中國海景

2009

ANNUAL REPORT

中國海景控股有限公司

Sino Haijing Holdings Limited

Stock Code: 8065

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed in the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the "Directors") of Sino Haijing Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This report, in both English and Chinese versions, is available on the Company's website at www.sinohaijing.com (the "Company Website").*

*Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to this report posted on the Company Website will promptly upon request be sent this report in printed form free of charge.*

*Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.*

*Shareholders may send their request to receive this report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Hong Kong Share Registrar of the Company, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong or by sending an email to the Hong Kong Share Registrar of the Company at is-ecom@hk.tricorglobal.com.*

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Chao Pang Fei *(Chairman)*
Mr. Wang Yi
Ms. Hui Hongyan
Mr. Deng Chuangping

## NON-EXECUTIVE DIRECTOR

Mr. Lan Yu Ping

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Ka Wing
Mr. Cheng Yun Ming, Matthew
Mr. Sin Ka Man

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2412, 24/F
Wing On Centre
111 Connaught Road Central
Hong Kong

## COMPANY SECRETARY

Ms. Choi Yuen Wa *(FCCA, HKICPA, MBA)*

## AUTHORISED REPRESENTATIVES

Mr. Chao Pang Fei
Ms. Choi Yuen Wa *(FCCA, HKICPA, MBA)*

## COMPLIANCE OFFICER

Ms. Hui Hongyan

## MEMBERS OF THE AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. Ho Ka Wing *(Chairman)*
Mr. Cheng Yun Ming, Matthew
Mr. Sin Ka Man

## LEGAL ADVISERS

*As to Hong Kong Law*
Loong & Yeung

*As to Cayman Islands Law*
Conyers Dill & Pearman, Cayman

## AUDITORS

CCIF CPA Limited
*Certified Public Accountants*

## PRINCIPAL BANKERS

HSBC
The Bank Of East Asia
Bank of China (Hefei)
Bank of Communications (Hefei)
China Merchants Bank (Qingdao)

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

8065

## COMPANY'S WEBSITE

www.sinohaijing.com

# Directors and Senior Management of the Group

Biographical details of directors of the Company and the senior management of the Group are set out below:

## DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Chao Pang Fei**, aged 49, is the Chairman and President of the Group and is responsible for the formulation of corporate strategy and the steering of the overall development of the Group. Mr. Chao has over 14 years of experience in expanding and promoting the expandable polystyrene ("EPS") packaging industry in the PRC. Mr. Chao joined the Group in September 2005.

**Mr. Wang Yi**, aged 48, is the Vice President of the Group and is responsible for overseeing the operations of the Group's subsidiaries in Hefei City, the PRC. Mr. Wang graduated from Shanghai Light Industry College. Mr. Wang has over 22 years of experience in the EPS production and technical management. Mr. Wang is one of the "2008 Outstanding Entrepreneur" awarded by Anhui Association of Enterprises with Foreign Investment. He is the Vice President of the China Plastics Processing Industry Association – EPS Professional Committee. Mr. Wang joined the Group in January 2008.

**Ms. Hui Hongyan**, aged 45, graduated from the Faculty of Accountancy of University of Shenzhen. Ms. Hui is responsible for the financial management of the Group's subsidiaries in the PRC. Ms. Hui had over 15 years of experience in different management positions in finance department of various companies in the PRC. Ms. Hui joined the Group in September 2005.

**Mr. Deng Chuangping**, aged 33, is the President Assistant of the Group and is responsible for overseeing the operation of the Group's subsidiaries in Qingdao City, the PRC. Mr. Deng graduated from the Faculty of Industry and Economics of Renmin University of China. Mr. Deng has over 9 years of experience in the EPS production and technical management. Mr. Deng is the executive council member of the China Federation of Packaging Association. Mr. Deng joined the Group in January 2008.

## NON-EXECUTIVE DIRECTOR

**Mr. Lan Yu Ping**, aged 46, holds a bachelor degree and master degree in economics from Zhongshan University in China and a master degree in Business Studies from Massey University in New Zealand. Since 1988, Mr. Lan worked for several financial institutions and investment companies in China and currently he is an associate professor in the International Finance College of the Beijing Normal University (Zhuhai Campus). Mr. Lan has over 14 years of experience in finance and investment fields.

# Directors and Senior Management of the Group

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ho Ka Wing**, aged 38 has over 12 years of management experience. Mr. Ho received a bachelor degree of Business from the Monash University in Australia in 1997 and a master degree of Business Administration from the University of Surrey in the United Kingdom in 2000.

**Mr. Cheng Yun Ming, Matthew**, aged 40, is a Certified Public Accountant (Practising), an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheng obtained a bachelor degree in Accountancy from the Hong Kong Polytechnic University in 1992.

**Mr. Sin Ka Man**, aged 42, has over 18 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of The Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a certified practising accountant of the CPA Australia. Mr. Sin holds a bachelor degree in Social Sciences from the University of Hong Kong, a master degree in Finance from the University of Strathclyde, the United Kingdom and a master degree in Accounting from Curtin University of Technology, Australia. Mr. Sin is currently the company secretary of Huayu Expressway Group Limited, a company listed on the Main Board of the Stock Exchange.

## SENIOR MANAGEMENT

**Ms. Choi Yuen Wa, Frieda**, aged 42, is the Financial Controller and Company Secretary of the Group. Ms. Choi joined the Group in August 2005 and is responsible for the financial management, accounting and company secretarial matters of the Group. Ms. Choi holds a master degree in Business Administration from the University of Surrey in the United Kingdom. Ms. Choi is a fellow member of the Association of Chartered Certified Accountants and is an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining to the Group, Ms. Choi had worked in the finance department of two public listed companies Hong Kong. She has over 16 years of professional experience in the field of auditing, accounting and financial management.

**Mr. Yao Weiyou**, aged 31, is the General Manager of Qingdao Xin Haijing Packing Materials Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Qingdao Xin Haijing Packing Materials Company Limited. Mr. Yao graduated from the Faculty of Computer of Hefei Industrial University. Mr. Yao has over 8 years of experience in the EPS production and technical management. Mr. Yao is one of the "2009 Outstanding Enterprise Manager" awarded by the Huangdao local government, Qingdao City. Mr. Yao joined the Group in January 2008.

# Directors and Senior Management of the Group

**Mr. Niu Weiguo**, aged 46, is the Deputy General Manager of Hefei Meiling Rongfeng Packing Materials Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Hefei Meiling Rongfeng Packing Materials Company Limited. Mr. Niu graduated from the Faculty of Mechanical Engineering of Anhui Technical Institute. Mr. Niu has over 8 years of experience in the EPS production and technical management. Mr. Niu joined the Group in January 2008.

**Mr. Zhang Hongxing**, aged 33, is the Deputy General Manager of Dalian Haijing Packing Materials Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Dalian Haijing Packing Materials Company Limited. Mr. Zhang graduated from the Faculty of Business English of Anhui Television Broadcasts University. Mr. Zhang has over 6 years of experience in the EPS production and technical management. Mr. Zhang joined the Group in January 2008.

**Mr. Gou Yuguo**, aged 41, is the Deputy General Manager of Qingdao Haijing Mould Products Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Qingdao Haijing Mould Products Company Limited. Mr. Gou graduated from Bazhong Mechanical Agriculture School of Sichuan Province. Mr. Gou has over 13 years of experience in the EPS production, mould production and technical management. Mr. Guo joined the Group in January 2008.

**Mr. Wu Guozeng**, aged 36, is the Deputy General Manager of Hefei Haijing Packing Materials Company Limited, a subsidiary of the Group, and is responsible for assisting the management of the operation of Hefei Haijing Packing Materials Company Limited. Mr. Wu graduated from Chuzhou Electronic Technical School of Auhui Province. Mr. Wu has over 17 years of experience in the EPS production and sales management. Mr. Wu joined the Group in January 2008.

**Ms. Lu Mei,** aged 29, is the General Manager Assistant of Hefei Qipeng Paper Products Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Hefei Qipeng Paper Products Company Limited. Ms. Lu graduated from the Faculty of Accountancy of Hefei Industrial University. Ms. Lu joined the Group in January 2008.

Ms. **Li Jianying**, aged 30, is the General Manager Assistant of Qingdao Xin Haijing Packing Materials Company Limited, a subsidiary of the Group, and is responsible for assisting the management of the operation of Qingdao Xin Haijing Packing Materials Company Limited. Ms. Li graduated from the Faculty of Chemical Engineering of Qingdao Ocean University. Ms. Li has over 7 years of experience in the EPS production and sales management. Ms. Li joined the Group in January 2008.

# Directors' Business Review

On behalf of the board of directors (the "Board"), I present the annual results of Sino Haijing Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the financial year ended 31 December 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year under review, the Group recorded a total turnover of approximately HK$374.58 million, representing an increase of approximately 19.64% as compared with approximately HK$313.10 million for the corresponding year in 2008. Profit attributable to equity shareholders of the Company was approximately HK$14.6 million, represent a decrease of approximately 58.03% as compared with approximately HK$34.79 million for the corresponding year in 2008.

## BUSINESS REVIEW

In the first half of 2009, the global financial crisis resulted in a tremendous market downturn. The slowdown for the demand of cushioning packaging products for household appliances had a direct negative impact on the Group's operating results. On the other hand, the "Rural Area Subsidized Electrical Appliances Purchase Policy", the "Home Appliances Replacement Policy" and the "Energy Efficient Product Subsidy Policy" implemented by the PRC government stimulated the demand of home appliances. The Group's operating results have stabilized in the second half of 2009.

During the year under review, the Group has committed to broaden the sources of income and reduce the operating costs. In addition to consolidate the existing business, the Group has also actively developed the new customers and the new markets. In the second half of 2009, the continuous rise of fuel, electricity, labor cost, raw materials and accessory materials brought high pressures on the operating costs of the Group, the Group put strenuous efforts to implement effective cost-control measures, through strengthening the internal management and improving the operating processes resulting in a more streamlined operation and increased overall production efficiency.

In 2009, the Group has gained precious experience in response to adverse business environment and it laid a solid foundation for the future sustainable development of the Group.

# Directors' Business Review

## RECOGNITION

During the past year, the subsidiaries of the Group received numerous awards from the local governments and their business partners for their achievement, including:

- "2009 Outstanding Contribution (Top Ten) Enterprise" by the Working Committee of Jiushui Road, Licang District, Qingdao City

- "2009 Outstanding Enterprise Manager" by the Working Committee of Xuejiadao Street, Huangdao District, Qingdao City

- "2009 Brand Name of China EPS Industry" by China Plastics Processing Industry Association – EPS Professional Committee

- "2008 Outstanding Entrepreneur" by Anhui Province Foreign Investment Association

- "2008 Outstanding Foreign Investment Enterprise" by Anhui Province Foreign Investment Association

## BUSINESS OUTLOOK

Given the initial recovery of the global economy and the support of the "Rural Area Subsidized Electrical Appliances Purchase Policy" implemented by the PRC government, the Group is cautious optimistic for the operation in 2010. In 2010, the Group's core strategies are "to optimize the product structures, strengthen the internal management and team building".

