
IMPORTANT

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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CHEVALIER INTERNATIONAL HOLDINGS LIMITED

其士國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 025)

MAJOR TRANSACTION

25 February 2011

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share and Sale Loan by the Purchaser from the Vendor and a fellow subsidiary of the Vendor respectively pursuant to the terms of the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 6 January 2011 entered into between the Purchaser and the Vendor in relation to the Acquisition
“Board”	the board of Directors
“Business Day(s)”	means a day or days (excluding Saturday, Sunday and public holidays) on which banks in Hong Kong are open for business
“Company”	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 025)
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Completion Accounts”	a set of completion accounts showing the adjusted net current assets or liabilities of Kwai Hei as at Completion Date and agreed upon by the Purchaser and the Vendor
“Completion Date”	the date on which Completion takes place, being 1 April 2011 or such other date as agreed by the Purchaser and the Vendor in writing
“Consideration”	the aggregate consideration of HK\$686,500,000 (to be adjusted by adding the adjusted net current assets or deducting the adjusted net current liabilities of Kwai Hei as at Completion Date set out in the Completion Accounts) for the Sale Share and the Sale Loan under the Acquisition Agreement
“connected persons”	has the meaning ascribed to it under the Listing Rules
“CPHL”	Chevalier Pacific Holdings Limited, a company incorporated in Bermuda with limited liability and a direct non-wholly owned subsidiary of the Company, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 508)

DEFINITIONS

“Deposits”	the initial deposit and further deposit in an aggregate amount of HK\$102,525,000 which have been paid by the Purchaser upon signing of the MOU and the Acquisition Agreement respectively
“Director(s)”	director(s) of the Company
“Dr. Chow”	Dr. Chow Yei Ching, the Chairman and the controlling Shareholder holding 154,682,359 Shares (representing approximately 55.73% of the issued share capital of the Company) as at the Latest Practicable Date
“Enlarged Group”	the Group upon Completion
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kwai Hei”	Kwai Hei Investments No. 1 Limited, a company incorporated in Hong Kong with limited liability
“Latest Practicable Date”	22 February 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Lease”	the lease in respect of the Property dated 15 February 2005 (as supplemented by an addendum dated 15 April 2008)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding signed between the Vendor and a member of the Group on 24 November 2010 (as amended by the supplemental memorandum of understanding dated 31 December 2010) in respect of the proposed Acquisition
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Property”	all that piece or parcel of ground registered in the Tsuen Wan New Territories Land Registry as Kwai Chung Town Lot No. 360 together with the messuages, erections and buildings (including fixtures and fittings, all equipment, machinery presently located within the property) thereon now known as No. 8 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong
“Purchaser”	Legend One Limited, a company incorporated in the British Virgin Islands with limited liability and a subsidiary of the Company
“Sale Loan”	all obligations, liabilities and debts owing or incurred by Kwai Hei to a fellow subsidiary of the Vendor as at the Completion Date
“Sale Share”	one ordinary share of HK\$1 in the capital of Kwai Hei, representing the entire issued share capital of Kwai Hei as at the date of the Acquisition Agreement and the Completion Date
“Share(s)”	ordinary share(s) of HK\$1.25 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-Lease”	the sub-lease in respect of the Property dated 15 February 2005 (as supplemented by an addendum dated 16 June 2008)
“Vendor”	Goodman HK Investments, a company incorporated under the laws of Cayman Islands
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq. ft.”	square feet
“sq. m.”	square meter
“%”	per cent

LETTER FROM THE BOARD



CHEVALIER INTERNATIONAL HOLDINGS LIMITED 其士國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 025)

Executive Directors

Dr. Chow Yei Ching (*Chairman*)

Mr. Kuok Hoi Sang (*Vice Chairman and Managing Director*)

Mr. Tam Kwok Wing (*Deputy Managing Director*)

Mr. Chow Vee Tsung, Oscar

Mr. Ho Chung Leung

Mr. Ma Chi Wing

Non-Executive Directors

Dr. Chow Ming Kuen, Joseph[#]

Mr. Sun Kai Dah, George[#]

Mr. Yang Chuen Liang, Charles[#]

Dr. Ko Chan Gock, William

Registered office

Canon's Court

22 Victoria Street

Hamilton, HM 12

Bermuda

Head office and principal place of business

22nd Floor

Chevalier Commercial Centre

8 Wang Hoi Road

Kowloon Bay

Hong Kong

25 February 2011

[#] *Independent Non-Executive Director*

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

On 6 January 2011, the Purchaser entered into the Acquisition Agreement with the Vendor, pursuant to which and subject to the fulfillment or waiver (as the case may be) of certain conditions, the Vendor has agreed to sell and procure a fellow subsidiary of the Vendor to sell and the Purchaser has agreed to purchase respectively the Sale Share and the Sale Loan at an aggregate consideration of HK\$686,500,000 (subject to adjustment(s)).

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders by way of poll. As no Shareholder would have a material interest in the Acquisition which is different from the interests of the other Shareholders, no Shareholder would be required to abstain from voting. Dr. Chow, the controlling Shareholder, interested in 154,682,359 Shares (representing approximately 55.73% of the issued share capital of the Company) as at the Latest Practicable Date, has given his written consent to the Acquisition Agreement

* *For identification purpose only*

LETTER FROM THE BOARD

and the transactions contemplated thereunder. The written consent has been accepted in lieu of holding a special general meeting to approve the Acquisition Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, details of the Acquisition Agreement, the financial information of the Group, the accountants' report on Kwai Hei, the unaudited pro forma financial information of the Enlarged Group, the valuation report on the Property and other information as required under the Listing Rules.

THE ACQUISITION AGREEMENT

Date

6 January 2011

Parties

- (i) Purchaser: Legend One Limited, an investment holding company and a subsidiary of the Company; and
- (ii) Vendor: Goodman HK Investments, an investment holding company.

To the best of the Directors' knowledge, information and belief after making reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Assets to be acquired

The assets to be acquired by the Purchaser comprise (i) the Sale Share, being one ordinary share of HK\$1 in the capital of Kwai Hei beneficially and legally owned by the Vendor, representing the entire issued share capital of Kwai Hei as at the date of the Acquisition Agreement and the Completion Date; and (ii) the Sale Loan. The principal amount of the Sale Loan was approximately HK\$490,000,000 as at 31 December 2010.

The Sale Share and the Sale Loan shall be sold free from all encumbrances or any third party rights together with all rights attached to them as at the Completion Date.

The principal asset of Kwai Hei is the Property, which represents a parcel of ground in Kwai Chung, New Territories, Hong Kong with the building erected and the fixtures and fittings thereon (now known as No. 8 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong). The Property has a gross floor area of approximately 379,989 sq. ft. and is currently occupied and operated by a sub-tenant as a cold storage for a term of 14 years from 15 February 2005 to 11 February 2019 under the Sub-Lease. The current rent under the Lease is approximately HK\$3.3 million per month (exclusive of rates, Government rent, utility charges and all outgoings). The Property is subject to the Lease and the Sub-Lease.

LETTER FROM THE BOARD

Consideration

The aggregate consideration for the Sale Share and the Sale Loan is HK\$686,500,000 (to be adjusted by adding the adjusted net current assets or deducting the adjusted net current liabilities of Kwai Hei as at Completion Date set out in the Completion Accounts), which shall be apportioned as follows:

- (i) the consideration for the Sale Loan shall be equal to the principal amount of the Sale Loan; and
- (ii) the consideration for the Sale Share shall be a sum equivalent to the Consideration less the consideration for the Sale Loan,

provided that where the adjusted net current assets value shown in the Completion Accounts exceeds HK\$5,000,000, it shall be taken as HK\$5,000,000 (i.e. the Consideration shall not be increased by more than HK\$5,000,000).

The Consideration shall be payable in cash in the following manner:

- (i) HK\$34,175,000 as an initial deposit has been paid by the Purchaser upon signing of the MOU;
- (ii) HK\$68,350,000 as a further deposit has been paid by the Purchaser upon signing of the Acquisition Agreement; and
- (iii) the balance of the Consideration shall be paid by the Purchaser upon Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor having taken into account (i) the estimated market value of the Property at HK\$686,500,000 with reference to comparable sale transactions of similar properties in the same district in Hong Kong; and (ii) the net asset value of Kwai Hei.

The Consideration will be financed by internal resources and bank borrowings of the Group.

