



JETS TECHNICS
INTERNATIONAL HOLDINGS LIMITED
(a company incorporated in Bermuda with limited liability)



Annual Report 2007

Recycling Industry Creates
Environmentally-friendly Environment And
Preserves Natural Resources

Recycling Industry Creates Environmentally-friendly Environment And Preserves Natural Resources

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CORPORATE INFORMATION

BOARD OF DIRECTORS :

So Tat Wing (Chairman and Managing Director)
So Tat Chiu (Executive Director)
(resigned on 28 July 2006)
So Tat Cho (Executive Director)
Wong Ying Lee (Executive Director)
(resigned on 28 July 2006)
Chan Yin Ming, Dennis (Executive Director)
(appointed on 1 July 2006 and resigned on 5 March 2007)
Ong Chor Wei (Non-executive Director)
Au Chun Kwok Augustus (Independent Non-executive Director)
Seah Hou Kee (Independent Non-executive Director)
Cheung King Kwok (Independent Non-executive Director)

JOINT COMPANY SECRETARIES :

Chung Ka Kui, FCCA, CPA
Tan Min-Li, LLB (Hons), LLM

ASSISTANT COMPANY SECRETARY :

Ira Stuart Outerbridge III, FCIS

AUDIT COMMITTEE :

Seah Hou Kee (Chairman)
Cheung King Kwok
Ong Chor Wei

NOMINATING COMMITTEE :

Au Chun Kwok Augustus (Chairman)
Seah Hou Kee
So Tat Wing (appointed on 28 July 2006)
Wong Ying Lee (resigned on 28 July 2006)

REMUNERATION COMMITTEE :

Cheung King Kwok (Chairman)
Au Chun Kwok Augustus
Ong Chor Wei (appointed on 28 July 2006)
Wong Ying Lee (resigned on 28 July 2006)

REGISTERED OFFICE :

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS :

18th Floor, Saxon Tower,
7 Cheung Shun Street,
Cheung Sha Wan,
Kowloon, Hong Kong
Tel: (852) 2782 9088
Fax: (852) 2388 6627 / 2385 8433

SINGAPORE SHARE TRANSFER AGENT :

Lim Associates (Pte) Ltd
3 Church Street
#08-01 Samsung Hub
Singapore 049483

BERMUDA SHARE REGISTRAR :

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

AUDITORS :

Baker Tilly Hong Kong Limited
Certified Public Accountants
12th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong
[Partner-in-charge : Mr. Andrew David Ross]
(Appointment since FY2006)

LEGAL ADVISOR TO THE COMPANY AS TO HONG KONG LAW :

Huen & Partners
Units 3309-11, 33rd Floor, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

LEGAL ADVISER TO THE COMPANY AS TO BERMUDA LAW :

Conyers Dill & Pearman
50 Raffles Place
#18-04 Singapore Land Tower
Singapore 048623

PRINCIPAL BANKERS :

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
ICBC Tower
122-126 Queen's Road Central
Hong Kong

Chairman's Statement

The financial year ended 31 May 2007 ("FY2007") was a difficult and challenging year for our Group. Our financial performance for FY2007 was adversely affected by the unexpected disruptions of our production schedule due to setting up of new machineries and fine tuning of production facilities in the second half of the financial year. In addition, higher operating expenses were incurred mainly due to additional headcount to strengthen organization and to cope with the increase in sales orders.

The effect of the above-mentioned factors is reflected in the financial results for the fiscal year. Group revenue for FY2007 was HK\$67.98 million, an increase of only 8% over fiscal 2006 mainly attributable to the sales to overseas markets. On the other hand, selling and distribution cost and general administrative expenses rose to HK\$29.79 million, up 19% compared to HK\$24.94 million in FY2006. As a result, we have a loss before tax of HK\$24.82 million in FY2007, higher than HK\$20.55 million in FY2006.

Correspondingly, the Group recorded a loss per share of 10.08 HK cents in FY2007, compared to loss per share of 7.85 HK cents in FY2006. Net asset value per share was 20.77 HK cents as at 31 May 2007, compared to 30.75 HK cents a year ago.

However, we continued to make good progress during the year in the following areas:

Our Group scored a success in the award and the completion during the year of the prestigious project for supplying and installing the sports and safety surface for the 2008 Beijing Olympic Equestrian Event, to be held in Hong Kong.

Our sales to overseas markets such as Macau and the PRC have grown by over 100% compared to FY2006 and we have successfully expended our market to Spain in FY2007.

Our newly developed recycled wood product has met with positive responses from customers. We also see tremendous potential growth opportunities in expanding this product into the construction and consumer home improvement markets.



Our Group continues to explore and work on developing the business of repossessing, recovery and recycling of waste tyres ("Repossessing Tyres"). We view the Repossessing Tyres business a worthy opportunity compatible with our expertise and our development strategy and believe that such business will generate new revenue stream to our Group in the long term.

Chairman's Statement

Looking Ahead

Having expended considerable resources and efforts towards widening our geographical market and developing higher-value products, we will now significantly increase our attention on several key areas including :

- expanding production outputs of the recycled wood product.
- growing our overseas business and customer base.
- exploring strategies of expanding the recycled wood product into existing and new markets.
- developing the Repossessing Tyres business with a focus on securing government contracts.
- streamlining our operations with an emphasis on efficiency and rationalizing the overall level of operating expenses.

We are confident that these strategies will lay a strong foundation for the Group's future growth and return to profitability.

Appreciation

Throughout this challenging year, we continued to receive invaluable support from our shareholders, customers, business associates, management, and staff. It is with their support that the Company is able to pass this hurdle and developed new avenues of growth for a better FY2008. Thus, on behalf of the Board of Directors, allow me to express my heartfelt appreciation to all of you.

Thank you.



So Tat Wing
Chairman and Managing Director
3 September 2007

FINANCIAL HIGHLIGHTS

| | 2007 | 2006 |
|---------------------------------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Operating Results | | |
| Revenue | 67,979 | 63,095 |
| Gross profit | 10,455 | 9,032 |
| Loss before tax | (24,823) | (20,553) |
| Loss after tax | (24,823) | (19,346) |
| Net loss attributable to shareholders | (24,823) | (19,346) |
| Loss per share (HK cents) | (10.08) | (7.85) |
| Financial Position | | |
| Total assets | 82,375 | 96,088 |
| Total debts | 12,637 | 8,871 |
| Shareholders' equity | 51,178 | 75,748 |
| Debt to equity ratio (times) | 0.25 | 0.12 |
| Cash Flows | | |
| Net cash used in operating activities | (14,516) | (16,733) |
| Cash and bank balances | 6,658 | 25,055 |

FINANCIAL AND OPERATIONS REVIEW

Overview

Jets Technics International Holdings Limited and its subsidiaries (together the "Group") are principally engaged in designing, producing and selling of environmentally-friendly recyclable products. The Group either sells its products directly to customers under its proprietary brands or manages entire construction projects from designing, producing, supplying to installation. Currently, the Group has a product development and design centre, which houses its team of in-house engineers and designers and production facilities in Hong Kong and the People's Republic of China (the "PRC").

The Group's product range may be categorised as follows:

Safety Surface: these are safety surface mats used for lining the floors of playgrounds, indoor flooring and wall protection. These are made principally from recycled tires.



Sports Surface: these are surfaces used for lining the floors of indoor and outdoor recreational facilities such as jogging tracks, gymnasiums, tennis courts, golf driving ranges, indoor games halls and changing rooms. These are made principally from recycled tires.



Garden Furniture: these include benches, pergolas, covered walkways, shelters, fencing, bins and bicycle racks. These are made principally from recycled plastic wood.



Playground Equipment: these include slides, multi-play systems, merry-go-rounds and swings used in both indoor and outdoor playgrounds.



Other Recyclable Products: these include products made from recycled plastic wood such as foot massage tiles.



FINANCIAL AND OPERATIONS REVIEW

Income Statement

Revenue

Revenue increased by approximately HK\$4.88 million or 7.73%, from HK\$63.10 million in FY2006 to HK\$67.98 million in FY2007.

| Revenue | 2007 | | 2006 | | Year-on-year % change |
|-----------------------------|----------|--------|----------|--------|--------------------------|
| | HK\$'000 | % | HK\$'000 | % | |
| Safety surface | 12,934 | 19.03 | 12,134 | 19.23 | 6.59 |
| Sports surface | 13,394 | 19.70 | 8,324 | 13.19 | 60.91 |
| Playground equipment | 11,366 | 16.72 | 9,589 | 15.20 | 18.53 |
| Garden furniture | 20,527 | 30.20 | 22,374 | 35.46 | (8.26) |
| Other products and services | 9,758 | 14.35 | 10,674 | 16.92 | (8.58) |
| Total | 67,979 | 100.00 | 63,095 | 100.00 | 7.74 |

The increase in revenue was mainly attributed to the increase in sales to overseas markets to HK\$9.60 million in FY2007 from HK\$3.71 million in FY2006.

Sales of safety surface, sports surface and playground equipment increased by approximately HK\$0.80 million or 6.59%, HK\$5.07 million or 60.91% and HK\$1.78 million or 18.53% respectively from the previous year. However, sales of garden furniture and other recyclable products decreased by HK\$1.85 million or 8.26% and HK\$0.92 million or 8.58% respectively compared to the corresponding previous year. The significant increase in the sports surface segment was attributed to the completion of the 2008 Olympic Equestrian Event project.

Gross profit

Gross profit increased by approximately HK\$1.43 million or 15.84%, from HK\$9.03 million in FY2006 to HK\$10.46 million in FY2007 and gross profit margin increased by approximately 1.07% from 14.31% in FY2006 to 15.38% in FY2007. The increase in gross profit was due to the increase in both turnover and gross profit margin.

Gross profit margin increased mainly due to the following:

- i) increased production of certain semi-finished components instead of procuring them from third parties;
- ii) lower material costs for the production of the newly developed fibre-wood plastic products; and
- iii) reduction in subcontracting fee as more production process are performed in-house.

Selling and distribution costs

Selling and distribution costs increased by approximately HK\$3.22 million or 44.48%, from HK\$7.24 million in FY2006 to HK\$10.46 million in FY2007 due to additional head count for overseas sales and higher promotional expenses.

Promotional expenses include advertising, trade shows, overseas travels, entertainment, and other incidental expenses relating to promotional activities.

Administrative expenses

Administrative expenses increased by approximately HK\$1.64 million or 9.27%, from HK\$17.69 million in FY2006 to HK\$19.33 million in FY2007.

FINANCIAL AND OPERATIONS REVIEW

The increase was mainly attributed to:

- i) increase in staff costs due to addition of new staff to support the operations;
- ii) legal expenses in respect of a lawsuit against a machinery supplier. It is likely that this legal case could not be resolved in the next six months and additional legal expenses will be incurred; and
- iii) increase in rent and rates due to the rental for the new Macau office.

Other operating expenses

Other operating expenses increased by approximately HK\$0.29 million or 5.42%, from approximately HK\$5.35 million in FY2006 to HK\$5.64 million in FY2007. The increase was mainly attributable to severance payments of HK\$0.7 million, as part of the Group's reorganization efforts. The increase was partially offset by the decrease in pre-operating expenses which were incurred by the Guangzhou factory in the corresponding previous year.

Finance costs

Finance costs increased by approximately HK\$0.06 million or 13.95%, from HK\$0.43 million in FY2006 to HK\$0.49 million in FY2007. The increase was mainly attributed to the increase in interest rate and average level of borrowings.

Loss before tax

The Group recorded a loss before tax of HK\$24.82 million in FY2007, higher than HK\$20.55 million in FY2006, mainly attributed to the increase in selling and distribution costs and administrative expenses.

Balance Sheet

Non-current assets

As at 31 May 2007, non-current assets amounted to approximately HK\$31.61 million, an increase of

HK\$3.29 million compared to the corresponding previous year. The increase was primarily due to the addition of new machineries during the year under review.

