials for the year ended 31 December 2010

Results

During the year ended 31 December 2010, Sun Materials did not commence any active business operations and did not generate any turnover but recorded a net loss of NT$71,048,000 (equivalent to approximately US$2,504,897) which had increased from that of NT$53,570,000 (equivalent to approximately US$1,888,685) for the year ended 31 December 2009 primarily as a result of Sun Materials having incurred administrative expenses and other expenses in the total amount of approximately NT$81,196,000 (equivalent to approximately US$2,862,679) for the year ended 31 December 2010 which had increased from that of approximately NT$50,702,000 (equivalent to approximately US$1,787,570) for the year ended 31 December 2009. The increase in administrative expenses and other expenses is in part due to the increase in electricity costs incurred for Sun Materials' first production plant in Taiwan (the "**First Production Plant**") and the increase of depreciation expenses for property, plant and equipment from NT$20,354,000 (equivalent to approximately US$717,608) for the year ended 31 December 2009 to that of NT$33,614,000 (equivalent to approximately US$1,185,108) for the year ended 31 December 2010. The increase of depreciation expenses is due to depreciation expenses incurred for the First Production Plant after the completion of its construction work in April 2010.

Part of the net loss had been offset by the increase in other income from NT$791,000 (equivalent to approximately US$27,887) for the year ended 31 December 2009 to NT$12,606,000 (equivalent to approximately US$444,442) for the year ended 31 December 2010. Such increase is primarily related to (i) the compensation in the amount of NT$11,733,000 (equivalent to approximately US$413,663) received from an equipment manufacturer for the late delivery of machineries pursuant to a plant and machinery purchase agreement; and (ii) the subsidy in the amount of NT$713,000 (equivalent to approximately US$25,137) received from the Taiwan government for the recruitment of new graduates. Sun Materials did not have any cost of sales or selling expenses during the same period.

Liquidity, financial resources, capital structure and gearing ratio

As at 31 December 2010, Sun Materials had net assets of NT$855,567,000 (equivalent to approximately US$30,164,221) which had increased from that of NT$726,615,000 (equivalent to approximately US$25,617,836) as at 31 December 2009, including bank balances and cash of NT$110,871,000 (equivalent to approximately US$3,908,813) compared to that of NT$85,674,000 (equivalent to approximately US$3,020,557) as at 31 December 2009. The increase in bank balances and cash is largely due to the cash consideration from the issuance of ordinary shares by Sun Materials on 15 July 2010. Apart from the substantial increase in bank balances and cash, the increase in net assets is also largely related to the increase in the deposit paid for acquisition of property, plant and equipment from NT$351,726,000 (equivalent to approximately US$12,400,596) as at 31 December 2009 to NT$465,205,000 (equivalent to approximately US$16,401,458) as at 31 December 2010 and a substantial portion of such deposit was paid by Sun Materials to an equipment manufacturer pursuant to a plant and machinery purchase agreement. Also, the construction work for the First Production Plant in Taiwan was completed on April 2010 which resulted in the increase in the paid value of property, plant and equipment from NT$395,751,000 (equivalent to approximately US$13,952,759) as at 31 December 2009 to NT$423,030,000 (equivalent to approximately US$14,914,519) as at 31 December 2010.

Sun Materials entered into a loan facility agreement dated 3 February 2010 with Taiwan Cooperative Bank to obtain a 13-year loan facility of NT$200,000,000 (equivalent to approximately US$7,051,282) with interest calculated based on a variable interest rate of P+0.18% to P+1.3% (with P representing the local bank interest rate at the time) and is repayable by monthly installments ("**Sun's Loan Facility**"). The purpose of obtaining Sun's Loan Facility was to fund the construction costs of Sun Materials' First Production Plant in Taiwan. The first drawdown by Sun Materials from Sun's Loan Facility was made on 3 February 2010 in the amount of NT$160,000,000 (equivalent to approximately US$5,641,025). As a result, Sun Materials had long-term bank borrowings of NT$160,000,000 (equivalent to approximately US$5,641,025) as at 31 December 2010, which had increased from that of nil as at 31 December 2009. Due to the drawdown of Sun's Loan Facility, finance costs, which mainly comprised of interest expenses for loans and borrowings, had increased from NT$162,000 (equivalent to approximately US$5,712) for the year ended 31 December 2009 to that of NT$2,458,000 (equivalent to approximately US$86,660) for the year ended 31 December 2010.

As at 31 December 2010, Sun Materials had net current assets of NT$86,921,000 (equivalent to approximately US$3,064,522), which had increased substantially from the net current liabilities of NT$61,273,000 (equivalent to approximately US$2,160,266) as at 31 December 2009. The substantial change in net current assets is attributable to (i) a substantial reduction in short-term bank borrowings from NT$160,000,000 (equivalent to approximately US$5,641,025) as at 31 December 2009 to nil as at 31 December 2010 as a result of Sun Materials having drawn down on Sun's Loan Facility to pay such short-term bank borrowing; and (ii) a substantial increase in bank balances and cash from NT$85,674,000 (equivalent to approximately US$3,020,557) as at 31 December 2009 to NT$110,871,000 (equivalent to approximately US$3,908,913) as at 31 December 2010.

As at 31 December 2010, the authorized share capital of Sun Materials was NT$1,000,000,000 (equivalent to approximately US$35,256,410) divided into 100,000,000 ordinary shares at NT$10 each. During the year ended 31 December 2010, the issued share capital of Sun Materials increased from NT$800,000,000 (equivalent to approximately US$28,205,128) as at 31 December 2009 to NT$1,000,000,000 (equivalent to approximately US$35,256,410) following the subscription of 20,000,000 ordinary shares of Sun Materials at NT$10 (equivalent to approximately US$0.35) each by Lution for the cash consideration of NT$200,000,000 (equivalent to approximately US$7,051,282) on 15 July 2010.

Sun Materials' gearing ratio, calculated by dividing Sun Materials' total liabilities by total assets, was approximately 19.60% as at 31 December 2010 compared to that of approximately 19.74% as at 31 December 2009.

Capital commitments

Sun Materials completed the installation of the key production equipment into the First Production Plant in October 2010. The total capital expenditure incurred for the year ended 31 December 2010 was NT$174,372,000 (or equivalent to approximately US$6,147,730) compared to that of NT$623,367,000 (or equivalent to approximately US$21,977,682) for the year ended 31 December 2009. The reduction in capital commitment was due to Sun Materials incurring less construction costs and acquiring less equipment and machinery during 2010 as the First Production Plant was close to completion and no development expenditure was incurred to further develop Sun Materials' technology for the manufacture of polysilicon during the year ended 31 December 2010.

Prospects for new business

According to Sun Materials, it plans to commence construction of five additional production plants in Taiwan by October 2011, which expected to increase its production capacity to up to 21,000 metric tons of polysilicon by the end of the second quarter of 2012. The construction of the five additional production plants is expected to be completed by the end of the second quarter of 2012. Based on the information and estimates provided by Sun Materials, the total capital expenditure and working capital required for the five additional production plants up to the second quarter of 2012 will be approximately US$250,000,000. It also plans to commence construction of a 18,000 metric ton production plant in the PRC in the fourth quarter of 2011. The Directors expect that part of the net proceeds from the Placing will be used to fund such working capital and capital expenditure.

After Completion, the Target will become a subsidiary of the Target Group and Sun Materials is expected to commence commercial production of polysilicon on or before 31 May 2011. Sun Materials has entered into fixed term purchase agreements to sell polysilicon with both domestic and international customers, which, unless terminated by the parties thereto, are effective until at least 2015.

Material acquisition and disposals of subsidiaries and associated companies and significant investment held

Aside from the transactions that were completed as part of the Reorganisation, there were no other material acquisitions, disposals of subsidiaries and associated companies and significant investment held by Sun Materials for the year ended 31 December 2010.

Segmental information

As Sun Materials had not commenced its business operations as at 31 December 2010, it did not have more than one business or geographical segment which requires the disclosure of segmental information.

Number and remuneration of employees

As at 31 December 2010, Sun Materials had a total of 11 employees (compared to that of 10 employees as at 31 December 2009). Staff costs were NT$5,470,000 (equivalent to approximately US$192,852) for the year ended 31 December 2010, which decreased from NT$6,238,000 (equivalent to approximately US$219,929) for the year ended 31 December 2009. Sun Materials' remuneration policies are formulated on the basis of market trends, future plans and individual performances, which will be reviewed periodically. Appropriate training will be provided to the employees when necessary. The employees of Sun Materials employed in Taiwan are members of the state-managed retirement benefit schemes operated by the Taiwan government during the year ended 31 December 2010. Sun Materials adopted a share option scheme to grant options to its directors or employees on 10 December 2007 and as at 31 December 2010, there were no outstanding share options.

Details of charges on Sun Materials' assets

Sun Materials leased a piece of land in Yi-Lan County, Taiwan (where the First Production Plant is located) from the MOEA for a term of 20 years commencing on 16 May 2007 (the "**Yi-Lan County Land**"). Save for a rent-free period for the first two years of the lease, a rent reduction of 40% during the subsequent two years of the lease and thereafter a rent reduction of 20% for a two year period, rent is calculated based on a variable rate and the first rental payment was made on 16 May 2009.

As at 31 December 2010, Sun Materials' buildings erected on the Yi-Lan County Land had an aggregate carrying value of NT$317,281,000 (equivalent to approximately US$11,186,189) and were pledged to Taiwan Cooperative Bank to secure Sun's Loan Facility.

In addition, Sun Materials had pledged its restricted bank deposit in the amount of NT$21,009,000 (equivalent to approximately US$740,701) as at 31 December 2010 which remained the same as that of NT$21,009,000 (equivalent to approximately US$740,701) as at 31 December 2009 to secure its obligations under the lease with respect to the Yi-Lan County Land.

Save as disclosed above, there were no pledges or liens that were charged against any of Sun Materials' assets as at 31 December 2010.

Plans for material investments

Sun Materials completed the construction of its First Production Plant in April 2010 and completed the installation of the key production equipment at the First Production Plant in October 2010. Sun Materials plans to commence the construction of five additional production plants in Taiwan by October 2011. It also plans to commence construction of a 18,000 metric ton production plant in the PRC in the fourth quarter of 2011. The Directors expect that part of the net proceeds from the Placing will be used to fund such capital expenditure.

Exposure to fluctuations in exchange rates and any related hedges

Most of Sun Materials' operating transactions, assets and liabilities are primarily denominated in New Taiwan dollars. The Directors believe that the New Taiwan dollar will remain relatively stable against the Hong Kong dollar in the foreseeable future and consider that Sun Materials' present exposure to exchange risk is relatively minimal. There was no financial arrangement for hedging purpose in respect of Sun Materials during the year ended 31 December 2010. However, the management will monitor Sun Materials' foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

Contingent liabilities

As at 31 December 2010, Sun Materials did not have any material contingent liabilities.

(ii) Management discussion and analysis of Sun Materials for the year ended 31 December 2009

Results

During the year ended 31 December 2009, Sun Materials did not commence any active business operations and did not generate any turnover but recorded a net loss of NT$53,570,000 (equivalent to approximately US$1,888,685) which had increased from that of NT$24,324,000 (equivalent to approximately US$857,576) for the year ended 31 December 2008. Such increase in net loss is attributable mainly to the increase in administrative expenses and other expenses to approximately NT$50,702,000 (equivalent to approximately US$1,787,570) for the year ended 31 December 2009 from those of approximately NT$17,114,000 (equivalent to approximately US$603,378) for the year ended 31 December 2008. The increase in administrative expenses and other expenses is in part due to the increase in depreciation expenses for property, plant and equipment from NT$9,971,000 (equivalent to approximately US$351,541) for the year ended 31 December 2008 to NT$20,354,000 (equivalent to approximately US$717,608) for the year ended 31 December 2009. Moreover, an increase in traveling expenses, labour costs and other miscellaneous costs also contributed to an increase in administrative expenses and other expenses.

However, the impact of the increase in administrative expenses and other expenses on the results had been offset by a reduction in impairment loss on deposit paid for acquisition of property, plant and equipment and no net loss being incurred on investments held for trading. Prior to moving into the buildings erected on Yi-Lan County Land in early 2009, Sun Materials has leased office premises (the "**Office Premises**") in the nearby area. The impairment loss of NT$6,600,000 (equivalent to approximately US$232,692) for the year ended 31 December 2008 was due to the costs incurred in building a room for scientific research in the Office Premises. The impairment loss of NT$3,497,000 (equivalent to approximately US$123,291) for the year ended 31 December 2009 was due to the prepayment for renovation work in the Office Premises, which was not refundable. Since Sun Materials had vacated the Office Premises in early 2009 to move into the buildings erected on the Yi-Lan County Land, Sun Materials did not proceed with the renovation work in the Office Premises and the costs incurred in building the room for scientific research for the year ended 31 December 2008 and the prepayment for renovation work at the Office Premises for the year ended 31 December 2009, were not recoverable.

Sun Materials did not hold any investment held for trading during the year ended 31 December 2009. Sun Materials did not have any cost of sales or selling expenses during the year ended 31 December 2009.

Liquidity, financial resources, capital structure and gearing ratio

As at 31 December 2009, Sun Materials had net assets of NT$726,615,000 (equivalent to approximately US$25,617,836) which had increased from that of NT$170,198,000 (equivalent to approximately US$6,000,570) as at 31 December 2008, including bank balances and cash of NT$85,674,000 (equivalent to approximately US$3,020,557) as at 31 December 2009 which had decreased from that of NT$114,975,000 (equivalent to approximately US$4,053,605) as at 31 December 2008. The substantial increase in net assets was attributable mainly to a significant increase in non-current assets. Non-current assets amounted to NT$787,888,000 (equivalent to approximately US$27,778,102) as at 31 December 2009, which had increased from that of NT$187,944,000 (equivalent to approximately US$6,626,230) as at 31 December 2008. Such increase in non-current assets is attributable mainly to the acquisition of property, plant and equipment by Sun Materials in the amount of NT$294,456,000 (equivalent to approximately US$10,381,461) as well as the deposit paid to an equipment manufacturer in the amount of NT$342,857,000 (equivalent to approximately US$12,087,907) during the year ended 31 December 2009.

In October 2009, Sun Materials obtained unsecured short-term bank borrowings from Taiwan Cooperative Bank in the amount of NT$200,000,000 (equivalent to approximately US$7,051,282), repayable within one year at variable interest rate of P + 0.87% (with P representing the local bank interest rate), for the purpose of funding the construction of the First Production Plant (the "**Unsecured Short-term Bank Borrowings**"). There were no non-current liabilities for the years ended 31 December 2009 and 31 December 2008.

As at 31 December 2009, Sun Materials' net current liabilities were NT$61,273,000 (equivalent to approximately US$2,160,266), which had increased significantly from that of NT$17,746,000 (equivalent to approximately US$625,660) as at 31 December 2008. The increase in net current liabilities is attributable mainly to (i) a large portion of the construction costs and purchases of machinery and equipments incurred for the First Production Plant remaining to be payable as at 31 December 2009; and (ii) Sun Materials obtaining the Unsecured Short-term Bank Borrowings during 2009, which amount exceeds the Shareholders' Loan (as defined below) obtained by Sun Materials during 2008. No Shareholders' Loan remained outstanding as at 31 December 2009. As a result of the Unsecured Short-term Bank Borrowings, finance costs, which comprised mainly the interest expenses for loans and borrowings, had increased from nil for the year ended 31 December 2008 to that of NT$162,000 (equivalent to approximately US$5,712) for the year ended 31 December 2009.