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (i) the passing of a resolution approving the execution of the Acquisition Agreement and the transactions contemplated thereby by the Shareholders in a general meeting of the Company or, where applicable, by the grant of a written Shareholders' approval from a Shareholder or a closely allied group of Shareholders holding, together, more than 50% in the nominal value of the Shares having the right to attend and vote at the relevant general meeting (if a general meeting is to be convened) in lieu of holding a general meeting in accordance with the Listing Rules;

LETTER FROM THE BOARD

- (ii) Kwai Hei remaining the sole and beneficial owner of the Property which is subject to the Lease and Sub-Lease but otherwise shall be free from all charges, claims, third party rights, equitable interests, liens, options, pledges, security interests, rights of first refusal, similar restrictions of any kind, and/or third party rights whatsoever (save and except those contemplated to be released upon Completion); and
- (iii) there being no breach of any of the representations, warranties and undertakings made or given by the Vendor in favour of the Purchaser as set out in the Acquisition Agreement on Completion, except for any breach which would not reasonably be expected to have, whether alone or in aggregate with other breaches of the representations, warranties and undertakings made or given by the Vendor, a material adverse effect (for the avoidance of doubt, where there is any breach of representations, warranties or undertakings on Completion which would not reasonably be expected to have, whether alone or in aggregate with other breaches of representations, warranties or undertakings by the Vendor, a material adverse effect, the Purchaser is obliged to proceed with Completion without prejudice to any rights and remedies the Purchaser may have).

Condition (i) above has been fulfilled as at the Latest Practicable Date. Conditions (ii) and (iii) above are capable of being waived in writing by the Purchaser. If any of the conditions precedent has not been fulfilled or waived (as the case may be) on the Completion Date, the rights and obligations of the parties under the Acquisition Agreement shall lapse and cease to have effect except for antecedent breach.

In the event that the Acquisition Agreement is terminated due to any breach or non-performance of the Purchaser, the Vendor shall be entitled to forfeit and keep the Deposits without prejudice to other rights and remedies of the Vendor. In the event that the Acquisition Agreement is terminated due to the breach or non-performance of the Vendor, the Deposits with accrued interest shall be returned to the Purchaser within three Business Days from (and exclusive of) the date of termination without prejudice to other rights and remedies of the Purchaser. If the Acquisition Agreement is terminated due to reason other than a breach or non-performance of the Vendor or the Purchaser, the Deposits without interest shall be returned to the Purchaser within three Business Days after (and exclusive of) the date of termination.

Completion

Subject to the fulfillment or waiver (as the case may be) of the conditions precedent, Completion shall take place on 1 April 2011 or such other date as may be agreed by the Purchaser and Vendor in writing.

LETTER FROM THE BOARD

INFORMATION OF KWAI HEI

Kwai Hei is a company incorporated in Hong Kong. It is principally engaged in property holding and letting. The principal asset of Kwai Hei is the Property, the particulars of which are disclosed in the paragraph headed “Assets to be acquired” above.

Summarised below are the audited financial information of Kwai Hei for the two years ended 31 March 2010 and 2009 as extracted from the accountants’ report on Kwai Hei set out in Appendix II to this circular which is prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 March	
	2010	2009
	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit before taxation	52.6	22.1
Profit after taxation	43.9	20.4

According to the accountants’ report on Kwai Hei, the net assets value of Kwai Hei as at 31 December 2010 was approximately HK\$163 million.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and the Group is principally engaged in the business of construction and engineering, insurance and investment, property development and investment, food and beverages, and computer and information communication technology.

The local economy of Hong Kong continues to grow on the back of strong merchandise and service exports, the reaching of the re-export volume to the level prior to the financial crisis in late 2008 and the continued fall of unemployment rates. Coupled with the sustained low interest rate environment and the abundant liquidity in the market, the improved economic fundamentals have driven the property market in Hong Kong to boom further. In particular, the measures implemented by the Hong Kong government to revitalize local industrial building in April 2010 and the edging rentals have drawn buying interests for whole-block industrial development. In light of the above, the Directors are optimistic about the prospects of the property market in Hong Kong and consider that it is an opportune time to acquire the Property for investment purpose. Moreover, the Directors are of the view that the Acquisition would generate stable rental revenue and return and provide capital appreciation potential to the Group.

Taking into account the above factors, the Directors consider that the terms of the Acquisition Agreement including the Consideration are fair and reasonable and the Acquisition is in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

After Completion, Kwai Hei would become an effectively seventy-five percent owned subsidiary of the Company and the financial statements of Kwai Hei would be consolidated in the accounts of the Group after Completion. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the total assets of the Enlarged Group would have increased by approximately HK\$572 million from approximately HK\$8,304 million to approximately HK\$8,876 million, and the total liabilities of the Enlarged Group would have increased by approximately HK\$576 million from approximately HK\$3,789 million to approximately HK\$4,365 million. The Directors expect that the earnings of the Enlarged Group would be enhanced by the rental income generated from the leasing of the Property after Completion.

The pro forma financial information has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at the Completion Date or any future date. Moreover, since the actual fair values of the assets, liabilities and contingent liabilities of Kwai Hei upon Completion would be different from their estimated fair values used in the preparation of the pro forma financial information, the actual financial effects of the Acquisition might be materially different from the financial position as shown in Appendix III to this circular.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders by way of poll.

As no Shareholder would have a material interest in the Acquisition which is different from the interests of the other Shareholders, no Shareholder would be required to abstain from voting. Dr. Chow, the controlling Shareholder interested in 154,682,359 Shares (representing approximately 55.73% of the issued share capital of the Company) as at the Latest Practicable Date, has given his written consent to the Acquisition Agreement and the transactions contemplated thereunder. The written consent has been accepted in lieu of holding a special general meeting to approve the Acquisition Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

GENERAL

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

Yours faithfully,
For and on behalf of the Board
Chevalier International Holdings Limited
Chow Yei Ching
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.chevalier.com>):

- annual report of the Company for the year ended 31 March 2008 published on 30 July 2008 (pages 49 to 156);
- annual report of the Company for the year ended 31 March 2009 published on 29 July 2009 (pages 60 to 160);
- annual report of the Company for the year ended 31 March 2010 published on 30 July 2010 (pages 41 to 152); and
- interim report of the Company for the six months ended 30 September 2010 published on 7 December 2010 (pages 4 to 31).

2. INDEBTEDNESS

i. Borrowings and debts

Borrowings

As at the close of business on 31 December 2010, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had secured bank borrowings of HK\$202 million and unsecured borrowings of HK\$1,459 million.

Pledge of assets

As at the close of business on 31 December 2010, the Group had pledged its properties, inventories and bank deposits with carrying values of HK\$894 million, HK\$49.6 million and HK\$1.6 million respectively to secure the general banking facilities granted to the Group. The Property of Kwai Hei with carrying value of HK\$687 million had also been pledged for the bank loans granted to Kwai Hei's fellow subsidiary before Completion.

Contingent liabilities

As at the close of business on 31 December 2010, the Enlarged Group had contingent liabilities in respect of guarantees issued for backup banking facilities utilised by associates and a joint venture partner of HK\$208 million and HK\$168 million respectively.

ii. Disclaimer

Save as aforesaid and apart from intra-group liabilities, as at 31 December 2010, the Enlarged Group had no other outstanding mortgages, charges, debentures, loan capital or bank overdrafts, loans or other similar indebtedness, hire purchase commitments, liabilities under acceptances, acceptance credits or any guarantees or any material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present financial resources and the banking facilities presently available and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital to meet its requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Upon Completion, the Group will continue to be engaged in the business of construction and engineering, insurance and investment, property development and investment, food and beverages, and computer and information communication technology.

The Acquisition allows the Group to enlarge its investment property portfolio and increase its long term rental income and provides capital appreciation potential to the Group. Despite the Consideration for the Acquisition is to be funded by internal resources and bank borrowings, the Directors expect that the Group's financial position shall remain solid.

5. RECENT ACQUISITION OF THE GROUP

On 15 December 2010, Sinochina Enterprises Limited ("Sinochina", as purchaser, together with its subsidiaries and associates is referred to as the "Igor's Group"), an indirect wholly-owned subsidiary of CPHL (together with its subsidiaries and associates is referred to as the "CPHL Group"), entered into a share exchange agreement (the "Share Exchange Agreement") with International Restaurants Holdings Limited ("IRHL", as vendor) and certain other parties (as guarantors) in respect of the acquisition of a 60% interest in Metro Point Enterprise Company Limited (together with its subsidiaries and associates is referred to as the "Café Deco Group"), the consideration of which was satisfied by the issue of 400 new shares in Sinochina (representing 40% of the issued share capital of Sinochina as enlarged by the issue of the aforesaid shares) to IRHL (the "Share Exchange"). The Café Deco Group is engaged in the food and beverages business under the trade name "Café Deco" and has outlets and a franchise store in Hong Kong, Macau and Australia, while the Igor's Group is engaged in the food and beverages business of the CPHL Group in Hong Kong.

In conjunction with the Share Exchange Agreement, the CPHL Group, also entered into certain loan agreements with IRHL on 15 December 2010, in respect of the advance of certain loans by the CPHL Group to IRHL.

On 21 December 2010, the CPHL Group entered into a shareholders agreement with IRHL and the owners of IRHL in relation to the management of the affairs and business of the food and beverages business of the Igor's Group and the Café Deco Group after completion of the Share Exchange.

