# 明輝國際控股有限公司*

# Ming Fai International Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

Stock Code: 3828


## ANNUAL REPORT 2007

* For identification only

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Executive Directors:*
CHING Chi Fai *(Chairman)*
CHING Chau Chung
CHING Chi Keung
LIU Zigang
LEE King Hay
CHAN Yim Ching
CHAN Wing

*Non-executive Director:*
NG Bo Kwong

*Independent Non-executive Directors:*
SUN Kai Lit Cliff BBS, JP
HUNG Kam Hung Allan
MA Chun Fung Horace

## AUDIT COMMITTEE

MA Chun Fung Horace *(Chairman)*
SUN Kai Lit Cliff BBS, JP
HUNG Kam Hung Allan
NG Bo Kwong

## REMUNERATION COMMITTEE

CHING Chi Fai *(Chairman)*
MA Chun Fung Horace
SUN Kai Lit Cliff BBS, JP
HUNG Kam Hung Allan
NG Bo Kwong

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

CHAN Wing CPA

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

## AUDITORS

PricewaterhouseCoopers

## COMPLIANCE ADVISER

DBS Asia Capital Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor,
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

## REGISTERED OFFICE

P.O. Box 309GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat F, 6th Floor, Mai Kei Industrial Building
No.5, San Hop Lane, Tuen Mun
New Territories
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Bainikeng, Pinghu, Longgang
Shenzhen, PRC

## WEBSITE

www.mingfaigroup.com

## STOCK CODE

3828

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the Annual Report of Ming Fai International Holdings Limited (the "Company", and together with its subsidiaries, the "Group") for the year ended 31 December 2007. On behalf of the board (the "Board") of directors (the "Directors"), I would like to express our gratitude to all the shareholders of the Company (the "Shareholders") for their care and support of our Company.

The year of 2007 was significant to the Company in terms of growth and corporate development. During the year, the Company devoted to the preparation for the listing and fulfilled the stringent requirements of the international equity market. With the dedication of all our staff and support from other professionals, the Company was listed on the main board of the Stock Exchange of Hong Kong Limited on 2 November 2007. The listing provides a sound platform for the Company's international development and sets a meaningful milestone in its future development.

The year of 2007 was a fruitful one for the Group's business. Both revenue and profit increased in 2007 and the Board proposed to declare a final dividend of HK8.4 cents per share for the year ended 31 December 2007. As we have advanced our goal of enhancing our value by increasing return and market share, we have continued to put due emphasis on corporate governance, to ensure that risk is well managed and that the interests of all stakeholders are respected. Since the listing, we have established various committees to oversee our operations to ensure the compliance with both internal guidelines and external requirements.

2008 will be a year of challenges and opportunities. The market sentiment has been adversely affected by the worsening US subprime mortgage crisis. However, the rapid development of China's economy as well as growth of the tourism and airline industries will present the Group with many good opportunities. Through the recent agreements with various hotels and hotel groups, the Group has successfully extended its coverage and market share in Europe, China and the rest of East Asia. On future business outlook, the Group expects to continue its business growth with the upgrading of its production facilities as well as advancement of its technologies, enhancement of its ability to offer one-stop comprehensive product portfolio and expansion of its sales networks.

I wish to take this opportunity to thank the sponsors, my fellow directors, management, all staff and customers for their continued support and commitment.

**CHING Chi Fai**
*Chairman*

HONG KONG, 29 February 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 December 2007, our Group recorded a 23% year-on-year increase in consolidated turnover which amounted to HK$846.0 million (2006: HK$687.4 million), mainly due to strong performance in our key markets and product portfolio.

Profit attributable to equity holders of the Company for the year was HK$125.9 million representing a 36% growth over the HK$92.4 million for the last year. This was mainly due to both strong revenue growth and operating margin improvement.

The consolidated net asset value increased to HK$706.2 million as at 31 December 2007 from HK$164.6 million as at 31 December 2006.

The Board proposed to declare a final dividend of HK$0.084 per share for the year ended 31 December 2007 to shareholders of the Company whose names appear in the register of members of the Company on 2 April 2008.

## BUSINESS REVIEW

2007 was a remarkable year in the historical development of the Group. The Company was listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007 (the "Listing Date") and became the first stock with the concept of provision of quality amenity products and accessories to internationally recognised or branded operators in the hotel, hospitality and travel industries in Hong Kong's capital market. The international placement and Hong Kong public offering achieved outstanding results and was warmly welcomed by investors.

Despite the challenging and volatile market environment, the Group has successfully achieved and maintained respectable growth in profitability in 2007 on the back of expanding PRC hotel industry and gaining market share overseas. In addition, the Group has successfully secured the exclusive rights to distribute Molton Brown amenity products to the PRC hotels, with the commencement of the mass production of PSM (plastarch material composed of modified cornstarch combined with other biodegradable materials) products which enhance the Group's product portfolio. Following the launch of Molton Brown amenities in July 2007, the Group quickly received a number of new hotel contracts in Mainland China and there are more hotels and high end service apartments planning to use this luxury hotel amenities in near future.

In the past few months, the Group has secured new orders from 15 hotels or hotel groups. In February 2008, the Group signed a contract with Super 8 Hotels (China) Company Limited, allowing the Group to supply hotel amenities products to Super 8 Hotel in the whole China Region. In addition, the Group reached an agreement with Ascott International Management under which the Group will provide hotel amenities to Somerset and Citadines brands of serviced residences. At the same time, the Group also reached an agreement with Millennium Hotels and Copthorne Hotels for the provision of hotel amenities products worldwide. The Group will strive to secure more contracts.

Tourism and airline industry recorded steady growth over the past years. The Group has seized the opportunities to increase its market share as well as revenue, and expects this growth trend to continue in the foreseeable future. The Group believes that the growth in tourism arrivals and receipts will directly lead to the rapid growth in both hotel and airline industries. In view of this, it is expected that the market demand for amenity products and accessories such as the Group's products will continue to grow steadily.

Recently, the Group and its products have received awards and recognition from various trade associations and government bodies. The key awards and recognition include "Global Hotel Five Star Golden Diamond Award – Top Ten Brand Suppliers in Chinese Hotel Industry 2007" granted by Global Hotel Development and Research Centre/International Media Information Group/International Financial Association/Travel Channel/Global Hotel Forum Organisation, and "China Best Small & Medium-sized Enterprises 2008 – ranked 35" granted by Forbes.

## PROSPECTS

The outlook for global demand of amenity products and accessories in the year ahead remains strongly positive. We believe that the rapid growth of the PRC economy together with the upcoming of the Olympic Games in Beijing in 2008, the World Exposition in Shanghai and the Asian Games in Guangzhou in 2010 will present us with attractive business opportunities in China in the coming years. China National Tourism Administration also expects international players and investors to build their presence in China, and 1,107 new high class hotels are anticipated to be established in the coming few years. Moreover, besides our principal production of customized products for luxurious and high ranking hotels and international airlines, we are actively exploring the market potentials of expansion into the mid-range and chain budget hotel market in the PRC through mass production and supply of standardised and uniform amenity products. We therefore expect that there will be substantial demand for our products in the foreseeable future. On top of these, the Group will continue to place emphasis on expanding its range of products offering and efficiency enhancement, so as to maximise returns of the shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's cash and cash equivalents totalled HK$535.0 million (2006: HK$42.9 million). Of the total borrowings (excluding amounts due to shareholders and related parties) of HK$52.2 million (2006: HK$8.0 million), approximately HK$20.4 million were loans secured by leasehold land and land use rights, property, plant and equipment located in the PRC, with the remaining balance secured by restricted cash. The borrowings of HK$52.2 million are repayable within one year.

The gearing ratio at 31 December 2007, calculated on the basis of borrowings (excluding amounts due to shareholders and related parties) over total equity, is 7.4% as compared with 4.9% at 31 December 2006.

With the current level of cash and cash equivalents on hand and available banking facilities, the Group's liquidity position remains strong and it has sufficient financial resources to meet its current working capital requirement and future expansion.

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on 2 November 2007. The net proceeds from the Company's issue of new shares (after deducting the underwriting commission and estimated expenses payable by the Group in relation to the Listing of the Company) amounted to approximately HK$409.7 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" contained in the prospectus of the Company dated 22 October 2007 (the "Prospectus"). The net proceeds have been temporarily placed in a deposit with a commercial bank in Hong Kong.

## CHARGES ON GROUP ASSETS

As at 31 December 2007, borrowings drawn in the PRC were secured by the Group's leasehold land and land use rights with an aggregate carrying value of approximately HK$2.1 million (2006: HK$2.0 million), and property, plant and equipment with an aggregate carrying value of approximately HK$28.5 million (2006: HK$28.1 million). Bank overdrafts and the remaining borrowings were secured by restricted cash.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2007, the capital commitment of the Group was HK$1.8 million (2006: HK$0.2 million). As at 31 December 2007, the Group had no material contingent liabilities.

## EMPLOYEES

As at 31 December 2007, the total number of employees of the Group was approximately 4,500. The Group offers a comprehensive remuneration policy which is reviewed by management on a regular basis. The Group also invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. CHING Chi Fai**, aged 46, is an executive Director and chairman of the Company. Mr. CHING has been responsible for sales and marketing, production of our products and the formulation of the overall corporate direction and business strategies of our Group. Mr. Ching has over 20 years of experience in the amenity industry. He was appointed as a Director on 29 May 2007 and designated as an executive Director on 9 July 2007. Mr. CHING Chi Keung is the brother of Mr. CHING Chi Fai. Mr. CHING Chau Chung is not related to Mr. Ching Chi Fai.