As at 31 December 2009, the authorized share capital of Sun Materials was NT$1,000,000,000 (equivalent to approximately US$35,256,410) divided into 100,000,000 ordinary shares at NT$10 (equivalent to approximately US$0.35) each. During the year ended 31 December 2009, the issued share capital of Sun Materials increased from NT$190,013,000 (equivalent to approximately US$6,699,176) to NT$800,000,000 (equivalent to approximately US$28,205,128) as a result of (i) the Shareholders' Loan (as defined below) in the amount of NT$138,000,000 (equivalent to approximately US$4,865,384) being capitalized as share capital with 13,800,000 ordinary shares of Sun Materials issued to the shareholders at NT$10 (equivalent to approximately US$0.35) each on 14 April 2009; (ii) the issuance of 9,000,000 ordinary shares by Sun Materials to certain existing shareholders of Sun Materials at the time at NT$10 (equivalent to approximately US$0.35) each for the cash consideration of NT$90,000,000 (equivalent to approximately US$3,173,076) on 14 April 2009; and (iii) the issuance of 38,198,700 ordinary shares by Sun Materials to certain existing shareholders of Sun Materials at the time at NT$10 (equivalent to approximately US$0.35) each for the cash consideration of NT$381,987,000 (equivalent to approximately US$13,467,490) on 5 August 2009.

Sun Materials' gearing ratio, calculated by dividing Sun Materials' total liabilities by total assets, was 19.74% as at 31 December 2009 compared to that of approximately 45.04% as at 31 December 2008.

Capital commitments

For the year ended 31 December 2009, the construction of the First Production Plant was still in progress. The total capital expenditure incurred for the year ended 31 December 2009 was approximately NT$623,367,000 (equivalent to approximately US$21,977,682) compared to that of approximately NT$82,287,000 (equivalent to approximately US$2,901,144) for the year ended 31 December 2008. The substantial increase in capital commitment was due to the costs for construction of, and the purchases of machinery and equipments for, the First Production Plant. Save as disclosed, Sun Materials did not have other significant capital commitment as at 31 December 2009.

Prospects for new business

For the year ended 31 December 2009, Sun Materials had not conducted any business activities and hence did not introduce or announce any new products and services.

Material acquisition and disposals of subsidiaries and associated companies and significant investment held

Lution acquired the entire share capital of Sun Materials on 19 September 2009. Save as disclosed, there were no material acquisitions and disposals of subsidiaries and associated companies and significant investment held for the year ended 31 December 2009.

Segmental information

As Sun Materials had not commenced its business operations as at 31 December 2009, it did not have more than one business or geographical segment which requires the disclosure of segmental information.

Number and remuneration of employees

As at 31 December 2009, Sun Materials had a total of 10 employees (compared to that of 8 employees as at 31 December 2008). Staff costs were NT$6,238,000 (equivalent to approximately US$219,929) for the year ended 31 December 2009, which is an increase from NT$2,334,000 (equivalent to approximately US$82,288) for the year ended 31 December 2008. No remuneration was paid or is payable by Sun Materials to its directors in respect of the relevant period. Sun Materials' remuneration policies are formulated on the basis of market trends, future plans and individual performances, which will be reviewed periodically. Appropriate training will be provided to the employees when necessary. The employees of Sun Materials employed in Taiwan are members of the state-managed retirement benefit schemes operated by the Taiwan government during the year ended 31 December 2009. Sun Materials adopted a share option scheme to grant options to its directors or employees on 10 December 2007. As at 31 December 2009, there were no outstanding share options.

Details of charges on Sun Materials' assets

Sun Materials had pledged its restricted bank deposit in the amount of NT$21,009,000 (equivalent to approximately US$740,701) as at 31 December 2009 compared to that of NT$20,581,000 (equivalent to approximately US$725,612) as at 31 December 2008 to secure its obligations under the lease with respect to the Yi-Lan County Land.

Save as disclosed above, there were no pledges or liens that were charged against any of Sun Materials' assets as at 31 December 2009.

Plans for material investments

Sun Materials commenced the construction of the First Production Plant in 2008 and planned to complete the construction by 2010 and commence trial production for the purposes of fulfilling the qualification requirements of its customers.

Exposure to fluctuations in exchange rates and any related hedges

Most of Sun Materials' operating transactions, assets and liabilities are primarily denominated in New Taiwan dollar. There was no financial arrangement for hedging purpose in respect of Sun Materials during the year ended 31 December 2009.

Contingent liabilities

As at 31 December 2009, Sun Materials did not have any contingent liabilities.

(iii) Management discussion and analysis of Sun Materials for the year ended 31 December 2008

Results

During the year ended 31 December 2008, Sun Materials did not commence any active business operations and did not generate any turnover but recorded a net loss of NT$24,324,000 (equivalent to approximately US$857,576). The net loss is attributable mainly to the increase in administrative expenses and other expenses to approximately NT$17,114,000 (equivalent to approximately US$603,378) for the year ended 31 December 2008. Such increase in administrative expenses and other expenses is attributable largely to the increase in recruitment and employment activities during 2008 and the increase in depreciation expenses as a result of the property, plant and equipment acquired by Sun Materials during the same period. In addition, Sun Materials incurred impairment loss on deposit paid for acquisition of property, plant and equipment in the amount of NT$6,600,000 (equivalent to approximately US$232,692) during the year ended 31 December 2008. The impairment loss was due to the costs incurred in building a room for scientific research in the Office Premises. Since Sun Materials had vacated the Office Premises in early 2009 to move into the buildings erected on the Yi-Lan County Land, the costs incurred in building the room for scientific research were not recoverable.

The net loss was offset by a reduction in net loss on investments held for trading, which reduced to that of NT$1,182,000 (equivalent to approximately US$41,673) for the year ended 31 December 2008 as a result of better performance of the fund investment in equity securities listed in Taiwan by Sun Materials (the "**Fund Investment**"). The Fund Investment was disposed of during 2008 and Sun Materials received sales proceeds of NT$25,475,000 (equivalent to approximately US$898,157). Sun Materials did not have any cost of sales or selling expenses during the year ended 31 December 2008.

Liquidity, financial resources, capital structure and gearing ratio

As at 31 December 2008, Sun Materials had net assets of NT$170,198,000 (equivalent to approximately US$6,000,570), including bank balances and cash of NT$114,975,000 (equivalent to approximately US$4,053,605) as at 31 December 2008.

There was an increase in net assets in 2008, which was attributable mainly to a significant increase in bank balances and cash as well as an increase in non-current assets. The increase in bank balances and cash was due to the cash consideration received for the issuance of ordinary shares by Sun Materials on 24 July 2008 and the Shareholders' Loan (as defined below) obtained by Sun Materials during 2008. Non-current assets amounted to NT$187,944,000 (equivalent to approximately US$6,626,230) as at 31 December 2008 which represented an increase from that as at 31 December 2007. The increase in non-current assets was mainly due to costs incurred for the purchases of property, plant and machinery relating to the First Production Plant in the amount of NT$129,380,000 (equivalent to approximately US$4,561,474) during the year ended 31 December 2008. As at 31 December 2008, Sun Materials' net current liabilities were NT$17,746,000 (equivalent to approximately US$625,660), which had increased significantly from the net current assets as at 31 December 2007. Such increase in net current liabilities was attributable mainly to a loan in the amount of NT$138,000,000 (equivalent to approximately US$4,865,384) obtained by Sun Materials from its shareholders which is unsecured, non-interest bearing and repayable on demand (the "**Shareholders' Loan**") during 2008. For the year ended 31 December 2008, Sun Materials did not incur any non-current liabilities. Since Sun Materials did not incur any interest-bearing current or non-current liabilities, Sun Materials did not incur any finance costs for the year ended 31 December 2008.

During the year ended 31 December 2008, the issued share capital of Sun Materials increased from NT$150,013,000 (equivalent to approximately US$5,288,919) to NT$190,013,000 (equivalent to approximately US$6,699,176) as a result of the issuance of 4,000,000 ordinary shares by Sun Materials to certain existing shareholders of Sun Materials at NT$10 (equivalent to approximately US$0.35) each for the cash consideration of NT$40,000,000 (equivalent to approximately US$1,410,256) on 24 July 2008.

Sun Materials' gearing ratio, calculated by dividing Sun Materials' total liabilities by total assets, was approximately 45.04% as at 31 December 2008.

Capital commitments

For the year ended 31 December 2008, the construction of the First Production Plant was still in progress. The total capital expenditure incurred for the year ended 31 December 2008 was approximately NT$82,287,000 (equivalent to approximately US$2,901,144), which represented a slight reduction in capital commitment since there was no restricted bank deposits during the year ended 31 December 2008.

Save as disclosed, Sun Materials did not have other significant capital commitment as at 31 December 2008.

Prospects for new business

For the year ended 31 December 2008, Sun Materials had not conducted any business activities and hence did not introduce or announce any new products and services.

Material acquisition and disposals of subsidiaries and associated companies and significant investment held

On 17 June 2008, Sun Materials sold the Fund Investment for proceeds of NT$25,475,000 (equivalent to approximately US$898,157).

Save as disclosed, there were no material acquisitions and disposals of subsidiaries and associated companies and significant investment held for the year ended 31 December 2008.

Segmental information

As Sun Materials had not commenced its business operations as at 31 December 2008, it did not have more than one business or geographical segment which requires the disclosure of segmental information.

Number and remuneration of employees

As at 31 December 2008, Sun Materials had a total of 8 employees. Staff costs were NT$2,334,000 (equivalent to approximately US$82,288) for the year ended 31 December 2008. No remuneration was paid or is payable by Sun Materials to its directors in respect of the relevant period. Sun Materials' remuneration policies are formulated on the basis of market trends, future plans and individual performances, which will be reviewed periodically. Appropriate training will be provided to the employees when necessary. The employees of Sun Materials employed in Taiwan are members of the state-managed retirement benefit schemes operated by the Taiwan government during the year ended 31 December 2008. Sun Materials adopted a share option scheme to grant options to its directors or employees on 10 December 2007. As at 31 December 2008, there were no share options outstanding because the 700,000 share options for 7,000,000 ordinary shares of Sun Materials with an exercise price of NT$11.50 (equivalent to approximately US$0.40) per share, which were granted on 10 December 2007, were forfeited during the year ended 31 December 2008.

Details of charges on Sun Materials' assets

Sun Materials had pledged its restricted bank deposit in the amount of NT$20,581,000 (equivalent to approximately US$725,612) as at 31 December 2008 to secure its obligations under the lease with respect to the Yi-Lan County Land.

Save as disclosed, there were no pledges or liens that were charged against any of Sun Materials' assets as at 31 December 2008.

Plans for material investments

Apart from the Fund Investment, Sun Materials had commenced the construction of the First Production Plant during the year ended 31 December 2008. Sun Materials planned to complete the construction of the First Production Plant in 2010 and commence trial production for the purposes of fulfilling the qualification requirements of its customers.

Exposure to fluctuations in exchange rates and any related hedges

Most of Sun Materials' operating transactions, assets and liabilities are primarily denominated in New Taiwan dollar. There was no financial arrangement for hedging purpose in respect of Sun Materials during the year ended 31 December 2008.

Contingent liabilities

As at 31 December 2008, Sun Materials did not have any contingent liabilities.

(b) Management discussion and analysis of the financial position of Lution

Lution is an investment holding company incorporated in Taiwan with limited liability and is wholly-owned by the Target. Lution is the sole shareholder of Sun Materials and its major asset is its investment in Sun Materials. Set out below is the management discussion and analysis on the operation results and financial performance of Lution for the year ended 31 December 2010 and the period commencing 15 September 2009 (being the date of incorporation of Lution for accounting purposes) and ending on 31 December 2009 ("**Lution's Relevant Period**").

Results

During the year ended 31 December 2010, Lution did not commence any active business operations and did not generate any turnover but recorded a net loss of NT$395,000 (equivalent to approximately US$13,926) which had increased from that of approximately NT$211,000 (equivalent to approximately US$7,439) for Lution's Relevant Period primarily as a result of Lution having incurred administrative expenses in the amount of NT$402,000 (equivalent to approximately US$14,173) for the year ended 31 December 2010 which had increased from that of NT$211,000 (equivalent to approximately US$7,439) for Lution's Relevant Period. These administrative expenses include labor, stationery, printing and rental costs.

Liquidity, financial resources, capital structure and gearing ratio

As at 31 December 2010, Lution had net assets of NT$892,882,000 (equivalent to approximately US$31,479,814) which had increased from that of NT$693,277,000 (equivalent to approximately US$24,442,458) as at 31 December 2009, including non-current assets of NT$893,488,000 (equivalent to approximately US$31,501,179) as at 31 December 2010 compared to that of NT$693,488,000 (equivalent to approximately US$24,449,897) as at 31 December 2009. The increase in non-current assets represents Lution's subscription of 20,000,000 new shares issued by Sun Materials at NT$10 (equivalent to approximately US$0.35) each on 6 April 2010.

As at 31 December 2010, the authorized share capital of Lution was NT$500,000,000 (equivalent to approximately US$17,628,205) divided into 50,000,000 ordinary shares at NT$10 (equivalent to approximately US$0.35) each. During the year ended 31 December 2010, the issued share capital of Lution increased from NT$400,000,000 (equivalent to approximately US$14,102,564) as at 31 December 2009 to NT$500,000,000 (equivalent to approximately US$17,628,205) as at 31 December 2010 following the issuance of 10,000,000 shares at NT$20 (equivalent to approximately US$0.70) each by Lution to its shareholders at an aggregate subscription price of NT$200,000,000 (equivalent to approximately US$7,051,282).

Lution's gearing ratio, calculated by dividing its total liabilities by total assets, was approximately 0.13% as at 31 December 2010 compared to that of 4.78% as at 31 December 2009.

Capital commitments

Lution did not have any capital commitments during the year ended 31 December 2010 or Lution's Relevant Period.

Prospects for new business

Lution is an investment holding company and its major asset is the investment in Sun Materials. Lution did not have any plans for new investments during the year ended 31 December 2010 (or Lution's Relevant Period).

Investment in Sun Materials and future prospect

Lution is the sole shareholder of Sun Materials and Lution's major asset is its investment in Sun Materials. Sun Materials engages in the business of the manufacture and sale of polysilicon. The directors of Lution believes that there is a good future prospect in its investment in Sun Materials as it is anticipated that Sun Materials will generate revenue when the First Production Plant in Taiwan commences commercial production. Sun Materials is also expected to expand its production capacity, customer base and continue to use and apply new technology.

Material acquisition and disposals of subsidiaries and associated companies and significant investment

There were no material acquisitions, disposals of subsidiaries and associated companies and significant investments made by Lution for the year ended 31 December 2010 or Lution's Relevant Period.

Segmental information

As Lution did not have business operations as at 31 December 2010, it did not have businesses or geographical segments which require the disclosure of segmental information.

Number and remuneration of employees

As at 31 December 2010, Lution did not have any employee. The directors of Lution have not received any remuneration during the year ended 31 December 2010 and Lution's Relevant Period.

Details of charges on Lution's assets

None of Lution's assets were subject to any form of charges or pledges during the year ended 31 December 2010 or Lution's Relevant Period.

Plans for material investments

During the year ended 31 December 2010 and Lution's Relevant Period, save for the investment in Sun Materials, Lution did not have any plans for material investments.

Exposure to fluctuations in exchange rates and any related hedges

All of Lution's assets and liabilities are denominated in New Taiwan dollars. The Directors believe that the New Taiwan dollar will remain relatively stable against the Hong Kong dollar in the foreseeable future and consider that Lution's present exposure to exchange risk is relatively minimal. There was no financial arrangement for hedging purpose in respect of Lution during the year ended 31 December 2010 and Lution's Relevant Period. However, the management will monitor foreign exchange exposure closely and consider the use of hedging instruments when the need arises.