In preparation of the entering of the Share Exchange Agreement, CPHL implemented a reorganisation within the Igor's Group, as a result of which CL Holdings Limited ("CL Holdings"), which has become a 60%-owned subsidiary of CPHL after completion of the Share Exchange, will hold a 49% interest in each of the three subsidiaries (the "World Pointer Group Companies") of World Pointer Limited ("World Pointer"). The remaining 51% interest of the World Pointer Group Companies are owned by World Pointer, which is a wholly-owned subsidiary of CPHL. World Pointer and CL Holdings entered into certain option agreements on 21 December 2010 in respect of the shares of the World Pointer Group Companies.

For further details of the aforesaid agreements, please refer to the joint announcement issued by the Company and CPHL dated 17 December 2010.

1. ACCOUNTANTS' REPORT ON KWAI HEI

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of Kwai Hei Investments No. 1 Limited, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

25 February 2011

The Directors
Chevalier International Holdings Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Kwai Hei Investments No. 1 Limited ("Kwai Hei") including the statements of comprehensive income, the statements of changes in equity and the cash flow statements of Kwai Hei, for each of the years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010 (the "Relevant Period"), and the balance sheets of Kwai Hei as at 31 March 2008, 2009 and 2010 and 31 December 2010, together with the notes thereto (the "Financial Information"), for inclusion in the circular of Chevalier International Holdings Limited dated 25 February 2011 in connection with the proposed acquisition of Kwai Hei.

Kwai Hei was incorporated in Hong Kong on 21 December 2006 and has its principal place of business at Suite 2008, Three Pacific Place, 1 Queen's Road East, Hong Kong. The principal activity of Kwai Hei is the holding of Brilliant Cold Storage Tower 1, which is located at 8 Kwai Hei Street, Kwai Chung, New Territories, for long term investment.

Kwai Hei has adopted 31 March as its financial year end date. The statutory financial statements of Kwai Hei for the years ended 31 March 2008, 2009 and 2010 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the requirements of Hong Kong Companies Ordinance and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of Kwai Hei based on the statutory financial statements of Kwai Hei for the years ended 31 March 2008, 2009 and 2010 (the "Underlying Financial Statements"), with no adjustments made thereon and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Respective responsibilities of directors and reporting accountants

The directors of Kwai Hei are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of Kwai Hei in respect of any period subsequent to 31 December 2010.

Opinion

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of Kwai Hei’s results and cash flows for the Relevant Period, and the state of affairs of Kwai Hei as at 31 March 2008, 2009 and 2010 and 31 December 2010.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of Kwai Hei comprising the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 31 December 2009, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The directors of Kwai Hei are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in

accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A Financial information

1 Statements of comprehensive income

	Section B Note	Year ended 31 March			Nine months ended 31 December	
		2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000 (unaudited)	2010 HK\$'000
Turnover	3	34,767	39,247	39,247	29,435	29,435
Property operating expenses		(719)	(933)	(923)	(693)	(678)
Net property income		34,048	38,314	38,324	28,742	28,757
Interest income		313	114	2	1	2
Administrative expenses		(4,055)	(3,241)	(4,019)	(2,250)	(2,656)
Finance costs	4	(22,540)	(14,985)	(8,626)	(7,103)	(8,248)
Profit before increase in fair value of investment properties		7,766	20,202	25,681	19,390	17,855
Increase in fair value of investment properties		10,125	1,867	26,966	26	94,500
Profit before taxation	5	17,891	22,069	52,647	19,416	112,355
Taxation	6(a)	(2,405)	(1,660)	(8,701)	(3,208)	(20,412)
Net profit and total comprehensive income for the year/period		<u>15,486</u>	<u>20,409</u>	<u>43,946</u>	<u>16,208</u>	<u>91,943</u>
Basic earnings per share	7	<u>15,486</u>	<u>20,409</u>	<u>43,946</u>	<u>16,208</u>	<u>91,943</u>

The accompanying notes form part of the financial information. Details of dividends payable to equity shareholder of Kwai Hei attributable to the profit for the year/period are set out in Note 17(b).

2 *Balance sheets*

		At 31 March			At 31
	Section B	2008	2009	2010	December
	Note	HK\$'000	HK\$'000	HK\$'000	2010
					HK\$'000
Non-current assets					
Investment properties	10	563,062	565,000	592,000	686,500
Current assets					
Debtors, prepayments and deposits	11	511	417	153	155
Amount due from immediate holding company	12	4,778	8,318	633	4,410
Amount due from a fellow subsidiary	12	36	68	91	91
Cash at bank	13	8,532	9,812	9,812	9,812
		<u>13,857</u>	<u>18,615</u>	<u>10,689</u>	<u>14,468</u>
Current liabilities					
Creditors and accruals	14	228	193	178	146
Rental deposits	15	8,532	9,812	9,812	9,812
Amount due to a fellow subsidiary	12	3,434	385	618	—
Loan from a fellow subsidiary	16	—	—	—	490,000
Tax payable	6(c)	1,429	2,213	1,773	3,873
		<u>13,623</u>	<u>12,603</u>	<u>12,381</u>	<u>503,831</u>
Net current assets/(liabilities)		<u>234</u>	<u>6,012</u>	<u>(1,692)</u>	<u>(489,363)</u>
Total assets less current liabilities		<u>563,296</u>	<u>571,012</u>	<u>590,308</u>	<u>197,137</u>
Non-current liabilities					
Loan from a fellow subsidiary	16	490,000	490,000	490,000	—
Deferred tax liabilities	6(d)	11,571	11,878	16,328	33,814
		<u>501,571</u>	<u>501,878</u>	<u>506,328</u>	<u>33,814</u>
Net assets		<u>61,725</u>	<u>69,134</u>	<u>83,980</u>	<u>163,323</u>
Capital and reserves					
Share capital	17	—	—	—	—
Retained earnings		<u>61,725</u>	<u>69,134</u>	<u>83,980</u>	<u>163,323</u>
Total equity		<u>61,725</u>	<u>69,134</u>	<u>83,980</u>	<u>163,323</u>

The accompanying notes form part of the financial information.

3 *Statements of changes in equity*

	Section B <i>Note</i>	Share capital <i>HK\$'000</i> <i>17(a)</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2007		—	49,949	49,949
Profit for the year		—	15,486	15,486
Dividends declared during the year	<i>17(b)</i>	—	(3,710)	(3,710)
At 31 March 2008		—	61,725	61,725
At 1 April 2008		—	61,725	61,725
Profit for the year		—	20,409	20,409
Dividends declared during the year	<i>17(b)</i>	—	(13,000)	(13,000)
At 31 March 2009		—	69,134	69,134
At 1 April 2009		—	69,134	69,134
Profit for the year		—	43,946	43,946
Dividends declared during the year	<i>17(b)</i>	—	(29,100)	(29,100)
At 31 March 2010		—	83,980	83,980
At 1 April 2010		—	83,980	83,980
Profit for the period		—	91,943	91,943
Dividends declared during the period	<i>17(b)</i>	—	(12,600)	(12,600)
At 31 December 2010		—	163,323	163,323
At 1 April 2009		—	69,134	69,134
Profit for the period		—	16,208	16,208
Dividends declared during the period	<i>17(b)</i>	—	(19,500)	(19,500)
At 31 December 2009 (unaudited)		—	65,842	65,842

The accompanying notes form part of the financial information.

4 *Cash flow statements*

	Year ended 31 March			Nine months ended 31 December	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000
Operating activities					
Profit before taxation	17,891	22,069	52,647	19,416	112,355
Adjustments for:					
Interest income	(313)	(114)	(2)	(1)	(2)
Finance costs	22,540	14,985	8,626	7,103	8,248
Increase in fair value of investment properties	(10,125)	(1,867)	(26,966)	(26)	(94,500)
Changes in working capital:					
(Increase)/decrease in debtors, prepayments and deposits	(485)	94	264	173	(2)
Decrease in creditors and accruals	(961)	(35)	(15)	(41)	(32)
Increase in rental deposits	—	1,280	—	—	—
(Increase)/decrease in amount due from immediate holding company	(2,801)	(3,540)	7,685	(194)	(3,777)
Increase in amount due from a fellow subsidiary	(36)	(32)	(23)	(23)	—
Increase/(decrease) in amount due to a fellow subsidiary	227	(3,049)	233	385	(618)
Cash generated from operations	<u>25,937</u>	<u>29,791</u>	<u>42,449</u>	<u>26,792</u>	<u>21,672</u>
Hong Kong Profits Tax paid	—	(569)	(4,691)	(190)	(826)
Net cash generated from operating activities	<u>25,937</u>	<u>29,222</u>	<u>37,758</u>	<u>26,602</u>	<u>20,846</u>
Investing activities					
Payments of expenditure in investment properties	—	(71)	(34)	—	—
Interest received	313	114	2	1	2
Net cash generated from/(used in) investing activities	<u>313</u>	<u>43</u>	<u>(32)</u>	<u>1</u>	<u>2</u>
Financing activities					
Finance costs paid	(22,540)	(14,985)	(8,626)	(7,103)	(8,248)
Dividends paid	(3,710)	(13,000)	(29,100)	(19,500)	(12,600)
Net cash used in financing activities	<u>(26,250)</u>	<u>(27,985)</u>	<u>(37,726)</u>	<u>(26,603)</u>	<u>(20,848)</u>
Net increase in cash and cash equivalents	—	1,280	—	—	—
Cash and cash equivalents at 1 April	<u>8,532</u>	<u>8,532</u>	<u>9,812</u>	<u>9,812</u>	<u>9,812</u>
Cash and cash equivalents at 31 March/December	<u>8,532</u>	<u>9,812</u>	<u>9,812</u>	<u>9,812</u>	<u>9,812</u>

The accompanying notes form part of the financial information.