### TO OPTIMIZE THE PRODUCT STRUCTURES

In addition to consolidate the existing household electrical appliance packaging business, the Group will continue to optimize its product structures so as to boost sales value.

The Group has started to develop the new businesses beyond its existing household electrical appliance packaging business, including the logistic and freight packaging solutions business. The Group has targeted to upgrade from the manufacturer of household electrical appliance packaging products to an excellent complete packaging solutions providers so as to further improve its overall competitiveness and profitability.

### TO STRENGTHEN THE INTERNAL MANAGEMENT

The Group will continue to strengthen its internal management, simplify and improve procedures and processes to make operations more streamlined. The Group will convene regular internal meetings to facilitate communication among the Group's subsidiaries in order to promote market information and exchange production technology so that all departments complement each other in their respective merits and enhance overall efficiency.

# Directors' Business Review

The Group will strengthen the management of production technology and improve the mechanization of equipment standards, and enhance staff operational skills in order to improve overall production efficiency.

The Group requires utilizing the massive steam in the daily production process and to improve the mould design can effectively reduce the consumption of steam. In 2010, the Group will focus on improving mould design, thereby enhancing production efficiency and cost savings.

### TEAM BUILDING

The Group has adhered to the "people-oriented" enterprise conviction and strongly believes that only having outstanding human resources can enhance the overall competitiveness and cohesive spirit of the Group. The Group has adopted a share option scheme and offered a refined incentive bonus program to its staff. The Group provides ongoing staff training and offers fair and equitable career advancement to its staff so as to enhance the quality of management and operations skills of the staff and nurture the key human resources for the future development of the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had current assets of approximately HK$215.20 million (2008: HK$201.42 million) of which approximately HK$15.37 million (2008: approximately HK$5.25 million) was cash and cash equivalents. The Group's current liabilities amounted to approximately HK$177.45 million (2008: HK$180.46 million) which mainly comprised its trade and other payables and interest-bearing bank and other borrowings. Taken into consideration of its current financial resources, the Group shall have adequate capital for its continual operation and development.

## EMPLOYEES

As at 31 December 2009, the Group had a total of around 917 (2008: 972) staff based in PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

## CAPITAL STRUCTURE

As at 31 December 2009, the Group's net assets were financed by internal resources and bank and other borrowings.

## SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2009.

# Directors' Business Review

## CAPITAL COMMITMENT

The group's capital commitment outstanding at the year end and contracted but not provided for in the financial statements is HK$0.77 million (2008: HK$1.72 million).

## PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2009, the Group pledged assets with aggregate carrying value of HK$83.63 million (2008: HK$77.06 million) to secure banking and other facilities and other borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities (2008: Nil).

## GEARING RATIO

As at 31 December 2009, the total tangible assets of the Group was HK$357.24 million whereas the total liabilities was approximately HK$183.17 million. The gearing ratio (total liabilities divided by total tangible assets) was approximately 51.27%.

## HEDGING

Most of the transactions of the Group are denominated in Hong Kong Dollars, United States Dollars and Renminbi, no hedging or other arrangements to reduce the currency risk have been implemented.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders for their continued support during 2009 and all staff for their hard work.

For and on behalf of the Board

**Chao Pang Fei**
*Chairman*

Hong Kong, 22 March 2010

# Report of the Directors

The directors present herewith their annual report and the audited financial statements of Sino Haijing Holdings Limited ("the Company") and its subsidiaries (together with the Company, "the Group") for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's subsidiaries are set out in note 16 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 40% | |
| Five largest customers in aggregate | 74% | |
| The largest supplier | | 20% |
| Five largest suppliers in aggregate | | 34% |

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## SEGMENT REPORTING

Details of segment reporting are set out in note 5 to the financial statements.

## FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 27.

The state of affairs of the Group and the Company as at 31 December 2009 are set out in the consolidated balance sheet on page 28 and the balance sheet on page 29, respectively.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2009 (2008: Nil).

# Report of the Directors

## FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2009 and of the assets and liabilities as at 31 December 2005, 2006, 2007, 2008 and 2009 is set out on page 105.

## CHARITABLE DONATIONS

The Group made charitable donations during the year amounted to HK$1,000 (2008: HK$nil).

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

## SHARE CAPITAL

Movements in share capital of the Company during the year are set out in note 24 to the financial statements.

## RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 30.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

### EXECUTIVE DIRECTORS

Mr. Chao Pang Fei *(Chairman)*
Mr. Wang Yi
Ms. Hui Hongyan
Mr. Deng Chuangping *(Appointed on 11 January 2010)*

### NON-EXECUTIVE DIRECTOR

Mr. Lan Yu Ping

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Ka Wing
Mr. Cheng Yun Ming, Matthew
Mr. Sin Ka Man

# Report of the Directors

In accordance with Article 86(3) of the Company's articles of association, all directors for the time being shall retire from office and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Chao Pang Fei, Ms. Hui Hongyan and Mr. Lan Yu Ping have entered into a service contract with the Company for an initial term of one year commencing from 13 September 2005 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the year ended 31 December 2009 and the Company considers the independent non-executive directors to be independent.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## DIRECTORS' INTERESTS IN CONTRACTS

No other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or children under 18 years of age 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

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### *LONG POSITIONS IN THE SHARES OF THE COMPANY*

| Name of director | Capacity | Number of Shares *(Note 1)* | Approximate percentage of the issued share capital of the Company % |
|---|---|---|---|
| Mr. Chao Pang Fei | Interest of controlled corporation | 172,599,005(L) *(Note 2)* | 71.27 |
| | Beneficial interest | 9,030,000(L) | 3.72 |
| | | 181,629,005(L) | 74.99 |

*Notes:*

1. The letter "L" represents the person's interests in Shares or underlying Shares.

2. These shares are legally owned by Haijing Holdings Limited ("Haijing Holdings"), a company wholly owned by Mr. Chao. By virtue of his 100% shareholding interest in Haijing Holdings, Mr. Chao is taken to be interested in all the shares held by Haijing Holdings pursuant to the SFO.

## SHARE OPTIONS GRANTED TO DIRECTORS

On 6 November 2009, the Company granted share options to certain Directors under the share option scheme (the "Share Option Scheme") that was adopted on 6 June 2003. Details of the share options movement as at 31 December 2009 are set out in the heading "Share Option Scheme" under Report of Directors.

# Report of the Directors

Save as disclosed above, as at 31 December 2009, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations ( within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## INTERESTS OF SUBSTANTIAL SHAREHOLDER

### PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the 31 December 2009, so far as was known to the Directors or chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such capital are set out below:

#### *LONG POSITIONS IN THE SHARES*

| **Name of** | **Nature of interests** | **Number of share** | **Approximate percentage of the issued share capital of the Company** |
|---|---|---|---|
| | | | % |
| Haijing Holdings | Beneficial owner | 172,599,005 | 71.27 |
| Ms. Sam Mei Wa | Interest of spouse | 181,629,005 *(Note)* | 74.99 |

*Note:* Ms. Sam Mei Wa is the spouse of Mr. Chao Pang Fei, hence Ms. Sam is taken to be interested in all the Shares held or deemed to be held by Mr. Chao pursuant to the SFO.

## Report of the Directors

### SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

The following table discloses the movement of the Company's share options during the year ended 31 December 2009.

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | Exercisable period | Exercise price per share *HK$* | Balance as at 1 January 2009 | Granted during the year | Lapsed upon resignation | Balance as at 31 December 2009 |
| **Category 1** | | | | | | | |
| **Directors** | | | | | | | |
| Wang Yi | 6 November 2009 | 6 November 2009 -5 November 2013 | 0.42 | - | 2,000,000 | - | 2,000,000 |
| Wang Yi | 6 November 2009 | 6 November 2011 - 5 November 2013 | 0.42 | - | 2,000,000 | - | 2,000,000 |
| Hui Hongyan | 6 November 2009 | 6 November 2009 - 5 November 2013 | 0.42 | - | 1,168,000 | - | 1,168,000 |
| Hui Hongyan | 6 November 2009 | 6 November 2011 - 5 November 2013 | 0.42 | - | 1,168,000 | - | 1,168,000 |
| Deng Chuangping (Appointed on 11 January 2010) | 6 November 2009 | 6 November 2009 - 5 November 2013 | 0.42 | - | 1,440,000 | - | 1,440,000 |
| Deng Chuangping | 6 November 2009 | 6 November 2011 - 5 November 2013 | 0.42 | - | 1,440,000 | - | 1,440,000 |
| | | | | - | 9,216,000 | - | 9,216,000 |
| **Category 2** | | | | | | | |
| Employees | 6 November 2009 | 6 November 2009 - 5 November 2013 | 0.42 | - | 7,492,000 | - | 7,492,000 |
| Employees | 6 November 2009 | 6 November 2011 - 5 November 2013 | 0.42 | - | 7,492,000 | - | 7,492,000 |
| | | | | - | 14,984,000 | - | 14,984,000 |
| | | | | - | 24,200,000 | - | 24,200,000 |

The closing price of the Company's share on 5 November 2009, the date immediately before the date of grant of the share options (6 November 2009), was HK$0.40 per share. During the year ended 31 December 2009, the fair value of the share options granted recognized into equity settled share-based payment expenses are set out in note 7 to the financial statements.

## COMPETING INTERESTS

As at 31 December 2009, none of the Directors or management shareholders (as defined in GEM Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## CORPORATE GOVERNANCE REPORT

The Company complied with Code on Corporate Governance Practices (the "CG Code") of the GEM Listing Rules throughs at the year ended 31 December 2009 with the exception of deviation for Code Provision A.2.1.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Chao Pang Fei is the Chairman and Chief Executive Officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and department heads, the Board considers that vesting the roles of both Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It is in the best interest of the Group to maintain the current practice for continuous efficient operations and development of the Group.

The key corporate governance principles and practices of the Company are summarised as follows:

# Report of the Directors

## THE BOARD

### RESPONSIBILITIES

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions (in particular those which may involve conflict of interests), appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

All directors have full and timely access to all relevant information as well as the advice and services of the professional advisers, as and when required, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

### COMPOSITION

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board of the Company as at the date of this report comprises the following directors:

#### *EXECUTIVE DIRECTORS:*

Mr. Chao Pang Fei *(Chairman)*
Mr. Wang Yi
Ms. Hui Hongyan
Mr. Deng Chuangping *(Appointed on 11 January 2010)*

# Report of the Directors

### *NON-EXECUTIVE DIRECTOR:*

Mr. Lan Yu Ping

### *INDEPENDENT NON-EXECUTIVE DIRECTORS:*

Mr. Ho Ka Wing *(Chairman of Audit Committee and Remuneration Committee)*
Mr. Cheng Yun Ming, Matthew *(member of Audit Committee and Remuneration Committee)*
Mr. Sin Ka Man *(member of Audit Committee and Remuneration Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the GEM Listing Rules.

None of the members of the Board is related to one another.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the GEM Listing Rules. The Company considers both independent non-executive directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

In accordance with the Company's articles of association, all directors for the time being shall retire from office and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Detailed information of the directors standing for re-election will be included in the Company's circular to be dispatched together with the notice of the 2009 annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

## BOARD AND BOARD COMMITTEES MEETINGS

### *NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE*

Regular Board meetings should be held at least four times a year at quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2009, 6 Board meetings (4 of which were regular Board meetings) and 4 Audit Committee meetings and 2 Remuneration Committee meetings were held.