**Mr. CHING Chau Chung**, aged 48, is an executive Director. Mr. Ching has been responsible for finance, accounting and managing our information systems. Mr. Ching has over 20 years of experience in the amenity industry. He was appointed as a Director on 29 May 2007 and designated as an executive Director on 9 July 2007. Mr. CHING Chau Chung is not related to Mr. CHING Chi Fai or Mr. CHING Chi Keung.

**Mr. CHING Chi Keung**, aged 43, is an executive Director. Mr. Ching has been responsible for human resources and administrative matters. Mr. Ching joined our Group with our Founders and has over 20 years of experience in the amenity industry. He was appointed as an executive Director on 9 July 2007. Mr. CHING Chi Fai is the brother of Mr. CHING Chi Keung. Mr. CHING Chau Chung is not related to Mr. CHING Chi Keung.

**Mr. LIU Zigang**, aged 43, is an executive Director. Mr. Liu has been responsible for sales and marketing since he joined our Group in May 1995. He oversees direct sales in the Greater China Region as well as the Southeast Asia markets. Mr. Liu has over 12 years of experience in the amenity industry. He was appointed as an executive Director on 9 July 2007. Mr. Liu holds a diploma from Shenzhen University.

**Mr. LEE King Hay**, aged 53, is an executive Director. Mr. Lee is responsible for overseeing manufacturing, logistics, laboratory and quality control. Mr. Lee first joined our Group in 1994 and left in 1996 for personal reasons. Subsequently in October 1999, he rejoined our Group as production director overseeing manufacturing. Mr. Lee has over 11 years of experience in the amenity industry. He was appointed as an executive Director on 9 July 2007. Prior to joining us, Mr. Lee was an aircraft engineer in the Hong Kong and Canadian airline business from 1977 to 1993. Mr. Lee completed the course for Aeronautic Engineering and obtained a Licence in Categories “A” & “C” from Air Service Training in Perth, Scotland and holds aircraft maintenance engineer licences issued by the United Kingdom Civil Aviation Authority, Civil Aviation Department of Hong Kong and Department of Transport Canada.

**Ms. CHAN Yim Ching**, aged 40, is an executive Director. Ms. Chan has been responsible for sales and marketing since she joined our Group in 1995. She oversees export sales to overseas markets. Ms. Chan has over 20 years of experience in the amenity industry. Prior to joining our Group, she worked in several companies engaged in amenity business. She was appointed as an executive Director on 9 July 2007.

**Ms. CHAN Wing**, aged 36, is an executive Director, and our chief financial officer and company secretary. Ms. Chan is also our qualified accountant for the purposes of Rule 3.24 of the Listing Rules and is employed by our Company on a full-time basis. Ms. Chan is responsible for finance, accounting and company secretarial matters. Ms. Chan joined our Group in April 2006. Ms. Chan worked as an accountant in various commercial organisations prior to joining our Group. She was a senior manager responsible for accounting matters of our Group before being appointed as an executive Director on 9 July 2007. Ms. Chan obtained a Bachelor Degree in Economics from Jiangxi University of Finances and Economics (江西財經大學(原江西財經學院)) and a Postgraduate Certificate in Professional Accounting from City University of Hong Kong. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Chinese Institute of Certified Public Accountants (CICPA) respectively.

## NON-EXECUTIVE DIRECTOR

**Mr. NG Bo Kwong**, aged 52, is a non-executive Director. Mr. Ng joined our Group as a management consultant in November 2000 and has over 20 years of management experience in different industries (including the amenity industry). Mr. Ng is the honorary chairman of the Chinese Enterprises Competitiveness Advancement Association (中國企業競爭力促進會) and a member of the Hong Kong Management Association (香港管理專業協會). He had assisted a number of medium to large sized enterprises in formulating company development strategies and establishing management systems in the areas of sales and marketing, human resources and production management. Mr. Ng is also a guest lecturer of MBA programs and senior executive development programs of several universities. He had been a director for a number of non-listed companies and is currently a director of Advance Management Consultants Limited (艾雲斯管理顧問有限公司). He received a Master of Business Administration from the University of East Asia Macau and completed the fundamental course work of the Doctor of Business Administration from Murdoch University. He also holds a Diploma in Management Studies awarded jointly by The Hong Kong Polytechnic University and Hong Kong Management Association. Since Mr. Ng was not and is not expected to be involved in our day-to-day operations, he was appointed as a non-executive Director on 9 July 2007.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. SUN Kai Lit Cliff** *BBS, JP*, aged 54, is an independent non-executive Director ("INED"). Mr. Sun has been appointed as an INED on 9 July 2007. Mr. Sun is an Associate of the Institute of Industrial Engineers of Ohio and has 28 years of experience in the household products manufacturing industry. Mr. Sun joined Kinox Enterprises Limited ("**Kinox**") in 1978, which is an renowned household products company in cookware, beverage servers, barbeque grills and chafing dishes. Mr. Sun is an executive director of Kinox and has been involved in various aspects of the operations and management of Kinox. Mr. Sun was appointed the Justice of the Peace in 2003 and was awarded the Bronze Bauhinia Star by the Hong Kong Government in 2006. Mr. Sun currently serves on the board of directors as an independent non-executive director of Ka Shui International Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

**Mr. HUNG Kam Hung Allan**, aged 53, is an INED. Mr. Hung has over 20 years of senior management experience in managing hotel operations and hotel investments. He was a deputy managing director of Top Glory International Holdings Limited ("**Top Glory**"), a former Hong Kong listed company which was privatised in August 2003, in 1992 and acted as its executive director from July 1997 to January 2001. During the period with Top Glory, Mr. Hung assisted Top Glory to develop and manage hotels/resorts. He resigned from such positions due to the restructuring of Top Glory (by its holding company). In 2005, Mr. Hung started a hotel development consultancy service to work with various hotel developers and prestigious hotel chains on design and project management. Mr. Hung was appointed as an INED on 9 July 2007.

**Mr. MA Chun Fung Horace**, aged 37, is an INED. Mr. Ma specialises in internal audit and business risk consulting. Mr. Ma was a director and head of the Hong Kong operations of an international independent risk consulting firm from March 2004 to March 2007. The said firm provides business consultation services in numerous fields including business operations and management, information technology, financial management and internal auditing and risk consulting and investigative services. Mr. Ma is a Certified Public Accountant (Practicing) registered with the Hong Kong Institute of Certified Public Accountants (HKICPA), a fellow member of the Association of Chartered Certified Accountants (ACCA), a Certified Internal Auditor registered with the Institute of Internal Auditors and holder of Certification of Control Self-Assessment of the Institute of Internal Auditors. Mr. Ma also holds various degrees including Master of Science and Bachelor of Business Administration conferred by The Chinese University of Hong Kong and Bachelor of Laws conferred by the University of London. Mr. Ma is currently a committee member of ACCA Hong Kong and is co-chairing the Professional Development Sub-committee of ACCA HK. Mr. Ma was appointed as an INED on 9 July 2007.

## SENIOR MANAGEMENT

**Ms. PO Ka Lai**, aged 37, is our senior procurement manager. Ms. Po joined us in November 1988 and has over 18 years of experience in the amenity industry.

**Mr. HU Zhi Bing**, aged 32, is our management information systems manager responsible for managing the information systems department. Mr. Hu joined us in July 2001 and has over 5 years of experience in the amenity industry. He holds a Bachelor Degree in Economics from Zheng Zhou Airline Industry Management College (鄭州航空工業管理學院).

**Ms. YIP Hung Alice**, aged 34, is our design manager. She assisted in setting up our in-house design team in 1998 and has been its team leader since then. Ms. Yip is responsible for all the in-house design, such as products design, amenities packaging designs for hotels, advertisements, photography, exhibitions etc. Ms. Yip joined us in 1998. Ms. Yip has over 10 years of experience in design of amenity and household products. Ms. Yip obtained a Bachelor Degree in Arts majoring in arts and design from the City University of New York in 1996.

**Ms. CHAN Yick Ning**, aged 45, is our chemical research and development manager and responsible for overseeing various aspects of our chemical production such as chemical production quality control, research and development of product formulations, the operations of our chemical and microbiological laboratory, the performance of our senior chemists and technicians, quality control and research and development. Ms. Chan joined our Group in 2005 and has over 20 years of experience in cosmetics production and laboratory operation. Ms. Chan was awarded a Diploma in Management Studies jointly by The Hong Kong Polytechnic University and Hong Kong Management Association in 1992. Ms. Chan is also a member of Hong Kong Society of Cosmetic Chemists, which is in affiliation to the International Federation of Societies of Cosmetic Chemists in the United States.

## COMPANY SECRETARY

**Ms. CHAN Wing**, is the company secretary of the Company, particulars of whom are set forth above.

# DIRECTORS' REPORT

The Directors of Ming Fai International Holdings Limited are pleased to present their first annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007.

## GROUP REORGANISATION AND LISTING

The Company was incorporated in the Cayman Islands under the Companies Law (2007 Revision) of the Cayman Islands as an exempted company with limited liability on 29 May 2007 and was registered on 9 October 2007 as an overseas company in Hong Kong under Part XI of the Companies Ordinance.

For the purpose of the listing of the Company's shares (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Main Board**"), the Company has undergone a series of reorganisation (the "**Reorganisation**"). Details of the Reorganisation are set out in Appendix VI of the Prospectus.

The Shares have been listed on the Main Board since 2 November 2007.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the supply and manufacture of quality amenity products and accessories to internationally recognized or branded operators. The Company acts as an investment holding company. Details of the principal activities of each subsidiary of the Group are set forth in note 19 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2007 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 31 to 85 of this report.