B Notes to financial information**1 Significant accounting policies***(a) Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Kwai Hei has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 April 2010. The revised and new accounting standards and interpretations issued but not yet become effective for the accounting period beginning 1 April 2010 are set out in Note 19.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the nine months ended 31 December 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information have been prepared on a going concern basis, notwithstanding the deficiency in net current assets as at 31 December 2010, since the existing and future ultimate holding companies of Kwai Hei have given an undertaking to provide financial assistance as is necessary to maintain Kwai Hei as a going concern before and after the sale of Kwai Hei to Legend One Limited respectively.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the investment properties which are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs 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 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.

(c) Investment properties

Investment properties are defined as properties that are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Property held under operating leases is classified and accounted for as an investment property when the definition of investment property is met. Investment properties are stated in the balance sheets at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(i).

(d) Debtors

Debtors are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of Kwai Hei about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for debtors whose recovery is considered doubtful but not remote are recorded using an allowance account. When Kwai Hei is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(e) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Kwai Hei's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statements.

(f) *Creditors*

Creditors are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(h) *Income tax*

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from

deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

(i) *Recognition of revenue*

Provided it is probable that the economic benefits will flow to Kwai Hei and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Rental income under operating leases

Rental income under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in profit or loss on a systematic basis as an integral part of the aggregate net lease payments receivable.

Interest income

Interest income is recognised as it accrues using the effective interest method.

(j) *Borrowing costs*

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(k) *Related parties*

For the purposes of these financial statements, a party is considered to be related to Kwai Hei if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control Kwai Hei or exercise significant influence over Kwai Hei in making financial and operating policy decisions, or has joint control over Kwai Hei;

- (ii) Kwai Hei and the party are subject to common control;
- (iii) the party is an associate of Kwai Hei or a joint venture in which Kwai Hei is a venturer;
- (iv) the party is a member of key management personnel of Kwai Hei or Kwai Hei's parent or a close family member of such an individual or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of Kwai Hei or of any entity that is a related party of Kwai Hei.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Kwai Hei has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Kwai Hei's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Kwai Hei'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 products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Segment reporting

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of Kwai Hei that are used to assess the performance and allocate resources.

The chief operating decision maker of Kwai Hei assesses the performance and allocates the resources of Kwai Hei as a whole, as Kwai Hei's activities are considered to be dependent on the performance on property leasing. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented for each of the years ended 31 March 2008, 2009 and 2010 and nine months ended 31 December 2010.

3 Turnover

The principal activity of Kwai Hei is the holding of Brilliant Cold Storage Tower 1, which is located at 8 Kwai Hei Street, Kwai Chung, New Territories, for long term investment. Turnover of Kwai Hei is analysed as follows:

	Year ended 31 March			Nine months ended 31 December	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000 (unaudited)	2010 HK\$'000
Rental income	<u>34,767</u>	<u>39,247</u>	<u>39,247</u>	<u>29,435</u>	<u>29,435</u>

4 Finance costs

	Year ended 31 March			Nine months ended 31 December	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000 (unaudited)	2010 HK\$'000
Interest paid on loan from a fellow subsidiary with no fixed terms of repayment	<u>22,540</u>	<u>14,985</u>	<u>8,626</u>	<u>7,103</u>	<u>8,248</u>

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Year ended 31 March			Nine months ended 31 December	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Property service fees payable to GPS Hong Kong Wholesale Limited ("GPSW")	523	589	592	444	442
Building supervision fees payable to GPSW	98	—	—	—	—
Management fees payable to immediate holding company	3,986	3,148	3,948	2,196	2,603
Auditors' remuneration	45	48	47	36	35
Rental income from operating leases less direct outgoings	<u>(34,048)</u>	<u>(38,314)</u>	<u>(38,324)</u>	<u>(28,742)</u>	<u>(28,757)</u>

GPSW is a subsidiary of the general manager of the ultimate holding company of Kwai Hei.

The directors consider that all the transactions with GPSW during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of Kwai Hei's business.

6 Taxation

(a) Taxation charged to profit or loss

	Year ended 31 March			Nine months ended 31 December	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Current tax – Hong Kong					
Profits Tax					
Provision for the year/period	1,429	2,782	4,251	3,204	2,946
Over-provision in respect of prior year/period	—	(1,429)	—	—	(20)
	<u>1,429</u>	<u>1,353</u>	<u>4,251</u>	<u>3,204</u>	<u>2,926</u>
Deferred tax					
Revaluation of investment properties	1,671	308	4,450	4	15,593
Effect of change in tax rate on opening balance of deferred tax	(600)	—	—	—	—
Other temporary differences	<u>(95)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>1,893</u>
	<u>976</u>	<u>307</u>	<u>4,450</u>	<u>4</u>	<u>17,486</u>
Total	<u>2,405</u>	<u>1,660</u>	<u>8,701</u>	<u>3,208</u>	<u>20,412</u>

The provision for Hong Kong Profits Tax is calculated at 17.5%, 16.5%, 16.5%, 16.5% and 16.5% of the estimated assessable profits for each of the years ended 31 March 2008, 2009 and 2010 and each of the nine months ended 31 December 2009 and 2010 respectively.

In February 2008, the Hong Kong Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effective from the year ended 31 March 2009. This decrease was taken into account in the estimation of deferred tax liabilities of Kwai Hei as at 31 March 2008.

(b) *Reconciliation between tax expense and accounting profit before taxation at applicable tax rates:*

	Year ended 31 March			Nine months ended 31 December	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	17,891	22,069	52,647	19,416	112,355
Notional tax on profit before taxation	3,131	3,641	8,687	3,204	18,539
Effect of change in tax rate	(701)	—	—	—	—
Tax effect of non-deductible expenses	—	(29)	—	—	—
Over-provision in respect of prior year/period	—	(1,429)	—	—	(20)
Others	(25)	(523)	14	4	1,893
	<u>2,405</u>	<u>1,660</u>	<u>8,701</u>	<u>3,208</u>	<u>20,412</u>

(c) *Taxation in the balance sheets*

	At 31 March			At 31 December
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year/period	1,429	2,782	4,251	2,946
Provisional Profits Tax paid	—	(569)	(2,478)	—
Provision for Hong Kong Profits Tax in respect of prior years/periods	—	—	—	927
	<u>1,429</u>	<u>2,213</u>	<u>1,773</u>	<u>3,873</u>

(d) Deferred tax liabilities/(assets)

The components of deferred tax liabilities/(assets) recognised in the balance sheets and the movements during the Relevant Period are as follows:

	Capital allowances claimed HK\$'000	Revaluation of investment properties HK\$'000	Tax benefits attributable to tax loss HK\$'000	Total HK\$'000
At 1 April 2007	1,711	10,500	(1,616)	10,595
(Credited)/charged to profit or loss	(1,710)	1,070	1,616	976
At 31 March 2008	1	11,570	—	11,571
At 1 April 2008	1	11,570	—	11,571
(Credited)/charged to profit or loss	(1)	308	—	307
At 31 March 2009	—	11,878	—	11,878
At 1 April 2009	—	11,878	—	11,878
Charged to profit or loss	—	4,450	—	4,450
At 31 March 2010	—	16,328	—	16,328
At 1 April 2010	—	16,328	—	16,328
Charged to profit or loss	1,893	15,593	—	17,486
At 31 December 2010	1,893	31,921	—	33,814

7 Basic earnings per share

The calculation of basic earnings per share for each of the years ended 31 March 2008, 2009 and 2010 and each of the nine months ended 31 December 2009 and 2010 is based on the profit attributable to equity shareholder of Kwai Hei of HK\$15,486,000, HK\$20,409,000, HK\$43,946,000, HK\$16,208,000 and HK\$91,943,000 respectively, and the weighted average of 1 ordinary share in issue during the entire Relevant Period.

Kwai Hei did not have any potential dilutive shares throughout the entire Relevant Period.

8 Directors' remuneration

No director of Kwai Hei received any emoluments in respect of their services to Kwai Hei for the Relevant Period pursuant to Section 161 of the Hong Kong Companies Ordinance.