Contingent liabilities

As at 31 December 2009 and 31 December 2010, Sun Materials did not have any material contingent liabilities.

(c) Management discussion and analysis of the financial position of the Target

The Target is an investment holding company established in the BVI on 17 May 2010 with limited liability and is wholly-owned by the Seller. The Target has not conducted any business transactions since its date of incorporation apart from the issuance of shares as set out below. As at 31 December 2010, no audited financial statements or management accounts of the Target had been prepared.

The Target was authorised to issue 100,000,000 shares of no par value at the date of its incorporation. On 25 June 2010, 2,000,000 shares of no par value and 8,000,000 shares of no par value in the Target were issued to Double Resources Limited and Radiance Resources Limited, respectively. On 26 July 2010, all of these 10,000,000 shares were cancelled by the Target, and 10,000,000 new shares of no par value in the Target were issued to the Seller. The Seller became the sole shareholder of the Target and also the holding company of the Target since 26 July 2010.

As at 31 December 2010, the Target has a shareholder's loan in the amount of HK$8,000. The shareholder's loan is unsecured, interest-free and repayable upon demand.

The following is the text of the Business Valuation Report prepared by the Valuer for the purpose of inclusion in this circular.

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American Appraisal

20 May 2011

The Directors
Mascotte Holdings Limited

Our Ref.:10/0858

Dear Sirs,

Pursuant to the terms, conditions and purpose of the engagement agreement dated April 20, 2010 and the supplement agreements dated September 29, 2010, December 21, 2010 and March 22, 2011 between Mascotte Holdings Limited ("**Mascotte**" or "**Client**") and American Appraisal China Limited ("**American Appraisal**"), we have completed the valuation ("**Valuation**") of the business enterprise as of December 31, 2010 ("**Valuation Date**") of Sun Materials Technology Co., Ltd. ("**Sun Materials**" or "**Company**"), which will be acquired by the Client ("**Valuation**"). The Valuation was conducted on a controlling and going concern basis based on the prospective financial information and assumptions provided by the management of the Client (the "**Management**") and information contained in an independent technical study ("**Technical Report**") on Sun Materials dated 20 May 2011 conducted by Ove Arup & Partners Hong Kong Ltd ("**Arup**").

This executive summary letter identifies the assets appraised, describes the scope of our work and purpose of the valuation, states the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing our report, we aim to largely comply with the reporting requirements recommended by the International Valuation Standards Council ("**IVSC**"). This letter is intended to present only summary discussions of the data, reasoning, major assumptions and analyses that were used in the appraisal process to develop the opinion of value by American Appraisal. Supporting documentation concerning these matters has been retained in our work papers.

PURPOSE OF VALUATION

The Client entered into a sale and purchase agreement to acquire 50.1% of the issued shares of the holding company of Sun Materials ("**Proposed Transaction**"). Prospective financial information of Sun Materials was prepared by the Management and the Technical Report was provided by the Management. With the Client's approval and agreement, we relied upon the completeness, accuracy and fair presentations of the information provided by the Management and findings of the Technical Report to formulate our opinion on fair value of the business enterprise of Sun Materials as going concern business without independent investigation.

The intended use of the Valuation is to serve primarily as an internal reference to assist the Client in the negotiation of the purchase price for the Proposed Transaction. You should note the ultimate transaction, if happens, and the corresponding acquisition price would be the results of negotiations between the transacting parties. Our valuations only form part of the information for the Client to consider and the responsibility for determining the fair value of Sun Materials and the acquisition price of the Proposed Transaction rests solely with the Client.

We understand and accept that a copy of this letter may be disclosed in your circular to the shareholders and to The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to the requirements of The Rules Governing the Listing of Securities on Stock Exchange. However, the results of our analysis should not be constructed as a fairness opinion, a solvency opinion, or an investment recommendation. Our report is prepared solely for the directors of the Client for the purpose stated herein and should not be relied upon for any other purpose or provided for use by third parties. Any third party should conduct their own investigation and independent assessment of the prospective financial information and underlying assumptions. In no event, regardless of whether consent has been provided, shall we assume any responsibility to third party to whom this report is disclosed or otherwise made available.

STANDARD AND PREMISE OF VALUE

The Valuation was based on fair value standard on the premise of continued use. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction under Hong Kong Financial Reporting Standards ("**HKFRS**") and Hong Kong Accounting Standards ("**HKAS**"). Our opinion of value was prepared on the premise of continued use, which reflects the condition where the buyer and seller contemplate retention of the business and related assets as part of current or forecasted operations.

Business enterprise is defined as the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net working capital and intangible assets of a continuing business. Alternatively, the business enterprise is equivalent to the invested capital of the business, that is, the combination of the value of shareholders' equity, shareholders' loans and interest-bearing debt.

TECHNICAL REPORT

The Technical Report on Sun Materials dated 20 May 2011 was prepared by Arup. It provides estimates of manufacturing costs for Sun Materials to produce polysilicon and major cost parameters specified including cost of base materials, waste treatment expense, cost of consumables, cost of electricity, direct staff cost, facility and equipment maintenance and depreciation expenses. The Technical Report also discusses the worldwide polysilicon production capacity and utilization, and the manufacturing costs of global suppliers. A discussion with Arup has been conducted to understand the assumptions and conclusions of the Technical Report.

DESCRIPTION OF SUN MATERIALS

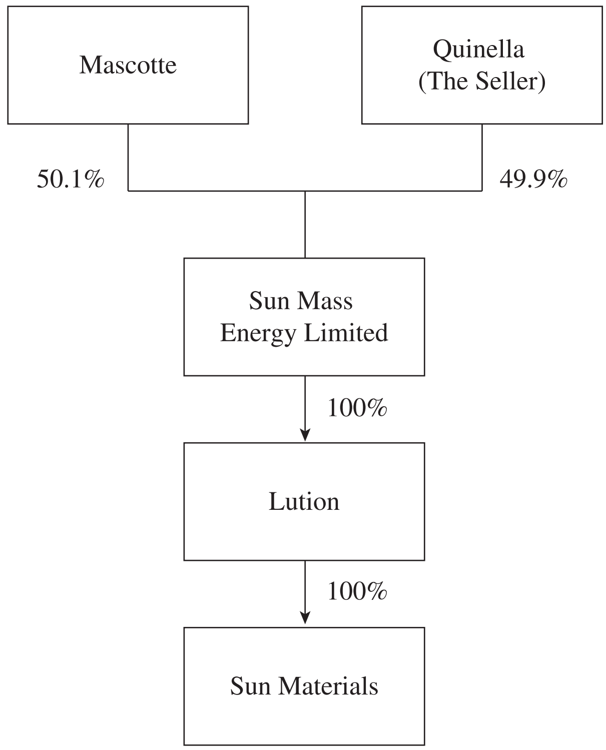
Sun Materials is a limited liability company incorporated in Taiwan in 2007 and its principal business is the manufacture of solar grade polysilicon. Sun Materials deploys a new and innovative technology ("**Core Technology**") developed by Dr Wu Yi-Shuen ("**Dr Wu**") and it patented in the USA, Europe, Japan, Taiwan and China the key production equipment for such technology, with a view to significantly reducing the plant production costs, production costs, production hazards and adverse environmental effects of manufacturing solar grade polysilicon. The patented production equipment is designed to enable the commercial production of solar grade polysilicon using such technology.

As far as the Management is aware, the technologies for manufacturing solar grade polysilicon in the market are the "Siemens" process, the FBR process, and the modified "Siemens" process, and these processes do not involve any technology that is similar to that Sun Materials will deploy in an industrial scale. The patented key production equipment is a crucial component of the production process for deploying this technology to manufacture solar grade polysilicon in an industrial scale. The Management is not aware of other means to deploy this technology for the same application in an industrial scale.

Sun Materials completed the construction of its first production plant in Yi-Lan County, Taiwan in October 2010 which has a design production capacity of up to 3,500 metric tons per annum. In November 2010, Sun Materials commenced trial production at the plant for the purposes of fulfilling the qualification requirements of its customers. It is expected that the commercial production of the first production factory by Sun Materials will commence in the second quarter of 2011.

The sole shareholder of Sun Materials was Lution International Holdings Co., Ltd. ("**Lution**"). Lution is now wholly owned by Sun Mass Energy Limited.

The shareholding structure after the Proposed Transaction is as follow:



INDUSTRY OVERVIEW

The last decade has seen photovoltaic (PV) technology emerging as a potentially major technology for power generation in the World. The robust and continuous growth experienced in the last ten years is expected to continue in the coming years. According to "Global Market Outlook for Photovoltaics until 2014" issued by European Photovoltaic Industry Association (EPIA) in March 2010, Europe is leading the way with almost 16 GW of installed capacity in 2009, representing about 70% of the World cumulative PV power installed at the end of 2009 while Japan (2.6 GW) and the US (1.6 GW) are following behind. China makes its entry into the top 10 of the World PV markets and is expected to become a major player in the coming years.

Currently there are two major cell technologies applied in the industry: crystalline silicon photovoltaic cells (c-Si) and thin film solar cells, where the later one has recently been introduced to the market place. A typical market share for c-Si-technology and thin film technology is 80% to 20% and the market is anticipated that market share ratio remains in the next five years to 2014.

A major base material for c-Si-cells is polysilicon which was an industry growth limiting bottleneck in 2009. This bottleneck is released in 2010 with the increase in worldwide production capacity increase and everyone expects that it stays released in the coming two to three years.

In 2008 worldwide, about 65,000 tons of polysilicon have been produced and the industry average sales price was about approximately 100 USD/kg with spot market prices up to 400 USD/kg. In 2010, the worldwide production capacity is anticipated to reach about 120,000 to 130,000 tons with a typical sales price of 50 to 60 USD/kg, with a spot price of about 69 USD/kg according to publication by Photon Consulting's Silicon Price Spot Index for October 2010.

SCOPE OF WORK AND MAJOR ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of Sun Materials, on-site inspections on April 22-23, 2010, August 26, 2010 and January 14, 2011, a study of the historical revenues and expenses, an analysis of the industry and competitive environment, a search of comparable companies, and review of transaction documents, operating statistics and other relevant documents. We have made reference on or reviewed the following major documents and data:

- Preliminary legal due-diligence report prepared by Lee and Li, Attorneys-at-Law issued on July 20, 2010;

- Technical Report prepared by Ove Arup & Partners Hong Kong Ltd;

- Sales and purchase agreement of the Proposed Transaction;

- Execution copies of polysilicon supply agreements between Sun Materials and its customers;

- Patents covering elements of the proposed process flow;

- Audited financial statements of Sun Materials for the four years ended December 31, 2010;

- Industry reports (including Global Market Outlook for Photovoltaics until 2014 issued by EPIA, Global PV installation forecast by IMS Research, Solar Photovoltaic Industry issued by Deutsche Bank);

- Prospective financial information of Sun Materials prepared by the Management for the period from 2011 to 2015; and

- Other relevant information.

Internally prepared financial statements, and other relevant information provided by the Management have been accepted without independent verification by us as correctly reflecting the results of operations and the financial condition of Sun Materials. As part of the valuation process, prospective financial information was utilized. All such prospective financial information was created and provided by the Management and represented as being management's best estimate of such future events. Our work does not constitute an examination, compilation or an agreed-upon procedures assignment as described in the AT sec. 301, "Financial Forecasts and Projections" (American Institute of Certificated Public Accountants, Professional Standards, AT sec. 301) or equivalent standards in other jurisdictions and also cannot be relied upon to discover errors, irregularities, or illegal acts.

Given the unproven technical and economic feasibility of Sun Materials' Core Technology in mass production scale assessed by Arup, our Valuation is limited to the search of comparable companies and transactions and deriving the value drivers of general market participants which are applied to the financial or other economic measures estimated by the Management. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of Sun Materials;
- the historical costs, current financial condition and prospective financial forecast of Sun Materials;
- the technical assessment of Sun Materials' Core Technology based on the Technical Report;
- the economic outlook and specific competitive environments affecting the polysilicon and solar energy industry;
- the legal and regulatory issues in general and other specific legal opinions relevant to Sun Materials;
- the transaction prices of comparable assets;
- the systematic and unsystematic risks of Sun Materials; and
- experience of Sun Materials' management team.

Due to the changing environments in which Sun Materials is operating, a number of assumptions have to be established in order to sufficiently support our concluded value. The following are principal assumptions adopted in this appraisal:

- there will be no major changes in the existing political, legal and economic conditions in Taiwan;
- industry trends and market conditions for polysilicon manufacturing industry will not deviate significantly from the current market expectation;
- the required rate of return devised from comparable data in an efficient market have reflected both existing competition and expected future competition;

- there will be no major changes in the current taxation law in Taiwan;
- the availability of finance will not be a constraint on the development growth of Sun Materials;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- Sun Materials will retain competent management, key personnel and technical staff to support their ongoing operations;
- manufacturing cost of polysilicon employing Sun Materials' Core Technology would be kept at approximately 20 USD/kg, which was extracted from the Technical Report;
- Sun Materials would adopt proper measures to improve product quality and maintain production efficiency; and
- Sun Materials can secure revenue by entering into long-term contracts with key PV industry players.

VALUATION METHODOLOGY OVERVIEW

In arriving at our opinion, we considered the cost approach, market approach and income approach.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised and to be replaced with similar functionality and process by other market participants.

Market approach is a technique used to estimate value from an analysis of actual transactions or offerings for economically comparable assets available as of the measurement date. The process is essentially that of comparison and correlation between the subject asset and similar assets recently sold or offered for sale in the market. The transaction or offering prices of the comparable assets are adjusted for dissimilarities in characteristics including location, age, time of sale, size, and utility, among others. The adjusted prices of the comparable assets are correlated to relevant economic benefits (or value drivers) and provide an indication of value for the subject asset in term of price multiples. The resulted price multiples are then applied to the corresponding economic benefits of the subject asset.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

In view of the stage of development of Sun Materials, the income approach is not appropriate given the high uncertainty on a long-term forward-looking financial forecast and underlying assumptions. Also, the innovation and uniqueness of the patented Core Technology owned by Sun Materials may not be necessarily replicated by other market players' research and development activities and, thus, the cost approach is not considered in this valuation. The market approach is adopted as the primary valuation method. The market approach may represent more objective view and more weight relatively under fair value measurement hierarchy but have the limitation in the case that those comparable companies or transactions may cover different regions in the world with different technology, scale of operation, market situation, growth potential, business or country risks and tax rate.

MARKET APPROACH

The Valuation was conducted primarily by the Guideline Company Method ("**GCM**") and also made reference to the Guideline Transaction Method ("**GTM**") under the market approach. GCM and GTM provided a range of values by relating the market values of publicly-traded comparable companies and transaction price to measures of their operating results and other value drivers. Such multiples were applied to the relevant parameters of the subject business being appraised. It is understood that Sun Materials' technology, production process and geographic location are different from the comparable companies and target companies/assets in comparable transactions. Despite such differences, the end product, namely polysilicon, is a commodity commonly used in the photovoltaic industry as a key component for the production of solar cells. It is also acknowledged that differences in technology applied and geographic location may affect the product's quality and manufacturing process efficiencies as well as manufacturing costs of business enterprises. However, these variances among business enterprises would eventually be reflected in the trading prices and economic measures such as EBITDA in the guildeline companies.