The individual attendance record of each director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2009 is set out below:

| | | Attendance/Number of Meetings held during the tenure of directorship | |
|---|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** | **Remuneration Committee** |
| Executive Directors | | | |
| – Mr. Chao Pang Fei | 6/6 | N/A | 1/2 |
| – Mr. Wang Yi | 2/6 | N/A | N/A |
| – Ms. Hui Hongyan | 5/6 | N/A | 1/2 |
| Non-Executive Director | | | |
| – Mr. Lan Yu Ping | 3/6 | N/A | N/A |
| Independent Non-Executive Directors | | | |
| – Mr. Ho Ka Wing *(Chairman of Audit Committee and Remuneration Committee)* | 6/6 | 4/4 | 1/2 |
| – Mr. Cheng Yun Ming, Matthew *(member of Audit Committee and Remuneration Committee)* | 6/6 | 4/4 | 1/2 |
| – Mr. Sin Ka Man *(member of Audit Committee and Remuneration Committee)* | 5/6 | 3/4 | 1/2 |

## PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Code Provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or Audit Committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given an opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to the senior executives whenever necessary. With the support of the senior executives, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and opened for inspection by the directors.

The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Chao Pang Fei is the Chairman and Chief Executive Officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and department heads, the Board considers that vesting the roles of both Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It is in the best interest of the Group to maintain the current practice for continuous efficient operations and development of the Group.

## BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

All the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Composition" of this report.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expenses.

# Report of the Directors

## REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include reviewing, making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior executives. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Group as well as market practice and conditions. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

## AUDIT COMMITTEE

The Company had established an audit committee in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

The audit committee comprises Mr. Ho Ka Wing, Mr. Cheng Yun Ming, Matthew and Mr. Sin Ka Man, who are Independent Non-Executive Directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's 2008 annual report, 2009 half-yearly report and quarterly reports as well as the Company's internal control procedures.

The Group's annual results for the year ended 31 December 2009 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Required Standard of Dealings throughout the year ended 31 December 2009.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

# Report of the Directors

The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2009.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 25 to 26.

## AUDITOR'S REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2009 amounted to HK$595,000.

## INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of 2009 annual general meeting and explained during the proceedings of the meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board Committee attended the 2009 annual general meeting to answer questions at the meeting.

Separate resolutions were proposed at 2009 annual general meeting on each substantial issue, including the election of individual directors.

## AUDITOR

The financial statements have been audited by CCIF CPA Limited. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board

**Chao Pang Fei**
*Chairman*
Hong Kong, 22 March 2010

# Independent Auditor's Report

**CCIF**
**CCIF CPA LIMITED**
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF SINO HAIJING HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sino Haijing Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 27 to 104 which comprise the consolidated and Company balance sheets as at 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statements 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 FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the 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 in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 auditor considers 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 affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 22 March 2010

**Kwok Cheuk Yuen**
*Practising Certificate Number P02412*

# Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Turnover | 4 | **374,581** | 313,097 |
| Cost of sales | | **(311,169)** | (238,721) |
| **Gross profit** | | **63,412** | 74,376 |
| Other revenue | 6 | **2,452** | 4,182 |
| Other net income | 6 | **1,490** | 3,453 |
| Administrative and other operating expenses | | **(39,853)** | (31,582) |
| **Profit from operations** | 7 | **27,501** | 50,429 |
| Finance costs | 7 | **(5,570)** | (6,323) |
| **Profit before taxation** | | **21,931** | 44,106 |
| Income tax | 8 | **(5,955)** | (7,781) |
| **Profit for the year** | | **15,976** | 36,325 |
| **Other comprehensive income for the year** | | | |
| Exchange differences arising on translation of foreign operations | | **(17)** | 12,592 |
| **Total comprehensive income for the year** | | **15,959** | 48,917 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | 9 | **14,602** | 34,793 |
| Minority interests | | **1,374** | 1,532 |
| | | **15,976** | 36,325 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **14,585** | 47,149 |
| Minority interests | | **1,374** | 1,768 |
| | | **15,959** | 48,917 |
| **Earnings per share** | 11 | | |
| – Basic | | **HK$6.0 cents** | HK$14.4 cents |
| – Diluted | | **HK$6.0 cents** | HK$14.4 cents |

The notes on pages 33 to 104 form part of these financial statements.

# Consolidated Balance Sheet

As At 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 117,051 | 116,015 |
| Lease premium for land | 14 | 24,991 | 22,272 |
| Goodwill | 15 | 67,717 | 67,723 |
| | | 209,759 | 206,010 |
| **CURRENT ASSETS** | | | |
| Trading securities | 17 | 50 | – |
| Inventories | 18 | 12,750 | 18,318 |
| Lease premium for land | 14 | 590 | 514 |
| Trade and other receivables | 19 | 186,440 | 177,334 |
| Cash and cash equivalents | 20 | 15,365 | 5,254 |
| | | 215,195 | 201,420 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 21 | 110,604 | 110,622 |
| Bank and other borrowings | 22 | 64,861 | 67,929 |
| Current taxation | 23 | 1,988 | 1,905 |
| | | 177,453 | 180,456 |
| **NET CURRENT ASSETS** | | 37,742 | 20,964 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 247,501 | 226,974 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings | 22 | 2,467 | – |
| Deferred tax liabilities | 23 | 3,254 | 2,749 |
| | | 5,721 | 2,749 |
| **NET ASSETS** | | 241,780 | 224,225 |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 24 | 24,219 | 24,219 |
| Reserves | 24 | 202,068 | 185,887 |
| **Total equity attributable to equity shareholders of the Company** | | 226,287 | 210,106 |
| **Minority interests** | | 15,493 | 14,119 |
| **TOTAL EQUITY** | | 241,780 | 224,225 |

Approved and authorised for issue by the board of directors on 22 March 2010.

On behalf of the board

**Chao Pang Fei**
*Director*

**Hui Hongyan**
*Director*

The notes on pages 33 to 104 form part of these financial statements.

# Balance Sheet

As At 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 16 | **157,450** | 161,472 |
| **CURRENT ASSETS** | | | |
| Trading securities | 17 | **50** | – |
| Cash and cash equivalents | 20 | **601** | 109 |
| | | **651** | 109 |
| **CURRENT LIABILITIES** | | | |
| Other payables | 21 | **718** | 2,883 |
| Bank and other borrowings | 22 | **800** | – |
| | | **1,518** | 2,883 |
| **NET CURRENT LIABILITIES** | | **(867)** | (2,774) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **156,583** | 158,698 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings | 22 | **2,467** | – |
| **NET ASSETS** | | **154,116** | 158,698 |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 24 | **24,219** | 24,219 |
| Reserves | 24 | **129,897** | 134,479 |
| **TOTAL EQUITY** | | **154,116** | 158,698 |

Approved and authorised for issue by the board of directors on 22 March 2010.

On behalf of the board

**Chao Pang Fei**
*Director*

**Hui Hongyan**
*Director*

The notes on pages 33 to 104 form part of these financial statements.

# Consolidated Statement of Changes In Equity

For The Year Ended 31 December 2009

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Share premium (Note 24(c)(i)) | Capital reserve (Note 24(c)(ii)) | Share options reserve (Note24 (c)(iii)) | Statutory surplus reserves (Note 24(c)(iv)) | Translation reserve (Note 24(e)(v)) | Retained profits/ (accumulated losses) | Total | Minority interests | Total equity |
| | HK$'000 | HK$000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1/1/2008 | 12,150 | 37,141 | 117 | – | – | 599 | (15,901) | 34,106 | – | 34,106 |
| **Changes in equity for 2008:** | | | | | | | | | | |
| Shares issued for the acquisition of subsidiaries | 12,069 | 120,690 | – | – | – | – | – | 132,759 | – | 132,759 |
| Share issuing expenses | – | (3,908) | – | – | – | – | – | (3,908) | – | (3,908) |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 1,891 | 1,891 |
| Additional capital injection by a minority shareholder | – | – | – | – | – | – | – | – | 10,460 | 10,460 |
| Total comprehensive income for the year | – | – | – | – | – | 12,356 | 34,793 | 47,149 | 1,768 | 48,917 |
| Transfer | – | – | – | – | 5,957 | – | (5,957) | – | – | – |
| At 31/12/2008 and 1/1/2009 | 24,219 | 153,923 | 117 | – | 5,957 | 12,955 | 12,935 | 210,106 | 14,119 | 224,225 |
| **Changes in equity for 2009:** | | | | | | | | | | |
| Equity settled share-based transactions | – | – | – | 1,596 | – | – | – | 1,596 | – | 1,596 |
| Total comprehensive income for the year | – | – | – | – | – | (17) | 14,602 | 14,585 | 1,374 | 15,959 |
| Transfer | – | – | – | – | 4,147 | – | (4,147) | – | – | – |
| At 31/12/2009 | 24,219 | 153,923 | 117 | 1,596 | 10,104 | 12,938 | 23,390 | 226,287 | 15,493 | 241,780 |

The notes on pages 33 to 104 form part of these financial statements.

# Consolidated Cash Flow Statement

For The Year Ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **21,931** | 44,106 |
| Adjustments for: | | | |
| Interest expenses | | **5,570** | 6,323 |
| Depreciation | | **17,144** | 12,943 |
| Amortisation of land lease premium | | **278** | 505 |
| Impairment loss on trade and other receivables | | **161** | – |
| Impairment loss on plant and machinery | | **572** | – |
| Equity-settled share-based payment expenses | | **1,596** | – |
| Interest income | | **(220)** | (82) |
| Loss on disposal of property, plant and equipment | | **72** | 23 |
| **OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL** | | **47,104** | 63,818 |
| Decrease/(increase) in inventories | | **5,568** | (3,529) |
| Increase in trade and other receivables | | **(9,267)** | (37,469) |
| (Decrease)/increase in trade and other payables | | **(18)** | 32,114 |
| **CASH GENERATED FROM OPERATIONS** | | **43,387** | 54,934 |
| The People's Republic of China (the "PRC") income tax paid | | **(5,365)** | (7,443) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | | **38,022** | 47,491 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(20,036)** | (47,525) |
| Proceeds from sales of property, plant and equipment | | **1,203** | 296 |
| Payments for acquisition of subsidiaries, net of cash acquired | | **–** | (14,691) |
| Net cash outflow from disposal of a subsidiary | | **–** | (133) |
| Proceeds from amount due from a disposed subsidiary | | **–** | 2,781 |
| Interest received | | **220** | 82 |
| Purchase of trading securities | | **(50)** | – |
| Payment for lease premium for land | | **(3,072)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(21,735)** | (59,190) |

# Consolidated Cash Flow Statement

For The Year Ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividend paid to former shareholders of subsidiaries | | – | (12,336) |
| Expenses on issue of shares | | – | (3,908) |
| Proceeds from new bank borrowings | | **67,328** | 67,929 |
| Repayment of bank borrowings | | **(67,929)** | (57,071) |
| Capital injection by a minority shareholder | | – | 10,696 |
| Interest paid | | **(5,570)** | (6,323) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | **(6,171)** | (1,013) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **10,116** | (12,712) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(5)** | 1,960 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **5,254** | 16,006 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 20 | **15,365** | 5,254 |

The notes on pages 33 to 104 form part of these financial statements.