No director received any emoluments from Kwai Hei as an inducement to join or upon joining Kwai Hei or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

9 Individuals with the highest emoluments

Kwai Hei did not incur any staff costs during the Relevant Period.

10 Investment properties

	At 31 March			At 31
	2008	2009	2010	December
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Valuation				
At 1 April	554,020	563,062	565,000	592,000
Additions	—	71	34	—
Increase in fair value	10,125	1,867	26,966	94,500
Reversal of over-accrual of acquisition costs	(1,083)	—	—	—
At 31 March/December	<u>563,062</u>	<u>565,000</u>	<u>592,000</u>	<u>686,500</u>

- (a) Kwai Hei's investment properties have been revalued at 31 March 2008, 2009 and 2010 and 31 December 2010 by DTZ Debenham Tie Leung Limited, Jones Lang LaSalle, Jones Lang LaSalle and Knight Frank Petty Limited respectively, independent firms of professional surveyors, on an open market value basis, after taking into consideration the net income allowing for reversionary potential, respectively.
- (b) Kwai Hei leases out investment properties under an operating lease, which run for an initial period of 14 years. On expiry, the terms are renegotiated. The lease does not include contingent rental.

All the investment properties of Kwai Hei were leased out under operating leases at 31 March 2008, 2009 and 2010 and 31 December 2010.

- (c) Kwai Hei's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	At 31 March			At 31
	2008	2009	2010	December
	HK\$'000	HK\$'000	HK\$'000	2010
				HK\$'000
Within one year	39,247	39,247	39,247	39,247
After one year but within five years	156,989	156,989	156,989	156,989
After five years	<u>230,577</u>	<u>194,601</u>	<u>152,083</u>	<u>122,648</u>
	<u>426,813</u>	<u>390,837</u>	<u>348,319</u>	<u>318,884</u>

- (d) The investment properties of Kwai Hei are charged for the bank loans granted to Kwai Hei's fellow subsidiary.
- (e) The investment properties of Kwai Hei are held under medium term lease in Hong Kong.

11 Debtors, prepayments and deposits

Kwai Hei did not have any trade debtor at each balance sheet date. Further details on Kwai Hei's credit policy are set out in Note 18(a).

12 Amounts due from/to immediate holding company and fellow subsidiaries

Amounts due from/to immediate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

13 Cash at bank

At 31 March 2008, 2009 and 2010 and 31 December 2010, cash at bank of Kwai Hei has been used as security for bank loans granted to Kwai Hei's fellow subsidiary.

14 Creditors and accruals

Included in creditors and accruals was an amount of HK\$60,000, HK\$49,000, HK\$49,000 and HK\$49,000 payable to GPSW as at 31 March 2008, 2009 and 2010 and 31 December 2010, respectively, which is unsecured, interest free and repayable on demand. GPSW is a subsidiary of the general manager of the ultimate holding company of Kwai Hei.

15 Rental deposits

At each balance sheet date, all the rental deposits of Kwai Hei are expected to be settled after more than one year.

16 Loan from a fellow subsidiary

The loan from a fellow subsidiary is unsecured, interest-bearing at 1.8% to 4.6% per annum during the Relevant Period and has no fixed terms of repayment. The balance was classified as non-current liabilities as at 31 March 2008, 2009 and 2010 as the fellow subsidiary has undertaken not to demand for repayment within one year from the respective balance sheet dates.

17 Capital and reserves**(a) Share capital**

	At 31 March			At 31 December
	2008	2009	2010	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Authorised</i>				
10,000 shares of HK\$1 each	10	10	10	10
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Issued and fully paid</i>				
1 share of HK\$1	*	*	*	*
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Represents amount less than HK\$1,000.

(b) Dividends

	Year ended 31 March			Nine months ended 31 December	
	2008	2009	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interim dividends declared during the year/period	<u>3,710</u>	<u>13,000</u>	<u>29,100</u>	<u>19,500</u>	<u>12,600</u>
Interim dividends declared during the year/period per share	<u>3,710</u>	<u>13,000</u>	<u>29,100</u>	<u>19,500</u>	<u>12,600</u>

(unaudited)

(c) Distributability of reserves

At 31 March 2008, 2009 and 2010 and 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholder of Kwai Hei was HK\$3,172,000, HK\$9,022,000, HK\$1,351,000 and HK\$3,680,000 respectively.

(d) Capital management

Kwai Hei's primary objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholder by pricing services commensurately with the level of risk. The ultimate holding company and a fellow subsidiary of Kwai Hei monitor Kwai Hei's capital structure regularly and Kwai Hei's strategy on capital management was unchanged during the Relevant Period.

18 Financial risk management and fair value

Exposure to credit, liquidity and interest rate risks arises in the normal course of Kwai Hei's business. The risks are limited by Kwai Hei's financial management policies and practices described below.

(a) Credit risk

Kwai Hei's credit risk is primarily attributable to debtors and cash at bank. Kwai Hei has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Kwai Hei's cash at bank is placed with major bank.

(b) Liquidity risk

The ultimate holding company of Kwai Hei regularly monitor Kwai Hei's current and expected liability requirement to ensure that it maintains sufficient reserves of cash and funding from a fellow subsidiary in the short and longer term.

Other than rental deposits as at each of the balance sheet dates and loan from a fellow subsidiary as at 31 March 2008, 2009 and 2010 as set out above, all the liabilities of Kwai Hei are expected to be settled within one year.

(c) *Interest rate risk*

Kwai Hei's interest rate risk mainly derived from loan from a fellow subsidiary which recharges its interest to Kwai Hei.

The fellow subsidiary adopts a policy of reducing its exposure to changes in interest rates on borrowings by fixing interest rates. In this regard, any change in the market interest rate does not have significant impact on the results of Kwai Hei.

(d) *Fair value*

Fair value of financial assets and liabilities approximate their carrying amounts.

19 *Possible impact of amendments, new standards and new interpretations issued but not yet effective for the period beginning 1 April 2010*

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and Interpretations and one new standard, which are not yet effective for current period and which have not been adopted in the Financial Information. These include the following which may be relevant to Kwai Hei:

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosures	1 January 2011
HKFRS 9, Financial instruments	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

Kwai Hei is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Kwai Hei's results of operations and financial position, except for the amendments to HKAS 12, Income taxes. The amendments to HKAS 12 will be adopted in the financial statements for the year beginning 1 April 2012 and Kwai Hei will be required to make retrospective adjustments at that time to the amounts reported in respect of the period ended 31 December 2010, to the extent that the tax consequences that would apply on the sale of the properties at their carrying amount would differ from the amounts accrued for deferred tax under the current policy, in respect of those properties which are not held within a business model whose objective is to consume substantially

all of the economic benefits embodied in the property over time. Kwai Hei's expectation is that the adoption of the amendments to HKAS 12 will result in a retrospective restatement of the amounts reported in respect of the Relevant Period, by increasing the net assets of Kwai Hei by HK\$11,570,000, HK\$11,878,000, HK\$16,328,000 and HK\$31,921,000 as at 31 March 2008, 2009 and 2010 and 31 December 2010 respectively as a result of reduction in provision for deferred tax in respect of the investment properties of Kwai Hei, with a consequential increase in the profit after tax of approximately HK\$1,070,000, HK\$308,000, HK\$4,450,000, HK\$4,000 and HK\$15,593,000 for each of the years ended 31 March 2008, 2009 and 2010 and each of the nine month periods ended 31 December 2009 and 2010 respectively.

20 *Ultimate holding company*

The directors consider the ultimate holding company at 31 March 2008, 2009 and 2010 and 31 December 2010 to be Goodman Hong Kong Logistics Fund which is incorporated in the Cayman Islands.

C Subsequent financial statements

No audited financial statements have been prepared by Kwai Hei in respect of any period subsequent to 31 December 2010.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF KWAI HEI

Set out below is the management discussion and analysis of Kwai Hei for the nine months ended 31 December 2010 and the three years ended 31 March 2010, 2009 and 2008.

Business review

The principal asset of Kwai Hei is the Property. The gross floor area of the Property is approximately 379,989 sq. ft., which is held under a leasehold interest to earn rental income for a medium term lease since 2005. The fair value of the Property was HK\$687 million as at 31 December 2010.

Financial results

Revenue

Kwai Hei recorded rental revenue of HK\$34.8 million, HK\$39.2 million, HK\$39.2 million and HK\$29.4 million for the three years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010 respectively.

Profit for the year/period

Kwai Hei recorded profit of approximately HK\$15.5 million, HK\$20.4 million, HK\$43.9 million and HK\$91.9 million for the three years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010 respectively. The increase in profit for the period ended 31 December 2010 was mainly attributable to the increase in the fair value of the Property held by Kwai Hei during the period.