Guideline Company Method

Under the GCM, the financial ratios of comparable companies are analyzed to determine a value for the subject property. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject property. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter. We have identified and described below nine comparable companies which are operating in the polysilicon manufacturing industry:

1. Wacker Chemie AG manufactures various chemical products, including silicon wafers for semiconductor manufacturers.

2. Renewable Energy Corporation ASA develops a wide range of products for the solar energy market. The Company produces silicon materials for photovoltaic (PV) applications and multicrystalline wafers, as well as solar cells and modules.

3. Tokuyama Corporation produces inorganic and organic industrial chemicals, synthetic resins, cement, and construction materials. The Company's product lines include Portland cement, soda chemicals, and polysilicon.

4. Mitsubishi Materials Corporation manufactures and processes non-ferrous metals such as copper, zinc, lead, gold, and silver. The Company also produces other products such as cement, aluminum cans, silicon, fine chemicals, and electronic materials.

5. GCL-Poly Energy Holdings Limited is a Chinese power company that produces solar grade polysilicon and operates cogeneration plants and in China.

6. MEMC Electronic Materials, Inc. produces silicon wafers. The Company's products are used in computers, telecommunications equipment, automobiles, consumer electronics products, industrial automation and control systems, and analytical and defense systems.

7. Globe Specialty Metals, Inc. produces silicon metal and silicon-based alloys. The Company's products are used for the manufacture of a wide range of industrial products, including silicone compounds, aluminium, ductile iron, automotive parts, steel, photovoltaic solar cells and electronic semiconductors.

8. OCI Company Ltd. operates its business under three segments: basic chemical, chemical compound and other segments. Its basic chemical segment produces polysilicon, hydrogen peroxide and others used in semiconductor, paper manufacturing and textile industries. Its chemical compound segment produces carbon blacks used for tires and tubes, and toluenediisocyanate (TDI) products used in automobile, shoes and furniture industries. Its other segment produces zirconium silicate and chemical reagents used for analysis.

9. Daqo New Energy Corp. manufactures polysilicon. It markets its polysilicon to photovoltaic product manufacturers who process it into ingots, wafers, cells and modules for solar power products.

We collected the enterprise value ("**EV**") as of the Valuation Date from Bloomberg and the estimated 2012 earnings before interest, tax, depreciation and amortization expense ("**EBITDA**") of the comparable companies based on the market consensus from Bloomberg. EV is defined as market capitalization plus interest-bearing debt less cash plus non-controlling interest plus preferred stock. EV to EBITDA multiple is not affected by capital structure and is often chosen for valuation of capital intensive companies such as Sun Materials where the EBITDA is not affected by different depreciation policies adopted by comparable companies. As such, EBITDA is often regarded as an economic measure showing price discount and cost advantages or disadvantages due to different product or business mix engaged by business enterprise. According to the Management's estimation, the production plant of first module is expected to commence full operation by May 2011. Hence, the EBITDA estimated under the first 12 months of operation from April 2011 to March 2012 by the first factory of Sun Materials ("**First Year EBITDA**") is adopted.

The First Year EBITDA was furnished to us by the Management. The selling price adopted in calculating the First Year EBITDA was determined based on certain discount to the forecast spot price. During the period from April 1, 2011 to March 31, 2012, the forecast spot price ranged from US$65.00/Kg to US$67.75/Kg. Such forecast spot price was prepared based on the market spot price and the expected demand and supply based on experience of management. Based on the procedures described below, it was considered that the First Year EBITDA was prepared with due care and consideration. Apart from the procedures and work we set out in the section "Scope of Work and Major Assumptions" above, in particular, we have carried out the following in assessing the First Year EBITDA:

- Reviewed execution copies of polysilicon supply agreements and noted unit selling price were agreed between Sun Materials and its customers;

- Reviewed and relied on the Technical Report where unit manufacturing costs was assessed by Arup; and

- Held on-site inspections on April 22-23, 2010, August 26, 2010 and January 14, 2011 and noted that one reactor is in the adjacent laboratory facility for pilot operational testing and twenty-seven reactors are in the manufacturing building.

Ratios of EV to EBITDA of the above comparable companies are calculated and summarized below:

Guideline Companies	**EV to Estimated 2012 EBITDA**
Wacker Chemie AG	4.60
Renewable Energy Corporation ASA	5.21
Tokuyama Corporation	4.53
Mitsubishi Materials Corporation*	9.08
GCL-Poly Energy Holdings Limited	6.40
Memc Electronic Materials, Inc.	4.42
Globe Specialty Metals, Inc.	6.13
OCI Company Ltd.	5.87
Daqo New Energy Corp.*	3.06
Average	5.48
Median	5.21
Average (excluding outliers)	5.31
Range (excluding outliers)	4.42 – 6.40
Selected	5.00

* *As outliers*

Given the fact that the average and the median did not vary significantly from each other, and the high end and low end of the range of the multiples excluding outliers falls into a reasonable variance, the rounded median EV to EBITDA multiple of 5.0 times was selected. The selected multiple was then multiplied by the First Year EBITDA of USD72.2 million. Since Sun Materials is still in development stage as at the Valuation Date, the remaining committed capital investment to complete the construction of the first production plant of USD11.2 million, as estimated by the Management, was then subtracted from the multiplication product.

Additional Adjustments:

Control Premium

When valuing Sun Materials based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control in Sun Materials to be acquired in the Proposed Transaction. To estimate the control premium applicable to the Sun Materials, we obtained indications of control premiums from data on acquisition transactions in the Alternate Energy Industry as disclosed by The Mergemarket Group for the transactions completed within two years prior to the Valuation Date. As indicated by the market data, a rounded median of 25% control premium was selected considered to be appropriate.

Discount for Lack of Marketability

To reflect the relative non-liquidity of the privately held shares in Sun Materials as opposed to publicly traded corporation, and the fact that the Company was in an earlier stage of development and smaller size than the comparable companies, a discount of lack of marketability was applied to the shares in Sun Materials. Marketability varies from situation to situation. A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. A discount in the range of 10% to 30% is generally used in practice, depending upon the particular circumstances. In view of the early stage of development and smaller size than the comparable companies, the high end of generally adopted range of 30% was judgmentally adopted as the lack of marketability discount.

After considering control premium and discount for lack of marketability, the indicated business enterprise value of Sun Materials under the GCM was approximately USD306 million.

Sensitivity analysis

As part of our valuation, a sensitivity analysis of value indication arrived at using the GCM was performed. The sensitivity analysis provides a guidance as to the corresponding change in valuation given a change in valuation parameter. We have tested the sensitivity of the business enterprise value of Sun Materials to changes of the parameters of unit selling price and EBITDA multiples adopted. Unit selling price is one of the key factors in the calculation of the First Year EBITDA and trading multiple is another factor that affects the valuation conclusion. The inputs to the sensitivity analysis were set out below:

- Unit selling price – With reference to the historical market price fluctuations of polysilicon in 2009 and 2010 that ranged between 68 USD/kg and 49 USD/kg with an average of 55 USD/kg, the high end and low end of the range represented 24% and 11%, respectively, to the average, the sensitivity analysis was performed on a 20% increase in unit selling price ("**Higher Price**") and a 20% decrease in unit selling price ("**Lower Price**") on top of the unit price adopted for the First Year EBITDA ("**Base Price**"); and

- EBITDA multiples adopted – On top of the current EV to EBITDA multiple of 5.0 times adopted, the sensitivity analysis was performed on the high end of the range of EV to EBITDA multiple of 6.5 times and the low end of the range of 4.5 times, with the range of EV to EBITDA multiples excluding the outliers.

Result of sensitivity analysis is presented below:

100% business enterprise value using GCM (USD million)	**EBITDA multiples adopted**		
Unit selling price	6.5x	5.0x	4.5x
Higher Price	537	411	368
Base Price	401	306	274
Lower Price	373	285	256

The concluded business enterprise value of Sun Materials from GCM of USD 306 million represented a discount of 75% to the high end of the range of the sensitivity analysis result and a premium of 16% to the low end of the range.

Guideline Transaction Method

The guideline transaction method ("**GTM**") under the market approach was adopted as a cross-checking method. We identified six transactions in the polysilicon manufacturing industry with disclosed information on transaction price and production capacity by the searching of public filing and announcements of relevant companies, which were completed in the past three years prior to the Valuation Date.

The ratio of implied total equity value to its production capacity ("**Equity Value to Capacity Ratio**") was calculated for each of the transactions. The Equity Value to Capacity Ratio was selected because (i) no historical financial result of the Company was available and (ii) given the growing demand for alternate energy in the world, it was reasonably assumed that the economic benefit of a polysilicon manufacturer is proportional to the scale of its operation, which is reflected by the production capacity. For transactions in which the percentage sought were less than 50%, a control premium of 25%, as described in the section above, is added to arrive at the implied total equity value of the target companies. Since the dates of the comparable transactions were different from the Valuation Date, the commodity market fluctuated. In order to account for the changes in market condition and market prices of polysilicon and hence gross margins over the past three years, an adjustment is applied to the Equity Value to Capacity Ratio ("**Index Adjustment**"). It was reasonably assumed that the economic benefit of a typical industry player is proportional to its gross margin. The Index Adjustment is made based on the difference of historical silicon price minus unit production cost (i.e. gross margin) between the transaction completion date and the Valuation Date. The historical silicon price was referenced to those published by Bloomberg, source from Photon Consulting. Average unit production cost of polysilicon of a new industry player was assumed at a maximum of 32 USD/kg according to the Technical Report. With the Core Technology, Sun Materials' manufacturing costs was believed to be approximately 20 USD/kg as mentioned by the Technical Report. After taking into account the Index Adjustment, the median of Adjusted Equity Value to Capacity Ratios was approximately 48% lower than the median of unadjusted Equity Value to Capacity Ratios.

Key information of comparable transactions is summarized below:

Target Company	Completion Date	Transaction amount (USD Mn)/ % sought	Implied total equity value (USD Mn)	Capacity (tons per annum)	Equity Value to Capacity Ratio (USD per Kg per annum) (times)	Adjusted Equity Value to Capacity Ratio (USD per Kg per annum) (times)	Development stage
Solsil Inc.	Mar 3, 2008	72 (81%)	89	360	246	86	Reached annual capacity one year before completion *(note 1)*
Nitol Solar	Aug 18, 2008	100 (14%)	893	3,800	235	106	Produced its first industrial batch of polysilicon before completion
Hankook Silicon	May 28, 2009	24 (19%)	154	3,200	48	39	Not yet started commercial operation *(note 2)*
Woogjin Polysilicon	Jul 17, 2009	84 (35%)	303	5,000	61	49	Commenced construction of plant *(note 3)*
Jiangsu Zhongneng	Jul 31, 2009	3,400 (100%)	3,400	18,000	189	151	In operation *(note 4)*
Plant of LDK Solar	Nov 20, 2009	220 (15%)	1,831	10,000	183	146	Completed the first production run and initiated production ramp-up
				Average	160	96	
				Median	186	96	

Notes:

1. Solsil Inc. had announced an annual production capacity of 360 tons approximately one year before the transaction; however, it has yet to produce materials for commercial sale and its production capacity was only one-tenth of that of Sun Materials

2. Based on available public information, it was not clear about the construction status of production plant of Hankook Silicon Co. Ltd. ("Hankook Silicon").

3. Woogjin Polysilicon Co. Ltd. ("Woogjin Polysilicon"), was established in mid-2008 and it had commenced construction of plant approximately 6 months before the completion date of the transaction.

4. Jiangsu Zhongneng Polysilicon Technology Development Co., Ltd ("Jiangsu Zhongneng") was in operation at time of the transaction.

In terms of stage of development and size, Sun Materials has completed the construction of the first production plant in October 2010 and is expected to commence full operation by the end of May 2011, with an annual production capacity of 3,500 metric tons by the first production factory. Despite Sun Materials has not started the commercial production as at the Valuation Date, it is reasonable to believe the stage of development of Sun Materials is similar to the following targets of comparable transactions:

1. Nitol Solar Limited ("Nitol Solar") (106 times) – it produced the initial batches of polysilicon approximately three months before the transaction completion, and the test results were satisfied by the acquirer; however, full operation was not expected until more than one year after the completion. Nitol Solar has a bigger production capacity (3,800 tons per annum) than Sun Materials; and

2. Plant of LDK Solar Co., Ltd. ("LDK Solar") (146 times) – it had completed the first production run and initiated production ramp-up of operations approximately three months before the transaction completion. The plant has a bigger production capacity (10,000 tons per annum) than Sun Materials.

The equity value derived by deducting the net debt of Sun Materials of USD5 million from the business enterprise value concluded using GCM of USD306 million was USD301 million, which is equivalent to an Entity Value to Capacity Ratio for Sun Materials of 86 times. This equivalent ratio is lower than the ratios indicated by the transaction targets of Nitol Solar of 106 times and the plant of LDK Solar of 146 times, which are considered having similar stage of development but bigger size than Sun Materials. Hence, the valuation conclusion derived by the GCM is considered fairly supportable by these two comparable transactions.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal methods employed, it is our opinion that the fair value of the business enterprise of Sun Materials as of the Valuation Date was reasonably stated by the amount of UNITED STATES DOLLAR THREE HUNDRED AND SIX MILLION (USD306,000,000) ONLY.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We do not provide assurance on the achievability of any financial results estimated by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of Management.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Client, the Company or the value reported.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Ricky Lee
Senior Vice President and Director

Note: Mr. Lee has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over ten years and is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst.

The following is the text of the Technical Report prepared by the Technical Adviser for the purpose of inclusion in this circular.

1 EXECUTIVE SUMMARY

Ove Arup & Partners Hong Kong Ltd (ARUP) has been commissioned by Mascotte Holdings Limited (Mascotte) in Hong Kong to perform an independent review for the facility owned by Sun Materials Technology Co Ltd (SMT) in Yilan, Taiwan. The level of Arup's review on SMT is compatible with the provided information. This final report is based on further information obtained from Mascotte and SMT between April 2010 and February 2011.

The following is a brief summary of the key findings of the review:

(1) A new single storey factory with office and storage warehouse was shown by SMT on 22-23 April 2010 in Yilan, Taiwan. The construction of this factory building was completed in February 2010.

(2) Base building equipments and basic office fixture for a typical manufacturing facility has been installed and ready to use.

(3) An independent review of the technology, as claimed by the SMT, a new alternative polysilicon production process has been developed which is capable of producing solar grade Polysilicon of 6N~7N.

(4) Base on the current set up of the manufacturing facility and process equipments required, it is believed that the manufacturing cost of the polysilicon would less than 20 USD/kg, with the Author's estimate of 19.8USD/kg ~ approximately 25% less manufacturing costs compared to the current manufacturing costs of well established polysilicon producer in the market.

(5) A Process Flow Diagram has been provided by SMT for this new manufacturing process to provide a preliminary view of the new manufacturing process.

(6) Based on the high-level equipment diagram provided by SMT, the process equipment developed for the new manufacturing process is being fabricated in South Korea.

(7) An equipment supply contract of the SMT reactor has been provided to the Author for viewing however the manufacturing specification and performance specification of the process equipment have not been provided by SMT for view by the Author.

(8) Polysilicon production process equipment was not available in the factory during the site visit in April 2010. SMT reported that a total of 12 reactors manufactured and transported to the Yilan factory between 12 June to 3 July 2010 and the shipment of the remaining 16 reactors would be completed in July 2010. The installation of the supporting skid and other supporting utilities was in progress in July 2010.

(9) During the site visit by the author on 26 August 2010, one reactor (reactor no. 28) was shown by SMT in the adjacent laboratory facility in Yilan for pilot operational testing. Twenty-seven reactors and associated piping have been installed in the manufacturing building however trial production was not commenced at the time of the visit.