## 1. BASIS OF PREPARATION

### a) GENERAL INFORMATION

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

The Company was incorporated in the Cayman Islands on 8 July 2002 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The address of its principal place of business is Room 2412, 24th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

### b) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated statement of comprehensive income statement. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

## 2. PRINCIPAL ACCOUNTING POLICIES

### a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the financial instruments classified as trading securities (see note 2(e)) are stated at their fair value as explained in the accounting policies set out below:

These financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand except where otherwise indicated.

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

### c) SUBSIDIARIES AND MINORITY INTERESTS

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet with the equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income or loss for the year between minority interests and the equity shareholders of the Company.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### c) SUBSIDIARIES AND NON-CONTROLLING INTERESTS *(Continued)*

Where losses applicable to the minority exceed the minority holder's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority holder's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(l) and 2(m) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless the investment is classified as held for sale.

### d) GOODWILL

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)).

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

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### e) INVESTMENTS IN EQUITY SECURITIES

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(r)(ii).

### f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings and leasehold improvements | 5 to 20 years |
| Plant and machinery | 5 to 10 years |
| Furniture and equipment | 5 to 10 years |
| Motor vehicles | 5 to 10 years |
| Moulds | 5 years |

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### f) PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### g) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *i) Classification of assets leased to the Group*

Assets held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### *ii) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### h) CONSTRUCTION-IN-PROGRESS

Construction-in-progress is stated at cost. Cost comprises all direct and indirect cost of construction. Construction-in-progress is transferred to property, plant and equipment and depreciation commences when construction is completed and the asset is put into use.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) IMPAIRMENT OF ASSETS

#### *i) Impairment of trade and other receivables*

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognsied as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) IMPAIRMENT OF ASSETS *(Continued)*

#### *i) Impairment of trade and other receivables* *(Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) IMPAIRMENT OF ASSETS *(Continued)*

#### *ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries (except for those classified as being held for sale); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) IMPAIRMENT OF ASSETS *(Continued)*

#### *ii) Impairment of other assets* *(Continued)*

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### *iii) Interim financial reporting and impairment*

Under the GEM Listing Rules in respect of each quarter of a financial year, the Group is required to prepare an quarterly and interim financial reports in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(i)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### j) INVENTORIES

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### l) INTEREST-BEARING BORROWINGS

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### m) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### n) CASH AND CASH EQUIVALENTS

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

### o) EMPLOYEE BENEFITS

#### *i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share options reserve within equity. The fair value is measured at grant date using the Black-Scholes Optional pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### o) EMPLOYEE BENEFITS *(Continued)*

#### ii) *Share-based payments* *(Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share options reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### p) INCOME TAX

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### p) INCOME TAX *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### p) INCOME TAX *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### q) PROVISIONS AND CONTINGENT LIABILITIES

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### r) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *i) Sale of packaging materials*

Revenue from the sale of packaging materials is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

#### *ii) Interest income*

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

#### *iii) Government grants*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### s) TRANSLATION OF FOREIGN CURRENCIES

#### *(i) Functional currency and presentation currency*

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

#### *ii) Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### s) TRANSLATION OF FOREIGN CURRENCIES *(Continued)*

#### *ii) Translation of foreign currencies* *(Continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

### t) BORROWING COSTS

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

### u) RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related to the Group if:

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

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### u) RELATED PARTIES *(Continued)*

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

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

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

### v) SEGMENT REPORTING

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

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

## 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRS and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to HKFRSs (2008)

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate

- HKAS 23 (revised 2007), Borrowing costs

- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

The amendments to HKAS 27, HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The Group's chief operating decision maker regularly review their consolidated financial information to assess the performance and make resource allocation decisions. Accordingly, the in only one operating segment. Therefore, the adoption of HKFRS 8 has not resulted in redesignation of the presentation of segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a statement of changes in equity. All other items of income and expense are presented in the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

## 3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment is required.

The Company has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2009.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of improvements to HKFRS 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Financial Instruments: Presentation – Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[5] |
| HKFRS 2 (Amendments) | Share-based Payment – Group Cash-settled Share-based Payment Transactions[5] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[6] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[7] |

[1] *Effective for annual periods beginning on or after 1 July 2009*
[2] *Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 February 2010*
[5] *Effective for annual periods beginning on or after 1 January 2010*
[6] *Effective for annual periods beginning on or after 1 January 2013*
[7] *Effective for annual periods beginning on or after 1 July 2010*

The Company's directors anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

## 4. TURNOVER

The principal activities of the Group are manufacture and sale of packaging materials in the PRC.

Turnover represents the sales value of goods supplied to the customers, which excludes value-added tax and is stated after deduction of all goods returns and trade discounts.

## 5. SEGMENT REPORTING

The company has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

### a) SEGMENT REVENUE, RESULTS, ASSETS AND LIABILITIES

The Group is principally engaged in the manufacture and sale of packaging materials in the PRC. The Group's chief operating decision maker regularly review their consolidated financial information to assess the performance and make resource allocation decisions. Accordingly, there is only one operating segment for the Group and no segmental revenue, results, assets and liabilities as presented.

### b) GEOGRAPHICAL INFORMATION

The geographical location of customers is based on the location at which the goods are delivered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the PRC, no analysis on revenue from external customers and non-current assets by location are presented.

### c) INFORMATION ABOUT MAJOR CUSTOMERS

Revenues from external customers of the corresponding years contributing over 10% of the total revenue from the Group's sole operating activity of sale of packaging materials in the PRC are as follows:

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| Customer A | **151,046** | 209,775 |
| Customer B | **72,424** | – |
| | **223,470** | 209,775 |

Further details of concentration of credit risk arising from these customers are set out in note 32(a)(ii).

## 6. OTHER REVENUE AND OTHER NET INCOME

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| **Other revenue** | | |
| Interest income from bank deposits | **220** | 82 |
| Total interest income on financial assets not at fair value through profit or loss | **220** | 82 |
| Amount recovered for impairment loss on trade receivables recognised in prior years | **–** | 2,693 |
| Government grants *(note i)* | **1,383** | 812 |
| Penalties received from suppliers | **412** | 282 |
| Sundry income | **437** | 313 |
| | **2,452** | 4,182 |
| **Other net income** | | |
| Sales of raw materials and scrap products | **1,105** | 2,773 |
| Sales of steam | **522** | 511 |
| Net loss on sale of property, plant and equipment | **(72)** | (23) |
| Net exchange (loss)/gain | **(65)** | 192 |
| | **1,490** | 3,453 |

*Note:*

i) The government grants received represented subsidies from the relevant authority of the Hefei Municipality for investing in Hefei and the award from relevant authority of the Qindao Municipality to a subsidiary operating in Qingdao for being prominent tax payer during the year.

## 7. PROFIT FROM OPERATIONS

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

| | | **2009** | 2008 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| a) | Finance costs: | | |
| | Interest on bank advances wholly repayable within five years | **5,570** | 6,323 |
| | Total interest expense on financial liabilities not at fair value through profit or loss | **5,570** | 6,323 |
| b) | Staff costs (directors' emoluments included): | | |
| | Salaries, wages and other benefits | **29,274** | 25,581 |
| | Equity settled share-based payment expenses | **1,596** | – |
| | Contribution to defined contribution retirement plans | **1,113** | 999 |
| | | **31,983** | 26,580 |
| c) | Other items: | | |
| | Amortisation of lease premium for land | **278** | 505 |
| | Depreciation for property, plant and equipment | **17,144** | 12,943 |
| | Impairment loss recognised/(reversed) in respect of trade and other receivables | **161** | (2,693) |
| | Impairment losses for plant and machinery | **572** | – |
| | Auditor's remuneration | **595** | 630 |
| | Operating lease charges on rented premises and equipment | **5,401** | 4,451 |
| | Cost of inventories# *(note 18(b))* | **311,169** | 238,721 |

# Cost of inventories includes HK$34,665,000 (2008: HK$24,539,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

## 8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) Income tax in the consolidated statement of comprehensive income represents:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Current tax** | | |
| PRC enterprise income tax | **5,450** | 7,844 |
| **Deferred tax** | | |
| Current year | **505** | (63) |
| | **5,955** | 7,781 |

No Hong Kong profits tax has been provided for the financial statements as the Group has no estimated assessable profits for both current and prior year.

Tax on profits assessable in Mainland China has been calculated at the applicable PRC enterprise income tax ("EIT") rates. Certain subsidiaries of the Group are entitled to preferential tax treatments including a reduction in CIT and a full exemption from CIT for two years starting from their first profit-making year followed by a 50% reduction in CITY for the next consecutive three years.

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

## 8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

b) Reconciliation between tax expense and accounting profit at the applicable tax rates being the weighted average of rates prevailing in the jurisdictions in which the Group operates, as follows:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Profit before taxation | **21,931** | 44,106 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **6,003** | 11,468 |
| Tax effect of non-deductible expenses | **1,757** | 1,198 |
| Tax effect of non-taxable income | **(272)** | (672) |
| Tax effect of profits entitled to tax exemption in the PRC | **(2,487)** | (4,002) |
| Tax effect of utilization of tax losses previously not recognised | **–** | (443) |
| Tax effect of deductible temporary differences not recognised | **385** | – |
| Tax effect of unused tax losses not recognised | **–** | 232 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | **569** | – |
| Actual tax expense | **5,955** | 7,781 |

The weighted average applicable rate was 27.4% (2008: 26%)

## 9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders includes a loss of approximately HK$6,178,000 (2008: loss of approximately HK$4,439,000) which has been dealt with in the financial statements of the Company.