Current assets

As at 31 May 2007, current assets amounted to approximately HK\$50.77 million, a decrease of HK\$17.00 million compared to the corresponding previous year. This was mainly due to a decline in cash and bank balances, a decrease in accounts receivable and tax refundable. The decrease was partially offset by increases in inventories and prepayments, deposits and other receivables.

Cash and bank balances fell by HK\$18.40 million due to operating losses, purchasing of fixed assets, repayment of certain bank loans and rental deposit paid for a new tenancy agreement in respect of the premises at Lot EP06-033 EcoPark in Tuen Mun Area 38, Hong Kong (the "New Tenancy"). The decrease was partially offset by the tax refund of HK\$2.80 million by the Hong Kong Inland Revenue Department. Accounts receivable decreased by HK\$1.88 million mainly due to increase in projects with shorter completion time. The increase in inventories was mainly due to increase in work in progress as a result of higher orders at the end of the financial year. The increase in prepayments, deposits and other receivables was due to the increase in rental deposits and prepaid rental for the New Tenancy.

Current liabilities

As at 31 May 2007, current liabilities amounted to approximately HK\$23.73 million, an increase of HK\$11.58 million compared to the corresponding previous year. This was due to increases in trade and bills payable of approximately HK\$4.16 million, accrued liabilities and other payables of approximately HK\$2.34 million, deposits received from customers of HK\$0.58 million and the increase in short-term interest-bearing loans and borrowings of HK\$4.00 million to finance the working capital.

FINANCIAL AND OPERATIONS REVIEW

Non-current liabilities

As at 31 May 2007, non-current liabilities amounted to approximately HK\$7.47 million, a decrease of HK\$0.73 million compared to the corresponding previous year due to the repayment of interest-bearing loans and borrowings.

Liquidity and Cash Flow

The Group's cash and bank balances declined by HK\$18.85 million to approximately HK\$6.21 million as at 31 May 2007 compared to HK\$25.06 million as at 31 May 2006.

Total group borrowings increased to HK\$12.64 million as at 31 May 2007 (representing 24.69% of shareholders' fund) from HK\$8.87 million at 31 May 2006 (representing 11.71% of shareholders' fund).

Significant factors and trends that may affect the Group in the next 12 months

Notwithstanding the disappointing results for FY2007, the Group made improvements in the following areas during the year:

- i) the Group's sales and research and development capabilities and operations were strengthened;
- ii) the manufacturing process of recycled wood products was enhanced; and
- iii) efforts were stepped up in the marketing and development of the Company's recycled wood products, which have met with positive market demands.

In FY2007, the Group encountered problems arising from its efforts to enhance the efficiency of its production machineries, thereby causing some disruptions to the Group's manufacturing outputs in the second half of the year. Management believes that good progress has since been made in respect of resolving such problems.

For the next twelve months, management will continue to closely monitor and fine-tune the Group's production process so as to minimize downtime and to improve output and sales.

In addition, the Group has decided to extend its recycling activities to include the repossessing, recovery and recycling of waste tyres ("Repossessing Tyres"). As part of the plan for the Repossessing Tyres business, the Group has recently leased a piece of land at the EcoPark in Hong Kong to support such operations. The management believes that such business will generate new revenue stream to the Group in the long term.

The Group expects additional funding will be required in the next twelve months to finance its operations. The management is in the process of evaluating various financing options including additional bank borrowings and / or new borrowing or equity issue when required.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

So Tat Wing, Chairman and Managing Director, a co-founder of the Group, was appointed to the Board on 17 February 2004. Mr. So assumes the chief executive officer's role and is primarily responsible for steering strategic corporate directions, overall management and research and development activities of the Group. Mr. So has more than 40 years of engineering-related experience of which 22 years were in the recycling industry, and has been instrumental in our Group's growth and development. Prior to joining the Group in 1988, he started Jets Construction Engineering Company where he was one of the partners and was responsible for steering the corporate directions, planning the business strategies and the overall management of the business from 1983 to 1988. From 1974 to 1983, he was a Technician with the Electrical and Mechanical Department of the Hong Kong Government where he was responsible for machinery maintenance and repair.

So Tat Cho, Executive Director, was appointed to the Board on 17 February 2004. Mr. So is responsible for the production, engineering and installation functions of the Group. He has more than 19 years of experience in the industry and has been instrumental in the Group's growth and development. Prior to joining our Group in 1990, he was one of the partners and the Manager of Jets Construction Engineering Company where he was responsible for production, engineering and installation functions of the business from 1986 to 1990. From 1984 to 1986, he was a Supervisor with First Transport Limited where he was responsible for operating a fleet of vehicles.

Chan Yin Ming, Dennis, appointed as the executive director of the Company on 1 July 2006 and resigned with effect from 5 March 2007.

So Tat Chiu, resigned as the executive director of the Company with effect from 28 July 2006.

Wong Ying Lee, resigned as the executive director of the Company with effect from 28 July 2006.

NON-EXECUTIVE DIRECTOR

Ong Chor Wei, Non-executive Director, was appointed to the Board on 18 May 2004. He is presently the Director of UPB International Capital Ltd. Mr. Ong is a director of various unlisted companies in Hong Kong and was a director of various listed companies in Hong Kong. He has over 17 years of experience in finance and accounting. Mr. Ong graduated from The London School of Economics and Political Science, University of London with a Bachelor of Laws degree. He also holds a Master degree in Business Administration jointly awarded by the University of Wales and University of Manchester. Mr. Ong is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Au Chun Kwok Augustus, Independent Non-executive Director, was appointed to the Board on 18 May 2004. He is presently a Solicitor and Partner of the law firm of Vincent T.K. Cheung, Yap & Co. where he is responsible for advising on corporate finance matters including initial public offerings, placements, right issues, convertibles, changes of domicile, group reorganisations and on Hong Kong Stock Exchange listing rules and compliance matters. He also advises on takeovers of public and private companies, investments involving PRC companies and general commercial matters. Mr. Au obtained a Bachelor of Laws Degree from The London School of Economics and Political Science, University of London and is a Solicitor of the High Court of Hong Kong.

BOARD OF DIRECTORS

Seah Hou Kee, Independent Non-executive Director, was appointed to the Board on 18 May 2004. Mr. Seah is currently the Managing Partner of H K Seah & Co, a public accounting firm. He was previously the Audit Director of The J.M. and Co. and the General Manager in charge of finance and administration in Sharp-Roxy Sales (Singapore) Pte Ltd ("Sharp-Roxy"), a member of Sharp Corporation, Japan. He was with Sharp-Roxy from 1986 to 2000. Prior to 1986, Mr. Seah held senior financial and accounting positions in Camco Asia Pte Ltd, Polariod Singapore Pte Ltd and an audit position with Arthur Andersen & Co. Mr. Seah has been a Director of Sincere Management Consultants Pte Ltd, a management consultancy company, since 1997, and Fulyan Pte Ltd, a property investment company, since 1994. He is a member of the Singapore Institute of Directors. Mr. Seah graduated with a Bachelor of Commerce in Accountancy (Honours) from Nanyang University and is a member of the Institute of Certified Public Accountants of Singapore and CPA Australia.

Cheung King Kwok, Independent Non-executive Director, was appointed to the Board on 18 May 2004. He is presently the Managing Director of Consult Link Pte Ltd where he provides corporate training and financial consultancy services. From 1997 to 2001, he was the Executive Director of The Grande Holdings Limited where he was responsible for management, strategic planning and corporate restructuring. From 1992 to 1997, he was the Group Finance Director of The Grande Holdings Limited where he was in charge

of financial and treasury management, mergers, acquisitions, disposals, rehabilitation plans and rights issues. From 1991 to 1992, Mr. Cheung was the Chief Finance Officer of a division of The Grande Holdings Limited where he was in charge of financial and treasury management. From 1984 to 1990, he was an Audit Manager and Senior Audit Manager of Coopers and Lybrand where his responsibilities were managing of audit, assignments, reviews, fraud investigations and litigation support. From 1978 to 1983, he was an Audit Staff Accountant and Senior Audit Staff Accountant of Arthur Andersen & Co. where he carried out audit, investigations and due diligence reviews. Mr. Cheung obtained a Bachelor of Commerce (Honours) from the University of Manitoba, Canada. He is a Certified Public Accountant in Singapore, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, United Kingdom.

Save that So Tat Wing, So Tat Chiu and So Tat Cho are brothers, none of the Directors are related to each other or the substantial shareholders of the Company.



EXECUTIVE OFFICERS

So Chi Chun, joined the Group in December 2006 as the Director Assistant of Jets Technics Limited, the Group's major subsidiary and report to the Board of Directors of Jets Technics Limited. Mr. So obtained a Bachelor of Science in Architecture degree from Barlett School of Architecture, University College London in 2004. Prior to joining the Group, he was a designer of Gravity Partnership Limited. Mr. So is the son of the Chairman and Managing Director, Mr So Tat Wing.

Liu Jing Hao, General Manager of Guangzhou Operations, joined the Group in 2004 and is responsible for overall management function of the Group's PRC operations, which includes sales and marketing, manufacturing, and finance. Ms. Liu has more than 30 years of experience in manufacturing, marketing and sales in Hong Kong and the PRC. From 1995 to 2004, she was the President of Sales for China region of Concordia Paper Limited, the President of Guangzhou Free Trade Zone Concordia Paper Limited and the President of Guangzhou Xiehui Paper Industry Co., Limited. From 1990 to 1995, Ms. Liu was an Electrical Engineer with Guangzhou Wan Bao Group Co., Limited. Prior to which, she was a Technical Staff of Guangzhou Umbrella Product Co., Limited. Ms. Liu is a graduate of the Guangzhou Institute of Technology majoring in industrial automation.

Chung Ka Kui, Finance Manager, is responsible for the accounting and finance functions of the Group. Mr. Chung has more than 14 years of experience in auditing, accounting and finance. Prior to joining the Group in 2001, he was the Finance Manager of Worldwide Technology Development Ltd. where he was responsible for the accounting and finance functions of the company. From 1996 to 2001, he was the Finance Manager of Chen Hsong Holdings Limited where he was responsible for the finance and accounting functions of the group. From 1993 to 1996, he was the Senior Accountant II of Deloitte Touche Tohmatsu where he was responsible for auditing companies and flotation assignments. From 1991 To 1992, he was a Semi-Senior of Albert Chin, Chow Him & Co., CPA where he was responsible for auditing, taxation and due diligence assignments. From 1990 to 1991, he was a Junior Audit Clerk of K.H. Law Co., CPA where he was responsible for auditing, accounting and

taxation. Mr. Chung has a Diploma in Business Administration from the Shue Yan College, Hong Kong and is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.

Yu Sui Fan, General Sales Manager, is responsible for overall sales functions of the Group's operations in Hong Kong. Prior to which, she was Marketing Manager of the Group. Prior to joining the Group in 2002, she was a Sales Executive of Wah Lam Building Material Ltd. from 2001 to 2002 and was responsible for the sales functions. From 1994 to 2001, she was a Customer Service Officer of Jets Technics Ltd. where she was responsible for customer service and co-ordination and operation of contracts. From 1989 to 1994, she was a Sales Administrative Officer of Shun Hing Electric Works and Engineering Co. Ltd. where she was involved in administrative works and shipping delivery. Ms. Yu holds a Diploma in Marketing from the Chartered Institute of Marketing.

Li Chun Wa, Senior Manager (Overseas Sales), is responsible for overall sales functions of international markets excluding China market. Mr. Li joined the Group in May 2000. Before assuming his current position, he was the Senior Sales Manager and a Senior Project Manager of the Group's operations in Hong Kong. Prior to joining the Group, Mr. Li has had more than 19 years of experience in marketing and sales and project management with various Hong Kong companies.

Wong Chi Bun, Business Development Manager (China Region), joined the Group in 1994 as an Administration and Accounting Assistant and was promoted to Credit Controller in 2000 and Assistant Business Development Manager of the Hong Kong operations in 2005 before assuming his current position. He is responsible for overall sales and business development functions in the PRC.

Save as disclosed above, none of the Executive Officers are related to each other or the substantial shareholders of the Company.