(10) An upscale and ramp-up of this process to mass production of 3,500 tons per annual production capacity was scheduled by SMT for commencing in early April 2011 and reaching full capacity by end of May 2011. For the proven technology, the ramp-up period for production may be longer than the plan by SMT to achieve the required quality. Therefore, for a completely new technology, the potential of extended period of ramp-up production to achieve the required quality cannot be entirely excluded.

(11) It is noted that SMT analytical measurement results in 2008 / 2009 are about one order of magnitude away from the specification that Tier 1 supplier supplies to the market in Year 2010. The test results are also one order of magnitude away from the SMT supply agreement specification which SMT has signed in May / June 2010. SMT has been in the process of up-scaling the production since September 2010.

(12) One additional test result dated 12 November 2010 was provided by SMT in February 2011. The test result has shown the improvement over the Year 2009 results. Consistency of product purity should be verified and further monitored to ensure convergence to the target product quality. At the time of issuing this report, there is a gap between quality performances of the trial product and the customers commitment.

(13) The scalability of process laboratory results in the United States to a large volume manufacturing process has not been demonstrated by SMT.

(14) The ramp up plan proposed by SMT is from early April to end of May 2011 to achieve the desired quality and full capacity. From the reviewer's experiences this timeline is very ambitious and the required actual time can be longer than SMT's current plan to achieve the target quality. It is also noted that the time required to achieve the desired quantity with compliance specification may be longer than SMT's current business plan assumption. (For details see Section 3.8.1 in this report).

(15) Evidence of customer acceptance of this new type of solar grade polysilicon product has been provided with three supply agreements.

(16) Customers off take agreements with reasonable/meaningful quantities in the market (i.e. quantities > 100 ton per annual) have been provided by SMT.

Year	Maximum committed quantities with signed framework agreement
2010/2011	2,500 tons
2012	5,000 tons
2013	6,000 tons
2014	7,000 tons
2015	8,000 tons

(17) Larger scale, material performance evaluation in the order of "**ton**" range and the direct impact on solar cell efficiency cannot be provided by SMT.

(18) In order to demonstrate solar cell efficiency impact and process stability it is recommended SMT to perform 10 crystallisation runs with 450 kg crucible charge size each with a total of more than 5 ton for product testing.

(19) If the proposed process works in mass production environment as projected by SMT is achieved, this would represent a major breakthrough for the entire polysilicon industry. However no functional process could be demonstrated at site for the mass production convincingly.

(20) The manufacturing costs including the energy costs (i.e. electricity bill), materials consumption and wastage should be closely monitored during the pilot production and the full production to verify the manufacturing cost assumed in the business model.

(21) The development of remaining on-site factories should be planned in detail such that the building construction time, equipment fabrication and manufacturing and installation time, and production ramp-up time are fully considered in the business model.

This report takes into account the particular instructions and requirements of our client. It is not intended for and should not be relied upon by any third party and no responsibility is undertaken to any third party.

2 BACKGROUND

2.1 General

Mascotte Holdings Limited is considering an acquisition of Sun Materials Technology Co Ltd 山陽科技股份有限公司 (SMT), a company based in Taiwan.

Ove Arup & Partners Hong Kong Limited (ARUP) has been engaged by Mascotte Holdings Limited to perform an independent project review of a 3,500 ton per annual (t.p.a) polysilicon manufacturing facility owned by Sun Materials Technology Co Ltd location in No. 15, Ligong 2nd Road, Wujie Township, Yilan County 26643, Taiwan R.O.C. 宜蘭縣五結鄉利工二路 15號 . SMT has planned to expand the production capacity to 21,000 t.p.a. with the construction of new production lines at Yilan, Taiwan R.O.C.

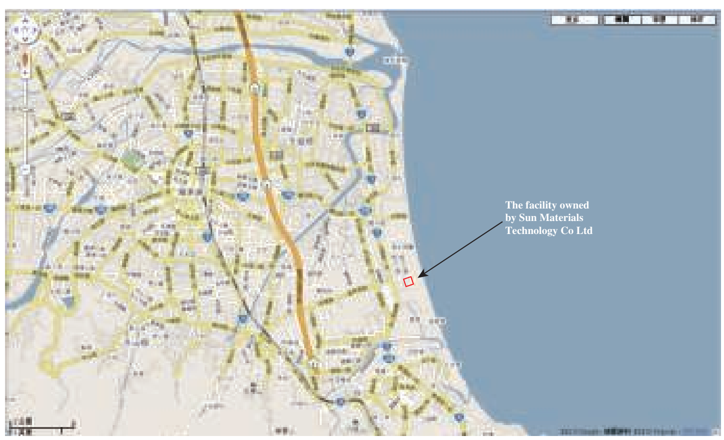


Figure 1 – Site Location

Mascotte Holdings Limited requested ARUP to undertake a review for the project with particular reference to the following areas of concerns:

- An appraisal of the project engineering documentation both in terms of content and completeness
- An appraisal of the project budget
- An appraisal of the project timing
- A independent view of the proposed project procurement and delivery strategy + resources
- An appraisal of any site-related issues observed and their relative importance in the context of overall project delivery

- Technology feasibility and manufacturing processes.

- A benchmarking appraisal of proposed primary processing equipment, both in terms of proposed cost and quality in comparison with similar international equipment provisions.

- An appraisal of the proposed potential manufacturing capacities and the likely ramp up time post-completion to attain projected capacities (where feasible)

The review has been based on available information and is therefore limited to that level of definition compatible with the available information.

The review was performed by ARUP and their specialist process sub-consultant "amocon GmbH" from Germany.

Initial design and project documentation was requested from SMT for the independent review.

Site Visit was performed between 22-23 April 2010 by Dr Albrecht Mozer (amocon) and Mr Gary Wong (ARUP). During the course of the visit meetings were held with the following personnel from SMT:

22 April 2010
Mr Paul Yang – Chief Operating Officer, SMT
Mr Wynn Zeng – Operations Director, SMT
Mr Bruce Chen – Financial Manager, SMT

23 April 2010
Dr Mark Wu – Chief Executive Officer / Chief Technical Officer, SMT.

A follow-up visit was performed by the author (Mr Gary Wong) on 26 August 2010 to gain an appreciation of the SMT equipment installation progress.

Information about the reviewer

Arup is the creative force at the heart of many of the world's most prominent projects in the built environment and across industry. From 90 offices in 35 countries our 10,000 planners, designers, engineers and consultants deliver innovative projects across the world. Through an extensive network of staff in East Asia Arup seamlessly combine local knowledge and insight with global expertise in the building, infrastructure and consulting industry covering Energy, resources and industry market, Property market, Social Infrastructure market and Transport market. Arup has prior experience in review related to photovoltaic industry.

amocon GmbH is an independent consulting company from Germany provide consulting services in relation to the Market Assessment, Advisory, Technology Assessment, Project Supervision, Material analysis for specific applications and Manufacturing Cost analysis in the photovoltaic industry.

2.2 Project Overview

The master plan of the proposed polysilicon manufacturing facility comprises six modules of polysilicon production building facility with total site area of about 84,053.73m^2. In the master plan, each building facility will be capable of producing 3,500 t.p.a. of polysilicon and therefore the projected full capacity (i.e. six complete production module = 6 x 3,500 t.p.a.) will be 21,000 t.p.a. at the facility in Yilan County, Taiwan.

The building shell for this first module is already completed by the end of February 2010. The building total floor area is about 9,715.91m^2. At the first step of starting the production, the production line with a target capacity of 3,500 t.p.a. was installed in the fall of 2010. According to the overall projection provided by SMT, the first production module is to plan to be operated by early April 2011 and full capacity operation by end of May 2011.

The building for the first module includes an office area, shop floors area, heavy equipment area, clean room (class 1000), storage warehouse, and utilities rooms such as transformer room, back-up generator, fire pump room, and AHU room, targeting for 24 hours production/operation.

The first production line does have an internal sub-structure of 7 sub-unit of 500 t.p.a. and therefore the total projected production capacity is 3,500 t.p.a. (see Figure 2). Each sub-unit with a capacity of 500 t.p.a. will be equipped with 4 newly developed combustion synthesis reactors with an annual production capacity of 125 t.p.a. (i.e. 417 kg per day assuming 300 working day per year) where the laboratory prototype reactor with an annual production capacity of 3 t.p.a. (i.e. 10 kg per day) has been seen, disassembled in the adjacent R&D facility at Yilan.

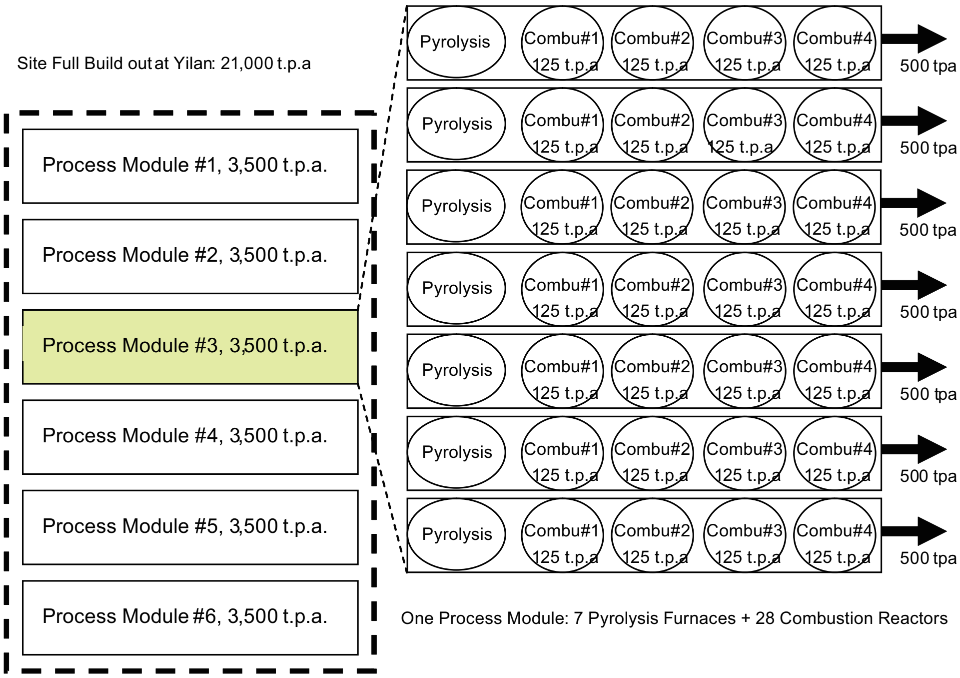


Figure 2: Site layout Master Plan and associated process module with internal sub-structure.

2.3 Polysilicon Industry Overview

2.3.1 Worldwide market background

Renewable energy and in particular photovoltaic energy is at the doorstep to play a major role as a part of the future for sustainable energy.

In 2008, about 6 GWp solar cell modules have been installed worldwide and in 2010 worldwide 8.5 GWp are anticipated. Typical annual growth rates of solar cell market are varying between 20-45 % p.a. over the last 8 to 10 years.

Currently there are two major cell technologies applied in the industry: crystalline silicon photovoltaic cells (c-Si) and thin film solar cells. The later one has recently been introduced to the market place. A typical market share for c-Si-technology and thin film technology is 80% to 20% and the market is anticipated that the market share ratio remains in the next 5 years to Year 2014.

Previously thin film technology was expected in the market place with a much more favourable manufacturing cost structure compared to crystalline solar technology. As of early Year 2010, the much lower cost of the polysilicon base material costs and the lower than anticipated thin film solar cell efficiency, crystalline technology is a preferred option by the final end customers and is right now gaining market shares in the short term.

A major raw material for c-Si-cells is polysilicon which was an industry growth limiting bottleneck in Year 2009. This bottleneck is released in Year 2010 with the increase in worldwide production capacity and everyone expects that it stays released in the coming 2 to 3 years.

Based on recent figures published by Photon Consulting in April 2011, the global production capacity of polysilicon in 2011 is around 180,000~200,000.t.p.a. while the demand/consumption is around 160,000 t.p.a. for micro-electronics and solar grade polysilicon. This represents a surplus of supply in the global market.

In Year 2008 worldwide about 65,000 tons of polysilicon have been produced and the industry average sales price was about approximately 100 USD/kg with spot market prices up to 400 USD/kg.

In Year 2010 the worldwide production capacity was anticipated to reach about 120,000 to 130,000 tons with a typical sales price of 50 to 60 USD/kg, with a spot price of about 53 USD/kg according to publication by Photon Consulting's Silicon Price Index for May 2010. As of May 2010, the photovoltaic industry is experiencing a polysilicon oversupply situation worldwide and as a result the polysilicon prices have dropped substantially in the last years. The market anticipated that this situation continues in the next 2 to 3 years.

Recently market analysis from Morgan Stanley and Deutsche Bank in 2010 indicate that the sell price of polysilicon in the market will be between 40-45 USD/kg in 2011.

With reference to the Silicon Price Index published by Photon Consulting in May 2011, the Contract Price which accounts for about 80%-90% of the polysilicon market, has dropped from 53 USD/kg in May 2010 to 47 USD/kg in May 2011. In contrast the Spot Price, which accounts for about 10%-20% of the polysilicon market, has raised from 54 USD/kg in May 2010 to 76 USD/kg in May 2011.

2.3.2 Global market suppliers

The worldwide polysilicon suppliers are grouped in the following three categories:

Categories	**Background**	**Companies**	**Manufacturing cost**
Tier 1	Traditional, established polysilicon suppliers	Hemlock Tokuyama Wacker MEMC REC/ASIMI	24 – 30 USD/kg
Tier 2	Advanced new comer	M.Setek DC Chemical (now OCI Company) GCL	32 – 37 USD/kg
Tier 3	New comer in the market		40 – 48 USD/kg

Currently 77% of the worldwide polysilicon production capacity is trichlorosilane (TCS) – "Siemens" type production technology (Fig 3) which was mainly developed between the Year 1955 and Year 1965.

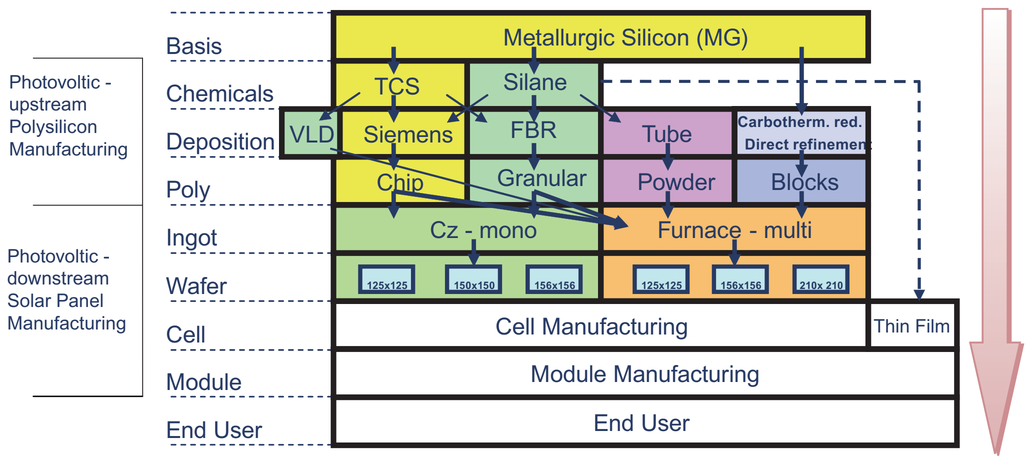


Figure 3: Today's established Polysilicon and Photovoltaic production processes

The above diagram shows the manufacturing chain for the Solar PV industry. In the PV supply chain, the manufacturing process start with Metallurgic Silicon as the basic materials. MG silicon is converted into TCS or Silane as the main chemicals for making polysilicon. The materials can be deposit in "Siemens"/Modified "Siemens" reactor to produce Chip type polysilicon or in the case of the FBR produce granular type polysilicon.