Liquidity and capital resources

Financial position

The major asset of Kwai Hei is the Property revalued at its fair value of HK\$563 million, HK\$565 million, HK\$592 million and HK\$687 million as at 31 March 2008, 2009 and 2010 and 31 December 2010 respectively. The valuation was performed by independent firms of professional surveyors on an open market value basis, after taking into consideration the net income allowing for reversionary potential.

Kwai Hei financed its operations mainly by an unsecured loan of approximately HK\$490 million obtained from a fellow subsidiary of the Vendor.

Net current assets/(liabilities)

The net current assets/(liabilities) as at 31 March 2008, 2009 and 2010 and 31 December 2010 amounted to HK\$0.2 million, HK\$6.0 million, HK\$(1.7) million and HK\$(489) million respectively.

The current assets of Kwai Hei as at 31 March 2008, 2009 and 2010 and 31 December 2010 of HK\$13.8 million, HK\$18.6 million, HK\$10.7 million and HK\$14.5 million mainly represented cash at bank and amount due from its immediate holding company.

The current liabilities as at 31 March 2008, 2009 and 2010 and 31 December 2010 of HK\$13.6 million, HK\$12.6 million, HK\$12.4 million and HK\$504 million mainly represented the rental deposits amounting to HK\$8.5 million, HK\$9.8 million, HK\$9.8 million and HK\$9.8 million respectively in relation to the operating lease of the Property, which is expected to be settled when the operating lease is terminated and the loan from a fellow subsidiary of HK\$490 million as at 31 December 2010.

Gearing ratio

As at 31 March 2008, 2009 and 2010 and 31 December 2010, the gearing ratio of Kwai Hei, calculated as a percentage of Kwai Hei's total liabilities to Kwai Hei's total assets, was approximately 89%, 88%, 86% and 77% respectively.

Securities and guarantees

The Property and cash at bank are charged for the bank loans granted to a fellow subsidiary of Kwai Hei.

Contingent liability

As at 31 March 2008, 2009 and 2010 and 31 December 2010, Kwai Hei had no material contingent liability.

Exchange rate risk

As at 31 March 2008, 2009 and 2010 and 31 December 2010, Kwai Hei had no significant concentrations of exchange rate risk.

Material acquisition and disposal

There were no material acquisitions and disposals of subsidiaries and associated companies for each of the years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010.

Future plans for capital assets

The Property, being the principal asset of Kwai Hei, would continue to earn rental income via the current lease arrangement with the Lease and the Sub-Lease. There are no other future plans for the Property.

Expected sources of funding

The future operation of Kwai Hei will be financed by internal resources obtained from the Group and external funding.

Staff and remuneration policy

Kwai Hei had no staff for the three years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010. Kwai Hei, as a result, did not incur any staff costs for the three years ended 31 March 2008, 2009 and 2010 and the nine months ended 31 December 2010.

3. FINANCIAL AND TRADING PROSPECTS OF KWAI HEI

Kwai Hei is a company incorporated in Hong Kong, which is principally engaged in property holding and letting. After Completion, it is expected that Kwai Hei will continue to provide a steady rental income to the Group.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP

	Unaudited	Audited	Pro forma adjustments					Unaudited
	statement of assets and liabilities of the Group as at 30 September 2010 HK\$'000 Note 1	statement of assets and liabilities of Kwai Hei as at 31 December 2010 HK\$'000 Note 2	HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 6	HK\$'000 Note 7	pro forma statement of assets and liabilities of the Enlarged Group HK\$'000
Non-current assets								
Investment properties	1,527,197	686,500						2,213,697
Property, plant and equipment	777,629	—						777,629
Prepaid lease payments	8,912	—						8,912
Goodwill	108,278	—						108,278
Other intangible assets	27,381	—						27,381
Interests in associates	476,756	—						476,756
Interests in jointly controlled entities	403,459	—						403,459
Available-for-sale investments	229,380	—						229,380
Properties under development	535,535	—						535,535
Other non-current assets	132,734	—						132,734
Deferred tax assets	8,970	—						8,970
	<u>4,236,231</u>	<u>686,500</u>						<u>4,922,731</u>
Current assets								
Amounts due from associates	171,874	—						171,874
Amounts due from jointly controlled entities	213,431	—						213,431
Amount due from immediate holding company	—	4,410	(4,410)					—
Amount due from a fellow subsidiary	—	91	(91)					—
Investments at fair value through profit or loss	323,161	—						323,161
Inventories	160,338	—						160,338
Properties for sale	148,863	—						148,863
Debtors, deposits and prepayments	1,018,009	155						1,018,164
Amounts due from customers for contract work	74,387	—						74,387
Derivative financial instruments	689	—						689
Prepaid tax	8,992	—						8,992
Bank balances and cash	<u>1,947,781</u>	<u>9,812</u>			560,000	(3,600)	(680,743)	<u>1,833,250</u>
	<u>4,067,525</u>	<u>14,468</u>						<u>3,953,149</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Unaudited	Audited	Pro forma adjustments				Unaudited
	statement of	statement of					pro forma
	assets and	assets and					statement of
	liabilities of	liabilities of					assets and
the Group	Kwai Hei					liabilities of	
as at	as at					the Enlarged	
30 September	31 December					Group	
2010	2010					Group	
<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	
<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	<i>Note 6</i>	<i>Note 7</i>	
<u>Current liabilities</u>							
Loan from a fellow subsidiary	—	490,000	(4,501)			(485,499)	—
Amounts due to associates	1,025	—					1,025
Amounts due to customers for contract work	566,376	—					566,376
Derivative financial instruments	89,615	—					89,615
Creditors, bills payable, deposits and accruals	924,070	9,958					934,028
Unearned insurance premiums							
— due within one year	32,616	—					32,616
Outstanding insurance claims	139,762	—					139,762
Deferred income	18,359	—					18,359
Current income tax liabilities	72,289	3,873					76,162
Bank borrowings	231,046	—					231,046
	<u>2,075,158</u>	<u>503,831</u>					<u>2,088,989</u>
Net current assets/(liabilities)	<u>1,992,367</u>	<u>(489,363)</u>					<u>1,864,160</u>
Total assets less current liabilities	<u>6,228,598</u>	<u>197,137</u>					<u>6,786,891</u>
<u>Non-current liabilities</u>							
Unearned insurance premiums							
— due over one year	68,571	—					68,571
Deferred tax liabilities	221,395	33,814	(31,921)				223,288
Bank borrowings	1,424,525	—			560,000		1,984,525
	<u>1,714,491</u>	<u>33,814</u>					<u>2,276,384</u>
Net assets	<u>4,514,107</u>	<u>163,323</u>					<u>4,510,507</u>

Notes to the unaudited pro forma financial information of the Enlarged Group:

- 1 The assets and liabilities of the Group are extracted from the published interim report of the Group for the six months ended 30 September 2010.
- 2 The assets and liabilities of Kwai Hei as at 31 December 2010 are extracted from the accountants' report on Kwai Hei as set out in Appendix II of this circular.
- 3 Pursuant to the Acquisition Agreement, upon Completion, Kwai Hei shall not have any outstanding loans, liabilities or indebtedness to any group companies of the Vendor. The adjustment reflects the settlement of inter company balances between Kwai Hei and the Vendor and its fellow subsidiary.
- 4 The adjustment is to reverse deferred tax liabilities of Kwai Hei arising from fair value gain of the Property prior to the Acquisition.

The Acquisition is accounted for as a purchase of assets and liabilities because the principal activity of Kwai Hei does not constitute a business for accounting purposes. Kwai Hei solely engages in property investment.

- 5 The adjustment is to reflect the drawdown of bank loan for financing the Acquisition.
- 6 The adjustment is to reflect the settlement of transaction related costs. This comprises stamp duty and other professional expenses.
- 7 The adjustment represents the consideration payable for the Acquisition.

It is provided in the Acquisition Agreement that the Consideration should be adjusted by adding or deducting the adjusted net current assets/liabilities (as defined in the Acquisition Agreement) of Kwai Hei upon Completion.

The reconciliation of the adjusted consideration based on the adjusted net current liabilities of Kwai Hei as at 31 December 2010 is presented as follows:

	<i>HK\$'000</i>
Consideration	686,500
Price adjustments:	
Bank balances and cash	9,812
Debtors, deposits and prepayments	155
Creditors, bills payable, deposits and accruals	(9,958)
Current income tax liabilities	(3,873)
Deferred tax liabilities (deemed to be an item of current liabilities as stated in the Acquisition Agreement)	(1,893)
	<u>(5,757)</u>
Adjusted consideration	<u><u>680,743</u></u>

The final adjusted consideration may be changed if the adjusted net current assets/liabilities upon Completion is different from the above presentation.

- 8 No adjustment has been made to reflect any operating results or other transactions of the Group and Kwai Hei entered subsequent to 30 September 2010 and 31 December 2010 respectively.