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Financial Contents

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Report of The Directors

The directors present their report and the audited financial statements of the Company and of the Group for the financial year ended 31 May 2007.

The Company

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 9 February 2004.

The shares of the Company were listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 30 June 2004.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements.

Results and dividends

Details of the results of the Company and of the Group for the year ended 31 May 2007 and the state of affairs of the Company and of the Group at 31 May 2007 are set out in the financial statements on pages 18 to 47.

During the year, no interim dividend was declared and paid, and the directors of the Company do not recommend any payment of final dividend this year.

Directors

The directors of the Company in office during the year and up to the date of this report were:

Executive directors:

| | |
|-----------------------|---|
| So Tat Wing | (Chairman and Managing Director) |
| So Tat Cho | |
| So Tat Chiu | (Resigned on 28 July 2006) |
| Wong Ying Lee | (Resigned on 28 July 2006) |
| Chan Yin Ming, Dennis | (Appointed on 1 July 2006 and resigned on 5 March 2007) |

Non-executive director:

Ong Chor Wei

Independent non-executive directors:

Au Chun Kwok Augustus
Cheung King Kwok
Seah Hou Kee

In accordance with Bye-law 86 of the Company, Mr. Au Chun Kwok Augustus, Mr. Cheung King Kwok and Mr. Seah Hou Kee will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Arrangements to enable directors to acquire shares and debentures

Neither at the end of the year, nor at any time during the year, was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of The Directors

Directors' interests in shares and debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest, direct or deemed, in the share capital of the Company and related corporations, except the following:

| | Shares registered in the names of directors | | Other shareholdings in which directors are deemed to have an interest | |
|--------------------------|---|----------------------|---|--------------------------|
| | As at 1 June 2006 | As at 31 May 2007 | As at 1 June 2006 | As at 31 May 2007 |
| The Company | | | | |
| So Tat Wing | – | – | 171,408,612 | 171,408,612 ² |
| So Tat Chiu ¹ | – | – | 171,408,612 | 171,408,612 ² |
| So Tat Cho | – | – | 171,408,612 | 171,408,612 ² |

Jets Technics International Limited

(ordinary shares of US\$1.00 each)

| | | | | |
|----------------------------|--------|---------------------|---|---|
| So Tat Wing | 15,000 | 15,000 ² | – | – |
| So Tat Chiu ¹ | 15,000 | 15,000 ² | – | – |
| So Tat Cho | 15,000 | 15,000 ² | – | – |
| Wong Ying Lee ¹ | 5,000 | 5,000 | – | – |

1. Mr. So Tat Chiu and Ms. Wong Ying Lee have resigned as Executive Directors of the Company with effect from 28 July 2006.
2. As at the date of this report, Jets Technics International Limited holds 171,408,612 shares in the Company. The Company's directors, namely Mr. So Tat Wing and Mr. So Tat Cho and the Company's ex-director, namely Mr. So Tat Chiu, each holds 30% of the issued and paid-up share capital in Jets Technics International Limited. Accordingly, each of them is deemed to be interested in the 171,408,612 shares in the Company held by Jets Technics International Limited.
3. Mr. Chan Yin Ming, Dennis has been appointed as an Executive Director of the Company with effect from 1 July 2006. Until his resignation on 5 March 2007, he has no interests, direct or deemed, in the share capital of the Company and related corporations.

Save as disclosed above, there was no change in the above-mentioned interests between 31 May 2007 and 21 June 2007.

Except as disclosed in this report, no director who held office at the end of the financial year had interests, direct or deemed, in shares, convertible securities, share options, warrants or debentures of the Company, or of any related corporations, either at the beginning of the financial year (or date of appointment if later) or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, no director received or became entitled to receive a benefit by means of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member or with a corporation in which the director has a substantial financial interest.

Report of The Directors

Share option scheme

The Company has adopted a share option scheme known as the Jets Technics Share Option Scheme (the "Scheme"), for the granting of options to reward and retain employees of the Group and of associated companies whose services are vital to the Group's well-being and success. Pursuant to the Scheme, the Group Employees who are also directors and controlling shareholders (holding 15% or more of the shareholding of the Company's issued share capital) of the Company and their associates are not eligible to participate in the Scheme. Options are granted for a term of 10 years to purchase the Company's ordinary shares at an exercise price determined by the Remuneration Committee, established by the Company pursuant to the Code of Corporate Governance, at its absolute discretion at (a) a price equal to the average of the last dealt prices of the Company's shares on the SGX-ST for the five consecutive market days immediately prior to the relevant date of grant of the options (the "Average Price"); or (b) a discount to the Average Price provided that the maximum discount which may be given in respect of any options shall not exceed 20% of the Average Price.

These options do not entitle the holders to participate, by virtue of the options, in any share issue of any other corporation.

The Scheme is administered by the Remuneration Committee which comprises Mr. Cheung King Kwok, Mr. Au Chun Kwok Augustus, Mr. Ong Chor Wei (from 28 July 2006) and Ms. Wong Ying Lee (up to 28 July 2006).

On 25 October 2006, 2,040,000 share options were granted to certain employees at an exercise price of S\$0.04. The options will normally vest and become exercisable annually at the rate of 33.33% from 9 October 2007 onwards, subject to continuing employment. Options are exercisable from 9 October 2007 to 8 October 2017. A total consideration of HK\$120 was received on granting of the options.

During the year, 420,000 share options were cancelled.

Audit Committee

The nature and extent of the functions performed by the Audit Committee are described in the Annual Report under "Corporate Governance Report".

The Audit Committee has recommended to the Board the re-appointment of Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong as the Company's external auditors at the forthcoming annual general meeting.

Auditors

Baker Tilly Hong Kong Limited will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

So Tat Wing
Chairman and Managing Director

3 September 2007

So Tat Cho
Executive Director

Statement By The Directors

We, So Tat Wing and So Tat Cho, being two of the directors of Jets Technics International Holdings Limited, do hereby state that, in the opinion of the directors,

- (i) the accompanying balance sheets, income statements and statements of changes in equity of the Company and of the Group and consolidated cash flow statement of the Group together with the notes thereto, as set out on pages 18 to 47, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 May 2007, and of the loss of the business and changes in equity of the Company and of the Group and the cash flows of the Group for the year then ended; and
- (ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay off its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue on 3 September 2007.

ON BEHALF OF THE BOARD

So Tat Wing
Chairman and Managing Director

So Tat Cho
Executive Director

3 September 2007

**To the Members of Jets Technics International Holdings Limited
(incorporated in Bermuda with limited liability)**

We have audited the consolidated financial statements of Jets Technics International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 47, which comprise the consolidated and Company balance sheets as at 31 May 2007, the consolidated and Company income statement, the consolidated and Company statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable to the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of the affairs of the Group and of the Company as at 31 May 2007 and of the loss and cash flows of the Group and the loss of the Company for the year then ended in accordance with International Financial Reporting Standards.

BAKER TILLY HONG KONG LIMITED
Certified Public Accountants

Hong Kong, 3 September 2007

Andrew David Ross
Practising Certificate number P01183

Consolidated Income Statement

Year ended 31 May 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---------------------------------------|-------|------------------|------------------|
| Revenue | 6 | 67,979 | 63,095 |
| Cost of sales | | (57,524) | (54,063) |
| Gross profit | | 10,455 | 9,032 |
| Other income | 6 | 638 | 1,127 |
| Selling and distribution costs | | (10,459) | (7,244) |
| Administrative expenses | | (19,327) | (17,691) |
| Other operating expenses | | (5,640) | (5,349) |
| LOSS FROM OPERATING ACTIVITIES | 7 | (24,333) | (20,125) |
| Finance costs | 8 | (490) | (428) |
| LOSS BEFORE TAX | | (24,823) | (20,553) |
| Income tax | 9 | – | 1,207 |
| NET LOSS FOR THE YEAR | | (24,823) | (19,346) |
| DIVIDENDS | 10 | – | 4,551 |
| LOSS PER SHARE | 11 | (10.08) | (7.85) |

Consolidated Balance Sheet

31 May 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 17,267 | 13,624 |
| Prepaid land lease payments | 14 | 14,295 | 14,650 |
| Deferred tax assets | 20 | 45 | 45 |
| | | <hr/> 31,607 | <hr/> 28,319 |
| Current assets | | | |
| Inventories | 15 | 17,059 | 13,762 |
| Prepaid land lease payments | 14 | 355 | 355 |
| Accounts receivable | 16 | 19,611 | 21,488 |
| Prepayments, deposits and other receivables | 17 | 7,085 | 4,313 |
| Tax refundable | | – | 2,796 |
| Cash and bank balances | | 6,658 | 25,055 |
| | | <hr/> 50,768 | <hr/> 67,769 |
| Total assets | | <hr/> 82,375 | <hr/> 96,088 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and bills payables | | 7,335 | 3,173 |
| Accrued liabilities and other payables | 18 | 6,215 | 3,875 |
| Deposits received from customers | | 5,000 | 4,421 |
| Bank overdrafts, secured | 19 | 447 | – |
| Current portion of long term bank loans, secured | 19 | 4,721 | 676 |
| Tax payable | | 10 | – |
| | | <hr/> 23,728 | <hr/> 12,145 |
| NON-CURRENT LIABILITIES | | | |
| Long term bank loans, secured | 19 | 7,469 | 8,195 |
| Total liabilities | | <hr/> 31,197 | <hr/> 20,340 |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 21 | 54,200 | 54,200 |
| Reserves | | (3,022) | 21,548 |
| Total equity | | <hr/> 51,178 | <hr/> 75,748 |
| Total liabilities and equity | | <hr/> 82,375 | <hr/> 96,088 |

Consolidated Statement of Changes in Equity

Year ended 31 May 2007

| | Notes | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Translation reserve HK\$'000 | Accumulated profits/ (losses) HK\$'000 | Total HK\$'000 |
|---|-------|---------------------------|---------------------------|-----------------------------|---------------------------------|--|-------------------|
| Balance as at 1 June 2005 | | 54,200 | 24,611 | – | – | 20,801 | 99,612 |
| Exchange differences arising on translation of operations outside Hong Kong | | – | – | – | 33 | – | 33 |
| Net loss for the year | | – | – | – | – | (19,346) | (19,346) |
| Final dividends declared and paid | 10 | – | – | – | – | (4,551) | (4,551) |
| Balance as at 31 May 2006 and 1 June 2006 | | 54,200 | 24,611# | –# | 33# | (3,096)# | 75,748 |
| Exchange differences arising on translation of operations outside Hong Kong | | – | – | – | 209 | – | 209 |
| Share options | 26 | – | – | – | – | – | – |
| – granted during the year | | – | – | 55 | – | – | 55 |
| – forfeited during the year | | – | – | (11) | – | – | (11) |
| Net loss for the year | | – | – | – | – | (24,823) | (24,823) |
| Balance as at 31 May 2007 | | 54,200 | 24,611# | 44# | 242# | (27,919)# | 51,178 |

These reserve accounts comprise the consolidated reserves in debit balance of HK\$3,022,000 (2006: credit balance of HK\$21,548,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 May 2007

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before tax | (24,823) | (20,553) |
| Adjustments for: | | |
| Interest income | (433) | (897) |
| Depreciation | 4,682 | 4,592 |
| Amortisation of prepaid land lease payments | 355 | 355 |
| Provision for doubtful debts | 1,113 | 2,100 |
| Write-back of provision for doubtful debts | (879) | (481) |
| Gain on disposal of property, plant and equipment, net | (52) | (233) |
| Share options granted | 55 | - |
| Share options forfeited | (11) | - |
| Finance costs | 490 | 428 |
| Effect of foreign exchange rate changes | 16 | - |
| Operating loss before working capital changes | (19,487) | (14,689) |
| Increase in inventories | (3,297) | (1,459) |
| Decrease in accounts receivable | 1,643 | 7,218 |
| (Increase)/decrease in prepayments, deposits and other receivables | (2,772) | 798 |
| Increase/(decrease) in trade and bills payables | 4,162 | (1,579) |
| Increase in accrued liabilities and other payables | 2,340 | 257 |
| Increase/(decrease) in deposits received from customers | 579 | (116) |
| Cash used in operations | (16,832) | (9,570) |
| Bank interest paid | (490) | (428) |
| Tax refunded/(paid) | 2,806 | (6,735) |
| Net cash outflow from operating activities | (14,516) | (16,733) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (8,193) | (5,781) |
| Proceeds from disposal of property, plant and equipment | 65 | 802 |
| Interest received | 433 | 897 |
| Effect of foreign exchange rate changes | (161) | - |
| Net cash outflow from investing activities | (7,856) | (4,082) |