## 10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008 and 2009.

## 11. EARNINGS PER SHARE

### a) BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity shareholders of the Company is based on the following data:

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| **Profit:** | | |
| Profit for the year attributable to ordinary equity shareholders of the Company | **14,602** | 34,793 |

| | **2009**<br>***'000*** | 2008<br>*'000* |
|---|---|---|
| **Number of shares:** | | |
| Issued ordinary shares at 1 January | **242,190** | 121,500 |
| Effect of shares issued for acquisition of subsidiaries | **–** | 119,700 |
| Weighted average number of ordinary shares in issue | **242,190** | 241,200 |

## 11. EARNINGS PER SHARE *(Continued)*

### b) DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option scheme (see note 25) assuming they were fully exercised.

| | 2009 '000 | 2008 '000 |
|---|---|---|
| Number of shares (diluted): | | |
| Weighted average number of ordinary shares in issue | **242,190** | 241,200 |
| Effect of deemed issue of shares under the Company's share option scheme | **121** | – |
| Weighted average number of ordinary shares (diluted) | **242,311** | 241,200 |

## 12. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS

Director's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

a) Details of director's remuneration are shown below:

**Year ended 31 December 2009**

| Name of director | Fees HK$'000 | Basic salaries, allowances and other benefits HK$'000 | Retirement benefits scheme contribution HK$'000 | Sub-total HK$'000 | Share-based payments *(note)* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Chao Pang Fei *(chairman)* | – | 360 | 12 | 372 | – | 372 |
| Hui Hongyan | – | 212 | 10 | 222 | 154 | 376 |
| Wang Yi | – | 359 | 14 | 373 | 264 | 637 |
| Lan Yu Ping | 78 | – | – | 78 | – | 78 |
| Cheng Yun Ming, Matthew | 78 | – | – | 78 | – | 78 |
| Sin Ka Man | 78 | – | – | 78 | – | 78 |
| Ho Ka Wing | 78 | – | – | 78 | – | 78 |
| | 312 | 931 | 36 | 1,279 | 418 | 1,697 |

## 12. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS *(Continued)*

a) Details of directors' remuneration are shown below: *(Continued)*

**Year ended 31 December 2008**

| Name of director | Fees | Basic salaries, allowances and other benefits | Retirement benefits scheme contribution | Sub-total | Share-based payments *(note)* | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Chao Pang Fei *(chairman)* | 180 | 600 | 9 | 789 | – | 789 |
| Hui Hongyan | 180 | 600 | 9 | 789 | – | 789 |
| Wang Yi *(note i)* | 173 | 600 | – | 773 | – | 773 |
| Lan Yu Ping | 72 | – | – | 72 | – | 72 |
| Chen Weirong *(note ii)* | – | – | – | – | – | – |
| Cheng Yun Ming, Matthew | 72 | – | – | 72 | – | 72 |
| Sin Ka Man | 72 | – | – | 72 | – | 72 |
| Ho Ka Wing *(note i)* | 69 | – | – | 69 | – | 69 |
| | 818 | 1,800 | 18 | 2,636 | – | 2,636 |

*Notes:*

*i) Appointed on 15 January 2008*

*ii) Resigned on 15 January 2008*

*These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(o)(ii) and, in accordance with that policy.*

*The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 25.*

## 12. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS *(Continued)*

b) Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Group whose emoluments are included in the disclosure in note 12(a). The emoluments of the remaining two (2008: two) individuals were as follows:

| | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|
| Basic salaries, allowances and other benefits | **991** | 900 |
| Share-based payment expense | **318** | – |
| Pension scheme contributions | **20** | 12 |
| | **1,329** | 912 |

During the years ended 31 December 2008 and 2009, no emolument was paid by the Group to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

The two (2008: two) highest paid individuals whose remuneration fall within the following bands were as follows:

| | **2009** | 2008 |
|---|---|---|
| HK$nil to HK$1,000,000 | **1** | 2 |
| HK$1,000,001 to HK$2,000,000 | **1** | – |

## 13. PROPERTY, PLANT AND EQUIPMENT

### GROUP

| | Building held for own use HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Moulds HK$'000 | Construction-in-progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1/1/2009 | 22,210 | 272 | 56,626 | 6,252 | 5,132 | 28,051 | 12,404 | 130,947 |
| Exchange adjustments | 4 | – | (4) | – | 1 | 3 | (3) | 1 |
| Additions | 767 | – | 4,250 | 301 | 1,733 | 7,200 | 5,785 | 20,036 |
| Transfer from construction-in-progress | 6,539 | – | 885 | – | – | – | (7,424) | – |
| Disposals | – | – | (854) | (87) | (180) | (381) | (243) | (1,745) |
| At 31/12/209 | 29,520 | 272 | 60,903 | 6,466 | 6,686 | 34,873 | 10,519 | 149,239 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| At 1/1/2009 | 743 | 121 | 7,838 | 967 | 824 | 4,439 | – | 14,932 |
| Exchange adjustments | 1 | – | 4 | – | 1 | 4 | – | 10 |
| Charge for the year | 1,274 | 47 | 7,421 | 1,051 | 1,181 | 6,170 | – | 17,144 |
| Impairment loss | – | – | 572 | – | – | – | – | 572 |
| Disposals | – | – | (189) | (61) | (161) | (59) | – | (470) |
| At 31/12/2009 | 2,018 | 168 | 15,646 | 1,957 | 1,845 | 10,554 | – | 32,188 |
| **Carrying amount** | | | | | | | | |
| At 31/12/2009 | 27,502 | 104 | 45,257 | 4,509 | 4,841 | 24,319 | 10,519 | 117,051 |
| Cost | | | | | | | | |
| At 1/1/2008 | – | 178 | 55 | 228 | 151 | – | 3,127 | 3,739 |
| Exchange adjustments | 846 | 6 | 3,986 | 433 | 317 | 1,147 | 688 | 7,423 |
| Additions | | | | | | | | |
| – through acquisition of subsidiaries | 8,892 | 88 | 38,383 | 3,845 | 2,625 | 11,340 | 7,988 | 73,161 |
| – others | 304 | – | 4,804 | 1,008 | 2,429 | 11,701 | 27,279 | 47,525 |
| Transfer from construction-in-progress | 12,168 | – | 9,529 | 983 | 67 | 3,931 | (26,678) | – |
| Disposals | – | – | (131) | (245) | (457) | (68) | – | (901) |
| At 31/12/2008 | 22,210 | 272 | 56,626 | 6,252 | 5,132 | 28,051 | 12,404 | 130,947 |
| Accumulated depreciation and impairment | | | | | | | | |
| At 1/1/2008 | – | 74 | – | 61 | 21 | – | – | 156 |
| Exchange adjustments | 186 | – | 1,567 | 185 | 135 | 342 | – | 2,415 |
| Charge for the year | 557 | 47 | 6,353 | 926 | 956 | 4,104 | – | 12,943 |
| Written back on disposals | – | – | (82) | (205) | (288) | (7) | – | (582) |
| At 31/12/2008 | 743 | 121 | 7,838 | 967 | 824 | 4,439 | – | 14,932 |
| Carrying amount | | | | | | | | |
| At 31/12/2008 | 21,467 | 151 | 48,788 | 5,285 | 4,308 | 23,612 | 12,404 | 116,015 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### IMPAIRMENT LOSS

In December 2009, a number of machines from a production line which has been closed were physically obsoleted. The Group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down by HK$572,000 (included in "Administrative and other operating expenses"). The estimates of recoverable amount were based on the machines' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

### BUILDING HELD FOR OWN USE

The Group's building held for own use are located in the PRC for the years 2008 and 2009 are held under medium – term leases. All the buildings held for own use are pledged to secure the bank and other borrowings for both current and prior year as disclosed in note 22.

### PLANT AND MACHINERY

Certain of the Group's plant and machinery with carrying amount of approximately HK$Nil (2008: HK$13,360,000) are pledged to secure the bank and other borrowings as disclosed in note 22.

## 14. LEASE PREMIUM FOR LAND

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| **Net book value** | | |
| At 1 January | **22,786** | 3,560 |
| Exchange adjustments | **1** | 1,338 |
| Additions | | |
| – through acquisition of subsidiary | **–** | 18,393 |
| – others | **3,072** | – |
| Amortisation | **(278)** | (505) |
| At 31 December | **25,581** | 22,786 |
| **Outside Hong Kong, held under:** | | |
| Medium-term lease (leases between 10 to 50 years) | **25,581** | 22,786 |
| **Analysed for reporting purposes as:** | | |
| Current asset | **590** | 514 |
| Non-current asset | **24,991** | 22,272 |
| | **25,581** | 22,786 |

Certain of the Group's lease premium for land with carrying amount of approximately HK$18,647,000 (2008: HK$16,173,000) are pledged to secure the bank and other borrowings as disclosed in note 22.

## 15. GOODWILL

| | Note | The Group 2009 HK$'000 | The Group 2008 HK$'000 |
|---|---|---|---|
| Cost and carrying amount: | | | |
| At beginning of year | | **67,723** | – |
| Total arising on acquisition of subsidiaries | | | |
| – Dragon Vault Group | 27(a) | – | 1,669 |
| – Wisdom Sun Group | 27(b) | – | 68,981 |
| | | – | 70,650 |
| Adjustments to the cost of acquisitions | | – | (7,228) |
| Exchange adjustments | | **(6)** | 4,301 |
| At end of year | | **67,717** | 67,723 |

The goodwill of HK$67,723,000 as at 31 December 2008, being the excess of purchase consideration over the fair value of net assets acquired, arose on 2 January 2008 upon the completion of the acquisition by the Group from the executive director and the controlling shareholder, Mr. Chao Pang Fei ("Mr. Chao") and Ms. Sam Mei Wa, spouse of Mr. Chao (collectively (the "Vendors")) of the 100% equity interest in Dragon Vault International Limited ("Dragon Vault") and Wisdom Sun International Limited ("Wisdom Sun") which own respectively operating subsidiaries active in the manufacturing of paper honeycomb packaging materials and expandable polystyrene ("EPS") packaging materials which are principally used in cushion packaging in the transportation of electrical products.

According to the terms of the acquisitions, the vendors also provide non-competing undertakings to the Group and profit guarantees for the PRC companies comprised in the Dragon Vault Group and the Wisdom Sun Group for the year ended 31 December 2008. As the audited combined net profits after tax of each of the PRC companies comprised in the Dragon Vault Group and the Wisdom Sun Group for the year ended 31 December 2008 fell short of the guaranteed amounts, the Group received cash of RMB6.4 million (equivalent to HK$7,228,000) from the vendors and the carrying amount of goodwill has been adjusted for the same amount in 2008.

Currently Dragon Vault and its subsidiaries ("Dragon Vault Group") are active in the manufacturing and sale of EPS packaging products to its customers whereas Wisdom Sun and its subsidiaries ("Wisdom Sun Group") are active in the manufacturing and sale of EPS and paper honeycomb packaging materials, as well as providing design and mould production services.

## 15. GOODWILL *(Continued)*

The carrying amounts of goodwill net of any impairment loss as at 31 December 2009 is attributable to the Group's cash-generating unit of manufacturing and sales of paper honeycomb and EPS packaging materials.

The recoverable amount of goodwill has been determined on the basis of value in use calculations. Its recoverable amounts is based on certain key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 3-year period, and a discount rate of 13.48% (2008: 14.06%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segment. The set of cash flow beyond the 3-year period is extrapolated using zero growth rate (2008: Zero growth rate). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period are also based on the expected sales of packaging materials during the budget period. Expected cash inflows/outflows, which include the sales of packaging materials have been determined based on past performance and management's expectations for the market development.

## 16. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **11** | 11 |
| Amounts due from subsidiaries | **158,676** | 161,461 |
| | **158,687** | 161,472 |
| Less: Impairment loss *(note 2(i))* | **(1,237)** | – |
| | **157,450** | 161,472 |

Impairment loss of interest in a subsidiary, Loyal Pacific International Limited, is provided based on the net asset value of Loyal Pacific International Limited.

The amounts due from subsidiaries included in the Company's current assets are unsecured, non-interest-bearing and not repayable within one year.