Through crystallization process, chip type or granular type polysilicon can be crystallized to form monocrystalline silicon ingot (Cz process) or multicrystalline silicon ingot (in a Furnace). Ingot will be cut into different size of wafer for subsequent cell manufacturing, module manufacturing and deliver to the end user.

The following figure 4 illustrates the current known major Polysilicon production processes and their respective worldwide production shares in percentage.

	"Siemens" Type Reactor		**Fluidized Bed Reactor**	
Input Gas TCS	Hemlock Tokuyama Wacker Chemie MEMC Merano Mitsubishi Sumitomo	(77%)	Wacker Chemie R&D Pilot	(<1%)
Input Gas MS	ASiMI (SGS/REC)	(15%)	MEMC Pasadena	(8%)

Figure 4: Major Polysilicon production processes and production shares

Global Supplies by end of 2010

The following table shows the global production capacities by end of 2010.

	Hemlock	Wacker	GCL	REC	OCI(1)	MEMC	Tokuyama
Production capacity by end of 2010 (metric tons)#	36,000	30,500	25,000	17,000	16,000	12,500	8,200
Market share	24%	20%	17%	11.5%	11%	8.5%	5.5%

figures based on company's web-site information.

(1) Previously known as DC Chemical cooperation.

Total production capacities in 2010 about ~130,000 Metric tons. Market share is ratio of the production capacity vs the global production capacity in 2010.

2.3.3 Technology

2.3.3.1 Existing Technology Overview

"Siemens" process

Process to manufacture high-purity silicon for the semiconductor or solar industry. It involves initially converting metallurgical silicon into trichlorosilane using gaseous hydrogen chloride. Following several distillation steps, the trichlorosilane is broken down thermally into silicon and chlorous gases through the addition of hydrogen in a so-called "CVD reactor". "CVD reactor" also known as the "Siemens" reactor. In this process high temperature polysilicon rods are put in a "Siemens" bell jar reactor with a cold water-chilled walls. Trichlorosilane (TCS) gas is passed over these rods. The silicon in the gas gets deposited on the rods. When the rods reach the required size, they are extracted. The end product is in the form of chunks or rods of polysilicon.

Modified "Siemens" Process

Process to manufacture high-purity silicon for the semiconductor or solar industry. It involves initially converting metallurgical silicon into silane. Following several distillation steps, the silane is broken down thermally into silicon and chlorous gases through the addition of hydrogen in a so-called "CVD reactor". "CVD reactor" also known as the "Siemens" reactor. In this process high temperature polysilicon rods are put in a "Siemens" bell jar reactor with a cold water-chilled walls. Silane gas (instead of TCS gas in the traditional "Siemens" Process) is passed over these rods. The silicon in the gas gets deposited on the rods. When the rods reach the required size, they are extracted. The end product is in the form of chunks or rods of polysilicon.

the FBR Process

A fluidized bed reactor (the FBR) is a type of reactor device that can be used to carry out a variety of multiphase chemical reactions. In this type of reactor, a fluid (gas or liquid) is passed through a granular solid material (usually a catalyst possibly shaped as tiny spheres) at high enough velocities to suspend the solid and cause it to behave as though it were a fluid. This process, known as fluidization, imparts many important advantages to the FBR. As a result, the fluidized bed reactor is now used in many industrial applications, such as the Photovoltic industry. Silane or Trichlorosilane is passed thru the FBR as a liquid. A solid is condensed under high velocity and energy in the FBR. The end product is in the form of granular polysilicon (instead of chunks or rods polysilicon produced from the "Siemens" type reactor).

2.3.3.2 Technology life

Advantage of "Siemens" Technology:

- Developed in 1955 till 1965
- Traditional Technology
- Well established in the Industry
- Very much cost optimised
- Lot of improvement measures are ongoing world wide
- High customer Market expense
- Many tuned process equipment for the product

Major disadvantages "Siemens" Technology:

- Large chemical chlorine industry required
- A batch process in contrary to a continues process.

Substitution for solar energy technology applications:

- Nothings which comes close to a mass production introduction
- Minimum 5 – 8 years till Market introduction.

SMT Technology:

- brand new
- no manufacturing experiences
- very limited market visibility
- larger scale cell efficient tests missing
- no track record

Worldwide Capacity and utilization (End of 2010)

- World wide Polysilicon Production capacity ~ 120 000 t.p.a.
- Microelectronic Polysilicon consumption ~ 25 000 t.p.a.
- Solar grade Polysilicon consumption ~ 75 000 t.p.a.
- Market Utilization: (75 000 + 25 000) / 120 000 = ~ 80 %

2.3.4 Polysilicon Product Classification

2.3.4.1 Definition

"electronic grade polysilicon"	polysilicon for applications in the microelectronic industry to produce, for example, integrated circuits. Electronic grade polysilicon's purity is about > 99.999999999% (i.e. 11N)
"solar grade polysilicon"	a type of polysilicon used for applications in the solar/photovoltaic industry to produce solar cells. Solar grade polysilicon's purity is about > 99.99999% (i.e. 7N-8N) for solar cells with lower cell efficiency and about > 99.999999% (i.e. 8N-9N) for high efficiency solar cells
"UMG grade silicon"	Upgraded Metallurgical Grade (UMG) Silicon, a type of silicon used for low efficiency solar cells, with a purity of typically about > 99.999% (i.e. 5-7N)

In general, the polysilicon with higher purity can be a substitute for polysilicon with lower purity. From a product quality perspective, electronic grade polysilicon can be a substitute for solar grade polysilicon materials, but in reality manufacturing costs/sells price is a major factor in considering such substitution.

With regard to the definition of polysilicon quality, a number of international standards have been published, such as SEMI M16-1110 Specification for Polycrystalline Silicon by the Semiconductor Equipment and Materials International in October 2010, JEITA EM-3601A Standard Specification for High Purity Polycrystalline Silicon by Standard of Japan Electronics and Information Technology Industries Association in September 2004, Chinese Standard GB/T 12963-2009 Specification for Polycrystalline silicon and GB/T 25074-2010 Solar-grade polycrystalline silicon, issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and Standardization Administration of the PRC, were implemented on 1st June 2010 and 1st April 2011 respectively.

It is worth noting that the GB 12963 Specification for Polycrystalline Silicon 2009 version has essentially no major change over the 1996 version. The Japanese JEITA EM-3601A was also published in 2004. In the photovoltaic industry, the purity of Microelectronic grade materials has improved one order of magnitude every three years in parallel to the design rules of the devices. Similar trend is observed in the photovoltaic industry but on a reduced speed, about 2 orders of magnitude in the last 10 years.

	Unit	GB 25075-2010 Solar Grade Grade 1	Grade 2	Grade 3	SEMI M16-1110 / JEITA EM-3601A Chunk	Granular	Tier 1 Supplier
N-Type Resistivity	Ohmcm	>100	>40	>20			
Donor	ppba	<1.5	<3.76	<7.74		<0.4	<0.3
Phosphorus	ppba				<0.3		
		9N		8N			
P-Type Resistivity	Ohmcm	>500	>200	>100			
Acceptor						<0.1	<0.1
Boron	ppba	<0.5	<1.3	<2.7	<0.05		
		10N		9N			
Oxygen	Atoms /cm^3	$<1\times10^{17}$	$<1\times10^{17}$	$<1.5\times10^{17}$			
	ppma	<2	<2	<3			
Carbon	Atoms /cm^3	$<2.5\times10^{16}$	$<4\times10^{16}$	$<4.5\times10^{16}$			
	ppma	<0.5	<0.8	<0.9	<0.3	<0.3	<0.25
Carrier Lifetime	µsec	>100	>50	>30			
Heavy Metal	ppbw	<50	<100	<200	<13	<13	<2

	Unit	GB 12963-2009 Polysilicon Standard Grade 1	Grade 2	Grade 3
N-Type Resistivity	Ohmcm	>500	>300	>200
P-Type Resistivity	Ohmcm	>3000	>2000	>1000
Carbon	At/cm^3	$<1.5\times10^{16}$	$<2\times10^{16}$	$<2\times10^{16}$
	ppma	<0.3	<0.4	<0.4
Carrier Lifetime	µsec	>500	>300	>100

Solar Grade Polysilicon: 99.99999% ~ 99.9999999% = 7N ~ 9N = 100 ~ 1 ppba

Microelectronic Polysilicon: 99.9999999% ~ 99.999999999% = 9N ~ 11N = 1 ~ 0.01 ppba

2.3.4.2 Solar Grade

Polysilicon solar product quality is varying between 99.99999% purity (7N) to 99.9999999% (9N) where the later one is somehow getting the standard purity set in the solar/photovoltaic industry (Fig 5). The solar cell efficiency (efficiency to converting sun light into electricity) is strongly depending on the purity of the base material polysilicon.

2.3.4.3 Electronic Grade

Polysilicon microelectronic product quality (Fig.5), applied in the microelectronic Industry which is using the same polysilicon, is specified with about 99.999999999% purity (11N).

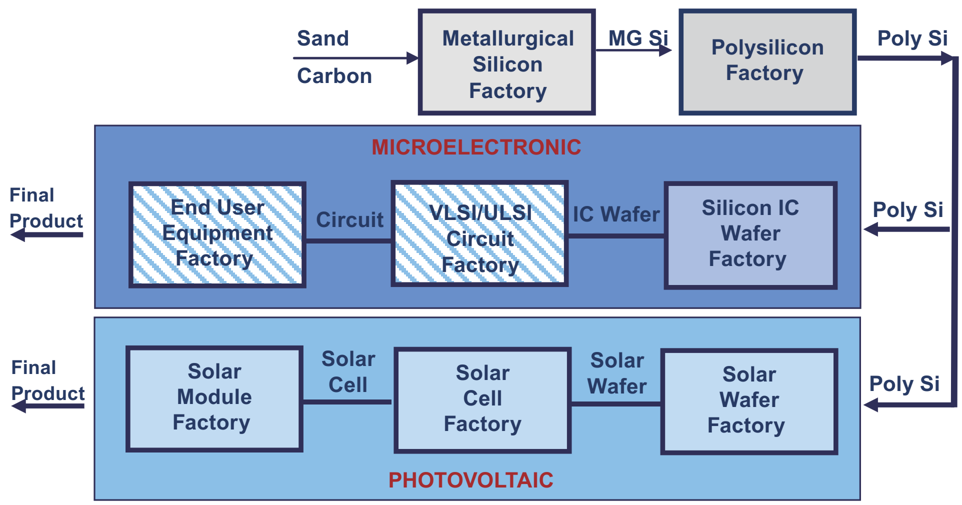


Figure 5: Full manufacturing value chains for Photovoltaic industries as well as Microelectronic industries.

2.3.4.4 Industrial typical polysilicon purity specification

The table below has summarised the current industrial typical polysilicon purity specification for microelectronic and solar grade application

	Unit	Electronic Grade	Solar Grade
Acceptors/Donors			
B (Acceptors)	ppba	<0.03	<0.1
P, As (Donors)	ppba	<0.1	<1
Carbon	ppma	<0.1	<1
Total Heavy Bulk Metals	ppbw	<0.5	<15

3 FINDINGS

The following is a summary of the main findings associated with each of the key areas that Mascotte required to be addressed.

3.1 Project engineering documentation

The following was provided by SMT for the phase one of the project during the visit in April 2010:

- Building Ownership issued by LuoDong Township Land Administration Office dated 15 January 2010 showing SMT possess the ownership of the buildings.

- Lease document issued by the Economic Department of R.O.C. dated 16 May 2007 between SMT and the Economic Department of R.O.C. was provided. The document shows a signed 20 years lease of 8 lots with lot number Letzer Industrial Zone LiGong Section Lot 186-46 to 186-53, from 16 May 2007 to 15 May 2027. The total site area is 84,053.73m^2.

- Site Boundary plan was provided by SMT

- Site Investigation Report issued in October 2008 for Ground Investigation on the footprint of the existing building was provided by SMT. The site is composed of brownish silty sand to approx 12m below ground overlaying greyish silty sand.

- The building has been designed in accordance with the Seismic design regulation for the Yilan Wujie Township area.

- Waste water discharge tank with flow meter and sampling hole have been adopted by SMT for discharge to the city main

- Correspondence dated 25 September 2009 issued by the Environmental Protection Department of the Yilan Township Government stated that this project is exempted from Environmental Impact Assessment, as this is located in the industrial zone and therefore an Environmental Impact assessment was not provided by SMT.

- High level process flow diagram of the alternative process was provided by SMT

- Building Works Contract

  – Contract between SMT and 利晉工程股份有限公司 was noted by the reviewer.

  – Total Gross Floor Area: 9,715.91m^2.

  – Building Footprint is 6771.14m^2.

  – Cost of main building works TWD 234,300,000.00 (equivalent to USD 7,321,875)

  – Cost of Office Fitting out works TWD 260,000.00 (equivalent to USD 8,125)

  – Construction Completion Certificate issued by SMT dated 31 March 2010.

- Building MEP Equipment Contract

  – Contract between SMT and 英建工程股份有限公司 dated 15 May 2009 was noted by the reviewer which including transformer, generator, and chillers.

  – Installation Completion Certificate issued by SMT dated 31 March 2010 was noted by the reviewer.

- Acceptance of connection to sewer drains from the industrial zone dated 9 December 2009 which is based on the following:

  – Raw Materials Input: Na_2SiF_6 2000 Kg, SiO_2 100 Kg, Pure Water 200 kg

  – Product: Polysilicon 400 kg

  – Maximum Waste Water discharge ~ 10m^3 per day

- Typical floor loading of the shop floor is 10kPa, warehouse area is 17kPa, office typically 10kPa and approximately 232m^2 is allocated office.

3.2 Project Budget

Based on the construction contract including the base building construction and the building services contract, the following budget/actual expenditure was noted from SMT.

Building Construction	TWD 321,640,370 (Actual) (Equivalent to USD10.05 Million)
Production Equipment	USD12 Million (budget)
Auxiliary Equipments	USD6 Million (budget)
Utility Equipments	USD4 Million (budget)
Recycle Equipment	USD8 Million (Budget)
Design and Management	Not provided by SMT but assume to be 5% of total
Estimate Total Budget	**USD41.6 Million**

Remarks: Assume 1 TWD = 0.03USD

Further details of the company's expenditure and costs of equipment shall refer to the Financial Statement/Auditor's report.

3.3 Project Time Schedule

3.3.1 Building Construction

The building construction was planned from 15 May 2009 to 31 October 2009 with actual construction period from 15 May 2009 to 28 Feb 2010. An actual 4 months delay was incurred from the initial 5.5 months planned programme under the main contract partly due to re-work on the workshop flooring.

3.3.2 Production Equipment Installation:

SMT advised that the process equipments were installed in Q3 of 2010. A high level timeline indicated by SMT that the initial installation of seven production sub-units of 500 t.p.a. were commenced on 15 June 2010 and was completed on 31 August 2010. Six months testing and commissioning have been assumed for trial run and ready for trial production by 4 April 2011.

3.3.3 Production Equipment Installation:

The recent updated planning of factory development by SMT includes early implementation and execution of the remaining 5 factories at Yilan, Taiwan and development of one potential off-site factory with larger production capacity of 18,000 t.p.a. In general terms, there will be a total of 6 factories on-site at Yilan and the planned capacity of each factory is 3,500 t.p.a. SMT also plan to build a potential off-site factory in China P.R.C. and the planned capacity is about 18,000 t.p.a.