The Directors recommend the payment of a final dividend of HK8.4 cents per share for the year ended 31 December 2007. Subject to the approval of the Directors' recommendation by the Shareholders at the annual general meeting of the Company to be held on 10 April 2008 (the "**AGM**"), the final dividend will be paid on or about 2 May 2008 to shareholders whose name appear on the register of shareholders of the Company as at the close of business on 2 April 2008. The total amount of such dividend is approximately HK$50.4 million.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Thursday, 3 April 2008 to Thursday, 10 April 2008 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 2 April 2008.

## GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 86.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 8 to the financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 21 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2007 are set out in the consolidated statement of changes in equity on page 35 and note 20(c) to the financial statements, respectively.

As at 31 December 2007, distributable reserves of the Company amounted to approximately HK$635.8 million.

## SUBSIDIARIES

Particulars of the Group's principal subsidiaries are set out in note 19 to the financial statements.

## 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

During the year ended 31 December 2007, other than the issuance of additional 600,000,000 new shares by the Company during the year (including 150,000,000 shares issued for the Company's listing of the Shares on the Main Board), neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year.

## BORROWINGS

Details of the borrowings of the Group during the year ended 31 December 2007 are set out in note 22 to the financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, their spouse or children under the age of 18 were granted any right to subscribe for the securities of the Company or had exercised any such right during the year.

## DIRECTORS

The Directors during the year were as follows:

| | |
|---|---|
| **Executive Directors** | |
| Mr. CHING Chi Fai *(Chairman)* | (appointed on 29 May 2007) |
| Mr. CHING Chau Chung | (appointed on 29 May 2007) |
| Mr. CHING Chi Keung | (appointed on 9 July 2007) |
| Mr. LIU Zigang | (appointed on 9 July 2007) |
| Mr. LEE King Hay | (appointed on 9 July 2007) |
| Ms. CHAN Yim Ching | (appointed on 9 July 2007) |
| Ms. CHAN Wing | (appointed on 9 July 2007) |
| **Non-executive Directors** | |
| Mr. NG Bo Kwong | (appointed on 9 July 2007) |
| **Independent non-executive Directors** | |
| Mr. SUN Kai Lit Cliff *BBS, JP* | (appointed on 9 July 2007) |
| Mr. HUNG Kam Hung Allan | (appointed on 9 July 2007) |
| Mr. MA Chun Fung Horace | (appointed on 9 July 2007) |

In accordance with article 114 of the Company's Articles of Association, Mr. CHING Chi Fai, Mr. CHING Chau Chung, Mr. CHING Chi Keung, Mr. LIU Zigang, Mr. LEE King Hay, Ms. CHAN Yim Ching, Ms. CHAN Wing, Mr. NG Bo Kwong, Mr. SUN Kai Lit Cliff, Mr. HUNG Kam Hung Allan and Mr. MA Chun Fung Horace will retire at the AGM and, being eligible, shall offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

The biographical details of the Directors and the senior management are set out on pages 7 to 9.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Company considers that Mr. SUN Kai Lit Cliff, Mr. HUNG Kam Hung Allan and Mr. MA Chun Fung Horace to be independent.

## DIRECTORS' SERVICE CONTRACTS

For the year ended 31 December 2007, each of Mr. CHING Chi Fai, Mr. CHING Chau Chung, Mr. CHING Chi Keung, Mr. LIU Zigang, Mr. LEE King Hay, Ms. CHAN Yim Ching and Ms. CHAN Wing has entered into a service agreement dated 21 September 2007 with the Company under which they agreed to act as executive Directors, for a period of three years commencing from 2 November 2007 (the "Listing Date") unless terminated in accordance with the terms of the service contracts.

Mr. NG Bo Kwong has signed a letter of appointment dated 21 September 2007 with the Company under which he agreed to act as non-executive Director for a period of one year unless terminated in accordance with the terms of appointment letter.

Each of Mr. MA Chun Fung Horace, Mr. SUN Kai Lit Cliff and Mr. HUNG Kam Hung Allan has signed a letter of appointment dated 21 September 2007 with the Company under which they agreed to act as independent non-executive Directors for a period of one year unless terminated in accordance with the terms of the appointment letters.

Save as aforesaid, there is no existing or proposed service contracts (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation other than statutory compensation) between the Directors and any member of the Group.

## DIRECTORS' AND THE FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Details of the emoluments of the Directors and of the five highest paid individuals of the Group are set out in note 27 to the financial statements.

## CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

For the financial year ended 31 December 2007, the total amount of annual consideration paid by the Group to each of Ming Fai Plastic Industrial Co, Liu Zigang and Advance Management Consultants Limited, either a connected person or an associate of a connected person pursuant to rule 14A of the Listing Rules, being less than HK$1 million where each of the percentage ratios (other than the profits ratio) is on an annual basis less than 0.1% or if more than 0.1% but less than 2.5%. Accordingly, each of the following continuing connected transactions of the Group constitutes an exempted continuing connected transaction for the Company under rule 14A.33(3) of the Listing Rules and are exempted from the reporting, announcement and independent shareholders' approval requirements set forth under Chapter 14A of the Listing Rules.

### (1) Lease of property by Ming Fai Plastic Industrial Co to Ming Fai Enterprise (Shenzhen) Company Limited

Ming Fai Plastic Industrial Co is a partnership beneficially owned as to 1/3 by each of Mr. Ching Chi Fai, Mr. Ching Chau Chung and Mr. Ching Chi Keung, all being executive Directors, and therefore is an associate of a connected person under the Listing Rules.

Ming Fai Enterprise (Shenzhen) Company Limited ("**Ming Fai Shenzhen**"), a limited liability company incorporated in the PRC on 7 September 1992 and an indirect wholly–owned subsidiary of the Company, leases property comprising a parcel of land of 4,400.0 sq.m. together with a workshop building of 2,277.0 sq.m., a electricity transformer room (配電房) and office premises of 99.0 sq.m. and two workshops of 8,686.2 sq.m. from Ming Fai Plastic Industrial Co. The property is located at Nijiukeng, Bainikeng Village, Pinghu Town, Guangdong Province, the PRC (中國廣東省平湖鎮白泥坑村尼九坑).

Ming Fai Shenzhen and Ming Fai Plastic Industrial Co entered into a lease agreement in relation to the parcel of land of 4,400.0 sq.m. together with the workshop building of 2,277.0 sq.m., the electricity transformer room (配電房) and office premises of 99.0 sq.m. constructed thereon on 12 June 2007 for a term of 20 years commencing from 10 January 1993 ending 9 January 2013. The total rental for the term is RMB2,234,320 and shall be paid in three installments. According to the lease agreement, the first installment of RMB350,000 shall be paid before 25 January 1993; the second installment of RMB500,000 shall be paid before 18 April 1993 and the remaining portion shall be paid before 18 July 1993. Vigers Appraisal and Consulting Limited, an independent valuer, has confirmed that the terms of the lease agreement are fair and reasonable and the rent reflects prevailing market conditions as at the commencement date of the term. The lease is terminable by Ming Fai Plastic Industrial Co by six months' written notice. If the lease agreement is terminated prior to the end of the term, Ming Fai Plastic Industrial Co will refund the rent paid for the unleased part of the term. The rent paid by Ming Fai Shenzhen during the two years ended 31 December 2006 and 2007 was nil.

Ming Fai Shenzhen and Ming Fai Plastic Industrial Co also entered into a lease agreement on 14 June 2007 in relation to the two workshops of 8,686.2 sq.m. which were subsequently constructed by Ming Fai Plastic Industrial Co for a term of 2 years commencing from 1 January 2007 ending 31 December 2008. The monthly rental is RMB60,803 and payable monthly. Vigers Appraisal and Consulting Limited, an independent valuer, has confirmed that the terms of the lease agreement are fair and reasonable and the rent reflects prevailing market conditions as at the commencement date of the term. The lease is terminable by Ming Fai Plastic Industrial Co by six months' written notice. Ming Fai Shenzhen had leased the two workshops during the two years ended 31 December 2006 and 2007. The rent payable by Ming Fai Shenzhen for each of these two years were approximately HK$615,000 and HK$754,000 respectively.

### (2) Lease of premises by Mr. Liu Zigang to Ming Fai Shenzhen

Mr. LIU Zigang is an executive Director and therefore a connected person under the Listing Rules.

Ming Fai Shenzhen leases premises of approximately 199.94 sq.m. at Unit A2 on Level 10 of Block 5, Section 1101 of Block A of Huapu Garden, Dongsishi, Dongcheng District, Beijing, the PRC (北京市東四十華普花園A座1101單元5號樓10層A2號房) from Mr. Liu for office and dormitory uses, and they entered into a lease agreement on 12 June 2007 for a term of two years commencing from 1 January 2007.

The monthly rental is RMB11,000 and payable monthly. Vigers Appraisal and Consulting Limited, an independent valuer, has confirmed that the terms of the lease agreement are fair and reasonable and the rent reflects prevailing market conditions as at the commencement date of the term.

Ming Fai Shenzhen had leased the premises from Mr. Liu during the two years ended 31 December 2006 and 2007. The rent payable by Ming Fai Shenzhen for each of these two years were approximately HK$141,000 and HK$136,000 respectively.

### (3) Provision of Consultancy Services by Advance Management Consultants Limited to Ming Fai Asia Pacific Company Limited

Advance Management is owned as to 80% by Mr. Ng Bo Kwong, a non-executive Director, and therefore is an associate of a connected person under the Listing Rules.