Consolidated Cash Flow Statement

Year ended 31 May 2007

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Drawdown of new bank loans | 4,000 | - |
| Repayment of bank loans | (681) | (671) |
| Dividends paid | - | (4,551) |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) from financing activities | 3,319 | (5,222) |
| | <hr/> | <hr/> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (19,053) | (26,037) |
| Cash and cash equivalents at beginning of year | 25,055 | 51,059 |
| Effect of foreign exchange rate changes | 209 | 33 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 6,211 | 25,055 |
| | <hr/> | <hr/> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 6,658 | 25,055 |
| Bank overdrafts | (447) | - |
| | <hr/> | <hr/> |
| | 6,211 | 25,055 |
| | <hr/> | <hr/> |

Income Statement

Year ended 31 May 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---------------------------------------|-------|------------------|------------------|
| Revenue | 6 | - | - |
| Other income | 6 | 1,451 | - |
| Administrative expenses | | (1,392) | (502) |
| Other operating expenses | | (240) | - |
| LOSS FROM OPERATING ACTIVITIES | 7 | (181) | (502) |
| Finance costs | 8 | - | - |
| LOSS BEFORE TAX | | (181) | (502) |
| Income tax | 9 | - | - |
| NET LOSS FOR THE YEAR | | (181) | (502) |
| DIVIDENDS | 10 | - | 4,551 |

Balance Sheet

31 May 2007

| | Notes | 2007 HK\$'000 | 2006 HK\$'000 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 12 | 48,072 | 48,072 |
| Current assets | | | |
| Prepayments, deposits and other receivables | 17 | 136 | - |
| Due from subsidiaries | 12 | 47,896 | 48,094 |
| Cash and bank balances | | 5 | 9 |
| | | 48,037 | 48,103 |
| Total assets | | 96,109 | 96,175 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade payables | | 16 | - |
| Accrued liabilities and other payables | 18 | 55 | - |
| Total liabilities | | 71 | - |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 21 | 54,200 | 54,200 |
| Reserves | | 41,838 | 41,975 |
| Total equity | | 96,038 | 96,175 |
| Total liabilities and equity | | 96,109 | 96,175 |

Statement of Changes in Equity

Year ended 31 May 2007

| | Notes | Share capital HK\$'000 | Share premium HK\$'000 | Capital reserve HK\$'000 | Contributed surplus (note 23) HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
|---|-------|---------------------------|---------------------------|-----------------------------|--|---------------------------------|-------------------|
| Balance as at 1 June 2005 | | 54,200 | 24,611 | – | 15,282 | 7,135 | 101,228 |
| Net loss for the year | | – | – | – | – | (502) | (502) |
| Final dividends declared and paid | 10 | – | – | – | – | (4,551) | (4,551) |
| Balance as at 31 May 2006 and 1 June 2006 | | 54,200 | 24,611# | –# | 15,282# | 2,082# | 96,175 |
| Share options | 26 | | | | | | |
| – granted during the year | | – | – | 55 | – | – | 55 |
| – forfeited during the year | | – | – | (11) | – | – | (11) |
| Net loss for the year | | – | – | – | – | (181) | (181) |
| Balance as at 31 May 2007 | | 54,200 | 24,611# | 44# | 15,282# | 1,901# | 96,038 |

These reserve accounts comprise the reserves in credit balance of HK\$41,838,000 (2006: HK\$41,975,000) in the balance sheet of the Company.

Notes to Financial Statements

For the Year ended 31 May 2007

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 9 February 2004. The Company's shares were listed on the SGX-ST on 30 June 2004. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. The principal place of business of the Company is located at 18th Floor, Saxon Tower, 7 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

The Company is a subsidiary of Jets Technics International Limited ("Jets International"), a company incorporated in the British Virgin Islands ("BVI"), which is considered by the directors to be the Company's ultimate holding company at the balance sheet date.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 12 to the financial statements.

The Group mainly operates in Hong Kong. The Group employed 314 (2006: 230) employees as at 31 May 2007.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the initial public offering of the Company's shares on the SGX-ST, on 14 May 2004, the Company acquired the entire issued share capital of Classic Master Limited ("Classic Master"), the then holding company of the other subsidiaries, in consideration of and in exchange for (a) the allotment and issue of 326,900,800 ordinary shares of HK\$0.1 each in the capital of the Company to the then shareholder of Classic Master; and (b) the credit as fully paid the 1,000,000 nil-paid ordinary shares of HK\$0.1 each, at par, in the capital of the Company issued to the then shareholder of Classic Master. Further details of the Group Reorganisation are set out in the Company's prospectus dated 18 June 2004.

2. BASIS OF PRESENTATION

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Boards (the "IASB"), and International Accounting Standards ("IAS") and Standing Interpretations approved by the International Accounting Standards Committee that remain in effect.

The preparation of financial statements in conformity with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The estimates and the 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.

The consolidated financial statements have been prepared in Hong Kong dollars ("HK\$"), being the functional and reporting currency of the principal subsidiaries in the Group.

In the current year, the Group has adopted the new and revised standards and interpretations (collectively referred to as the "new IFRSs") issued by the IASB and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 June 2006. The adoption of the new IFRSs had no material effect on how the results for the current and prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

Notes to Financial Statements

For the Year ended 31 May 2007

2. BASIS OF PRESENTATION (CONTINUED)

At the date of this report, the following standards and interpretations were in issue but not yet effective:

| | |
|-------------------|---|
| IAS 1 (Amendment) | (a) Presentation of Financial Statements — Capital Disclosures |
| IAS 23 (Revised) | (b) Borrowing Costs |
| IFRS 7 | (a) Financial Instruments — Disclosures |
| IFRS 8 | (b) Operating Segments |
| IFRIC 10 | (c) Interim Financial Reporting and Impairment |
| IFRIC 11 | (d) IFRS 2 — Group and Treasury Share Transactions |
| IFRIC 12 | (e) Service Concession Arrangements |
| IFRIC 13 | (f) Customer Loyalty Programmes |
| IFRIC 14 | (e) IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

Notes:

- (a) Effective for annual periods beginning on or after 1 January 2007
- (b) Effective for annual periods beginning on or after 1 January 2009
- (c) Effective for annual periods beginning on or after 1 November 2006
- (d) Effective for annual periods beginning on or after 1 March 2007
- (e) Effective for annual periods beginning on or after 1 January 2008
- (f) Effective for annual periods beginning on or after 1 July 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 May 2007. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

For the Year ended 31 May 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

| | |
|-----------------------------------|--|
| Buildings | 50 years or over the lease terms, whichever is shorter |
| Leasehold improvements | 5 years or over the lease terms, whichever is shorter |
| Plant and machinery | 4 years |
| Furniture, fixtures and equipment | 4 years |
| Motor vehicles | 4 years |

The gain or loss on disposal or retirement of a property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

For the Year ended 31 May 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal, after making due allowance for obsolete and slow-moving items.

Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. When the effect of discounting is not material, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Trade and other payables

Liabilities for trade and other payables which are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method, unless the effect of discounting would not be material, in which case they are stated at cost.

Provisions and contingencies

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised, as well as through the amortisation process.

Notes to Financial Statements

For the Year ended 31 May 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

- (i) from the sale of playground equipment, safety surface, sports surface, garden furniture and other recyclable products, when the installation work is completed and the customer has accepted the goods, together with the risks and rewards of ownership of such goods, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (iii) dividend income, when the shareholders' right to receive payment has been established.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

During the years presented, all research and development costs incurred had been charged to the income statement in the year in which they were incurred.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Notes to Financial Statements

For the Year ended 31 May 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Foreign currencies

All the books and records of the companies in the Group are maintained in HK\$, except for the subsidiary established on Mainland China and Macau SAR of the People's Republic of China (the "PRC") of which its books and records are maintained in Reminbi and MOP, respectively.

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

On consolidation, the balance sheet of overseas subsidiaries are translated into HK\$ at the applicable rates of exchange ruling at the balance sheet date whilst the income statement is translated at an weighted average exchange rate. The resulting transaction differences are included in the exchange fluctuation reserves.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Employee benefits

(i) Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The contributions of the subsidiary companies in the PRC made to the local municipal government retirement scheme in the PRC are expensed as incurred while the local municipal government in the PRC undertakes to assume the retirement benefit obligations of all existing and future retirees of the qualified staff in the PRC.

(ii) Share-based compensation

The Group operates an equity-settled and share-based compensation plan. The cost of share options is charged to the income statement and the corresponding amount is recognised in the capital reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the share options or shares, the Group recognises the fair value of the share options or share granted as an expense over the vesting period. If the employees choose to exercise share options, the respective amount in the capital reserve is transferred to share capital and share premium, together with exercise price, net of any directly attributable transaction costs. At each balance sheet date, the Group revises its estimates of the number of share options or shares that are expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the capital reserve over the remaining vesting period.

Notes to Financial Statements

For the Year ended 31 May 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantee contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary of the guarantee for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised over the terms of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, ie the amount initially recognised, less accumulated amortisation.

Related parties

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these financial statements, the directors and senior management of the Group received remuneration totalling approximately HK\$4,434,000 (2006: HK\$5,961,000) for the year ended 31 May 2007. The remuneration shown above does not include the estimated monetary value of the Group's owned premises provided rent-free to two executive directors of the Company. The estimated rental value of such accommodation was approximately HK\$1,020,000 (2006: HK\$834,000) for the year.

5. SEGMENT INFORMATION

a) Analysis By Business Segment

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the safety surface segment engages in the manufacturing and trading of safety surfaces;

Notes to Financial Statements

For the Year ended 31 May 2007

5. SEGMENT INFORMATION (CONTINUED)

- (ii) the sports surface segment engages in the manufacturing and trading of sports surfaces;
- (iii) the playground equipment segment engages in the manufacturing and trading of playground equipment;
- (iv) the garden furniture segment engages in the manufacturing and trading of garden furniture; and
- (v) the other segment comprises the Group's manufacturing and trading of other recyclable products and the provision of related services.