SMT updated production capacity expansion are as follows:

Date	Number of factories	Number of reactors	Target production capacity (t.p.a.)
4 April 2011	1	1 x 4	500
30 April 2011	1	2 x 4	1,000
31 May 2011	1	7 x 4	3,500
30 April 2012	2	13 x 4	6,500
31 May 2012	4	23 x 4	11,500
30 June 2012	5	34 x 4	17,000
31 July 2012	6 + Off-site	42 x 4 + Off-site	21,000 on-site 6,725 off-site
31 August 2012	6 + Off-site	42 x 4 + Off-site	21,000 on-site 12,780 off-site
30 September 2012	6 + Off-site	42 x 4 + Off-site	21,000 on-site 18,000 off-site

3.4 Project procurement

- Construction Contract for the main building structure and base building MEP equipments have been provided.

- Major equipment supply contract for the SMT reactor – i.e. the key process equipments specifically designed for the alternative process has been provided for view, although technical specification or performance specification of the reactor was not included in the Contract.

- Major raw materials supply contracts were not available for review by the Reviewers.

3.5 Project delivery strategy

Detailed equipment delivery schedules in relation to the delivery of key process equipments have not been provided by SMT. Based on the observation, the existing factory appears to be a typical manufacturing type building in which the interface between the building and production process has not been considered in particular the absence of process layout.

Subject to the complexity of the production process, modification of the base building may be required between 1 month and 1 year (or more) depending on extent of the modification required for the installation and any need for additional buildings. In the absence of process equipment layout the extent of modification cannot be assessed.

3.6 Site-related issues

- Waste management plan is outstanding.
- Flooding Assessment is outstanding (the site is located near the eastern shoreline of Taiwan).

3.7 Processing Engineering Assessment

3.7.1 Process Basic Background

SMT claimed that an alternative process route to produce 6-7N polysilicon material has been developed with full manufacturing costs lower than the cost of traditional polysilicon manufacturing technology.

Figure 2 as shown in section 2.2 has been provided a high level layout of the process equipment which will be installed in the first Module. Further details of the arrangement of the equipment in relation to the building shop floor have not been provided by SMT.

A basic Process flow diagram implemented by SMT has been provided to the reviewer for reference to understand the alternative process. A total of 28 Combustion Reactors has been planned in the initial build-out.

The following table shows the product specification of the SMT's executed polysilicon supply agreement. According the latest Chinese Standard GB/T 25074-2010 effective on 1st April 2011, SMT's product specification would meet the Grade 1 standard in GB/T 25074-2010.

	Unit	Electronic Grade	Solar Grade	Tier 1 Supplier Spec.	GB/T 25074-2010 Grade 1	SMT Supply Agreement	JEITA/ SEMI
Acceptors/Donors							
B (Acceptors)	ppba	<0.03	<0.1	<0.1	<0.5	<0.15	<0.05
P, As (Donors)	ppba	<0.1	<1	<0.3	<1.5	<0.35	<0.3
Carbon	ppma	<0.1	<1	<0.25	<0.5	<0.25	<0.3
Total Heavy Bulk Metals	ppbw	<0.5	<15	<2	<50	<2	<5
N-Type Resistivity	Ohmcm				>100	100	
P-Type Resistivity	Ohmcm				>500	800	

It is obvious from the consideration of the different Standards and Specifications that the international Tier 1 Suppliers are closely aligned with the JEITA/SEMI International Standards for the Purity of the Material supplied to the Solar industry. Comparing with SMT supply agreement the committed target specification is closed to the product purity as defined in JEITA/SEMI. It is also obvious that the recently published Chinese GB/T standard in its final Version, various key elements are in the order to 5 to 10 more relaxed as compared with international purity Standards. As solar industry is progressing and purity requirements are getting tougher, it is very likely that the international purity standards will be applied.

As shown in the table below, two test results in 2008 and 2009 have been provided by SMT. The test result shows that the quality is below the specification of typical solar grade in the market, Tier 1 supplier and SMT's own supply agreement (signed). Testing result of Granular Silicon sample in Nov 2010 was provided by SMT. Product purity has not fully met the specification for Solar Grade Polysilicon and SMT's own supply agreement. Ongoing improvement in the single unit (reactor no. 28: Capacity 125 t.p.a.) in the adjacent R&D facility is required to meet the target specification.

Due to confidential requirement imposed by SMT, independent testing or testing by a third party laboratory has not been performed by SMT. The reviewer cannot comment on the reliability of the data as the test materials provided by Sun Materials as the reproduced product has not been verified or tested by any independent laboratory. SMT has provided a reasonable ICP-MS test on their trial product.

	Unit	SMT test values in 2008	SMT's value in Sept 2009	SMT's test results in Nov 2010	SMT Supply Agreement
Acceptors/Donors					
B (Acceptors)	ppba	~ 2	2	1.22	<0.15
P, As (Donors)	ppba	~ 2	2	0.8	<0.35
Carbon	ppma	~ 2	2	0.2	<0.25
Total Heavy Bulk Metals	ppbw	DNP	DNP	63.92	<2

* *DNP ~ did not provide*

It was noted that SMT analytical measurement results in 2008/2009 were about one order of magnitude away from the specification which Tier 1 supplier supplies to the market in 2010. The test results were also one order of magnitude away from the SMT supply Agreement specification which SMT has signed recently in May/June 2010. Recent test result in Nov 2010 has shown the improvement of product quality (i.e. purity) over the 2009 results. Based on the Nov 2010 data, the purity of Donors and Carbon have met the specification for GB/T 25074-2010 Solar Grade 1 however the purity of Acceptor and Heavy Bulk Metals are still close to one order away from the China Solar Grade 1 and SMT Supply agreement specification, and could meet the GB/T 25074-2010 Solar Grade 2 standard.

It has to be emphasised further that the solar cell efficiency is depending primarily on the purity of the polysilicon base material as well as on the process steps/parameters followed in the solar cell manufacturing. There are many additional impact parameters which determine the solar cell efficiency. The polysilicon of SMT shall be further tested to determine the solar cell efficiency.

The reviewer has conducted a desktop review of the test results provided by Sun Materials. The test data was benchmarked against the industry standard and the specification in Sun Materials committed supply agreement. Independent testing of the product or validation of the test data was not conducted by the reviewer.

3.7.2 Basic Technology Process Flow

In the first step of the SMT basic technology, this consists of several sub processes including pyrolysis furnace, electrocolysis, glow discharging, and combusting reaction. Basically, the pyrolysis is used to decompose sodium hexafluorosilicate (Na2SiF6) into sodium fluoride (NaF) and silicon fluoride (SiF4). Then, silicon fluoride and a product from the glow discharge are reacted at the SMT reactor to polysilicon and other by-products.

A second step has been planned by SMT that the by-product as stated above would react with other materials to produce sodium hexafluorosilicate, which form a closed loop configuration.

From the reviewer's point of view, the proposed basic technology is feasible in a laboratory scale. The reviewer is of the view that the manufacturing process is theoretically feasible with the equipment installed to achieve the desired product quality and product quantity.

3.7.3 Process Equipment

The Pyrolysis furnace and the Electrolysis unit are commercially available process units.

The Glow Discharge Unit and the Combustion Reactor are integrated into one Unit which is developed by Dr. Mark Wu in California, USA. There is a Patent application filed on Nov, 19, 2007 and published on May 26, 2009 by the European Patent Authority under the registration Number EP 2060 536 A1 (07 022 370.6) and under the Name of the Inventor Wu, Yi-Shuen (a.k.a Dr Mark Wu) and applicant SMT. The European Patent has been granted on July 21, 2010 under EP 2 060 536 B1.

SMT stated that the equipments manufacturing and installation was coordinated by their local supplier in Taiwan with the manufacturing of the equipments subcontracted to other vendors.

3.7.4 Raw Material Supply

In order to run the Process Production Line with an annual Polysilicon output of 3.500 t.p.a. The base material Na_2SiF_6 in total of 3,500 t.p.a. x 10 = 35,000 t.p.a. is required at Yilan Site. According to SMT, Na_2SiF_6 is a waste product of the fertilizer Industry. Based on the information disclosed by SMT this material is available from China and India in quantities up to 3,000,000 t.p.a. and therefore no supply constrains are anticipated. Raw materials supply contract has not been provided by the SMT. SMT stated that typical purchasing price is approximately 300 USD/ton.

Another raw material is required and can be produced at the Factory via Electrolysis. Commercial purchased of this raw material is in the range of 7,000 to 9,000 USD/ton depending on the requested purity.

3.7.5 Manufacturing Costs

The reviewer estimates that the manufacturing costs of SMT will be approximately USD19.8/kg. From the reviewer's point of view, manufacturing costs of less than 20 USD/kg can represent a **major breakthrough** for the entire solar industry, assuming the proposed equipments can achieve mass production using the alternative process. The reviewer's high level estimation of the manufacturing costs are based on as constructed manufacturing building and process equipment on site, the possible energy consumption and human resources as anticipated by SMT to operate the factory, and assuming a 10 years linear depreciation of the site investment. Please refer to page 19 for the manufacturing cost calculation.

The reviewer is of the view that the lower site investment costs is achievable due to the smaller scale of capital investment on the building construction costs and site area consumed. The reviewer is of the view that the manufacturing costs is theoretically achievable based on the current building and installed equipments. The additional costs to achieve the desired product quality cannot be entirely excluded.

Total Site Investment for 3,500 t.p.a. by SMT

Process Equipment	**Unit**	**Unit Price** *Million USD*	**Total** *Million USD*
Thermal Decomposition Unit: 5000 t.p.a = 0.6 t/h	1	1	1.0
Combustion reactor 125 t.p.a. + Power Supply#	4	1.5	6.0
Electrolysis: 130 t.p.a = 0.01 t/h	1	0.87	0.9
HF Waste Treatment Plant 1200 t.p.a = 0.15 t/h	1	0.2	0.2
DI Water Station 1,000 t.p.a. = 0.13 t/h	1	0.2	0.2
Process Equipment for 500 t.p.a. Poly Si			8.3
Process Equipment for 3,500 t.p.a. Poly Si (7*500 t.p.a.)			57.9
Buildings (incl modification if needed)			20
Utility/ Infrastructure (Electricity, Gas Supply etc)			5
Quality Measurement Laboratory			8
Final Product Handling + Shipment			5
Building-Infrastructure Investment 3,500 t.p.a.			38
Total Site Investment 3,500 t.p.a.			**95.9**

* *Details of the actual investment shall refer to SMT's financial statement/auditor's Report*

major cost different from SMT's cost model. The reviewer's figures are based on international equipments pricing for conservative manufacturing costs benchmarking purposes. As the plant is first of its kind to suit the new technology, reasonable assumption of potential additional cost to the current baseline to modify the facility has been assumed in the benchmark costs calculation.

Manufacturing Cost Calculation for 1 kg produced Silicon

Manufacturing Cost Calculation	**Cost** *USD/kg*
Depreciation, 10 Years Linear#	2.7
Base Material Na_2SiF_6#	3.0
Inert gases	2.0
Waste Treatment	0.8
Consumables, (Package Materials, Purer Chemicals, Clean Room,...)	2.4
Electricity 65 kWh/kg, 0.08 USD/kWh#	5.2
Human Resources, 90 Employees, 3 Shifts, 30/Shift, 50,000 USD/Emp	1.3
Facility & Equipment Maintenance: 5% of Invest	1.4
Not Specified yet	1.0
Manufacturing Cost USD/kg	**19.8**

* *The proposed manufacturing costs shall refer to SMT's financial/business model.*

major cost different from SMT's cost model due to different site investment costs, variation in base materials price and energy consumption.

The reviewer is impressed that the cost model calculation submitted by SMT is of theoretical nature, since important elements such as facility maintenance, consumable etc are not considered in the analysis.

In the above site investment and manufacturing cost analysis, the cost data benchmarked the building and process equipment costs against International/European standard. In addition an investment life cycle costs of 10-years has been considered in the building related cost.

3.8 Manufacturing capacities and ramp up

3.8.1 Production ramp-up

Production ramp-up schedule provided by SMT includes the ramp-up from laboratory scale of 3 t.p.a. to full mass production of 3,500 t.p.a. for the first production line (28 nos. of reactor x 125 t.p.a of each reactor).

Based on the ramp-up schedule by SMT in Feb 2011, the ramp-up plan is to operate 8 reactors by end of April 2011 and the full 28 reactors by end of May 2011. Ramp-up of product quality in full-scale production shall meet the product specification.

SMT reported that the first pilot run of has been completed in the first week of April and further refinement and improvement has been on-going in April 2011 in order to improve the product quality. SMT further reported that the actual progress is still in line with the ramp-up schedule.

Based on the current status of the project it appears that timely completion of the subsequent factories beyond 2011 will require significant project management and resources attention to meet the tight schedule since the construction of these factories has not been commenced.

From the reviewer's experiences this timeline is very ambitious and the actual time required can be longer than SMT's current plan to achieve the target quality. It is also noted that the time required to achieve the desired quantity with compliance specification may be longer than SMT's current business plan assumption.

Typically, the first pilot run of a well defined/well established technology will be commenced after 6 months from the final delivery of the key process equipment. Discounting the alteration/modification works will also be required on the base building, which may require another 6 months, to receive the process equipment and resolve interface issues.

SMT has focused on the past 6 months since September 2010 to improve the quality of the product in a large scale reactor (125 t.p.a.).

Typically, the ramp-up period for a proven process would be around 4 to 6 months. Given that the laboratory scale tested sample is one order of magnitude away from the acceptance criteria stated in the SMT supply agreement specification. It is anticipated that the ramp-up period may likely to be longer than the current planned target to meet the product specification. The actually time period required could not be forecasted because of this "unproven but potentially breakthrough" technology. A management decision by SMT is anticipated by then on the priority of quality and quantity, which will then affect the production capacity and adversely affect the attractive cost model.

3.8.2 Committed Take-off Agreement

Three customers off take agreements have been provided by SMT, which showing that maximum quantities can potentially be placed by each buyer is over 100 t.p.a. This represented reasonable/meaningful quantities in the market. The sales quantities and sales price of each contract are summarised below:

Year	**Maximum committed quantities with signed framework agreement**
2010/2011	2,500 tons
2012	5,000 tons
2013	6,000 tons
2014	7,000 tons
2015	8,000 tons

3.9 Factory Management

3.9.1 Management

During the site visit, the existing management of the facility consists of the following:

- 1 x President
- 1 x General Manager
- 1.x Chief Technology Officer
- 1 x Chief Operating Officer
- 1 x Procurement
- 1 x Accounting/Finance Manger
- 3 x General Operations
- 2 x R&D
- 4 x Technician
- 2 x Office Assistants

An organisation chart of the company was provided.

3.9.2 Safety

Mr Wu Yat Shang and Mr Wynn Zeng (Operations Director) have attended safety training for "loading over 1-ton mechanical operator" certificate provided by the local Yilan labour education association. Basic safety training was also attended by Mr Wu Chin Wei.

A SMT general safety regulation was provided but specific attention to the chemical involved in the manufacturing process was not provided.

SMT reported that central monitoring station and system and multistage scrubber have been installed recently in 2011 to improve safety concern.

3.10 Intellectual Property Status

The key process equipment is an in-house development of by Dr Wu in California, USA. There is a Patent application filed on Nov, 19, 2007 and published on May 26, 2009 by the European Patent Authority under the registration Number EP 2 060 536 A1 (application no. 07 022 370.6) and under the Name of the Inventor Wu, Yi-Shuen (a.k.a. Dr Mark Wu), and Applicant SMT. The European Patent no. EP 2 060 536 B1 has been granted on 21 July 2010. Another Patent application no. 11/984,120 was filed on Nov 14, 2007 and US Patent No. US 7,704,466 B2 was also granted on Apr 27, 2010 under the inventor Yi-Shuen Wu and assigned to SMT. This situation gives confidence that the major, new innovative process step is covered and IP protected.