Advance Management provides management consultancy services to Ming Fai Asia Pacific Company Limited ("**Ming Fai Asia Pacific**"), a limited liability company incorporated in Hong Kong on 15 May 2002 and an indirect wholly–owned subsidiary of the Company. They entered into an agreement dated 12 April 2007 whereby Advance Management provides consultancy services to Ming Fai Asia Pacific in relation to corporate development strategy for the period commencing from December 2006 ending before the end of December 2007. The consultancy fee is HK$200,000 and shall be paid in three installments. According to the agreement, the first installment of HK$60,000 shall be paid upon signing of the agreement, the second installment of HK$80,000 shall be paid by the end of June 2007 and the remaining portion shall be paid upon completion of the consultancy project by December 2007.

Advance Management and Ming Fai Asia Pacific entered into a consultancy agreement dated 30 July 2007 whereby Advance Management provides Ming Fai Asia Pacific consultancy services in relation to production efficiency for the period commencing from August 2007 ending before the end of February 2008. The consultancy fee is HK$130,000 and shall be paid in two installments. According to the agreement, the first installment of HK$39,000 shall be paid upon signing of the agreement and the remaining portion shall be paid upon completion of the consultancy services.

They also entered into a consultancy agreement dated 3 August 2006 whereby Advance Management provides Ming Fai Asia Pacific consultancy services in relation to production efficiency for a period of 12 months. The consultancy fee is HK$580,000 and shall be paid in two installments. According to the agreement, the first installment of HK$114,000 shall be paid upon signing of the agreement and the remaining portion shall be paid upon completion of the consultancy services.

Advance Management had provided consultancy services to Ming Fai Asia Pacific during the two years ended 31 December 2006 and 2007. The consultancy fees paid by Ming Fai Asia Pacific to Advance Management for each of these two years were approximately HK$132,000 and HK$530,000 respectively.

Save as disclosed above, no continuing connected transaction or connected transaction has been conducted during the year ended 31 December 2007.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section above with heading, "Continuing Connected Transactions and Connected Transactions" set out on pages 13 to 15 of this report, no Director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the Directors had the following interests in the Shares and underlying Shares of the Company and its associated corporations which were recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long position in ordinary shares of HK$0.01 each in the Company

| Name of Director | Nature of Interests | Number of Shares | Approximate percentage of shareholding of the Company |
|---|---|---|---|
| Ching Chi Fai | Corporate *(Note 1)* | 184,874,600 | 30.81% |
| Ching Chau Chung | Corporate *(Note 2)* | 170,976,600 | 28.50% |
| Ching Chi Keung | Corporate *(Note 3)* | 44,499,600 | 7.42% |
| Chan Yim Ching | Corporate *(Note 3)* | 44,499,600 | 7.42% |
| Liu Zigang | Corporate *(Note 4)* | 23,857,200 | 3.98% |

*Notes:*

1. These Shares are owned by Prosper Well International Limited ("Prosper Well"), which is wholly-owned by Mr. Ching Chi Fai.

2. These Shares are owned by Pacific Plus Limited ("Pacific Plus"), which is wholly-owned by Mr. Ching Chau Chung.

3. These Shares are owned by Targetwise Trading Limited ("Targetwise"), which is owned as to 50% and 50% by Mr. Ching Chi Keung and Ms. Chan Yim Ching respectively.

4. These Shares are owned by Favour Power Limited ("Favour Power"), which is wholly-owned by Mr. Liu Zigang.

Save as disclosed above, as at the date of this Annual Report, none of the Directors and their associates, had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO to be entered in the register referred to therein.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2007, so far as the Directors are aware of, the following substantial shareholders had interests in 5% or more of the Company's issued share capital:

**Long position in ordinary shares of HK$0.01 each in the Company**

| Name of Substantial Shareholders | Capacity/nature of interest | Number of Shares directly or indirectly held immediately following completion of the Share Offer and the Capitalisation Issue | Approximate percentage of the issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue |
|---|---|---|---|
| Mr. Ching Chi Fai (1) | Interest in controlled company | 184,874,600 | 30.81% |
| Ms. Lo Kit Ling (2) | Family interest | 184,874,600 | 30.81% |
| Prosper Well (5) | Beneficial owner | 184,874,600 | 30.81% |
| Mr. Ching Chau Chung (3) | Interest in controlled company | 170,976,600 | 28.50% |
| Ms. Wong Sei Hang (4) | Family Interest | 170,976,600 | 28.50% |
| Pacific Plus (6) | Beneficial owner | 170,976,600 | 28.50% |
| Mr. Ching Chi Keung (7) | Interest in controlled company | 44,499,600 | 7.42% |
| Ms. Po Fung Kiu (8) | Family interest | 44,499,600 | 7.42% |
| Ms. Chan Yim Ching (7) | Interest in controlled company | 44,499,600 | 7.42% |
| Mr. Lee King Keung (9) | Family Interest | 44,499,600 | 7.42% |
| Targetwise (10) | Beneficial owner | 44,499,600 | 7.42% |

*Notes:*

1. These Shares will be owned by Prosper Well, which is wholly-owned by Mr. Ching Chi Fai. Mr. Ching Chi Fai individually is a Controlling Shareholder. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

2. As Prosper Well is wholly-owned by Mr. Ching Chi Fai, he is deemed to be interested in the Shares held by Prosper Well by virtue of Part XV of the SFO. Ms. Lo Kit Ling, being Mr. Ching Chi Fai's spouse, will be deemed to be interested in the Shares held by Prosper Well under Part XV of the SFO.

3. These Shares will be owned by Pacific Plus, which is wholly-owned by Mr. Ching Chau Chung. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

4. As Pacific Plus is wholly-owned by Mr. Ching Chau Chung, he is deemed to be interested in the Shares held by Pacific Plus by virtue of Part XV of the SFO. Ms. Wong Sei Hang, being Mr. Ching Chau Chung's spouse, will be deemed to be interested in the Shares held by Pacific Plus under Part XV of the SFO.

5. Prosper Well is wholly-owned by Mr. Ching Chi Fai. Prosper Well itself is a Controlling Shareholder. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

6. Pacific Plus is wholly-owned by Mr. Ching Chau Chung. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

7. These Shares will be owned by Targetwise, which is beneficially owned as to 50% by each of Mr. Ching Chi Keung and Ms. Chan Yim Ching, both are executive Directors. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

8. As Targetwise is owned as to 50% by Mr. Ching Chi Keung, he is deemed to be interested in the Shares held by Targetwise by virtue of Part XV of the SFO. Ms. Po Fung Kiu, being Mr. Ching Chi Keung's spouse, will be deemed to be interested in the Shares held by Targetwise under Part XV of the SFO.

9. As Targetwise is owned as to 50% by Ms. Chan Yim Ching, she is deemed to be interested in the Shares held by Targetwise by virtue of Part XV of the SFO. Mr. Lee King Keung, being Ms. Chan Yim Ching's spouse, will be deemed to be interested in the Shares held by Targetwise under Part XV of the SFO.

10. Targetwise is beneficially owned as to 50% by each of Mr. Ching Chi Keung and Ms. Chan Yim Ching, both are executive Directors. Prosper Well, Pacific Plus, Targetwise, Favour Power, Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Ms. Chan Yim Ching and Mr. Liu Zigang as a group of persons entitled to exercise 30% or more of voting rights at general meeting of the Company, are together regarded as a Controlling Shareholder.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has any competing interests in any business or has any interest in any business that may constitute direct or indirect competition with the Group.

## SHARE OPTION SCHEME

The following is a summary of the principal terms of the rules of the share option scheme conditionally approved and adopted by the Company on 5 October 2007 (the "Share Option Scheme"):

### (1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Board to grant options to selected employees (whether full time or part time including the directors) of any member of the Group as incentives or rewards for their contribution or potential contribution to the Group.

The terms of the Share Option Scheme provide that in granting options under the Share Option Scheme, the Board is entitled to determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Share Option Scheme is exercised. The board is also entitled to determine the option price per Share payable on the exercise of an option (the "**Exercise Price**") according to the terms of the Share Option Scheme. Such terms, together with the incentive that the option will bring about, the Board believes, will serve the purpose of the Share Option Scheme.

### (2) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Person to subscribe at the Exercise Price for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Persons to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

### (3) Price for subscription of Shares

The Exercise Price is to be determined by the Board provided always that it shall be at least the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer for the grant of the option (which is deemed to be the date of grant if the offer for the grant of the option is accepted by the Eligible Person), which must be a trading day; and

(b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant, provided that the Exercise Price shall in no event be less than the nominal amount of one Share.

**(4) Maximum number of Shares**

(a) Subject to sub-paragraph (b) and (d) below, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue on 29 February 2008, i.e., 60,000,000 Shares (the "**Scheme Limit**").

Options lapsed in accordance with the Share Option Scheme will not be counted for the purpose of the Scheme Limit.

(b) The Scheme Limit may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the refreshed limit must not exceed 10% of the Shares in issue at the date of the Shareholders' approval of such limit. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company or those exercised) will not be counted for the purpose of calculating the refreshed limit.

(c) The Company may also, by obtaining separate approval of the Shareholders in general meeting, grant options beyond the Scheme Limit provided the options in excess of the Scheme Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.

(d) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

**(5) Maximum entitlement of each Eligible Person**

The maximum number of Shares issued and to be issued upon exercise of options granted and to be granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue from time to time. Any further grant of options in excess of such limit must be separately approved by Shareholders with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the Shareholders which contains the information required by the Listing Rules.

**(6) Period of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme become unconditional unless terminated earlier by Shareholders in general meeting.

**(7) Termination to the Share Option Scheme**

The Company may, with the approval in general meeting of the Shareholders, terminate the Share Option Scheme at any time following which no further grant of options shall be offered but in all other respects the rules of the Share Option Scheme shall continue in full force and effect. Any options granted and accepted prior to such termination, shall continue to be valid and exercisable in accordance with the rules of the Share Option Scheme.