**2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The following is the text of the accountants' report on unaudited pro forma financial information of the Enlarged Group, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

We report on the unaudited pro forma financial information set out on pages 34 to 36 under the heading of “Unaudited Pro Forma Financial Information of the Enlarged Group” (the “Unaudited Pro Forma Financial Information”) in Appendix III of the circular dated 25 February 2011 (the “Circular”) of Chevalier International Holdings Limited (the “Company”), in connection with the proposed acquisition of Kwai Hei Investments No. 1 Limited (the “Transaction”) by Legend One Limited, a subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 34 to 36 of the Circular.

Respective Responsibilities of Directors of the Company and the 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 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted unaudited consolidated statement of assets and liabilities as at 30 September 2010 as set out in the Unaudited Pro Forma Financial Information with the unaudited published consolidated condensed financial information of the Company for the six months ended 30 September 2010 as set out in the 2010/2011 interim report of the Company, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2010 or any future date.

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 25 February 2011

The following is the text of the letter and the valuation report received from Knight Frank Petty Limited, an independent property valuer, prepared for the purpose of incorporation in this circular, in connection with its valuation of the property interest to be acquired by the Group as at 31 December 2010.



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25 February 2011

The Directors
Chevalier International Holdings Limited
22nd Floor, Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs

Re: 8 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong (the “Property”)

In accordance with your instructions for us to value the Property of Kwai Hei Investments No. 1 Limited which is going to be acquired by Legend One Limited, a subsidiary of Chevalier International Holdings Limited (the “Company”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market value of the Property as at 31 December 2010 (the “Valuation Date”) for the purpose of inclusion in the circular of the Company dated 25 February 2011.

BASIS OF VALUATION

Our valuation of the Property is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

PROPERTY CATEGORISATION AND VALUATION METHODOLOGY

The Property to be acquired for investment has been valued by reference to comparable market transaction and where appropriate on the basis of capitalisation of the net income shown on the schedules handed to us. We have allowed for outgoings and in some cases made provisions for reversionary income. The Property is valued as a fully operational cold storage with the inclusion of fixtures, fittings and equipments which are related to the operations.

TITLE DOCUMENTS AND ENCUMBRANCES

We have caused searches to be made at the Land Registry. However, we have not scrutinised the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us.

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

INSPECTION AND MEASUREMENT

We have inspected the exterior and, where possible, the interior of the Property valued. However, we have not carried out on-site measurement to verify the correctness of site areas and/or floor areas of the Property and assumed that the site area and floor area shown on the documents handed to us are correct.

STRUCTURAL CONDITION

We are not instructed to undertake any surveys or test on the services of the Property. Our valuation has been undertaken on the basis that the Property is in satisfactory repair and condition with the services functioned satisfactorily and is free of rot, infestation or any other structural defects.

CONTAMINATION

We are not instructed to arrange for any investigation to be carried out to determine whether any deleterious or hazardous material has been used in the construction of the Property and therefore assume in our valuation that none of the said material is contained in the Property. However, if it is established subsequently that contamination exists at the Property or any neighbouring land, or that the Property has been or is being put to any contaminative use, we reserve the right to adjust the value reported herein.

SOURCE OF INFORMATION

We have relied to a very considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of building, particular of occupancy, lettings, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in this valuation report are based on information contained in the documents provided to us and are therefore approximations. We have not verified the information provided to us by the Company and have assumed that they are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

REMARKS

In preparing our valuation report, we have complied with “The HKIS Valuation Standards on Properties (First Edition 2005)” published by the Hong Kong Institute of Surveyors and the requirements contained in the relevant provisions of Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

We enclose herewith our valuation report.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Alex S L Ng
MRICS MHKIS RPS(GP)
Executive Director

* *Mr. Alex S L Ng, MRICS, MHKIS, RPS(GP), has been a qualified valuer with Knight Frank Petty Limited since November 1995 and has about 25 years' experience in the valuation of properties in Hong Kong and has been involved in the valuation of properties in the People's Republic of China and Asia Pacific regions since 1988.*

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010										
8 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong	The Property comprises a 17-storey purpose-built cold storage godown erected on a site with a registered site	The Property is let to a single tenant for a term of 14 years from 15 February 2005 to 14 February 2019 with particulars summarised as follows:	HK\$686,500,000										
Kwai Chung Town Lot No. 360	area of about 3,716.1 sq. m. (40,000 sq. ft.). Completed in 1982, the Property is designed to provide car parking and loading/unloading platform on ground floor, storage, ice-making area and ice-storage on 2nd floor, cold storage on 3rd to 14th floors and storage on 15th to 17th floors (there is no floor designation as 1/F in the Property).	<table border="0"> <tr> <td data-bbox="589 578 744 670">Term 15 Feb 2005 to 14 Feb 2008</td> <td data-bbox="770 578 1018 643">Monthly rent (exclusive) HK\$2,844,000</td> </tr> <tr> <td data-bbox="589 711 744 766">15 Feb 2008 to 14 Feb 2011</td> <td data-bbox="770 711 915 737">HK\$3,270,600</td> </tr> <tr> <td data-bbox="589 807 744 862">15 Feb 2011 to 14 Feb 2014</td> <td data-bbox="770 807 1018 927">Market rent but not less than the rent passing and not more than 115% of the rent passing</td> </tr> <tr> <td data-bbox="589 968 744 1024">15 Feb 2014 to 14 Feb 2017</td> <td data-bbox="770 968 1018 1089">Market rent but not less than the rent passing and not more than 115% of the rent passing</td> </tr> <tr> <td data-bbox="589 1130 744 1185">15 Feb 2017 to 14 Feb 2019</td> <td data-bbox="770 1130 1018 1248">Market rent but not less than the rent passing and not more than 115% of the rent passing</td> </tr> </table>	Term 15 Feb 2005 to 14 Feb 2008	Monthly rent (exclusive) HK\$2,844,000	15 Feb 2008 to 14 Feb 2011	HK\$3,270,600	15 Feb 2011 to 14 Feb 2014	Market rent but not less than the rent passing and not more than 115% of the rent passing	15 Feb 2014 to 14 Feb 2017	Market rent but not less than the rent passing and not more than 115% of the rent passing	15 Feb 2017 to 14 Feb 2019	Market rent but not less than the rent passing and not more than 115% of the rent passing	
Term 15 Feb 2005 to 14 Feb 2008	Monthly rent (exclusive) HK\$2,844,000												
15 Feb 2008 to 14 Feb 2011	HK\$3,270,600												
15 Feb 2011 to 14 Feb 2014	Market rent but not less than the rent passing and not more than 115% of the rent passing												
15 Feb 2014 to 14 Feb 2017	Market rent but not less than the rent passing and not more than 115% of the rent passing												
15 Feb 2017 to 14 Feb 2019	Market rent but not less than the rent passing and not more than 115% of the rent passing												
	The total gross floor area of the Property (excluding the car parking spaces) is approximately 35,301.83 sq. m. (379,989 sq. ft.) as per the approved building plans.												
	The Property is held under New Grant No. 5604 for a term of 99 years less the last three days commencing from 1 July 1898 and has been statutorily extended to 30 June 2047.	The tenant has a right to terminate the lease by serving to the landlord not less than 12 months' prior written notice at any time after the expiration of 10 years from the commencement of the term of the lease.											
	The annual Government rent payable for the Property is an amount equal to 3% of the then rateable value for the time being of the Property.	The tenant has right to sub-let with the landlord's approval.											

Notes:

- (1) The registered owner of the Property is Kwai Hei Investments No. 1 Limited with the assignment dated 16 February 2007 registered vide memorial no. 07030902520511 at a purchase price of HK\$490 million.
- (2) The Property is subject, inter alia, to the following encumbrances:
 - (i) Lease dated 15 February 2005 and registered vide memorial no. 05041901770365;
 - (ii) Sub-Lease dated 15 February 2005 and registered vide memorial no. 05041901770379;
 - (iii) Legal Charge in favour of The Hongkong and Shanghai Banking Corporation Limited dated 16 February 2007 and registered vide memorial no. 07030902520557;
 - (iv) Addendum to Lease memorial no. 05041901770365 dated 15 April 2008 and registered vide memorial no. 08042900780161; and
 - (v) Addendum to Sub-Lease memorial no. 05041901770379 dated 16 June 2008 and registered vide memorial no. 08070702150013.
- (3) The Property falls within an area zoned for “Industrial” uses under Kwai Chung Outline Zoning Plan No. S/KC/24 dated 12 November 2010.

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 Group. The Directors, having made all reasonable enquiries, confirm that 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 misleading.