There are a couple of Patents in the USA (US 2010/0061911 A1 or US 2010/00080902 A1, or 5,110,531), European (0-087 732 or 0 424 981 A1), Japan (Patent No. 4390819 dated 16 October 2009), and Taiwan (Patent No. I 312301 dated 21 July 2009), China (Patent No ZL 2007 1 0090400.6 dated 13 Oct 2010) which are covering elements of the proposed SMT process flow and a Patent infringement situation can not entirely excluded. A professional Intellectual Property Analysis is recommended considering the full-proposed process flow.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. SHARE CAPITAL

The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date was as follows:

HK$230,477,895	Shares: 2,304,778,952

The authorised and issued and fully paid up share capital of the Company upon the increase of authorised share capital and the issue of the Placing Shares and Conversion Shares will be as follows:

Authorised:

HK$2,000,000,000		Shares: 20,000,000,000

Issued and fully paid:

HK$230,477,895	Shares	Shares: 2,304,778,952
HK$500,000,000	Placing Shares *(Note 1)*	Shares: 5,000,000,000
HK$400,000,000	Conversion Shares *(Note 2)*	Shares: 4,000,000,000
HK$1,130,477,895		Shares: 11,304,778,952

Notes:

(1) assuming that HK$2,000,000,000 will be raised by the placing of Placing Shares and the Placing Price is HK$0.40, 5,000,000,000 Placing Shares will be issued pursuant to the Placing.

(2) assuming that Convertible Bonds in the aggregate principal amount of HK$2,000,000,000 are issued pursuant to the Placing, 4,000,000,000 Conversion Shares will be issued upon full conversion of the Convertible Bonds at the indicative Initial Conversion Price of HK$0.50.

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Placing Shares and the Conversion Shares to be allotted and issued upon conversion of the Convertible Bonds will, when issued and fully paid, rank pari passu in all respects with the Shares then in issue on the relevant date of allotment and issue.

As at the Latest Practicable Date, the Company has outstanding share options under the Company's share option scheme adopted on 21 August 2003, which entitle their holders to subscribe for an aggregate of 625,000 Shares. Save as aforesaid, the Company has no outstanding convertible securities, options or warrants in issue which entitle its holders to subscribe for or convert into any Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' Interests in Shares

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company has or is deemed to have any interests or short positions in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Long positions in Shares of the Company

Name of Director	Total number of Shares	Capacity in which interests are held	% of the issued share capital of the Company
Peter Temple Whitelam	1,250,000	Personal	0.05%
Lo Yuen Wa Peter	2,500,000	Personal	0.11%

As at the Latest Practicable Date, none of the Directors holds any option to subscribe for Shares.

(b) Substantial Shareholders

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, 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 Group, or, had any options in respect of such capital were as follows:

(i) Long Position

Name of substantial Shareholder	Interest or short position in the Shares or underlying Shares	Capacity in which interests are held	Approximately shareholding % in the Company
Willie International Holdings Limited *(Note 1)*	135,697,500	Interest of a controlled corporation	5.89%
Willie Resources Incorporated *(Note 1)*	135,697,500	Interest of a controlled corporation	5.89%
Rawcliffe International Limited *(Note 1)*	135,697,500	Interest of a controlled corporation	5.89%
Nice Hill International Limited *(Note 1)*	135,697,500	Interest of a controlled corporation	5.89%
Pearl Decade Limited *(Note 1)*	135,697,500	Beneficial owner	5.89%
Samuel Yang *(Note 2)*	354,100,608	Interest of a controlled corporation	15.36%
Improve Forever Investments Limited *(Note 2)*	354,100,608	Beneficial owner	15.36%

Notes:

(1) Willie International Holdings Limited (Stock Code: 273), a company listed on the Stock Exchange is interested in the share capital of the Company indirectly through its direct wholly owned subsidiary Willie Resources Incorporated and its indirectly wholly owned subsidiaries, Rawcliffe International Limited, Nice Hill International Limited and Pearl Decade Limited.

(2) Samuel Yang is the ultimate beneficial owner of 100% of Improve Forever Investments Limited.

(ii) Interest in members of the Group

Name of shareholder	Name of group company	Percentage of registered capital of group company
惠州市益發光學有限公司	Mascotte Zhi Hao Photographic Equipment (Hui Zhou) Co., Ltd	10%
Dongguan City Qiao Guang Industrial Group Company	Dongguan Tak Ya Leather Goods Manufactory Limited	23.1%

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of the Acquisition.

5. COMPETING BUSINESS INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any other business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Enlarged Group since 31 March 2010 (being the date to which the latest published audited accounts of the Company were made up).

7. INTEREST IN CONTRACTS AND ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group, which was subsisting and was significant in relation to the business of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, being the date to which the latest published audited financial statements of the Company were made up.

9. EXPERTS

The following are the qualifications of the experts who have given their respective opinion or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Ove Arup and Partners Hong Kong Limited	Professional Engineers and Consultants
American Appraisal China Limited	Independent Valuer

Each of the above experts has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letter and reference to its respective names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts has (i) any shareholding in the Company or any of its subsidiaries, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries, and (ii) any interest, either direct or indirect, in any assets which, since 31 March 2010 (the date to which the latest audited financial statements of the Group was made up), had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other members of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

11. MATERIAL CONTRACTS

11.1 The following material contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by members of the Enlarged Group within two years immediately preceding the date of this circular:

(a) A share purchase agreement dated 12 May 2009 between Marvel Century Limited, a wholly owned subsidiary of the Company and Popovic Investments Limited, an indirect wholly-owned subsidiary of Willie International Holdings Limited

(b) A deed of assignment entered into on 3 August 2009 between the Company and Wellsmart Limited

(c) A placing agreement which was entered into between the Company and Chung Nam Securities Limited dated 8 March 2010

(d) A conditional agreement dated 9 April 2010 between the Company and Regent Square Limited in relation to the sale and purchase of shares in Richful Zone International Limited, a direct wholly-owned subsidiary of the Company

(e) Preliminary Agreement

(f) Supplemental agreements between the Company and the Seller dated 15 September 2010 and 29 October 2010 in relation to the extension of the longstop date for Preliminary Agreement

(g) Sale and Purchase Agreement

(h) Call Option Agreement

(i) Strategic Cooperation Agreement

(j) Placing Agreement

(k) Subscription Agreement

(l) Supplemental Agreement dated 11 February 2011 and 30 March 2011

(m) Facility Agreement

11.2 As advised by the Seller, the following material contracts, not being contracts entered into in the ordinary course of business of the Target Group, have been entered into by the Target Group Companies within two years immediately preceding the date of this circular:

(a) Strategic Cooperation Agreement

(b) Facility Agreement

(c) A loan agreement dated 20 August 2010 between the Seller, the Target, Chang Wen-Shan, Dr Wu, Ms Hsieh, Chang Karin Wen, Wu Kwong Shi-Hung and Chung Nam Finance Limited

(d) Stock transfer agreements dated 25 January 2011 between the Target and each of Dr Wu, Ms Hsieh, Chang Wen-Shan (張文山), Yang Chun (楊仲), Chang Zan (張讓), Chen Nan-Eu (陳南宇), Tseng Wen Sheng (曾文賢), Chen Su-Huei (陳淑惠), Wang Yi-Shang (王奕軒), Wu Cheng Wei (吳政衛), Wu Yeng Yi (巫衍儀), Wu Yi Cheng (吳逸誠), Kuang Hon-Si (鄺熹虹) and Chang Ching Wen (張瀞文) (collectively, the "**Sellers**") in relation to the transfer of an aggregate of 50,000,000 shares of Lution held by the Sellers to the Target

12. GENERAL

(a) The company secretary of the Company is Mr. Suen Yick Lun Philip. He is a member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered address of the Company is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

(c) The principal place of business of the Company in Hong Kong is at 1st Floor, Po Chai Industrial building, 28 Wong Chuk Hang Road, Aberdeen, Hong Kong.

(d) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The principal share registrar of the Company is Butterfield Fulcrum Group (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.

(f) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection 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 during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including 3 June 2011:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for the two financial years ended 31 March 2010;

(c) the unaudited pro forma financial information on the Enlarged Group, the text of which are as set out in Appendix III to this circular;

(d) the Business Valuation Report prepared by the Valuer, the texts of which are set out in Appendix V to this circular;

(e) the Technical Report on the Target prepared by the Technical Adviser in this Appendix VI;

(f) the written consents as referred to in the paragraph headed "Experts" in this appendix;

(g) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix; and

(h) this circular.

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 (the "**Meeting**") of the shareholders of Mascotte Holdings Limited (the "**Company**") will be held at Hong Kong is at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong on 7 June 2011 at 9:00 a.m. to consider and if, thought fit, to pass the following resolutions which will be proposed as Ordinary Resolutions:

ORDINARY RESOLUTION (1)

"**THAT**

(a) the sale and purchase agreement which was entered into between Quinella International Incorporated, the Company, Hsieh Cheng Lu and Wu Yi-Shuen in relation to the acquisition of 50.1% of the issued shares of Sun Mass Energy Limited (formerly known as Trifecta International Incorporated) on 31 December 2010 (the "**Sale and Purchase Agreement**"), a copy of which has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification, and all transactions contemplated under the Sale and Purchase Agreement, including but not limited to the Acquisition (the "Acquisition" as defined in the circular of the Company dated 20 May 2011 of which this notice forms part (the "**Circular**")) in accordance with the terms and subject to the conditions set out in the Sale and Purchase Agreement be and are hereby approved, ratified and confirmed; and

(b) any one of the directors of the Company (the "**Directors**") be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in his opinion to implement and/or give effect to the transactions contemplated by the Sale and Purchase Agreement including, but not limited to, the Acquisition, the grant of the Call Option (as defined in the Circular), the Shareholders' Agreement (as defined in the Circular) and the facility contemplated thereunder, executing all other documents, instruments and agreements and doing all such acts and things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Sale and Purchase Agreement or agree to such amendments of the same as are in the opinion of such Director not of a material nature and in the interests of the Company."

ORDINARY RESOLUTION (2)

"**THAT** conditional upon the completion of the Sale and Purchase Agreement in accordance with its terms (the "**Completion**"), the Board be and is hereby authorised to appoint Wu Yi-Shuen (吳以舜), also known as Mark Wu, as an executive Director and to fix his remuneration."

ORDINARY RESOLUTION (3)

"**THAT** conditional on ordinary resolution numbered (1) in this notice of special general meeting being duly passed as an ordinary resolution of the Company,

(a) the authorised share capital of the Company be increased from HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each (each a "**Share**") to HK$2,000,000,000 divided into 20,000,000,000 Shares of HK$0.10 each by the creation of an additional 10,000,000,000 Shares of HK$0.10 each ranking pari passu with the existing ordinary shares of the Company; and

(b) any one of the Directors be and is hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in his opinion to implement and/or to give effect to the increase in authorised share capital of the Company."

ORDINARY RESOLUTION (4)

"**THAT** conditional on ordinary resolutions numbered (1) and (3) in this notice of special general meeting being duly passed as ordinary resolutions of the Company,

(a) the placing agreement which was entered into between the Company and Deutsche Bank AG, Hong Kong Branch on 17 January 2011 for the conditional placing of the Placing Shares (as defined in the Circular) and the Convertible Bonds (as defined in the Circular) as varied and supplemented by the supplemental agreements entered into between the Company and Deutsche Bank AG, Hong Kong Branch of 11 February 2011 and 30 March 2011 (the "**Placing Agreement**"), a copy of which has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification, and all transactions contemplated under the Placing Agreement and the Bond Documents (as defined in the Circular) in accordance with the terms and subject to the conditions set out in the Placing Agreement and the Bond Documents, be and are hereby approved, ratified and confirmed;

(b) the Directors be and are hereby authorised to enter into the Bond Documents on such terms as are in the opinion of the Directors to be in the interests of the Company, and to allot and issue the Placing Shares, the Convertible Bonds and the Conversion Shares (as defined in the Circular) subject to the following:

    (i) the aggregate maximum number of Placing Shares and Conversion Shares which can be allotted and issued shall be 9,550,000,000 Shares;

(ii) any allotment and issue of Placing Shares and Conversion Shares shall be made on the terms and subject to the conditions of the Placing Agreement and the Bond Documents and such other terms and conditions as the Directors (or a duly authorised committee thereof) consider to be appropriate and in the best interests of the Company;

(iii) the Placing Price and the Initial Conversion Price shall not be lower than HK$0.40 and HK$0.44 respectively;

(iv) any Placing Shares and Conversion Shares which may be allotted and issued pursuant to this ordinary resolution shall be offered to investors who are independent of and not connected with the Company and its connected persons;

(v) the application for listing of, and permission to deal in, any Placing Shares and Conversion Shares to be allotted and issued pursuant to this ordinary resolution being granted by the Stock Exchange; and

(vi) the Placing Mandate, if approved shall lapse on 25 September 2011 being the date falling 110 days following the SGM.

(c) any one of the Directors be and is hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in his opinion to implement and/or give effect to the transactions contemplated by the Placing Agreement and the Bond Documents including, but not limited to, executing all other documents, instruments and agreements and doing all such acts and things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Placing Agreement or agree to such amendments of the same as are in the opinion of such Director not of a material nature and in the interests of the Company."

ORDINARY RESOLUTION (5)

"**THAT** conditional on ordinary resolutions numbered (1) and (4) in this notice of special general meeting being duly passed as ordinary resolutions of the Company,

(a) the facility agreement which was entered into between the Company and the Target in relation to the facility of up to US$50,000,000 on 7 March 2011 (the "**Facility Agreement**"), a copy of which has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification, and all transactions contemplated under the Facility Agreement, including but not limited to the US$50M Facility (as defined in the Circular) in accordance with the terms and subject to the conditions set out in the Facility Agreement, be and are hereby approved, ratified and confirmed; and

(b) any one of the Directors be and is hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in his opinion to implement and/or to give effect to the transactions contemplated by the Facility Agreement including, but not limited to, the provision of the US$50 million facility contemplated thereunder, executing all other documents, instruments and agreements and doing all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Facility Agreement or agree to such amendments of the same as are in the opinion of such Director not of a material nature and in the interests of the Company."

By order of the Board
Mascotte Holdings Limited
Lo Yuen Wa Peter
Acting Chief Executive Officer

Hong Kong, 20 May 2011

Notes:

1. Any member of the Company (a "**Shareholder**") entitled to attend and vote at a meeting of the company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Shareholder.

2. Where there are joint holders of any Share any one of such joint holder may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the office of the Company's branch share registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.

4. Shareholders are advised to read the Circular, which contains information concerning the resolution to be proposed in this notice.

5. The ordinary resolutions to be proposed at the Meeting shall be decided by way of poll.

As at the date of this notice, the Board comprises the following Directors:

Executive Directors
Mr. Peter Temple Whitelam *(Chairman)*
Mr. Lo Yuen Wa Peter
(Acting Chief Executive Officer)
Ms. Song Jiajia
Mr. Eddie Woo
Mr. Suen Yick Lun Philip

Non-executive Director
Dr. Chuang, Henry Yueheng
(Deputy-Chairman)

Independent Non-executive Directors
Mr. Frank H. Miu
Dr. Agustin V. Que
Mr. Robert James Iaia II
Dr. Chien, Yung Nelly