The following tables present revenue, loss and certain asset, liability and expenditure information of the Group's business segments.

| Year ended 31 May 2007 | Safety surface HK\$'000 | Sports surface HK\$'000 | Playground equipment HK\$'000 | Garden furniture HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|---|-------------------------------|-------------------------------|-------------------------------------|---------------------------------|--------------------|--------------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 12,934 | 13,394 | 11,366 | 20,527 | 9,758 | 67,979 |
| Segment results | (1,915) | 985 | (649) | (3,631) | 4,972 | (238) |
| Interest and other unallocated income | | | | | | 638 |
| Unallocated expenses | | | | | | (24,733) |
| Loss from operating activities | | | | | | (24,333) |
| Finance costs | | | | | | (490) |
| Loss before tax | | | | | | (24,823) |
| Income tax | | | | | | – |
| Net loss for the year | | | | | | (24,823) |
| Segment assets | 9,161 | 8,272 | 9,396 | 12,774 | 4,530 | 44,133 |
| Unallocated assets | | | | | | 38,242 |
| Total assets | | | | | | 82,375 |
| Segment liabilities | 2,369 | 2,748 | 2,308 | 3,873 | 1,037 | 12,335 |
| Unallocated liabilities | | | | | | 18,862 |
| Total liabilities | | | | | | 31,197 |
| Other segment information: | | | | | | |
| Depreciation and amortisation of prepaid land lease payments | 777 | 777 | 726 | 951 | 137 | 3,368 |
| Unallocated amounts | | | | | | 1,669 |
| | | | | | | 5,037 |
| Capital expenditure | 2,771 | 1,491 | 1,470 | 1,633 | 100 | 7,465 |
| Unallocated amounts | | | | | | 728 |
| | | | | | | 8,193 |
| Provision for doubtful debts and bad debts written off | 167 | 181 | 210 | 532 | 23 | 1,113 |
| Write-back of provision for doubtful debts | (167) | (173) | (147) | (266) | (126) | (879) |

Notes to Financial Statements

For the Year ended 31 May 2007

5. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 May 2006 | Safety surface HK\$'000 | Sports surface HK\$'000 | Playground equipment HK\$'000 | Garden furniture HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|---|-------------------------------|-------------------------------|-------------------------------------|---------------------------------|--------------------|--------------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 12,134 | 8,324 | 9,589 | 22,374 | 10,674 | 63,095 |
| Segment results | (355) | (57) | (149) | (435) | 661 | (335) |
| Interest and other unallocated income | | | | | | 1,127 |
| Unallocated expenses | | | | | | (20,917) |
| Loss from operating activities | | | | | | (20,125) |
| Finance costs | | | | | | (428) |
| Loss before tax | | | | | | (20,553) |
| Income tax | | | | | | 1,207 |
| Net loss for the year | | | | | | (19,346) |
| Segment assets | 8,598 | 7,115 | 7,841 | 15,451 | 4,804 | 43,809 |
| Unallocated assets | | | | | | 52,279 |
| Total assets | | | | | | 96,088 |
| Segment liabilities | 1,968 | 821 | 754 | 3,106 | 942 | 7,591 |
| Unallocated liabilities | | | | | | 12,749 |
| Total liabilities | | | | | | 20,340 |
| Other segment information: | | | | | | |
| Depreciation and amortisation of prepaid land lease payments | 787 | 735 | 752 | 1,088 | 147 | 3,509 |
| Unallocated amounts | | | | | | 1,438 |
| | | | | | | 4,947 |
| Capital expenditure | 1,182 | 1,152 | 1,162 | 1,686 | 84 | 5,266 |
| Unallocated amounts | | | | | | 515 |
| | | | | | | 5,781 |
| Provision for doubtful debts and bad debts written off | 404 | 277 | 319 | 745 | 355 | 2,100 |
| Write-back of provision for doubtful debts | (93) | (63) | (73) | (171) | (81) | (481) |

Notes to Financial Statements

For the Year ended 31 May 2007

5. SEGMENT INFORMATION (CONTINUED)

b) Analysis By Geographical Segment

The Group's major customers are located in Hong Kong, Macau, the PRC, Japan, and Spain. The segment revenue by geographical segment is based on location of customers regardless of where the goods are produced.

The following table presents revenue information of the Group's geographical segments.

| | 2007 HK\$'000 | 2006 HK\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 58,381 | 59,381 |
| Macau | 4,600 | 2,139 |
| PRC | 1,583 | 634 |
| Japan | 983 | 922 |
| Spain | 1,230 | – |
| Others | 1,202 | 19 |
| | <u>67,979</u> | <u>63,095</u> |

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

| | Carrying amount of assets | | Additions to property, plant and equipment | |
|-----------|---------------------------|------------------|--|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| PRC | 7,941 | 4,737 | 461 | 2,925 |
| Hong Kong | 74,042 | 91,351 | 7,619 | 2,856 |
| Others | 392 | – | 113 | – |
| | <u>82,375</u> | <u>96,088</u> | <u>8,193</u> | <u>5,781</u> |

Notes to Financial Statements

For the Year ended 31 May 2007

6. REVENUE AND OTHER INCOME

The Group's revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions. Analysis of the Group's revenue by activities has been set out in note 5.

An analysis of the Group's and Company's other income are as follows:

| | Group | | Company | |
|--------------------------|------------|--------------|--------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income | 433 | 897 | 1 | - |
| Corporate management fee | - | - | 1,440 | - |
| Others | 205 | 230 | 10 | - |
| | <u>638</u> | <u>1,127</u> | <u>1,451</u> | <u>-</u> |

The Company does not have any revenue during the year 2007 and 2006.

7. LOSS FROM OPERATING ACTIVITIES

The Group's and the Company's loss from operating activities are arrived at after charging/(crediting):

| | Group | | Company | |
|--|---------------|---------------|--------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Depreciation | 4,682 | 4,592 | - | - |
| Amortisation of prepaid land lease payments | 355 | 355 | - | - |
| Staff costs (including directors' remuneration) | | | | |
| Salaries and wages | 35,652 | 29,113 | 1,048 | 502 |
| Retirement scheme contributions | 1,626 | 1,314 | - | - |
| | <u>37,278</u> | <u>30,427</u> | <u>1,048</u> | <u>502</u> |
| Directors' remuneration* | | | | |
| Fees | 614 | 502 | 614 | 502 |
| Other emoluments | 2,610 | 3,002 | 434 | - |
| Auditors' remuneration | 445 | 420 | - | - |
| Product development costs | 2,377 | 2,685 | - | - |
| Minimum lease payments under operating leases in respect of land and buildings | 4,184 | 3,450 | - | - |
| Provision for doubtful debts | 1,113 | 2,100 | - | - |
| Write-back of provision for doubtful debts | (879) | (481) | - | - |
| Gain on disposal of property, plant and equipment, net | (52) | (233) | - | - |
| Exchange loss/(gain), net | <u>33</u> | <u>(37)</u> | <u>115</u> | <u>-</u> |

* The remuneration of each of the directors of the Company for each of the years ended 31 May 2007 and 2006, were all below SGD250,000 (equivalent to approximately HK\$1,277,000).

Notes to Financial Statements

For the Year ended 31 May 2007

8. FINANCE COSTS

| | Group | | Company | |
|---------------------------------------|----------|----------|----------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest on bank overdrafts and loans | 490 | 428 | - | - |

9. INCOME TAX

| | Group | | Company | |
|---|----------|----------|----------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current taxation: | | | | |
| Hong Kong profits tax | - | 10 | - | - |
| Over-provision in respect of previous years | - | (754) | - | - |
| Deferred taxation: | | | | |
| Reversal of temporary differences (note 20) | - | (463) | - | - |
| Tax credit for the year | - | (1,207) | - | - |

No provision for Hong Kong profits tax has been made in the financial statements for both years as the companies in the Group either have no assessable profits or have estimated tax loss.

A reconciliation of the tax credit applicable to loss before tax at the statutory rate to tax expense at the effective tax rate is presented below:

| | Group | | Company | |
|--|----------|----------|----------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loss before tax | (24,823) | (20,553) | (181) | (502) |
| Notional tax credit on profit before taxation, calculated at the current tax rate of 17.5% (2006: 17.5%) | (4,344) | (3,597) | (32) | (88) |
| Effect of different tax rates of subsidiaries operating in the PRC and Macau | 29 | (88) | - | - |
| Tax effect of non-deductible expenses | 106 | 79 | 32 | 88 |
| Tax effect of non-taxable income | (22) | (197) | - | - |
| Tax effect of utilisation of tax loss previously not recognised | - | (67) | - | - |
| Tax effect of unused tax losses not recognised | 4,231 | 3,500 | - | - |
| Over provision in respect of prior years | - | (754) | - | - |
| Others | - | (83) | - | - |
| Tax credit at the effective tax rate | - | (1,207) | - | - |
| Effective tax rate | - | 5.9% | - | - |

Notes to Financial Statements

For the Year ended 31 May 2007

10. DIVIDENDS

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| <u>Declared and paid during the year</u> | | |
| Final dividend for 2006 – Nil (2005: SGD0.004 (equivalent to approximately HK\$0.019) per ordinary share) | – | 4,551 |

No interim dividend was declared and paid during the year ended 31 May 2007. The directors of the Company do not recommend a final dividend be paid for the year ended 31 May 2007.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$24,823,000 (2006: HK\$19,346,000) and 246,364,000 (2006: 246,364,000) ordinary shares in issue during the year.

The diluted loss per share has not been presented as there were no potential dilutive ordinary shares in existence during the two years ended 31 May 2007 and 2006.

12. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Unlisted shares, at cost | 48,072 | 48,072 |

The amounts due from subsidiaries are non-trade, unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

For the Year ended 31 May 2007

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are set out below:

| Name | Place of incorporation | Nominal value of issued ordinary share capital | Percentage of equity interest attributable to the Company | Principal activities |
|---|------------------------|--|---|---|
| <u>Directly held</u> | | | | |
| Classic Master Limited | BVI | US\$2,000 | 100 | Investment holding |
| <u>Indirectly held</u> | | | | |
| Jets Technics Limited | Hong Kong | HK\$300,000 | 100 | Manufacture and trading of playground equipment, safety surface, sports surface, garden furniture and other recyclable products |
| Jets Consultants Limited | Hong Kong | HK\$2 | 100 | Installation of playground equipment, safety surface, sports surface and garden furniture |
| Jets Technology & Laboratory Limited | Hong Kong | HK\$2 | 100 | Manufacture of semi-finished components for playground equipment |
| Asia Legend International Limited | BVI | US\$1 | 100 | Dormant |
| Guangzhou Jets Recycled Products Co., Ltd. | PRC | HK\$8,000,000 | 100 | Manufacture and trading of playground equipment, safety surface, sports surface, garden furniture and other recyclable products |
| CML Engineering and Management Services (Macau) Limited | Macau SAR of the PRC | MOP300,000 | 100 | Construction projects and provision of engineering and management consultancy services |

All subsidiaries were audited by Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, for statutory or consolidation purposes.

Notes to Financial Statements

For the Year ended 31 May 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|-----------------------|---------------------------------------|------------------------------------|--|-------------------------------|-------------------|
| Cost: | | | | | | |
| At 1 June 2006 | 4,249 | 8,313 | 12,993 | 8,198 | 3,739 | 37,492 |
| Exchange adjustments | – | 88 | 65 | 8 | – | 161 |
| Additions | – | 342 | 6,425 | 729 | 697 | 8,193 |
| Disposals | – | – | (58) | – | (193) | (251) |
| At 31 May 2007 | 4,249 | 8,743 | 19,425 | 8,935 | 4,243 | 45,595 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 June 2006 | 661 | 6,003 | 8,005 | 6,721 | 2,478 | 23,868 |
| Exchange adjustments | – | 10 | 6 | – | – | 16 |
| Depreciation provided during the year | 85 | 767 | 2,329 | 825 | 676 | 4,682 |
| Disposals | – | – | (45) | – | (193) | (238) |
| At 31 May 2007 | 746 | 6,780 | 10,295 | 7,546 | 2,961 | 28,328 |
| Carrying amount: | | | | | | |
| At 31 May 2007 | 3,503 | 1,963 | 9,130 | 1,389 | 1,282 | 17,267 |
| At 31 May 2006 | 3,588 | 2,310 | 4,988 | 1,477 | 1,261 | 13,624 |

Notes to Financial Statements

For the Year ended 31 May 2007

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

| | Buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|-----------------------|---------------------------------------|------------------------------------|--|-------------------------------|-------------------|
| Cost: | | | | | | |
| At 1 June 2005 | 4,249 | 6,194 | 10,834 | 7,685 | 3,978 | 32,940 |
| Additions | – | 2,119 | 2,650 | 515 | 497 | 5,781 |
| Disposals | – | – | (491) | (2) | (736) | (1,229) |
| At 31 May 2006 | 4,249 | 8,313 | 12,993 | 8,198 | 3,739 | 37,492 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 June 2005 | 576 | 5,062 | 6,324 | 5,723 | 2,251 | 19,936 |
| Depreciation provided during the year | 85 | 941 | 1,844 | 998 | 724 | 4,592 |
| Disposals | – | – | (163) | – | (497) | (660) |
| At 31 May 2006 | 661 | 6,003 | 8,005 | 6,721 | 2,478 | 23,868 |
| Carrying amount: | | | | | | |
| At 31 May 2006 | 3,588 | 2,310 | 4,988 | 1,477 | 1,261 | 13,624 |
| At 31 May 2005 | 3,673 | 1,132 | 4,510 | 1,962 | 1,727 | 13,004 |

Buildings, situated in Hong Kong and held under medium term leases, have been provided as rent-free accommodation to two executive directors of the Company and are pledged to secure general banking facilities granted to the Group (note 19).

14. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Carrying amount at 1 June | 15,005 | 15,360 |
| Amortisation recognised during the year | (355) | (355) |
| Carrying amount at 31 May | 14,650 | 15,005 |
| Current portion | (355) | (355) |
| Non-current portion | 14,295 | 14,650 |

The leasehold land, situated in Hong Kong and held under medium term leases, is pledged to secure general banking facilities granted to the Group (note 19).

Notes to Financial Statements

For the Year ended 31 May 2007

15. INVENTORIES

| | Group | |
|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Raw materials | 6,693 | 4,711 |
| Work in progress | 10,366 | 9,051 |
| | <u>17,059</u> | <u>13,762</u> |

No inventories were carried at net realisable value as at 31 May 2007 (2006: Nil).

16. ACCOUNTS RECEIVABLE

| | Group | |
|------------------------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Accounts receivable | 23,639 | 27,059 |
| Less: Provision for doubtful debts | (4,028) | (5,571) |
| | <u>19,611</u> | <u>21,488</u> |

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|-------------------|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Prepayments | 2,290 | 1,100 | 136 | - |
| Deposits | 3,423 | 2,067 | - | - |
| Other receivables | 1,372 | 1,146 | - | - |
| | <u>7,085</u> | <u>4,313</u> | <u>136</u> | <u>-</u> |

18. ACCRUED LIABILITIES AND OTHER PAYABLES

| | Group | | Company | |
|---------------------|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Accrued liabilities | 4,710 | 2,977 | 55 | - |
| Other payables | 1,505 | 898 | - | - |
| | <u>6,215</u> | <u>3,875</u> | <u>55</u> | <u>-</u> |

Notes to Financial Statements

For the Year ended 31 May 2007

19. INTEREST-BEARING LOANS AND BORROWINGS

| | | | Group | |
|--------------------|---------------------------|-------------|------------------|------------------|
| | Effective interest rate % | Maturities | 2007 HK\$'000 | 2006 HK\$'000 |
| Current | | | | |
| Bank overdraft | BLR* plus 1% | On demand | 447 | - |
| Bank loans | BLR* - 2.8 per annum | 2007 | 4,721 | 676 |
| Non-current | | | | |
| Bank loans | BLR* - 2.8 per annum | 2013 - 2018 | 7,469 | 8,195 |

* BLR represents Hong Kong Dollar Best Lending Rate.

The Group's banking facilities were secured by legal charges over all of the Group's leasehold land and buildings (notes 13 and 14) and corporate guarantees executed by the Company to the extent of approximately HK\$32 million.

20. DEFERRED TAXATION

The movement in the Group's deferred tax (assets)/liabilities during the year are as follows:

| | Accelerated tax depreciation HK\$'000 | Tax losses HK\$'000 | Total HK\$'000 |
|--|--|------------------------|-------------------|
| At 1 June 2005 | 418 | - | 418 |
| Charged to the income statement for the year | (463) | - | (463) |
| At 31 May 2006 | (45) | - | (45) |
| Credited/(charged) to the income statement for the year (note 9) | 967 | (967) | - |
| At 31 May 2007 | 922 | (967) | (45) |

At 31 May 2007, the Group has unused tax losses approximately of HK\$18,500,000 (2006: HK\$19,500,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$5,526,000 (2006: Nil) of such losses. No deferred tax assets have been recognised in respect of remaining balance of approximately HK\$12,974,000 (2006: HK\$19,500,000) due to the unpredictability of future profit streams. All unused tax losses may be carried indefinitely.

Notes to Financial Statements

For the Year ended 31 May 2007

21. SHARE CAPITAL

| | Company | |
|--|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Authorised: | | |
| 3,636,363,636 ordinary shares of HK\$0.22 each | 800,000 | 800,000 |
| Issued and fully paid: | | |
| 246,364,000 ordinary shares of HK\$0.22 each | 54,200 | 54,200 |

22. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises, factory, director's quarters and staff quarters under non-cancellable operating leases with remaining lease terms between one to ten years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Within one year | 5,169 | 3,436 |
| In the second to fifth years, inclusive | 11,323 | 6,234 |
| Over five years | 11,800 | 3,223 |
| | 28,292 | 12,893 |

23. CONTRIBUTED SURPLUS

The contributed surplus of the Company represented the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.

Notes to Financial Statements

For the Year ended 31 May 2007

24. CONTINGENT LIABILITIES

- (i) The Group's certain non-core manufacturing facilities are erected on two adjacent pieces of land located at Tai Po Industrial Estate, Hong Kong and are used for the collection and sorting of materials and finished products and storage.

Under both tenancy agreements for the two pieces of land, the landlord may terminate the Group's tenancy at any time in accordance with the terms of the respective tenancy agreements. In addition, under both tenancy agreements, the Group has to comply with various obligations set out therein.

The Group has not obtained the required building approval and there is no assurance that the Group has fully complied with all the obligations and conditions under the two tenancy agreements, although the Group has not received any notice from the landlord of its intention to terminate the tenancy agreements. If either tenancy is terminated as a result of a breach by the Group of any condition under the tenancy agreements, the landlord may require the Group at its own expense to remove and demolish any building, structure or surface on the manufacturing sites. As the building structures currently erected on the manufacturing sites are not complex, the directors believe the costs of demolishing such structures would be minimal.

In the event that the tenancy agreements are terminated by the landlord, the Group would have to relocate its non-core manufacturing facilities and write off all the immovable assets located thereon which are, however, of immaterial carrying value.

- (ii) The Company has provided corporate guarantees to the extent of approximately HK\$32 million (2006: HK\$17 million) to banks in respect of banking facilities granted to a subsidiary company, which were utilised up to approximately HK\$20.8 million as at 31 May 2007 (2006: HK\$9.9 million) including a letter of guarantee in favour of the Government of the Hong Kong Special Administrative Region to the extent of HK\$5.0 million in respect to a tenancy agreement. The directors are of the opinion that the fair value of the guarantee cannot be reliably measured as its transaction price is zero and such guarantee is rarely available in the market.

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the Company are insignificant at initial recognition and accordingly, no value has been recognised in the balance sheet.

25. FINANCIAL INSTRUMENTS

The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate measurements to manage the Group's exposure to financial risk, including principally the credit risk and changes in currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimal level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

At 31 May 2007, the Group's principal financial instruments mainly consisted of cash and bank balances, accounts receivable, prepayments, deposits and other receivables, trade and bills payables, accrued liabilities and other payables and interest-bearing loans and borrowings.

- (i) Interest rate risk

The Group's interest rate exposure relates primarily to the outstanding amounts of long-term debt obligations. The interest rates and terms of repayment of the Group's bank loans are disclosed in note 19.

Notes to Financial Statements

For the Year ended 31 May 2007

25. FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Foreign currency risk

The Group's exposure to market risk for changes in foreign currency exchange rate relates primarily to certain accounts receivable, trade payables, prepayments, deposits and other receivables in currencies other than the reporting currency of the HK\$. The Group does not use derivative financial instruments to hedge its foreign currency risk.

(iii) Credit risk

The carrying amounts of accounts receivable included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk due to the Group's large customer base.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of the accounts receivable.

(iv) Fair values

The carrying amount of the secured bank loans approximates its fair value as the loans bear interest at variable rates. The fair values of the Group's other financial instruments are not materially different from their carrying amounts because of the immediate or short maturities of these financial instruments.

26. SHARE-BASED PAYMENTS

The Company has adopted a share option scheme known as the Jets Technics Share Option Scheme (the "Scheme"), for the granting of options to reward and retain employees of the Group and of associated companies whose services are vital to the Group's well-being and success. Pursuant to the Scheme, the Group Employees who are also directors and controlling shareholders (holding 15% or more of the shareholding of the Company's issued share capital) of the Company and their associates are not eligible to participate in the Scheme. Options are granted for a term of 10 years to purchase the Company's ordinary shares at an exercise price determined by the Remuneration Committee, established by the Company pursuant to the Code of Corporate Governance, at its absolute discretion at (a) a price equal to the average of the last dealt prices of the Company's shares on the SGX-ST for the five consecutive market days immediately prior to the relevant date of grant of the options (the "Average Price"); or (b) a discount to the Average Price provided that the maximum discount which may be given in respect of any options shall not exceed 20% of the Average Price.

On 25 October 2006, 2,040,000 share options were granted to certain employees at an exercise price of S\$0.04. The options will normally vest and become exercisable annually at the rate of 33.33% from 9 October 2007 onwards, subject to continuing employment. Options are exercisable from 9 October 2007 to 8 October 2017. A total consideration of HK\$120 was received on granting of the options. The estimated fair value of options granted was HK\$248,000.

The Group recognised the total expenses of HK\$55,000 (2006: HK\$Nil) for the year ended 31 May 2007 in relation to the share option granted to the employees by the Company.

Notes to Financial Statements

For the Year ended 31 May 2007

26. SHARE-BASED PAYMENTS (CONTINUED)

Movements in the number of share options and their related weighted average exercise prices during the year are as follows:

| | Number of options | Weighted average exercise price S\$ |
|---------------------------|----------------------|--|
| Granted during the year | 2,040,000 | 0.04 |
| Forfeited during the year | (420,000) | 0.04 |
| At 31 May 2007 | <u>1,620,000</u> | |

The fair value of options granted during the year was determined using the Black-Scholes valuation model. The significant inputs into the model were share price of S\$0.045, at the grant date, exercise price shown above, standard deviation of expected share price returns of 92%, expected life of options of 10 years, expected dividend payout rate of 4% and annual risk-free interest rate of 3.12%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the last one year.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 May 2007 were approved and authorised for issue in accordance with a resolution of the directors on 3 September 2007.

Corporate Governance Report

The Board of Directors (the **"Board"**) of Jets Technics International Holdings Limited recognizes the importance of good corporate governance in ensuring greater transparency, protecting the interests of the shareholders of the Company (the **"Shareholders"**) as well as strengthening investors' confidence in its management and financial reporting. The Board is committed to maintaining a high standard of corporate governance within the Company and its subsidiaries (together the **"Group"**) based on which its operations, businesses and strategies are directed and controlled.

This Report describes the Company's corporate governance processes and activities with specific reference to the Code.

1. Board of Directors

1.1 The Board's conduct of its affairs

The primary role of the Board is to protect and enhance Shareholder value. Whereas the Board is collectively responsible for the success of the Company, it works with the management of the Company (the **"Management"**) towards achieving this end. Matters which are specifically reserved for the Board's decision are those involving interested person transactions, material acquisitions and disposal of assets, corporate and financial restructuring, share issuances, dividends and other returns to Shareholders,

The Board conducts regular scheduled meetings. Additional meetings may be convened when circumstance require. The Company's Bye-Laws provide for meetings to be held via telephone and video conferencing. The Board is supported by the Audit Committee (the **"AC"**), the Nominating Committee (the **"NC"**) and the Remuneration Committee (the **"RC"**)

Newly appointed Directors are issued with a formal letter by the Company Secretary setting out the director's duties and advising them of their disclosure obligations under the SGX-ST Listing Manual ("Listing Manual") and the Companies Act 1981 of Bermuda. Management also conducts orientation programs for new Directors to familiarize them with the business activities of the Group, its strategic direction and corporate governance practices.