**(8) Present status of the Share Option Scheme**

Application has been made to the Listing Committee for the listing of and permission to deal in 60,000,000 Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this report, no option has been granted or agreed to be granted under the Share Option Scheme.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of sales and purchases for the year ended 31 December 2007 attributable to the Group's major customers and suppliers are as follows:

| | |
|---|---|
| Sales | |
| – the largest customer | 14.4% |
| – five largest customers combined | 35.0% |
| Purchases | |
| – largest supplier | 5.7% |
| – five largest suppliers combined | 21.5% |

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's major customers or suppliers noted above.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out on pages 23 to 28 of this report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at the date of this report.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$42,000.

## AUDIT COMMITTEE

In compliance with rule 3.21 of the Listing Rules the board of Directors has established an audit committee (the "**Audit Committee**") on 21 September 2007, with written terms of reference in compliance with Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of the audit committee are Mr. Ma Chun Fung Horace, Mr. Sun Kai Lit Cliff, Mr. Hung Kam Hung Allan (who are all independent non-executive Directors) and Mr. Ng Bo Kwong (a non-executive Director). Mr. Ma Chun Fung Horace is the chairman of the audit committee. The annual results for the year have been reviewed by the Audit Committee on 29 February 2008.

## AUDITORS

The Company's auditors, PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment at the AGM of the Company.

On behalf of the Board
**CHING Chi Fai**
*Chairman*

Hong Kong, 29 February 2008

## THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices. The corporate governance principles of the Company emphasize accountability and transparency and are adopted in the best interest of the Company and its shareholders. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and to fulfill its commitment to excellence in corporate governance.

The Group has complied with the applicable code provisions set out in the Code of Corporate Governance Practices (the "**Code**") contained in Appendix 14 to the Listing Rules for the period from the Listing Date to 31 December 2007 except that no meeting of the Audit Committee and Remuneration Committee of the Board was held during such period. Only 1 meeting for the Audit Committee and 1 meeting for the Remuneration Committee were held subsequent to 31 December 2007 and prior to the publishing of this report with the presence of all members of the respective committees.

## BOARD OF DIRECTORS

The Board currently consists of 11 Directors, of whom seven are executive Directors, one is a non-executive Director and three are independent non-executive Directors. All seven executive Directors are responsible for dealing with the business of the Group in accordance with all applicable rules and regulations, including, but not limited to, the Listing Rules. All Directors (including non-executive Director and independent non-executive Directors) have been consulted on all major and material matters of the Group.

The role of the Board includes convening Shareholders' meetings and reporting their work in the Shareholders' meetings, implementing the resolutions of the Shareholders' meetings, determining the Group's business plans and investment plans, formulating the Group's annual budget and final accounts, formulating proposals for dividend and bonus distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Articles of Association of the Company. In discharging its responsibilities, the Board meets regularly and acts in good faith, with due diligence and care.

The composition of the Board and their respective attendance in the regular full Board meetings and other committee meetings up to the date of this report are as follows:-

| | No. of meetings attended/held | | |
|---|---|---|---|
| | Regular Full Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting |
| **Executive Director** | | | |
| Mr. CHING Chi Fai *(Chairman)* | 4/4 | – | 1/1 |
| Mr. CHING Chau Chung | 4/4 | – | – |
| Mr. CHING Chi Keung | 4/4 | – | – |
| Mr. LIU Zigang | 4/4 | – | – |
| Mr. LEE King Hay | 4/4 | – | – |
| Ms. CHAN Yim Ching | 4/4 | – | – |
| Ms. CHAN Wing | 4/4 | 1/1 | 1/1 |
| **Non-executive Directors** | | | |
| Mr. NG Bo Kwong | 4/4 | 1/1 | 1/1 |
| **Independent non-executive Directors** | | | |
| Mr. SUN Kai Lit Cliff | 4/4 | 1/1 | 1/1 |
| Mr. HUNG Kam Hung Allan | 4/4 | 1/1 | 1/1 |
| Mr. MA Chun Fung Horace | 4/4 | 1/1 | 1/1 |

The number of independent non-executive Directors has met the requirements under the Listing Rules and Mr. MA Chun Fung Horace has appropriate accounting professional qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. All the appointments of non-executive Directors and independent non-executive Directors may be terminated either by the Company by giving written notice to terminate such appointment with immediate effect or by the non-executive Directors or independent non-executive Directors by giving 1 month's written notice to the Company and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company. The Directors are of the view that all independent non-executive Directors meet the independence guidelines set out in rule 3.13 of the Listing Rules.

During the period from 9 July 2007 (the date of appointment of the non-executive Director and the three independent non-executive Directors) to 31 December 2007, 2 full Board meeting were held. Minutes of the Board meetings are being kept by the company secretary of the Company and are available for inspection by the Directors of the Company.

## NOMINATION OF DIRECTORS

In view of the size of the Company, no nomination committee has been established by the Board. Nevertheless, the Board itself should discharge all duties expected to be dealt with by a nomination committee.

To ensure that there is a formal, considered and transparent process for the appointment of new Directors to the Board, the following nomination procedures have been adopted which should normally be followed when a need is identified for the appointment of a new Director:

- to compile a list of potential candidates;
- to evaluate potential candidates in the context of the current composition of the Board, the current needs of the Board and the long-term interests of Shareholders;
- to select and recommend one or more candidates following the initial evaluation for interview by at least two members of the Board, normally including the Chairman of the Board (subsequent interview may also be arranged with the other members of the Board, if appropriate);
- to recommend the best available candidate for consideration by the whole Board.

## THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The roles of the chief executive officer have been performed collectively by all the executive Directors, including the chairman of the Company. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirements set out under the Model Code for the period from the Listing Date to 31 December 2007.

## AUDIT COMMITTEE

An audit committee was established by the Board on 21 September 2007 with written terms of reference in compliance with the Code. The members of the audit committee are Mr. MA Chun Fung Horace, Mr. SUN Kai Lit Cliff, Mr. HUNG Kam Hung Allan (who are all independent non-executive Directors) and Mr. NG Bo Kwong (a non-executive Director). Mr. MA Chun Fung Horace, who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the audit committee.

The principal responsibilities of the Audit Committee include:

- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditors;
- to review and monitor the external Auditors' independence and objectivity;
- to develop and implement policy on the engagement of the external Auditors to supply non-audit services;
- to monitor integrity of the interim and annual financial statements;
- to review significant financial reporting judgments particularly on any changes in accounting policies and practices;
- to ensure that management has discharged its duty to have an effective internal control system and to consider any findings of major investigations of internal control matters;
- to review the external Auditors' management letter, any material queries raised by the Auditors to management in respect of the accounting records, financial accounts or systems of control and management's response.

During the period from 21 September 2007 (date of establishment of the audit committee) to the date of this report, the Audit Committee discharged its responsibilities by:

- reviewing the annual results of the Group for the year ended 31 December 2007, and the relevant statements and reports prior to Board approval and reviewing the external Auditors' reports and finding on the work performed;
- reviewing the independency and objectivity of the external Auditors, and the non-audit service fee payable to the external Auditors; and
- reviewing the effectiveness of the internal control systems of the Group involving financial control, operational control, compliance control and risk management.

## REMUNERATION COMMITTEE

A remuneration committee was established by our Board on 21 September 2007 with written terms of reference in compliance with the Code. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The members of the remuneration committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director), Mr. SUN Kai Lit Cliff (an independent non-executive Director), Mr. HUNG Kam Hung Allan (an independent non-executive Director) and Mr. NG Bo Kwong (a non-executive Director). Mr. CHING Chi Fai is the chairman of the remuneration committee.

The Remuneration Committee has considered and reviewed the existing terms of remunerations of all the Directors and the senior management. The Remuneration Committee has considered and reviewed the Group's remuneration policy in relation to that of comparable companies, time commitment and responsibilities of the Directors and the senior management and desirability of performance-based remuneration. The Remuneration Committee considered that the existing terms of remunerations of the Directors and the senior management were fair and reasonable.

## INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. In addition, the Group has exercised risk management procedures to identify and prioritise risks for the business to be addressed by management.

During the year ended 31 December 2007, the Board has conducted a review of the effectiveness of the system of internal control and is satisfied with the scope and effectiveness of the system.

## MANAGEMENT FUNCTION

The management team of the Company meets together regularly to review and discuss with the executive Directors on day-to-day operational issues, financial and operating performance as well as to monitor and ensure the management is carrying out the directions and strategies set by the Board properly.

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities for overseeing the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group, and of results and cash flow for the period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made prudent and reasonable judgments and estimates and have prepared the financial statements on the going concern basis. The Directors also warrant that the Group's financial statements will be published in a timely manner.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the section headed "Independent Auditor's Report" on pages 29 to 30 of this report.

## AUDITOR'S REMUNERATION

The external auditor of the Company is PricewaterhouseCoopers. For the year ended 31 December 2007, the remuneration paid by the Company to the external auditor for the performance of audit services was HK$1,300,000.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board of Directors and at the general meetings of the Company by its shareholders.

Certain factors the Audit Committee will take account of when assessing the external auditors include the audit performance, quality and objectivity and independence of the auditors.

On behalf of he Board
**CHING Chi Fai**
*Chairman*

Hong Kong, 29 February 2008

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF MING FAI INTERNATIONAL HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Ming Fai International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 85, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 consolidated financial statements based on our audit and to report our opinion 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.