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

The following list contains the particular of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated:

| Name | Place of incorporation/ establishment | Place of operation | Principal activities | Issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the company | Held by a subsidiary |
|---|---|---|---|---|---|---|---|
| Loyal Pacific International Limited | Hong Kong | Hong Kong | Trading in securities | HK$10,000 | 100% | 100% | – |
| Great Prospect Enterprises Limited | BVI | Hong Kong | Investment holding | US$100 | 100% | 100% | – |
| Topgoal Investment Development Limited | Hong Kong | Hong Kong | Investment holding | US$1 | 100% | – | 100% |
| 合肥啟鵬紙制品有限公司 *(note (a))* | PRC | PRC | Manufacturing of packing materials | RMB14,000,000 | 100% | – | 100% |
| Wisdom Sun International Limited | BVI | Hong Kong | Investment holding | US$100 | 100% | – | 100% |
| Wise Star Group Holdings Limited | Hong Kong | Hong Kong | Investment holding | HK$1 | 100% | – | 100% |
| Honor Glory International Investment Limited | Hong Kong | Hong Kong | Investment holding | HK$1 | 100% | – | 100% |
| 青島海景包裝制品有限公司*(note (a))* | PRC | PRC | Manufacturing of expandable polystyrene packaging products | RMB20,000,000 | 100% | – | 100% |
| 青島新海景包裝制品有限公司*(note (a))* | PRC | PRC | Manufacturing of expandable polystyrene packaging products | RMB10,000,000 | 100% | – | 100% |
| 合肥海景包裝制品有限公司*(note (a))* | PRC | PRC | Manufacturing of expandable polystyrene packaging products | RMB15,000,000 | 100% | – | 100% |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ establishment | Place of operation | Principal activities | Issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the company | Held by a subsidiary |
|---|---|---|---|---|---|---|---|
| 青島海景模具制品有限公司*(note (a))* | PRC | PRC | Manufacturing of moulds products | RMB1,000,000 | 100% | – | 100% |
| 青島海景紙制品有限公司*(note (b))* | PRC | PRC | Manufacturing of paper honeycomb packaging materials | RMB1,500,000 | 100% | – | 100% |
| 大連海景包裝製品有限公司*(note (a))* | PRC | PRC | Manufacturing of expandable polystyrene packaging products | RMB1,000,000 | 100% | – | 100% |
| 海景包裝設計開發（惠州）有限公司 *(note (a))* | PRC | PRC | Inactive | RMB1,000,000 | 100% | – | 100% |
| Dragon Vault International Limited | BVI | Hong Kong | Investment holding | US$50,000 | 100% | – | 100% |
| Yearfull International Investment Limited | Hong Kong | Hong Kong | Investment holding | HK$1 | 100% | – | 100% |
| 合肥美菱榮豐包裝制品限公司 *(note (b))* | PRC | PRC | Sales and manufacturing of expandable polystyrene packaging products | RMB30,000,000 | 65% | – | 65% |

*Notes:*

a) *Registered under the Laws of the PRC as wholly-owned-foreign enterprise.*

b) *Registered under the Laws of the PRC as sino-foreign equity joint venture.*

## 17. TRADING SECURITIES

| | The Group and the Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Listed equity securities at fair value in Hong Kong | **50** | – |

## 18. INVENTORIES

a) Inventories in the consolidated balance sheet comprises:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials and consumables | **7,763** | 8,271 |
| Work-in-progress | **468** | 430 |
| Finished goods | **4,519** | 9,617 |
| | **12,750** | 18,318 |

b) The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of inventories sold | **311,169** | 238,721 |

## 19. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade receivables | **90,998** | 78,291 | **–** | – |
| Bills receivables | **51,712** | 58,720 | **–** | – |
| | **142,710** | 137,011 | **–** | – |
| Less: Allowance for doubtful debts *(note 19(c))* | **(161)** | – | **–** | – |
| | **142,549** | 137,011 | **–** | – |
| Other receivables | **1,443** | 2,090 | **–** | – |
| Loans and receivables | **143,992** | 139,011 | **–** | – |
| Prepayments and deposits | **42,448** | 38,233 | **–** | – |
| | **186,440** | 177,334 | **–** | – |

a) The ageing analysis of the trade and bills receivables is as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **118,091** | 97,770 |
| Over 3 months but within 6 months | **24,334** | 38,021 |
| Over 6 months but within 1 year | **80** | 187 |
| Over 1 year | **205** | 1,033 |
| | **142,710** | 137,011 |
| Less: Impairment loss on trade receivables | **(161)** | – |
| | **142,549** | 137,011 |

## 19. TRADE AND OTHER RECEIVABLES *(Continued)*

b) The normal credit period granted to the customers of the Group is 60 to 90 days (2008: 60 to 90 days). Impairment loss on trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. (see note 2(i)).

c) The movements in the allowance for doubtful debts are as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **–** | – |
| Impairment loss on trade receivables recognised during the year | **161** | – |
| Additions through acquisitions of subsidiaries | **–** | 2,693 |
| Amounts recovered during the year | **–** | (2,693) |
| At 31 December | **161** | – |

d) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **118,091** | 97,770 |
| Less than 3 months past due | **24,334** | 38,021 |
| 3 months to 1 year past due | **80** | 187 |
| Over 1 year past due | **44** | 1,033 |
| | **24,458** | 39,241 |
| | **142,549** | 137,011 |

## 19. TRADE AND OTHER RECEIVABLES *(Continued)*

d) Trade debtors and bills receivable that are not impaired *(Continued)*

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

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

e) Certain of the Group's trade and other receivables with a carrying amount of approximately HK$37,482,000 (2008: HK$26,056,000) are pledged to secure the bank and other borrowings as disclosed in note 22.

## 20. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **15,365** | 5,254 | **601** | 109 |
| Cash and cash equivalents in the consolidated cash flow statement | **15,365** | 5,254 | | |

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying amount at the balance sheet date approximates to the fair value.

## 21. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Bills payable | **47,947** | 49,536 | **–** | – |
| Trade payables *(note 21(a))* | **44,661** | 34,445 | **–** | – |
| | **92,608** | 83,981 | **–** | – |
| Land lease premium payable | **–** | 1,158 | **–** | – |
| Amount due to related companies *(note 21(b))* | **82** | 21 | **–** | – |
| Amount due to a former shareholder of certain subsidiaries *(note 21(c))* | **10,015** | 16,702 | **–** | – |
| Other payables | **7,899** | 8,760 | **718** | 2,883 |
| Financial liabilities measured at amortised cost | **110,604** | 110,622 | **718** | 2,883 |

The following is an age analysis of bills payable and trade payables as at the balance sheet date:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **56,047** | 38,727 |
| Over 3 months but within 6 months | **33,819** | 36,860 |
| Over 6 months but within 1 year | **1,547** | 5,381 |
| Over 1 year | **1,195** | 3,013 |
| | **92,608** | 83,981 |

## 21. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables approximately HK$4,481,000 (2008: HK$244,000) is guaranteed by Mr. Chao, the controlling shareholder of the Company.

(b) The amount due to a related company is interest-free, unsecured and has no fixed terms of repayment. This related company is controlled by Mr. Chao, as disclosed in note 28.

(c) The amount due to a former shareholder, Mrs. Chao (note 28), of certain subsidiaries is interest-free, unsecured and have no fixed terms of repayment.

The directors consider the carrying amount at the balance sheet date approximates to the fair value.

## 22. BANK AND OTHER BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Non-current | | | | |
| Bank loans – secured | **2,467** | – | **2,467** | – |
| Current | | | | |
| Bank loans – secured | **30,786** | 30,444 | **800** | – |
| Other borrowings – secured | **34,075** | 28,398 | **–** | – |
| Bank loans – unsecured | **–** | 9,087 | **–** | – |
| | **64,861** | 67,929 | **800** | – |
| | **67,328** | 67,929 | **3,267** | – |

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowing is expected to be settled within one year.

## 22. BANK AND OTHER BORROWINGS *(Continued)*

The ranges of effective interest rates on the Group's borrowings are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***'000*** | *'000* | ***'000*** | *'000* |
| Effective interest rates: | | | | |
| Bank loans – secured | **2.07% to 5.84%** | 6.89% to 11.21% | **2.07%** | N/A |
| Other borrowings – secured | **5.31%** | 5.86% to 7.84% | **N/A** | N/A |
| Bank loans – unsecured | **N/A** | 6.83% to 8.22% | **N/A** | N/A |
| | **per annum** | per annum | **per annum** | per annum |

Bank borrowings are denominated in the following currencies:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| RMB | **64,061** | 67,929 | **–** | – |
| Hong Kong dollars | **3,267** | – | **3,267** | – |
| | **67,328** | 67,929 | **3,267** | – |

The secured bank and other borrowings were secured by:

(a) the Group's buildings with a carrying amount of approximately HK$27,502,000 (2008: HK$21,467,000 *(refer to note 13)*);

(b) certain of the Group's plant and machinery with a carrying amount of approximately HK$Nil (2008: HK$13,360,000 *(refer to note 13)*);

(c) certain of the Group's lease premium for land with a carrying amount of approximately HK$18,647,000 (2008: HK$16,173,000 *(refer to note 14)*);

(d) certain of the Group's trade and other receivables with a carrying amount of approximately HK$37,482,000 (2008: HK$26,056,000 *(refer to note 19)*); and

(e) personal guarantee of Mr. Chao and guarantee of an independent third party and property of Mr. Chao and Mrs. Chao.

## 23. INCOME TAX IN THE BALANCE SHEET

**a)** Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| PRC Enterprise Income Tax | | |
| At the beginning of the year | **1,905** | – |
| Exchange adjustments | **(2)** | 90 |
| Provision for the year | **5,450** | 7,844 |
| Tax paid | **(5,365)** | (7,443) |
| Acquisition of subsidiaries | **–** | 1,414 |
| | **1,988** | 1,905 |

**b)** Deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

**The Group**

| | Fair value adjustment on lease premium for land | Withholding taxes | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2008 | – | – | – |
| Exchange adjustments | 161 | – | 161 |
| Acquisition of subsidiaries | 2,651 | – | 2,651 |
| Deferred tax charged to comprehensive income during the year | (63) | – | (63) |
| At 31 December 2008 and 1 January 2009 | 2,749 | – | 2,749 |
| Deferred tax credited/(charged) to comprehensive income during the year | (64) | 569 | 505 |
| At 31 December 2009 | 2,685 | 569 | 3,254 |

## 23. INCOME TAX IN THE BALANCE SHEET *(Continued)*

**b)** *(Continued)*

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

### c) DEFERRED TAX ASSETS NOT RECOGNISED

Deferred tax assets are to be recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

In accordance with the accounting policy set out in Note 2(p), the Group has not recognised deferred tax assets in respect of tax losses of HK$499,000 (2008: HK$499,000). No deferred tax assets has been recognised in relation to the above tax losses as it is uncertain that future taxable profit will be available against which the tax losses can be utilised. The tax losses do not expire under current tax legislation.