During the financial year in review, the attendance of the Directors at Board meetings and committee meetings, as well as the frequency of such meetings, is as follows:

| Name of Director | Board | | Nominating Committee | | Remuneration Committee | | Audit Committee | |
|--|----------------------|--------------------------|----------------------|--------------------------|------------------------|--------------------------|----------------------|--------------------------|
| | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended |
| Executive Directors | | | | | | | | |
| So Tat Wing ³ | 12 | 11 | 4 | 1 | 6 | N/A | 2 | N/A |
| So Tat Chiu ¹ | 12 | 1 | 4 | N/A | 6 | N/A | 2 | N/A |
| So Tat Cho | 12 | 11 | 4 | N/A | 6 | N/A | 2 | N/A |
| Wong Ying Lee ¹ | 12 | 2 | 4 | 1 | 6 | 1 | 2 | N/A |
| Chan Yin Ming, Dennis ² | 12 | 7 | 4 | N/A | 6 | N/A | 2 | N/A |
| Non-executive Director | | | | | | | | |
| Ong Chor Wei ^{4 5} | 12 | 12 | 4 | N/A | 6 | 4 | 2 | 2 |
| Independent Non-executive Directors | | | | | | | | |
| Au Chun Kwok Augustus ^{3 4} | 12 | 12 | 4 | 4 | 6 | 6 | 2 | N/A |
| Seah Hou Kee ^{3 5} | 12 | 12 | 4 | 4 | 6 | N/A | 2 | 2 |
| Cheung King Kwok ^{4 5} | 12 | 11 | 4 | N/A | 6 | 5 | 2 | 2 |

Corporate Governance Report

Notes:

1. Mr. So Tat Chiu and Ms. Wong Ying Lee have resigned as Executive Directors on 28 July 2006. Ms. Wong Ying Lee has resigned as member of the Nominating Committee and Remuneration Committee respectively on the same date.
2. Mr. Chan Yin Ming, Dennis was appointed as an Executive Director on 1 July 2006. He resigned as Executive Director on 5 March 2007.
3. Members of Nominating committee. Mr. So Tat Wing was appointed member of Nominating Committee in place of Ms. Wong Ying Lee on 28 July 2006.
4. Members of Remuneration Committee. Mr. Ong Chor Wei was appointed member of Remuneration Committee in place of Ms. Wong Ying Lee on 28 July 2006.
5. Members of Audit Committee.

All the Directors are updated regularly on changes in Company policies, Board processes, corporate governance and best practices.

1.2 Board Composition and Balance

The NC reviews the size and composition of the Board and ensures, among other things, that the Board has an appropriate balance of independent Directors and that the size of the Board is conducive to effective discussions and decision-making. As at the date of this report, the Board comprises six Directors, two of whom are Executive Directors, one of whom is Non-executive Director and the remaining three are Independent Non-executive Directors. The NC reviews the independence of each Director on an annual basis and adopts the Code's definition of what constitutes an independent non-executive director in its review. In particular, it considers a Director as independent if he has no relationship with the Group or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interest of the Company.

As a Group, the Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, law, business and management strategic planning and customer service.

The Non-executive Director help to develop proposals on strategy, review the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance.

1.3 Role of Chairman and Chief Executive Officer

Our Group's Chairman, Mr. So Tat Wing is also our Managing Director. Mr. So, as a co-founder, has played an instrumental role in developing the business of our Group. He has considerable industry experience and has also provided our Group with strong leadership and vision. It is hence the view of the Board that it is in the best interests of our Group to adopt a single leadership structure, whereby the Chairman and Managing Director are the same individual. Notwithstanding the dual role of Mr. So Tat Wing as Chairman and Chief Executive Officer, the strong element of independence of the Board and that all the Directors including Independent and Non-executive Directors have demonstrated high commitment in their roles as directors, ensure a good balance of power and authority.

Corporate Governance Report

1.4 Board Membership

The NC reviews and assesses candidates for directorships before making recommendations to the Board. As at the date of this report, the NC comprises one Executive Director, namely Mr. So Tat Wing and two Independent Non-executive Directors, namely Mr. Au Chun Kwok Augustus and Mr. Seah Hou Kee. The NC Chairman, Mr. Au Chun Kwok Augustus, is not a substantial shareholder and is not directly associated with a substantial shareholder of the Company. Our NC will be responsible for (a) the selection and appointment of new Directors and re-nomination of our Directors having regard to the Director's contribution and performance, (b) determining annually whether or not a Director is independent and (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director.

In recommending new directors to the Board, the NC takes into consideration the skills and experience required and the current composition of the Board, and strives to ensure that the Board has an appropriate balance of independent Directors as well as Directors with the right profile of expertise, skills, attributes and ability. Further, the NC takes into consideration a variety of factors such as attendance, preparedness, participation and candor in evaluating a Director's contribution and performance for the purpose of re-nomination.

The NC determines annually if a Director is independent. The NC has the discretion to determine that a Director is non-independent even if he does not fall under the circumstances set forth in paragraph 1.2 above and the Code. The NC is also charged with the responsibility of deciding whether a Director, particularly when he/she has multiple board representations, is able to carry out his/her duties as a director of the Company.

1.5 Board Performance

The Board will on an annual basis implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board.

The performance criteria for the Board evaluation are based on financial and non-financial indicators such as an evaluation of size and composition of the Board, the Board's access to information, Board processes, strategy and planning, risk management, accountability, Board performance in relation to discharging its principal functions, communication with senior management, standards of conduct of the Directors and the Company's share performance over a five-year period.

In terms of evaluation of individual Directors, they are assessed on their ability to contribute effectively as well as the level of their commitment to the role (including commitment of time for Board and committee meetings, and any other duties).

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members be appointed to the Board or seeks the resignation of Directors, in consultation with the NC. Each member of the NC shall abstain from voting on any resolutions and making any recommendations and/or participating in any distributions of the NC in respect of the assessment of his performance or re-nomination Director.

Corporate Governance Report

1.6 Access to Information

The Board is supplied with relevant information and comprehensive analysis by Management pertaining to matters to be brought before the Board for discussion and decision. Management also ensures that the Board receive regular reports on the Group's financial performance and operations. The Board has separate and independent access to senior management and the Company Secretary at all times. The Company Secretary attends to all corporate secretarial and compliance matters and also attends all Board meetings. To assist Board members in fulfilling their responsibilities, procedures have been put in place for Directors to seek independent professional advice, where appropriate, at the expense of the Company.

2. Remuneration Matters

2.1 Procedures for Developing Remuneration Policies

As at the date of this report, the RC comprises two Independent Non-executive Directors, namely Mr. Cheung King Kwok and Mr. Au Chun Kwok Augustus and one Non-executive Director, namely Mr. Ong Chor Wei. The Chairman of the RC is Mr. Cheung King Kwok. Our RC will be responsible for recommending to our Board a framework of remuneration for the Directors and key executives, setting up remuneration policies and determining specific remuneration packages for each Director and key executive based on their performance and also reviewing the remuneration thereof. RC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the RC takes into consideration industry practices and norms in compensation, in addition to the Company's relative performance to the industry and the performance of the individual Directors. The recommendations of the RC will be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, long-term incentive schemes and benefits in kind shall be covered by our RC.

The RC meets at least once every financial year. Each member of the RC will abstain from voting on any resolutions and making recommendations and/or participating in any deliberations of the RC in respect of his remuneration package.

2.2 Level and Mix of Remuneration

The level of remuneration is structured such that it links rewards to corporate and individual performance. The RC ensures the level of remuneration is appropriate to attract, retain and motivate the Directors to run the Company successfully. The performance related elements of remuneration are designed so as to align the interests of Executive Directors with those of Shareholders. These elements include (1) fixed component (i.e. basic salary); (2) variable component (i.e. performance bonus); (3) benefits provided consistent with market practices including medical benefits, call allowance, club benefits and housing subsidy. In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies.

The remuneration of Non-executive Directors is linked to their level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors.

The Company has entered into separate service contracts with our Executive Directors for an initial period of 3 years. The RC reviews the compensation commitments for early termination under the service contracts.

Corporate Governance Report

2.3 Disclosure on Remuneration

Remuneration paid to our Directors for the financial year ended 31 May 2007 (FY2007) is as follows:

| Remuneration band and Name of Director | Base/fixed salary | Variable or performance related income/bonus | Director's fee | Other benefits |
|--|-------------------|--|----------------|----------------|
| Below S\$250,000 | | | | |
| Executive Directors | | | | |
| So Tat Wing ¹ | 100% | – | – | – ⁴ |
| So Tat Chiu ^{1 2} | 100% | – | – | – ⁴ |
| So Tat Cho ¹ | 65% | – | – | 35% |
| Wong Ying Lee ² | 100% | – | – | – |
| Chan Yin Ming, Dennis ³ | 90% | – | 10% | – |
| Non-executive Director | | | | |
| Ong Chor Wei | – | – | 100% | – |
| Independent Non-executive Directors | | | | |
| Au Chun Kwok Augustus | – | – | 100% | – |
| Seah Hou Kee | – | – | 100% | – |
| Cheung King Kwok | – | – | 100% | – |

Notes:

1. Mr. So Tat Chiu and Mr. So Tat Cho are the brothers of Mr. So Tat Wing. Mr. So Tat Chiu resigned on 28 July 2006.
2. Mr. So Tat Chiu and Ms. Wong Ying Lee have resigned as Executive Directors on 28 July 2006.
3. Mr. Chan Yin Ming, Dennis was appointed as an Executive Director on 1 July 2006. He resigned as Executive Director on 5 March 2007.
4. Mr. So Tat Wing and Mr. So Tat Chiu are provided with free accommodation on properties held by the Group.

Remuneration of Key Employees

Remuneration paid to our key employees (who are not Directors of the Company) for the financial year ended 31 May 2007 (FY2007) is as follows:

| Remuneration band and Name of Executive Officer | Base / fixed salary | Variable or performance related income/ bonus | Other benefits |
|---|---------------------|---|----------------|
| Below S\$250,000 | | | |
| Li Chun Wa | 60% | – | 40% |
| Yu Sui Fan | 40% | 60% | – |
| Chung Ka Kui | 100% | – | – |
| Cheng Tat Ming | 100% | – | – |
| Yau Shui Ping | 100% | – | – |

Save for Mr. So Tat Wing, Mr. So Tat Chiu and Mr. So Tat Cho who are brothers and Mr. So Chi Chun is the son of the Chairman and Managing Director, Mr. So Tat Wing, there are no employees in the Group who are immediate family members of our Directors.

Corporate Governance Report

3. Accountability and Audit

3.1 Accountability

The Board has overall responsibility to provide a balance and understandable assessment of the company's performance, position and prospects in respect of the Company's reports and financial statements and other price sensitive information to regulators and shareholders.

3.2 Audit Committee

Our Executive Directors will continue to manage the operations of our Company and its subsidiaries, and our AC will provide the necessary checks and balances as set out below. Our AC comprises two Independent Non-executive Directors, namely Mr. Seah Hou Kee and Mr. Cheung King Kwok and the Non-executive Director, namely Mr. Ong Chor Wei. The Chairman of the AC is Mr. Seah Hou Kee.

Our AC will provide a channel of communication between our Board, our Management and our external auditors on matters relating to audit. The responsibilities of our AC include:

- (a) review with the external auditors and where applicable, our internal auditors, their audit plans, their evaluation of the system of internal accounting controls, their letter to Management and the Management's response;
- (b) review the interim and annual financial statements and balance sheet and profit and loss accounts before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- (c) ensure co-ordination between the external auditors and our Management, and review the assistance given by our Management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our Management, where necessary);
- (d) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement at any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our Management's response;
- (e) make recommendations to our Board on the appointment, re-appointment and removal of the external auditor(s) and approving the remuneration and terms of engagement of the external auditor;
- (f) review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors, review the nature and extent of non-audit services, where applicable;
- (g) review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to our financial performance;
- (h) review arrangements by which our staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- (i) review the adequacy of our internal financial controls, operational and compliance controls, and risk management policies and systems established by our Management,

Apart from the responsibilities listed above, the AC has explicit authority to investigate any matters within its terms of reference and has full access to and cooperation from Management, in addition to its direct access to the external auditors. If required, the AC has authority to seek external resources to enable it to discharge its functions properly, including obtaining legal or other professional advice and services.