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 2007 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.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 29 February 2008

# CONSOLIDATED BALANCE SHEET

| | Note | 2007 | 2006 |
|---|---|---|---|
| | | **As at 31 December** | |
| | | **HK$'000** | HK$'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land and land use rights | *7* | **13,568** | 7,605 |
| Property, plant and equipment | *8* | **126,798** | 108,834 |
| Intangible assets | *9* | **627** | 731 |
| Investment in an associated company | *10* | **155** | 120 |
| Deferred income tax assets | *11* | **5,276** | 2,800 |
| | | **146,424** | 120,090 |
| **Current assets** | | | |
| Inventories | *12* | **54,379** | 55,829 |
| Trade and bills receivables | *13* | **162,059** | 158,636 |
| Amount due from an associated company | *10* | **346** | 484 |
| Deposits, prepayments and other receivables | *16* | **18,553** | 11,597 |
| Restricted cash | *17* | **32,526** | 16,095 |
| Cash and cash equivalents | *18* | **535,024** | 42,869 |
| | | **802,887** | 285,510 |
| **Total assets** | | **949,311** | 405,600 |
| **EQUITY** | | | |
| **Capital and reserve attributable to the equity holders of the Company** | | | |
| Share capital | *21* | **6,000** | 4,500 |
| Share premium | *21* | **408,242** | – |
| Reserves | *20 (a), (b)* | **241,524** | 160,056 |
| Proposed final dividend | *32* | **50,400** | – |
| **Total equity** | | **706,166** | 164,556 |

| | Note | As at 31 December 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | *11* | **322** | 345 |
| | | **322** | 345 |
| **Current liabilities** | | | |
| Trade and bills payables | *23* | **93,772** | 81,909 |
| Accruals and other payables | | **74,802** | 42,614 |
| Amounts due to shareholders | *15* | **–** | 32,686 |
| Amounts due to related parties | *14* | **–** | 34,994 |
| Current income tax liabilities | | **22,057** | 16,474 |
| Borrowings | *22* | **52,192** | 8,022 |
| Dividends payable | | **–** | 24,000 |
| | | **242,823** | 240,699 |
| **Total liabilities** | | **243,145** | 241,044 |
| **Total equity and liabilities** | | **949,311** | 405,600 |
| **Net current assets** | | **560,064** | 44,811 |
| **Total assets less current liabilities** | | **706,488** | 164,901 |

**CHING Chi Fai**
*Director*

**CHING Chau Chung**
*Director*

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

# BALANCE SHEET

| | Note | As at 31 December 2007 HK$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current asset** | | |
| Investment in a subsidiary company | *19* | 228,647 |
| | | 228,647 |
| **Current assets** | | |
| Deposits, prepayments and other receivables | *16* | 876 |
| Cash and cash equivalents | *18* | 417,762 |
| | | 418,638 |
| **Total assets** | | 647,285 |
| **EQUITY** | | |
| **Capital and reserve attributable to the equity holders of the Company** | | |
| Share capital | *20(c), 21* | 6,000 |
| Share premium | *20(c), 21* | 408,242 |
| Reserves | *20(c)* | 177,160 |
| Proposed final dividend | *32* | 50,400 |
| **Total equity** | | 641,802 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accruals and other payables | | 5,473 |
| Amounts due to subsidiaries | *19* | 10 |
| **Total liabilities** | | 5,483 |
| **Total equity and liabilities** | | 647,285 |
| **Net current assets** | | 413,155 |
| **Total assets less current liabilities** | | 641,802 |

**CHING Chi Fai**
*Director*

**CHING Chau Chung**
*Director*

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

| | Note | For the year ended 31 December 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Revenue | 6 | **846,017** | 687,406 |
| Cost of sales | 24 | **(587,589)** | (492,100) |
| **Gross profit** | | **258,428** | 195,306 |
| Distribution costs | 24 | **(58,965)** | (44,063) |
| Administrative expenses | 24 | **(47,827)** | (40,056) |
| Other income | 25 | **6,092** | 1,617 |
| **Operating profit** | | **157,728** | 112,804 |
| Finance costs | 28 | **(1,721)** | (1,756) |
| Share of profit of an associated company | 10 | **35** | 12 |
| **Profit before income tax** | | **156,042** | 111,060 |
| Income tax expenses | 29 | **(30,110)** | (18,706) |
| **Profit for the year attributable to equity holders of the Company** | | **125,932** | 92,354 |
| **Earnings per share attributable to equity holders of the Company (Expressed in HK$)** | | | |
| **– Basic** | 31 | **0.27** | 0.21 |
| **– Diluted** | 31 | **0.27** | 0.21 |
| **Dividends** | 32 | **50,400** | 49,000 |

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve Note 20 (a) HK$'000 | Statutory reserve fund Note 20 (b) HK$'000 | Exchange reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| **Balance at 1 January 2006** | 4,500 | – | 56,500 | – | (495) | 53,503 | 114,008 |
| Profit for the year | – | – | – | – | – | 92,354 | 92,354 |
| Profit appropriation to statutory reserves | – | – | – | 2,101 | – | (2,101) | – |
| Currency translation differences | – | – | – | – | 2,194 | – | 2,194 |
| Dividends *(Note 32)* | – | – | – | – | – | (49,000) | (49,000) |
| Issuance of new shares of a company comprising the Group | – | – | 5,000 | – | – | – | 5,000 |
| **Balance at 31 December 2006** | 4,500 | – | 61,500 | 2,101 | 1,699 | 94,756 | 164,556 |
| **Balance at 1 January 2007 as per above** | 4,500 | – | 61,500 | 2,101 | 1,699 | 94,756 | 164,556 |
| Profit for the year | – | – | – | – | – | 125,932 | 125,932 |
| Currency translation differences | – | – | – | – | 5,926 | – | 5,926 |
| Issuance of new shares of companies comprising the Group | – | – | 10 | – | – | – | 10 |
| Issuance of ordinary shares, net of issuing expense of approximately HK$37,258,000 *(Note 21(e))* | 1,500 | 408,242 | – | – | – | – | 409,742 |
| **Balance at 31 December 2007** | 6,000 | 408,242 | 61,510 | 2,101 | 7,625 | 220,688 | 706,166 |
| **Representing:** | | | | | | | |
| Share capital and reserves | | | | | | | 655,766 |
| Proposed final dividend *(Note 32)* | | | | | | | 50,400 |
| **Balance at 31 December 2007** | | | | | | | 706,166 |

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| | Note | For the year ended 31 December 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *33(a)* | **195,546** | 90,364 |
| Interest paid | | **(1,721)** | (1,756) |
| Income tax paid | | **(26,726)** | (8,797) |
| Net cash generated from operating activities | | **167,099** | 79,811 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment ("PPE") | | **(28,296)** | (19,943) |
| Purchases of leasehold land and land use rights | | **(5,586)** | (3,797) |
| Proceeds from sales of PPE | *33(b)* | **37** | 65 |
| Purchases of intangible assets | | **–** | (44) |
| Interest received | | **4,985** | 743 |
| Net cash used in investing activities | | **(28,860)** | (22,976) |
| **Cash flows from financing activities** | | | |
| Proceeds from capital injections | | **10** | 5,000 |
| (Increase)/decrease in restricted cash | | **(16,431)** | 1,374 |
| Net (repayments of)/proceeds from loans to related parties | *35(d)* | **(29,324)** | 707 |
| Net (repayments of)/proceeds from loans to shareholders | *35(d)* | **(32,967)** | 13,203 |
| Proceeds from borrowings | *33(c)* | **80,223** | 29,452 |
| Repayments of borrowings | *33(c)* | **(36,053)** | (49,987) |
| Dividends paid | | **(24,000)** | (25,000) |
| Net proceeds from issuance of ordinary shares | *21(e)* | **409,742** | – |
| Net cash generated from/(used in) financing activities | | **351,200** | (25,251) |
| **Net increase in cash and cash equivalents** | | **489,439** | 31,584 |
| Cash and cash equivalents at the beginning of the year | | **42,869** | 9,765 |
| Exchange gains on cash and cash equivalents | | **2,716** | 1,520 |
| **Cash and cash equivalents at the end of the year** | *18* | **535,024** | 42,869 |

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION AND REORGANISATION

### (a) General information

The Company was incorporated in the Cayman Islands on 29 May 2007 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands.

Pursuant to a group reorganisation, which was completed on 5 October 2007 (the "Reorganisation"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong (the "Stock Exchange") on 2 November 2007 (the "Listing Date"). Further details on the Reorganisation are set out in the prospectus of the Company dated 22 October 2007.

The Reorganisation has been reflected in the consolidated financial statements by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2006 has been prepared using the merger basis of accounting. The consolidated results and cash flows include the results and cash flows of the subsidiaries comprising the Group as if the current group structure had been in existence throughout the periods presented or since their respective dates of incorporation or acquisition. The consolidated balance sheet as at 31 December 2006 was prepared to present the financial position of the Group as if the current group structure had been in existence as at 31 December 2006.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and sales of amenity products and accessories. Its registered address is at the office of M&C Corporate Services Limited, PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 February 2008.

## 2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following new/revised standards and interpretations that are not yet effective and have not been early adopted by the Group. The Group has considered the potential effect of these standards and interpretations.

- HK(IFRIC)-Int 11, "HKFRS 2-Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. This interpretation clarifies that certain types of transactions are accounted for as equity-settled or cash-settled transactions under HKFRS 2. The Group has already commenced on assessment of the impact of this new interpretation, but is not yet in a position to state whether this new interpretation would have a significant impact on its results of operations and financial position.

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. Management does not expect the adoption of this interpretation to be relevant for the Group.