## 24. CAPITAL AND RESERVES

### a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in Company's individual components of equity between the beginning and the end of the year are set out below:

**The Company**

| | Issued capital | Share premium (Note 24(c)(i)) | Share options reserve (Note 24(c)(iii)) | Contributed surplus (Note 24(c)(vi)) | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1/1/2008 | 12,150 | 37,141 | – | 8,467 | (23,472) | 34,286 |
| **Changes in equity for 2008:** | | | | | | |
| Shares issued for the acquisition of subsidiaries | 12,069 | 120,690 | – | – | – | 132,759 |
| Shares issuing expenses | – | (3,908) | – | – | – | (3,908) |
| Total comprehensive loss for the year | – | – | – | – | (4,439) | (4,439) |
| At 31/12/2008 and 1/1/2009 | 24,219 | 153,923 | – | 8,467 | (27,911) | 158,698 |
| **Changes in equity for 2009:** | | | | | | |
| Equity settled share-based transactions | – | – | 1,596 | – | – | 1,596 |
| Total comprehensive loss for the year | – | – | – | – | (6,178) | (6,178) |
| At 31/12/2009 | 24,219 | 153,923 | 1,596 | 8,467 | (34,089) | 154,116 |

## 24. CAPITAL AND RESERVES *(Continued)*

### b) Share capital

| | The Company | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | ***No. of shares*** | ***HK$'000*** | *No. of shares* | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.1 each | **1,000,000,000** | **100,000** | 1,000,000,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At beginning of the year | **242,189,655** | **24,219** | 121,500,000 | 12,150 |
| Shares issued for the acquisition of subsidiaries | **–** | **–** | 120,689,655 | 12,069 |
| At end of year | **242,189,655** | **24,219** | 242,189,655 | 24,219 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

### c) Nature and purpose of reserves

#### *i) SHARE PREMIUM*

Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

#### *ii) CAPITAL RESERVE*

Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the Company reorganisation in 2003.

#### *iii) SHARE OPTIONS RESERVE*

Share options reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(o)(ii).

## 24. CAPITAL AND RESERVES *(Continued)*

### c) Nature and purpose of reserves *(Continued)*

#### iv) *STATUTORY SURPLUS RESERVES*

According to articles of association of the subsidiaries in the People's Republic of China (the "PRC"), these companies are required to transfer at least 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of their registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous year's losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

#### v) *TRANSLATION RESERVE*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

#### vi) *CONTRIBUTED SURPLUS*

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Company reorganisation in 2003. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

### d) Distribution of reserves

The Company's reserves as at 31 December 2009 available for distribution to shareholders are approximate to HK$128,301,000 (2008: HK$134,479,000).

## 25. EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 6 June 2003, the Company adopted a share option scheme (the "Share Option Scheme") to enable the Company to grant options to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The Share Option Scheme shall continue in force for the period commencing from 6 June 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme.

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme shall not, when aggregate with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the Share Option Scheme which shall be equivalent to 24,218,965 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Share Option Scheme. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit must not exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

Under the Share Option Scheme, the Company granted options to subscribe for 6,336,000 shares to its directors and 17,864,000 shares to its employees on 6 November 2009. Options granted must be taken up within 14 days of the date of grant, upon payment of HK$1 by each of the grantees. The first 50% of the option vest after the date of grant and then exercisable within a period of four years and the remaining 50% of options vest after two years from the date of grant and then exercisable within a period of two years.

Each option gives the holder the right to subscribe for one ordinary share in the Company.

## 25. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

**a)** The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors: | | | |
| – 6 November 2009 | 6,336,000 | – Up to 50% immediately from the date of grant<br>– Up to 100% immediately after 2 years from the date of grant | 4 years |
| Options granted to employees: | | | |
| – 6 November 2009 | 17,864,000 | – Up to 50% immediately from the date of grant<br>– Up to 100% immediately after 2 years from the date of grant | 4 years |
| | 24,200,000 | | |

**b)** The number of shares issuable under options granted and the weighted average exercise price of each share are as follows:

| | Number of share issuable under options granted *HK$'000* | Exercise price *HK$'000* |
|---|---|---|
| Outstanding at 1 January 2009 | – | |
| Granted during the year | 24,200,000 | 0.42 |
| Outstanding at 31 December 2009 | 24,200,000 | 0.42 |
| Exercisable at the end of the year | 12,100,000 | 0.42 |

There is no options exercised or forfeited or lapsed during the year.

## 25. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

**b)** *(Continued)*

The options outstanding at 31 December 2009 had a weighted average exercise price of HK$0.42 and a weighted average remaining contractual life of 3.9 years. There was no option outstanding as at 31 December 2008.

### c) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted based on the Block-Scholes Option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Option pricing model.

| | **6 November 2009** |
|---|---|
| Fair value of share options and assumptions | HK$0.1345 |
| Inputs into the Black-Scholes Option pricing model: | |
| Share price at grant date | HK$0.38 |
| Exercise price | HK$0.42 |
| Expected volatility (expressed as weighted average volatility used in the modelling under Block-Scholes Option pricing model) | 71.40% |
| Option life (expressed as weighted average life used in the modelling under Block-Scholes Option pricing model) | 1.5 to 2.5 years |
| Risk-free interest rate | 0.5% |
| Expected dividends | – |

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 26. RETIREMENT BENEFITS SCHEME

The group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

## 27. ACQUISITION OF SUBSIDIARIES

a) On 2 January 2008, the Group acquired from Mr. Chao, the director and the controlling shareholder, 100% equity interest of Dragon Vault International Limited. Dragon Vault Group is engaged in the sales and manufacturing of EPS packaging products. The acquisition cost of HK$7,000,000 was satisfied by cash. The acquisition has been accounted for using the purchase method.

## 27. ACQUISITION OF SUBSIDIARIES *(Continued)*

a) *(Continued)*

The net assets acquired in the transaction and the goodwill arising, are as follows:

| | | Acquiree's carrying amount before combination | Fair value adjustments | Fair value |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| Net assets acquired: | | | | |
| Property, plant and equipment | | 48 | – | 48 |
| Lease premium for land | | 3,922 | 2,797 | 6,719 |
| Construction-in-progress | | 6,328 | – | 6,328 |
| Other receivables | | 3,517 | – | 3,517 |
| Bank and cash balances | | 56 | – | 56 |
| Trade and other payables | | (58) | – | (58) |
| Amount due to a director | | (10) | – | (10) |
| Amount due to a related company | | (8,679) | – | (8,679) |
| Deferred tax liabilities | | – | (699) | (699) |
| | | 5,124 | 2,098 | 7,222 |
| Less: Minority interests of Dragon Vault Group | | | | (1,891) |
| | | | | 5,331 |
| Goodwill *(note 15)* | | | *(note (i)& (ii))* | 1,669 |
| Total consideration, satisfied by cash | | | *(note (i))* | 7,000 |
| Net cash outflow arising on acquisition: | | | | |
| Cash consideration paid | | | | (7,000) |
| Cash and cash equivalents acquired | | | | 56 |
| | | | | (6,944) |

## 27. ACQUISITION OF SUBSIDIARIES *(Continued)*

a) *(Continued)*

Dragon Vault Group contributed approximately HK$30,110,000 to the Group's turnover and approximately HK$2,818,000 to the Group's net profit for the period between the date of acquisition and the balance sheet date at 31 December 2008.

The acquisition was completed on 2 January 2008. The revenue and the profit for the period from the date of acquisition to 31 December 2008 would be approximately the same if the acquisition had been completed on 1 January 2008.

b) On 2 January 2008, the Group acquired from Mrs. Chao, the spouse of Mr. Chao, 100% equity interest of Wisdom Sun International Limited. The Wisdom Sun Group is engaged in manufacturing of expandable polystyrene packaging products, paper honeycomb packaging materials and moulds products. The acquisition cost was satisfied as to of HK$170,758,620 by (i) HK$13,000,000 in cash, (ii) HK$25,000,000 payable, and (iii) HK$132,758,620 by the allotment and issue of 120,689,655 shares of the Company with a par value of HK$0.1 each at an issue price of HK$1.1 each* by the Company to Haijing Holdings Limited, the ultimate holding company of the Company which is controlled by Mr. Chao. This acquisition has been accounted for using the purchase method.

* The issue price of HK$1.1 each is the fair value of each of the 120,689,655 shares issued as part of the consideration for the acquisition of Wisdom Sun. The aggregate fair value of the shares issued, determined by reference to the published closing price of the shares at the date of the acquisition, amounted to HK$132,758,620.

## 27. ACQUISITION OF SUBSIDIARIES *(Continued)*

b) *(Continued)*

| | Acquiree's carrying amount before combination HK$'000 | Fair value adjustments HK$'000 | Fair value HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 65,125 | – | 65,125 |
| Lease premium for land | 831 | 10,843 | 11,674 |
| Construction-in-progress | 1,660 | – | 1,660 |
| Inventories | 14,576 | – | 14,576 |
| Trade and other receivables | 121,324 | – | 121,324 |
| Bank and cash balances | 5,253 | – | 5,253 |
| Trade and other payables | (45,042) | – | (45,042) |
| Amount due to a director | (19) | – | (19) |
| Bank borrowings | (57,071) | – | (57,071) |
| Tax payables | (1,414) | – | (1,414) |
| Dividend payable | (12,336) | – | (12,336) |
| Deferred tax liabilities | – | (1,952) | (1,952) |
| | 92,887 | 8,891 | 101,778 |
| Goodwill *(note 15)* | | *(note (i) & (ii))* | 68,981 |
| | | *(note (i))* | 170,759 |
| Total consideration, satisfied by: | | | |
| Cash consideration paid | | | 13,000 |
| Payable in cash within 1 year | | | 25,000 |
| Issue of shares | | | 132,759 |
| | | *(note (i))* | 170,759 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | (13,000) |
| Cash and cash equivalents acquired | | | 5,253 |
| | | | (7,747) |

## 27. ACQUISITION OF SUBSIDIARIES *(Continued)*

b) *(Continued)*

Wisdom Sun Group contributed approximately HK$272,866,000 to the Group's turnover and approximately HK$37,934,000 to the Group's net profit for the period between the date of acquisition and the balance sheet date at 31 December 2008.

The acquisition was completed on 2 January 2008. The revenue and the profit for the period from the date of acquisition to 31 December 2008 would be approximately the same if the acquisition had been completed on 1 January 2008.

*Notes:*

(i) The consideration on acquisition is subject to adjustment based on the audited combined net profits after taxation of each of the PRC companies comprised in the Wisdom Sun Group and Dragon Vault Group for the year ended 31 December 2008 and the respective goodwill will be adjusted accordingly *(see note 15)*.

(ii) The goodwill arising on the acquisition of Dragon Vault Group and Wisdom Sun Group is attributable to the anticipated profitability generated from the synergy, revenue growth and future market development as a result of the acquisition of the Dragon Vault Group and Wisdom Sun Group. The Dragon Vault Group and Wisdom Sun Group have experienced management, key personnel, marketing and technical staff who will enable efficient operation of the enlarged group. The benefit from these factors are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

## 28. RELATED PARTY TRANSACTIONS

During the year, saved for the transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties:

### i) RELATED PARTY TRANSACTIONS INCLUDED IN THE STATEMENT OF COMPREHENSIVE INCOME

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales to: | | |
| 惠州景華包裝制品有限公司 | – | 545 |

There is no outstanding balance arising from sales of goods to a related party as at the 31 December 2008 and 2009.