2. DISCLOSURE OF INTERESTS

i. Directors and chief executives interests in securities

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were 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 have taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

(a) *Interests in the Company — Shares*

Name of Directors	Capacity	Number of Shares		Total	Approximate percentage of interests (%)
		Personal interest	Family interests		
CHOW Yei Ching	Beneficial owner	154,682,359 [#]	—	154,682,359	55.73
KUOK Hoi Sang	Beneficial owner	98,216	—	98,216	0.04
TAM Kwok Wing	Beneficial owner	169,015	32,473	201,488	0.07
HO Chung Leung	Beneficial owner	40,000	—	40,000	0.01

[#] *Dr. Chow beneficially owned 154,682,359 Shares, representing approximately 55.73% of the Shares in issue. These Shares were the same as those Shares disclosed in the section “Substantial Shareholders’ interests in securities” below.*

(b) Interests in associated corporation — shares

Name of Directors	Associated corporation	Capacity	Number of ordinary shares			Total	Approximate percentage of interest (%)
			Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	CPHL	Interest of controlled corporation	—	1,285,829,330 [#]	—	1,285,829,330	54.14
CHOW Vee Tsung, Oscar	CPHL	Beneficial owner	174,120,000	—	—	174,120,000	7.33
KUOK Hoi Sang	CPHL	Beneficial owner	24,000,000	—	—	24,000,000	1.01
TAM Kwok Wing	CPHL	Beneficial owner	4,000,000	—	104,000	4,104,000	0.17

[#] Dr. Chow had notified CPHL that under the SFO, he was deemed to be interested in 1,285,829,330 shares in CPHL which were all held by the Company as Dr. Chow beneficially owned 154,682,359 Shares, representing approximately 55.73% of the Shares in issue.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

ii. Substantial Shareholders' interests in securities

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Substantial Shareholders	Capacity	Number of Shares held	Approximate percentage of interest (%)
CHOW Yei Ching	Beneficial owner	154,682,359	55.73
MIYAKAWA Michiko	Beneficial owner	154,682,359	55.73

(Note)

Note: Under Part XV of the SFO, Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested in the same parcel of 154,682,359 Shares held by Dr. Chow.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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, beneficially 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 in any options in respect of such capital.

3. DISCLOSURE OF OTHER INTERESTS

i. Interests in competing business

As at the Latest Practicable Date, none of the Directors or their respective associates had an interest in any business constituting a competing business to the Group.

ii. Interests 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, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 March 2010 (the date to which the latest published audited financial statements of the Company were made up).

iii. Interests in contract or arrangement

As at the Latest Practicable Date, there was no contract or arrangement in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

4. LITIGATION AND CLAIMS

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation and/or claims that have material adverse effect on the financials, and no claim of material importance was pending or threatened against any member of the Enlarged Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered, or were proposing to enter, into any service contract with any member of the Group which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

6. QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Name	Qualification
PricewaterhouseCoopers	Certified public accountants
KPMG	Certified public accountants
Knight Frank Petty Limited	Independent valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which they respectively appear.

As at the Latest Practicable Date, all of the experts above were not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which has been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 March 2010 (the date to which the latest published audited financial statement of the Company were made up).

7. MATERIAL CONTRACTS

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

- (a) the sale and purchase agreement entered into between 成都其士房地產發展有限公司 (Chengdu Chevalier Property Development Company Limited*) (“CCPD”), a company established in the PRC and a jointly controlled entity of the Company in which the Group has a 49% interest, and 西藏自治區公安廳經濟適用房統建中心 (Economic Housing Building Center of Tibet Autonomous Region Provincial Public Security Department*) (“Tibet Public Security”) on 22 October 2009 in relation to the acquisition by CCPD of a 50% interest in 成都聖華房地產開發有限公司 (Chengdu Shenghua Real Estate Development Company Limited*) (“CSED”) at a consideration of RMB12,500,000. Pursuant to the aforesaid sale and purchase agreement, CCPD was also required to

* For identification purpose only

- finance the construction costs of certain units with a total construction area of 40,000 sq.m. in a residential apartment complex being developed by Tibet Public Security in Chengdu as the repayment of Tibet Public Security's investment in CSED;
- (b) the disposal agreement dated 22 March 2010 entered into between Richsky International Limited, a wholly-owned subsidiary of the Company, and Fortunemark International Limited in relation to the disposal of the entire issued shares in Citiway Engineering Limited at a consideration of RMB160,000,000;
 - (c) the loan transfer agreement dated 22 March 2010 entered into between the Group and Fortunemark International Limited in relation to the assignment of all obligations, liabilities and debts owing and incurring by Citiway Engineering Limited to the Group at a consideration of RMB103,000,000;
 - (d) the agreement dated 3 April 2010 entered into among Chevalier Development China Limited, a wholly-owned subsidiary of the Company (as vendor), Intime Department Store (Hong Kong) Company Limited (as purchaser), the Company (as vendor's guarantor) and Intime Department Store (Group) Company Limited (as purchaser's guarantor) in relation to the disposal of the entire issued share capital of Smartco Holdings Limited and the repayment of certain loans at a consideration of approximately HK\$532,000,000;
 - (e) the sale and purchase agreement dated 29 June 2010 entered into among Chevalier Pacific Limited, a wholly-owned subsidiary of CPHL (as vendor), Festive Wise Limited (as purchaser), CPHL (as vendor's guarantor) and China Resources Enterprise, Limited (as purchaser's guarantor) in relation to the disposal of 80% of the issued share capital of Pacific Coffee (Holdings) Limited at a consideration of HK\$326,640,000;
 - (f) the shareholders agreement dated 7 July 2010 pursuant to the completion of (e) mentioned above, entered into among Festive Wise Limited, Chevalier Pacific Limited, Pacific Coffee (Holdings) Limited, China Resources Enterprise, Limited and CPHL in order to regulate their relationship among themselves in respect of the affairs and business of Pacific Coffee (Holdings) Limited;
 - (g) the Share Exchange Agreement dated 15 December 2010 entered into among International Restaurants Holdings Limited ("IRHL", as vendor), Sinochina Enterprises Limited ("Sinochina", an indirect wholly-owned subsidiary of CPHL, as purchaser), the owners of IRHL (as vendor's guarantors) and Sharp Rise Limited (a wholly-owned subsidiary of CPHL, as purchaser's guarantor) in respect of the acquisition of a 60% interest in Metro Point Enterprise Company Limited, a wholly-owned subsidiary of IRHL before completion,

which was satisfied by the issue of 400 new shares in Sinochina (representing 40% of the issued share capital of Sinochina as enlarged by the issue of the aforesaid shares) to IRHL as consideration (the “Share Exchange”);

- (h) the loan agreement dated 15 December 2010 entered into between Chevalier Pacific Limited (as lender) and IRHL (as borrower) in respect of a loan in the amount of HK\$25,000,000 advanced to IRHL on 16 December 2010;
- (i) the loan agreement dated 15 December 2010 entered into between Sinochina (as lender) and IRHL (as borrower) as amended by a supplemental agreement dated 21 December 2010 in respect of a loan in the amount of HK\$24,920,000 advanced to IRHL on 16 December 2010;
- (j) the shareholders agreement dated 21 December 2010 entered into among IRHL, Sinochina, the owners of IRHL and Sharp Rise Limited in relation to the management of the affairs and business of the Igor’s Group and the Café Deco Group after completion of the Share Exchange;
- (k) the option agreement dated 21 December 2010 entered into between CL Holdings Limited (“CL Holdings”), a 60%-owned subsidiary of CPHL, and World Pointer Limited (“World Pointer”), a wholly-owned subsidiary of CPHL. In consideration of a sum of HK\$1 paid by World Pointer to CL Holdings, CL Holdings irrevocably and unconditionally grants to World Pointer an option to sell all (but not part only) of the 51% interest in the issued share capital of each of the three subsidiaries of World Pointer (the “World Pointer Group Companies”) to CL Holdings at a consideration of HK\$25,000,000. In consideration of a sum of HK\$1 paid by CL Holdings to World Pointer, World Pointer irrevocably and unconditionally grants to CL Holdings an option to sell all (but not part only) of the 49% interest in the issued share capital of the World Pointer Group Companies to World Pointer at a consideration of HK\$24,019,608; and
- (l) the Acquisition Agreement.

8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 March 2010, being the date to which the latest published audited accounts of the Company were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 22nd Floor, Chevalier

Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong from the date of this circular up to and including 11 March 2011:

- (a) the Company's memorandum and bye-laws;
- (b) the annual reports of the Company for each of the two financial years ended 31 March 2009 and 2010 and the interim report of the Company for the six months ended 30 September 2010;
- (c) the accountants' report on Kwai Hei, the text of which is set out in Appendix II to this circular;
- (d) the accountants' report from PricewaterhouseCoopers on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) the valuation report from Knight Frank Petty Limited in relation to the Property, the text of which is set out in Appendix IV to this circular;
- (f) the letters of consent as referred to in the paragraph headed "Qualifications and consents of experts" in this appendix;
- (g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (h) a copy of each circular issued by the Company pursuant to the requirements set out in Chapter 14 and 14A of the Listing Rules which has been issued since 31 March 2010 (being the date of the latest published audited accounts).

10. MISCELLANEOUS

- (a) The secretary of the Company is Mr. MUI Chin Leung. He is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda. Its head office and principal place of business is situated at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.