- HK(IFRIC) – Int 13, "Customer Loyalty Programmes", effective for annual periods beginning on or after 1 July 2008. Management does not expect the adoption of this interpretation to be relevant for the Group.

- HK(IFRIC) – Int 14 "HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction", effective for annual periods beginning on or after 1 January 2008. Management does not expect the adoption of this interpretation to be relevant for the Group.

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported in the segmental analysis based on the internal reporting. This standard does not have significant impact on the results of operations of the Group.

- HKAS23 (Revised), "Borrowing Cost", effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the impact of this amendment.

- HKAS1 (Revised), "Presentation of Financial Statements", effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the impact of this amendment.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Except for the Reorganisation which has been accounted for as a combination of business under common control, the purchase method of accounting is used to account for the other acquisitions of Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less provision for impairment loss. The result of the subsidiary is accounted by the Company on the basis of dividend received and receivable.

### (b) Associated company

Associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associated company is accounted for using the equity method of accounting and is initially recognised at cost.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### (d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred.

Depreciation for buildings is calculated using the straight-line method to allocate cost over its estimated useful lives of 20 years.

Depreciation for other property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, at the following rates per annum:

| | |
|---|---|
| Leasehold improvements | Shorter of 10 years or lease period |
| Plant and machinery | 10%-33% |
| Motor vehicles | 20% |
| Furniture and fixtures | 33% |
| Computer equipment | 33% |

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

### (f) Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents up-front prepayments made for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 70 years. Amortisation of leasehold land and land use rights is expensed in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Intangible assets

Acquired trademarks and investment in club debentures are shown at historical cost. Trademarks and investment in club debentures have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and investment in club debentures over their estimated useful lives of 10 years.

### (h) Impairment of investment in an associated company and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

### (i) Financial assets-loans and receivables

The Group's financial assets are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling and distribution costs.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Trade, bills and other receivables

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and defaults are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the originally effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance accounts for the receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

### (l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

### (m) Trade and bills payables

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associated company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### (p) Employee benefits

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for long-service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Employee benefits (Continued)

(iii) Pension obligations

The group companies in the People's Republic of China ("PRC") participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The group companies in Hong Kong participate in a mandatory provident fund scheme ("MPF Scheme") for its employees in Hong Kong. MPF scheme is a defined contribution scheme in accordance with the Mandatory Provident Fund Scheme Ordinance. Under the rules of MPF scheme, the employer and its employees are required to contribute 5% of the employees' salaries, up to a maximum of HK$1,000 per employee per month. The assets of MPF Scheme are held separately from those of the group companies in an independently administered fund.

### (q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (r) Revenue recognition (Continued)

(i) Sales of goods

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

Revenue is stated net of provision for sales returns. Provision for sales returns is made by the Group upon the delivery of goods to the customers when the significant risks and rewards of ownership of the goods are transferred to the customers.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

### (s) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

### (t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### (u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

## 4 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw material denominated in the same currency.

Certain of the assets of the Group are principally denominated in United States Dollar ("US$"). HK$ is pegged to US$, and thus foreign exchange exposure is considered as minimal. The Group currently does not have a foreign currency hedging policy.

During the year ended 31 December 2007, if HK$ had strengthened/weakened by 5% against the RMB, with all other variable held constant, post-tax profit for the year would have been approximately HK$1,270,000 (2006: HK$1,656,000), higher or lower. At 31 December 2007, if HK$ had strengthened/ weakened by 5% against the RMB, equity would have been approximately HK$3,436,000 (2006: HK$4,071,000), lower or higher.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposures to changes in interest rates are mainly attributable to its borrowings.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 22.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk factors (Continued)

(ii) Interest rate risk (Continued)

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration of refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss and equity of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit or loss of a 80 basis-point shift would be a maximum increase/decrease of HK$151,000 (2006: HK$172,000) for the year ended 31 December 2007.

(iii) Price risk

The Group is not exposed to equity securities price risk and commodity price risk.

(iv) Credit risk

Credit risk is managed on a group basis. The Group's credit risk arises from cash and cash equivalents, restricted cash as well as credit exposures to trade and bills receivables. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade, bills and other receivables falls within the recorded allowances.

The table below shows the credit limit and balance of the five major debtors at 31 December 2007.

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk factors (Continued)

(iv) Credit risk (Continued)

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | **Credit limit** | **Utilised** | Credit limit | Utilised |
| Counterparty | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Advance Medical Designs Inc. | **12,000** | **8,879** | 12,000 | 11,085 |
| Guest Supply Europe Ltd. (Formerly called Guest International Ltd.) | **26,000** | **24,023** | 26,000 | 25,035 |
| Guest Supply LLC. | **18,000** | **12,947** | 12,000 | 10,491 |
| Lather Inc | **9,000** | **7,366** | 4,000 | 3,259 |
| Shangri-La International Hotel Management Limited | **10,000** | **6,909** | 8,000 | 7,699 |

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the counterparty's default history. The current portion of trade and bills receivables which are not impaired are analysed below:

| | As at 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| **Trade and bills receivables** | | |
| Customers accepted within the past 12 months | **4,712** | 7,374 |
| Customers accepted beyond the past 12 months | **88,584** | 78,223 |
| **Total** | **93,296** | 85,597 |
| **Cash and cash equivalents** | | |
| Cash at banks and bank deposits | | |
| Listed financial institutions | **534,597** | 42,221 |
| Unlisted financial institutions | **19** | 237 |
| | **534,616** | 42,458 |
| Cash on hand | **408** | 411 |
| **Total** | **535,024** | 42,869 |
| **Restricted cash** | | |
| Listed financial institutions | **32,526** | 16,095 |
| **Total** | **32,526** | 16,095 |

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Financial risk factors (Continued)

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash from operating activities and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in fundings by keeping committed credit lines available.

The table below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flows.

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | |
| Borrowings | 8,022 | – | – | – | 8,022 |
| Amounts due to shareholders | 32,686 | – | – | – | 32,686 |
| Amounts due to related parties | 34,994 | – | – | – | 34,994 |
| Trade and bills payables | 81,909 | – | – | – | 81,909 |
| Dividends payable | 24,000 | – | – | – | 24,000 |
| **At 31 December 2007** | | | | | |
| Borrowings | **52,192** | **–** | **–** | **–** | **52,192** |
| Trade and bills payables | **93,772** | **–** | **–** | **–** | **93,772** |

At 31 December 2007, the Group had the following borrowing facilities:

| | **As at 31 December** | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Borrowing facilities available | **37,529** | 58,850 |
| Borrowing facilities utilised | **(20,373)** | (6,764) |
| Undrawn borrowing facilities | **17,156** | 52,086 |

## 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated by dividing borrowings by total equity. Management consider a gearing ratio of not more than 30% as reasonable.

| | As at 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Borrowings | **52,192** | 8,022 |
| Total equity | **706,166** | 164,556 |
| Gearing ratio | **7.4%** | 4.9% |

### (c) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, trade and bills receivables, trade and bill payables, dividends payable, amounts due to shareholders/related parties and amount due from an associated company, short-term borrowings approximate their fair values due to their short maturities.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

The Group is subject to income taxes in Hong Kong, the PRC and Singapore. Significant judgement is required in determining the worldwide provision for income taxes. 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 period in which such determination is made.

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of any future management determination of relocation or renovation. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down non-strategic assets that have been abandoned or sold.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Critical judgements

Constructions on leased premises

Certain constructions or renovations expenditures of the Group are located on leased land and buildings in the PRC. The landlords named in the corresponding lease agreements have informed the Group that they are unable to produce proper land and building ownership certificates or to provide valid lease permits or other necessary permissions. However, based on the Group's past experiences and available information and after consultation with the Group's PRC legal advisor, the directors of the Company are of the view that this is unlikely to cause the interruption or termination of these leases or to have a material effect on the carrying values of the related assets of approximately HK$16,934,000 (2006: HK$16,668,000) as at 31 December 2007. Accordingly, no impairment for such assets is considered necessary to be made according to the Group's accounting policies.

If there were any dispute regarding the legal title of such properties occupied by the Group comes into question, the Group might have to vacate from such properties and relocate elsewhere. This might lead to additional expenses and/or business interruptions as a result of the relocation. Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Mr Liu Zigang and Ms. Chan Yim Ching (the "Major Shareholders") have undertaken to provide an indemnity in the Group's favour to reimburse any loss or damage that the Group may suffer as a result of such relocation.

## 6 SEGMENT INFORMATION

### (a) Primary reporting format-business segments

No business segment information of the Group is presented as the Group's revenue, expenses, assets and liabilities and capital expenditures are primarily attributable to the manufacture and sales of amenity products.

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Secondary reporting format-geographical segments

The Group primarily operates in Hong Kong and the PRC. The Group's turnover by geographical location is determined by the country in which the customer is located.

| | For the year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Turnover: | | |
| North America | **347,231** | 263,897 |
| Europe | **189,005** | 170,794 |
| PRC | **113,714** | 90,310 |
| Hong Kong | **98,172** | 75,327 |
| Other Asia Pacific countries[1] | **75,187** | 71,815 |
| Others[2] | **22,708** | 15,263 |
| | **846,017** | 687,406 |

*Notes:*

1. Other Asia Pacific countries mainly include Japan, United Arab Emirates, Thailand, Philippines, Malaysia and Singapore.

2. Others mainly include South Africa, Egypt, Morocco and Nigeria.

Total assets are allocated based on where the assets are located.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, deferred income tax assets, inventories, receivables, operating cash and restricted cash.

| | As at 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Total assets: | | |
| Hong Kong | **587,255** | 93,858 |
| PRC | **353,078** | 297,610 |
| Other Asia Pacific countries | **8,978** | 14,132 |
| | **949,311** | 405,600 |

Capital expenditure is allocated based on where the assets are located.