## 28. RELATED PARTY TRANSACTIONS *(Continued)*

### ii) RELATED PARTY TRANSACTIONS INCLUDED IN THE BALANCE SHEET

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Year-end balance arising from advanced payment paid by 惠州景華包裝制品有限公司*(note 21)* | **82** | 21 |
| Year-end balance arising from the outstanding payment for acquisition of subsidiaries to a former shareholder of the company's subsidiaries, Mrs. Chao, *(note 21)* | **10,015** | 16,702 |

惠州景華包裝制品有限公司 is a company controlled by Mr. Chao Pang Fei, the controlling shareholder of the Company.

### iii) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 12(a) and certain of the highest paid employees as disclosed in note 12(b), is as follows:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Salaries and other short-term employee benefits | **931** | 2,333 |
| Share-based payments | **418** | – |
| Pension scheme contributions | **36** | 18 |
| | **1,385** | 2,351 |

Total remuneration is included in "staff costs" (see note 7(b)).

## 29. OPERATING LEASE ARRANGEMENTS – AS LESSEE

The Group leases certain of its office premises under operating lease arrangements. The leases typically run for an initial period of six months to ten years, with an option to renew the lease when all terms are renegotiated. The terms of the lease require the lessee to pay security deposits.

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

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **2,092** | 3,959 |
| In the second to fifth year, inclusive | **–** | 4,003 |
| | **2,092** | 7,962 |

## 30. CAPITAL COMMITMENTS

The Group's authorised capital commitment outstanding at the year end date and not provided for in the financial statements are as follows:

| | The Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | | |
| Purchase of property, plant and equipment | **773** | 1,721 |

## 31. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

As at 31 December 2009, the directors regard Haijing Holdings Limited, a company incorporated in British Virgin Islands, as the ultimate holding company.

The directors regard Mr. Chao Pang Fei through his direct shareholding in Haijing Holdings Limited as being the ultimate controlling party.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade receivables and trade payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The policies on how management mitigates these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### a) CREDIT RISK

i) As at 31 December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

The Group's exposure to credit risk of trade and other receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the balance sheet date, the Group has a certain concentration of credit risk as 14.0% (2008: 23.6%) and 40.2% (2008: 41.9%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the electronics business segment.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### a) CREDIT RISK *(Continued)*

iii) The credit risk on liquid funds and bills receivable are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

iv) Investments are in liquid securities quoted on a recognised stock exchanges. No exposure to credit risk is expected.

### b) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2009, the Group does not have any available un-utilised banking facilities. As at 31 December 2008, the Group has HK$4,000,000 un-utilised banking facilities.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### b) LIQUIDITY RISK *(Continued)*

The following liquidity table sets out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company are required to pay:

**The Group**

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | Total contractual undiscounted cash flow | Carrying amount | Within 1 year or on demand | More than 1 year but less than 2 years | Total contractual undiscounted cash flow | Carrying amount |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank and other borrowings – variable rates | 66,926 | 2,548 | 69,474 | 67,328 | 69,961 | – | 69,961 | 67,929 |
| Trade and other payables | 110,604 | – | 110,604 | 110,604 | 110,622 | – | 110,622 | 110,622 |
| | 177,530 | 2,548 | 180,078 | 177,932 | 180,583 | – | 180,583 | 178,551 |

**The Company**

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand | More than 1 year but less than 2 years | Total contractual undiscounted cash flow | Carrying amount | Within 1 year or on demand | More than 1 year but less than 2 years | Total contractual undiscounted cash flow | Carrying amount |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank and other borrowings – variable rates | 860 | 2,548 | 3,408 | 3,267 | – | – | – | – |
| Trade and other payables | 718 | – | 718 | 718 | 2,883 | – | 2,883 | 2,883 |
| | 1,578 | 2,548 | 4,126 | 3,985 | 2,883 | – | 2,883 | 2,883 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### c) INTEREST RATE RISK

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank and other borrowings (see Note 22 for details of these borrowings) and fair value interest rate risk in relation to fixed-rate bank and other borrowings.

#### *i) Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date:

**The Group**

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Effective interest rates** | | Effective interest rates | |
| | **%** | ***HK$'000*** | % | *HK$'000* |
| Variable rate borrowings: | | | | |
| Bank and other borrowings | **8.27** | **67,328** | 9.31 | 67,929 |
| Total borrowings | | **67,328** | | 67,929 |

#### *ii) Sensitivity analysis*

All of the bank and other borrowings of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the balance sheet date would not affect profit or loss.

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate borrowing, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$508,000 (2008: HK$509,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### c) INTEREST RATE RISK *(Continued)*

#### *ii) Sensitivity analysis (Continued)*

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for variable rate interest bearing non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

### d) CURRENCY RISK

#### *i) Exposure to currency risk*

The following table details the Group's exposure at the balance sheet date to currency risk primarily through sales and purchases which give rise to recognised assets or liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. The currency giving rise to this risk is primarily United States dollars. The Company does not expose to material currency risk at the balance sheet date.

**The Group**

| | Exposure to foreign currencies (expressed in Hong Kong dollars) | |
|---|---|---|
| | United States dollars | |
| | **2009** | 2008 |
| | ***'000*** | *'000* |
| Trade and other receivables | **1,643** | 2,867 |
| Cash and cash equivalents | **612** | 403 |
| Trade and other payables | **(256)** | (2,774) |
| Overall exposure to currency risk | **1,999** | 496 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### d) CURRENCY RISK *(Continued)*

#### *ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

**The Group**

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained profits** | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits |
| | | ***HK$'000*** | | *HK$'000* |
| United States dollars | **3%** | **62** | 3% | 11 |
| | **(3%)** | **(62)** | (3%) | (11) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the exposure to currency risk on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2008.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### d) CURRENCY RISK *(Continued)*

*iii)* RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating subsidiaries of the Company are transacted in RMB. The Subsidiaries of the Company is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB. Depreciation or appreciation of the RMB against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

### e) EQUITY PRICE RISK

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 17).

The Group's listed investments are listed on the Stock Exchange of Hong Kong and are components of the Hang Seng Index. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group liquidity needs.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### e) EQUITY PRICE RISK *(Continued)*

At 31 December 2009, it is estimated that an increase/(decrease) of 10% (2008: N/A in the relevant stock market index (for listed investments), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

**The Group**

| | **2009** | **Effect on profit after tax and retained profits** | 2008 | Effect on profit after tax and retained profits |
|---|---|---|---|---|
| | | ***'000*** | | *'000* |
| Change in the relevant equity price risk variable: | | | | |
| Increase | **10** | **4** | N/A | N/A |
| Decrease | **10** | **(4)** | N/A | N/A |

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the relevant risk variables, and that all other variables remain constant. No analysis is performed on the same basis for 2008 since there was no equity investments during the year 2008.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### f) Fair values

#### *i) Financial instruments carried at fair value*

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market date

***2009***

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **Assets** | | | | | | | | |
| Trading securities | 50 | – | – | 50 | 50 | – | – | 50 |
| | 50 | – | – | 50 | 50 | – | – | 50 |

During the year there were no significant transfers between instruments in Level 1 and Level 2.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### f) Fair values *(Continued)*

#### *ii) Fair value of financial instruments carried at other then fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2008 and 2009.

### g) ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

#### *i) Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### *ii) Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

### h) CAPITAL MANAGEMENT

The Group's objectives when managing capital are to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate. The management monitors the Group's capital structure on the basis of adjusted net debt-to-capital ratio which is the ratio between adjusted net debt (representing total borrowings less cash and cash equivalents) and issued capital and reserves.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### h) CAPITAL MANAGEMENT *(Continued)*

The gearing ratios at 31 December 2009 and 2008 were as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total borrowings *(Note 22)* | **67,328** | 67,929 |
| Less: Cash and cash equivalents *(Note 20)* | **(15,365)** | (5,254) |
| Adjusted net debt | **51,963** | 62,675 |
| Total capital | **241,780** | 224,225 |
| Adjusted net debt-to-capital ratio | **21.5%** | 28.0% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 33. ACCOUNTING ESTIMATES AND JUDGEMENTS

### a) KEY SOURCES OF ESTIMATION UNCERTAINTY

#### *i) Impairment of property, plant and equipment and lease premium for land*

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. 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, which requires significant judgement relating to the level of revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

#### *ii) Impairment of receivables*

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the trade and other receivables, where applicable, at each balance sheet date. The estimates are based on the ageing of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial conditions of the debtors were to deteriorate, additional impairment allowance may be required.

## 33. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### a) KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

#### *iii) Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. If the carrying amount of the cash-generating unit exceeds its recoverable amount, additional impairment allowance may be required.

#### *iv) Estimated net realisable value of inventories*

The Group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is below cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed.

#### *v) Current taxation and deferred taxation*

The Group is subject to Enterprise Income Tax in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred taxation relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed.

## 33. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### b) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

## 34. POST-BALANCE SHEET EVENT

Subsequent to 31 December 2009 and subject to the shareholders' approval at the forthcoming annual general meeting of the Company, the Company proposed a share subdivision whereby each of the existing issued and unissued shares of HK$0.1 each in the share capital of the Company be subdivided into 2 shares of HK$0.05 each with effect from 4 May 2010. Accordingly, immediately upon the share subdivision becoming effective, the authorised share capital of the Company will be HK$100,000,000 divided into 2,000,000,000 subdivided shares, of which 484,379,310 subdivided shares will be in issue and fully paid assuming that no further shares are issued prior to the share subdivision becoming effective.

As the date hereof, there are 24,200,000 outstanding share options granted by the Company under its share option scheme. The Company will adjust the exercise price and the number of the outstanding share options upon completion of the share subdivision.

## 35. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

# Financial Summary

For The Year Ended 31 December 2009

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **RESULTS** | | | | | |
| Revenue | **374,581** | 313,097 | 11,452 | 4,511 | 19,428 |
| Profit/(loss) before taxation | **21,931** | 44,106 | (8,167) | (9,045) | (8,744) |
| Income tax (expense) credit | **(5,955)** | (7,781) | 60 | (181) | – |
| Profit/(loss) for the year | **15,976** | 36,325 | (8,107) | (9,226) | (8,744) |
| Attributable to: | | | | | |
| Equity shareholders of the Company | **14,602** | 34,793 | (8,107) | (9,226) | (8,744) |
| Minority interests | **1,374** | 1,532 | – | – | – |
| | **15,976** | 36,325 | (8,107) | (9,226) | (8,744) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **424,954** | 407,430 | 43,037 | 16,314 | 24,451 |
| Total liabilities | **(183,174)** | (183,205) | (8,931) | (2,717) | (10,712) |
| | **241,780** | 224,225 | 34,106 | 13,597 | 13,739 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | **226,287** | 210,106 | 34,106 | 13,597 | 13,739 |
| Minority interests | **15,493** | 14,119 | – | – | – |
| | **241,780** | 224,225 | 34,106 | 13,597 | 13,739 |

# Major Properties Held by the Group

For The Year Ended 31 December 2009

| | Location | Existing use | Term of lease | Percentage of interest |
|---|---|---|---|---|
| 1. | Factory Complex at the junction of Furong Road and Yuping Road, Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC | Industrial | Medium | 100% |
| 2. | Development Site at Ziyun Road, Taohua Industrial Base Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC | Industrial | Medium | 100% |
| 3. | Factory Complex at Wolong Road, Taohua Industrial Base Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC | Industrial | Medium | 65% |