Corporate Governance Report

The AC has reviewed the annual financial statements of the Company and the Group for the financial year ended 31 May 2007 as well as the auditors' reports thereon and interested person transactions of the Group in the said financial year.

There is no non-audit service provided by the external auditors to the Company and the Group in the financial year ended 31 May 2007 and no non-audit fee has been paid to the auditors during the financial year,

Each member of our AC shall abstain from voting on any resolutions in respect of matters in which he is or may be interested.

3.3 Internal Controls

The AC reviews the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the Management (collectively "internal controls").

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard Shareholders' interests and the Group's assets, and to manage risks. The Board also acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

3.4 Internal Audit

The Company does not have in place an independent internal audit function as the Board is of the view that the appointment is not imminent under current circumstances, taking into account the current corporate structure and scope of the Group's operations.

The Group's external auditors, Baker Tilly Hong Kong Limited, certified Public Accountants, Hong Kong, contribute an independent perspective on relevant internal controls arising from their audit and report findings to the AC.

4. Communication with Shareholders

4.1 Communication with Shareholders

The Company believes in engaging in regular, effective and fair communication with Shareholders and is committed to conveying pertinent information to Shareholders on a timely basis. The Company takes care to ensure that information that is made publicly available on a timely basis. Disclosure of information is made through announcements to the SGX-ST, the Company's annual reports, circulars for Special General Meetings and press releases.

4.2 Greater Shareholder Participation

The Company believes in encouraging Shareholder participation at general meetings. The Company's Bye-Laws allow a Shareholder entitled to attend and vote to appoint a proxy who need not be a shareholder of the Company to attend and vote at the meetings. Separate resolutions are proposed on each substantially separate issue at general meetings.

The chairpersons of the Board and committees are present and available to address questions at general meetings.

Corporate Governance Report

5. Dealings in Securities

The Group is in the midst of devising and adapting its own internal compliance code to provide guidance to the Company and its officers (including Directors, employees, consultants and staff of the Company) ("**Jets Officers**") with regard to dealing in the Company's securities. In general, if any of the Jets Officers possesses inside information that is not generally available, such Jets Officer is prohibited from dealing or procuring any other person to deal in those securities and from directly or indirectly communicating the information to another person who the Jets Officer believes is likely to deal in, or procure another person to deal in those securities. A Jets Officer should also not deal in the Company's securities on short-term considerations.

Pursuant to the Listing Manual, the Company and any Jets Officers shall not deal in the Company's securities during the period commencing one month before the date of announcement of the Company's half year or full year financial results.

6. Risk Management

The Company does not have a Risk Management Committee. However, the Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measure to control and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

7. Material Contracts

There were no material contracts of the Company or its subsidiaries involving the interests, direct or deemed, of the Managing Director or any Director or controlling Shareholders (as defined in the SGX-ST Listing Manual), either still subsisting at the end of the financial year ended 31 May 2007.

8. Interested Persons Transactions

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that such transactions are carried out at arms' length and on normal commercial terms and will not be prejudicial to the interests of the company, its subsidiaries and its minority Shareholders. Our AC will review and approve all interested person transactions as defined by the SGX-ST Listing Manual.

During the financial year ended 31 May 2007 and 2006, no such interested person transactions were entered into by the Group..

In FY2007 and FY2006, the Group's banking facilities are secured by corporate guarantees executed by the Company as detailed in note 19 to the Financial Statements of this Annual Report.

Shareholding Statistics

As at 23 August 2007

| | | |
|--------------------------|---|----------------------------------|
| Authorised share capital | - | HK\$800,000,000 |
| Issued and fully paid-up | - | HK\$54,200,080 |
| Class of shares | - | Ordinary shares of HK\$0.22 each |
| Voting rights | - | 1 vote per ordinary share |

Shareholdings Held in Hands of Public

Based on information available to the Company as at 23 August 2007, 30.42% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

Analysis of Shareholders

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|------------------------|---------------------|---------------|--------------------|---------------|
| 1 - 999 | 4 | 0.33 | 310 | 0.00 |
| 1,000 - 10,000 | 722 | 59.28 | 2,621,000 | 1.06 |
| 10,001 - 1,000,000 | 480 | 39.41 | 43,372,078 | 17.61 |
| 1,000,001 and above | 12 | 0.98 | 200,370,612 | 81.33 |
| Total | 1,218 | 100.00 | 246,364,000 | 100.00 |

Top 20 Shareholders

| No. | Name | No. of Shares | % |
|--------------|-------------------------------------|--------------------|--------------|
| 1 | Jets Technics International Limited | 171,408,612 | 69.58 |
| 2 | UOB Kay Hian Pte Ltd | 5,510,000 | 2.24 |
| 3 | Tan Mun Hoe or Tan Tiong Hoe | 4,410,000 | 1.79 |
| 4 | OCBC Securities Private Ltd | 3,760,000 | 1.53 |
| 5 | Nomura Singapore Limited | 3,533,000 | 1.43 |
| 6 | Phillip Securities Pte Ltd | 2,866,000 | 1.16 |
| 7 | Palani A/L Mutusami | 2,764,000 | 1.12 |
| 8 | Lim & Tan Securities Pte Ltd | 1,479,000 | 0.60 |
| 9 | Lim Beak Leang | 1,276,000 | 0.52 |
| 10 | Citibank Consumer Nominees Pte Ltd | 1,166,000 | 0.47 |
| 11 | Kim Eng Securities Pte. Ltd. | 1,158,000 | 0.47 |
| 12 | CIMB-GK Securities Pte. Ltd. | 1,040,000 | 0.42 |
| 13 | Tay Hwa Lang | 600,000 | 0.24 |
| 14 | Ong Chong Hock Joseph | 586,000 | 0.24 |
| 15 | Citibank Nominees S'pore Pte Ltd | 572,000 | 0.23 |
| 16 | Ng Wan Li | 550,000 | 0.22 |
| 17 | Soon Jia Wei | 550,000 | 0.22 |
| 18 | Chan Mun Lye | 500,000 | 0.20 |
| 19 | Chin Hin Investments Pte Ltd | 500,000 | 0.20 |
| 20 | Lam Choong Fei | 500,000 | 0.20 |
| Total | | 204,728,612 | 83.08 |

Shareholding Statistics

As at 23 August 2007

Substantial Shareholders

| | Direct Interests | No. of Shares | | Deemed Interests | % |
|--|---------------------|---------------|-------------|---------------------|-------|
| | | % | | | |
| Jets Technics International Limited ¹ | 171,408,612 | 69.58 | – | – | – |
| So Tat Wing | – | – | 171,408,612 | 69.58 | 69.58 |
| So Tat Chiu | – | – | 171,408,612 | 69.58 | 69.58 |
| So Tat Cho | – | – | 171,408,612 | 69.58 | 69.58 |

Note:-

1. Jets Technics International Limited is a corporation incorporated in the British Virgin Islands, whose shares are held by our Directors Mr. So Tat Wing (30%) and Mr. So Tat Cho (30%) and our ex-Directors Mr. So Tat Chiu (30%) and Ms. Wong Ying Lee (10%). As such, Mr. So Tat Wing, Mr. So Tat Cho and Mr. So Tat Chiu are deemed to have an interest in the shares held by Jets Technics International Limited.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of JETS TECHNICS INTERNATIONAL HOLDINGS LIMITED (the "Company") will be held at Casuarina Suite A, Level 3, Raffles Hotel, Singapore, 1 Beach Road, Singapore 189673 on Friday, 28 September 2007 at 10:30 a.m. for the following purposes:-

AS ORDINARY BUSINESS

- | | | |
|----|---|---|
| 1. | To receive and adopt the Audited Accounts of the Company for the financial year ended 31 May 2007 together with the Directors' Report and Auditors' Report thereon. | Resolution 1 |
| 2. | To re-elect the following Directors retiring pursuant to Bye-Law 86 of the Bye-laws of the Company: Mr. Au Chun Kwok Augustus Mr. Cheung King Kwok Mr. Seah Hou Kee | Resolution 2 Resolution 3 Resolution 4 |
| 3. | To approve the payment of Directors' fees of HK\$10,000 per month for Non-executive Director, Mr. Ong Chor Wei and Independent Non-executive Director, Mr. Au Chun Kwok Augustus; HK\$10,000 per month from 1 June 2006 to 31 August 2006 and HK\$12,500 per month thereafter for Independent Non-executive Director, Mr. Cheung King Kwok; and S\$2,500 per month for Independent Non-executive Director, Mr. Seah Hou Kee for the financial year ended 31 May 2007. | Resolution 5 |
| 4. | To re-appoint Baker Tilly Hong Kong Limited as the Company's Auditors and to authorise the Directors to fix their remuneration. | Resolution 6 |
| 5. | To transact any other ordinary business which may be properly transacted at an Annual General Meeting. | |

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions (with or without amendments) as Ordinary Resolutions:-

6. Authority to allot and issue shares up to fifty per cent. (50%) of issued capital

"THAT, pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to:-

- (a) allot and issue shares in the Company; and
- (b) issue convertible securities and any shares in the Company pursuant to convertible securities

(whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to this authority shall not exceed fifty per cent. (50%) of the issued share capital of the Company and that the aggregate number of shares and convertible securities in the Company to be issued other than on a pro-rata basis to existing shareholders of the Company shall not exceed twenty per cent. (20%) of the issued share capital of the Company. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law or by the Company's Bye-laws to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

Notice of Annual General Meeting

For the purposes of this resolution, the percentage of issued share capital shall be based on the Company's issued share capital at the time of the passing of this resolution after adjusting for: -

- (a) new shares arising from the conversion or exercise of convertible securities or from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution provided the options or awards were granted in compliance with the rules of the Listing Manual; and
- (b) any subsequent consolidation or subdivision of shares."

Resolution 7

7. Authority to grant options and issue shares under the Jets Technics Share Option Scheme

"IT WAS RESOLVED THAT approval be and is hereby given to the Directors to offer and grant options under the Jets Technics Share Option Scheme (the "Scheme") and to allot and issue from time to time such number of shares in the Company as may be required to be issued pursuant to the exercise of options under the Scheme, provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the total issued share capital of the Company from time to time."

Resolution 8

By Order of the Board

Chung Ka Kui
Tan Min-Li
Joint Company Secretaries

Singapore, 13 September 2007

Notes:-

- (i) If a Depositor whose name appears in the Depository Register holdings Shares through the CDP wishes: (a) to attend and vote at the Annual General Meeting, he/it should complete the Proxy Form accompanying the annual report appointing himself/itself as proxy; or (b) to appoint a proxy/proxies who shall be natural persons to attend and vote in his or its place as proxy/proxies for CDP, he/it should complete the Proxy Form to appoint such proxy/proxies, in accordance with the instructions printed thereon and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting.

If a Shareholder wishes to appoint a proxy/proxies, then the Proxy Form accompanying this annual report must be completed in accordance with the instructions printed thereon and deposited at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting.
- (ii) If re-elected under Resolution 2, Mr. Au Chun Kwok Augustus will remain an Independent Non-executive Director, Chairman of the Nominating Committee and member of the Remuneration Committee of the Company.
- (iii) If re-elected under Resolution 3, Mr. Cheung King Kwok will remain an Independent Non-executive Director, Chairman of the Remuneration Committee and member of the Audit Committee of the Company.
- (iv) If re-elected under Resolution 4, Mr. Seah Hou Kee will remain an Independent Non-executive Director, Chairman of the Audit Committee and member of the Nominating Committee of the Company.
- (v) The Ordinary Resolution 7 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the issued share capital (as defined in Resolution 7) of the Company. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per cent. (20%) of the issued share capital (as defined in Resolution 7) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law or by the Company's Bye-laws to be held, whichever is the earlier. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.
- (vi) The Ordinary Resolution 8 proposed in item 7 above, if passed, will empower the Directors of the Company, to grant options and to allot and issue shares upon the exercise of such options in accordance with the Scheme.

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Hong Kong Factory

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New Territories, Hong Kong.

Jets Technics International Holdings Limited

(a company incorporated in Bermuda with limited liability)

Annual Report 2007