Capital expenditure comprises mainly additions to property, plant and equipment, leasehold land and land use rights and intangible assets.

## 6 SEGMENT INFORMATION (CONTINUED)

### (b) Secondary reporting format-geographical segments (Continued)

| | For the year ended 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Capital expenditure: | | |
| Hong Kong | **9,355** | 124 |
| PRC | **24,516** | 23,122 |
| Singapore | **11** | 538 |
| | **33,882** | 23,784 |

## 7 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments.

| | As at 31 December | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Opening net book amount | **7,605** | 4,531 |
| Additions | **5,586** | 3,797 |
| Amortisation | **(267)** | (928) |
| Exchange differences | **644** | 205 |
| Closing net book amount | **13,568** | 7,605 |
| In Hong Kong, held on: | | |
| Leases of between 10 to 50 years | **3,479** | 444 |
| In PRC, held on: | | |
| Leases of between 10 to 50 years | **8,657** | 5,812 |
| Leases of over 50 years | **1,432** | 1,349 |
| | **13,568** | 7,605 |

Amortisation of the Group's leasehold land and land use rights has been charged to cost of sales, distribution costs and administrative expenses in the consolidated income statement.

Bank borrowings are secured by certain leasehold land and land use rights with an aggregate carrying value of approximately HK$2,126,000 (2006: HK$2,019,000) as at 31 December 2007 (Note 22).

## 8 PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Furniture and fixtures HK$'000 | Computer equipment HK$'000 | Plant and machinery HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2006** | | | | | | | | |
| Cost | 51,108 | 36,635 | 4,559 | 1,400 | 3,591 | 37,959 | 34 | 135,286 |
| Accumulated depreciation | (7,246) | (6,628) | (1,819) | (1,004) | (2,453) | (13,303) | – | (32,453) |
| Net book amount | 43,862 | 30,007 | 2,740 | 396 | 1,138 | 24,656 | 34 | 102,833 |
| **Year ended 31 December 2006** | | | | | | | | |
| Opening net book amount | 43,862 | 30,007 | 2,740 | 396 | 1,138 | 24,656 | 34 | 102,833 |
| Additions | 5,070 | 306 | 1,270 | 432 | 570 | 10,436 | 1,859 | 19,943 |
| Transfer upon completion | – | 643 | – | – | – | 796 | (1,439) | – |
| Disposals | – | (29) | – | – | – | – | – | (29) |
| Depreciation | (3,304) | (4,620) | (1,000) | (352) | (771) | (6,979) | – | (17,026) |
| Exchange differences | 1,557 | 894 | 50 | 14 | 31 | 558 | 9 | 3,113 |
| Closing net book amount | 47,185 | 27,201 | 3,060 | 490 | 968 | 29,467 | 463 | 108,834 |
| **At 31 December 2006** | | | | | | | | |
| Cost | 58,056 | 38,730 | 5,917 | 1,866 | 4,192 | 49,568 | 463 | 158,792 |
| Accumulated depreciation | (10,871) | (11,529) | (2,857) | (1,376) | (3,224) | (20,101) | – | (49,958) |
| Net book amount | 47,185 | 27,201 | 3,060 | 490 | 968 | 29,467 | 463 | 108,834 |
| **Year ended 31 December 2007** | | | | | | | | |
| Opening net book amount | 47,185 | 27,201 | 3,060 | 490 | 968 | 29,467 | 463 | 108,834 |
| Additions | 5,931 | 3,756 | 1,538 | 1,575 | 1,794 | 11,557 | 2,145 | 28,296 |
| Transfer upon completion | – | 1,987 | – | 49 | – | – | (2,036) | – |
| Disposals | – | – | (68) | – | (8) | (20) | – | (96) |
| Depreciation | (3,158) | (3,615) | (1,213) | (294) | (907) | (8,552) | – | (17,739) |
| Exchange differences | 3,636 | 1,899 | 142 | 58 | 95 | 1,633 | 40 | 7,503 |
| Closing net book amount | 53,594 | 31,228 | 3,459 | 1,878 | 1,942 | 34,085 | 612 | 126,798 |
| **At 31 December 2007** | | | | | | | | |
| Cost | 68,572 | 47,291 | 7,638 | 3,649 | 6,186 | 63,349 | 612 | 197,297 |
| Accumulated depreciation | (14,978) | (16,063) | (4,179) | (1,771) | (4,244) | (29,264) | – | (70,499) |
| Net book amount | 53,594 | 31,228 | 3,459 | 1,878 | 1,942 | 34,085 | 612 | 126,798 |

## 8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of the Group's property, plant and equipment has been charged to the consolidated income statement as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Cost of sales | 13,140 | 12,463 |
| Distribution costs | 3,000 | 2,650 |
| Administrative expenses | 1,599 | 1,913 |
| | 17,739 | 17,026 |

Bank borrowings are secured by certain property, plant and equipment with an aggregate carrying value of approximately HK$28,463,000 (2006: HK$28,132,000) as at 31 December 2007 (Note 22).

## 9 INTANGIBLE ASSETS

| | Trademarks<br>HK$'000 | Investment in club debentures<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| **At 1 January 2006** | | | |
| Cost | 30 | 968 | 998 |
| Accumulated amortisation | (6) | (201) | (207) |
| Net book amount | 24 | 767 | 791 |
| **Year ended 31 December 2006** | | | |
| Opening net book amount | 24 | 767 | 791 |
| Additions | 44 | – | 44 |
| Amortisation | (7) | (97) | (104) |
| Closing net book amount | 61 | 670 | 731 |
| **At 31 December 2006** | | | |
| Cost | 74 | 968 | 1,042 |
| Accumulated amortisation | (13) | (298) | (311) |
| Net book amount | 61 | 670 | 731 |

## 9 INTANGIBLE ASSETS (CONTINUED)

| | Trademarks HK$'000 | Investment in club debentures HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2007** | | | |
| Opening net book amount | 61 | 670 | 731 |
| Amortisation | (7) | (97) | (104) |
| Closing net book amount | 54 | 573 | 627 |
| **At 31 December 2007** | | | |
| Cost | 74 | 968 | 1,042 |
| Accumulated amortisation | (20) | (395) | (415) |
| Net book amount | 54 | 573 | 627 |

Amortisation of the Group's intangible assets has been charged to administrative expenses in the consolidated income statement.

## 10 INVESTMENT IN AN ASSOCIATED COMPANY

### (a) Investment in an associated company

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Beginning of the year | 120 | – |
| Acquisition of an associated company | – | 108 |
| Share of profit for the year | 35 | 12 |
| End of the year | 155 | 120 |

On 22 March 2006, the Group acquired 50% of the equity interest in Quality Amenities Supply (M) Sdn. Bhd. at a consideration of 50,000 Malaysian Ringgit ("MYR") (equivalent to approximately HK$108,000).

## 10 INVESTMENT IN AN ASSOCIATED COMPANY (CONTINUED)

### (a) Investment in an associated company (Continued)

The Group's interest in its unlisted associated company was as follows:

| | | | | 31 December 2007 | | | | 31 December 2006 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Particulars of issued shares held | Country of incorporation | % Interest held | Assets | Liabilities | Revenue | Profit | Assets | Liabilities | Revenue | Profit |
| | | | | MYR | MYR | MYR | MYR | MYR | MYR | MYR | MYR |
| Quality Amenities Supply (M) Sdn. Bhd. | 50,000 | Malaysia | 50% | 197,000 | 130,000 | 145,000 | 15,000 | 177,000 | 121,000 | 87,000 | 5,000 |

### (b) Amount due from an associated company

The amount due from an associated company is denominated in MYR, unsecured, interest free and repayable on demand. The carrying value of this asset approximates its fair value.

The amount due from an associated company is neither past due nor impaired.

## 11 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Deferred income tax assets | | |
| – Deferred income tax assets to be realised after more than twelve months | 5,276 | 2,800 |
| Deferred income tax liabilities | | |
| – Deferred income tax liabilities to be settled after more than twelve months | (322) | (345) |
| Deferred tax assets, net | 4,954 | 2,455 |

The net movement on the deferred income tax account is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| At beginning of the year | 2,455 | 1,479 |
| Recognised in the consolidated income statement *(Note 29)* | 2,198 | 892 |
| Exchange differences | 301 | 84 |
| At end of the year | 4,954 | 2,455 |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

| | Accelerated tax depreciation HK$'000 |
|---|---|
| At 1 January 2006 | (493) |
| Recognised in the consolidated income statement | 89 |
| Exchange differences | (2) |
| At 31 December 2006 | (406) |
| Recognised in the consolidated income statement | (55) |
| Exchange differences | (8) |
| **At 31 December 2007** | **(469)** |

## 11 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets

| | Decelerated tax depreciation HK$'000 | Provision of assets HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2006 | 1,358 | 614 | 1,972 |
| Recognised in the consolidated income statement | 273 | 530 | 803 |
| Exchange differences | 53 | 33 | 86 |
| At 31 December 2006 | 1,684 | 1,177 | 2,861 |
| Recognised in the consolidated income statement | 1,577 | 676 | 2,253 |
| Exchange differences | 193 | 116 | 309 |
| **At 31 December 2007** | **3,454** | **1,969** | **5,423** |

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law increases the corporate income tax rate for foreign invested enterprises from 15% to 25% with effect from 1 January 2008. As a result of the new CIT Law, the carrying value of deferred tax assets has been written up by HK$ 1,910,000 during the year ended 31 December 2007.

## 12 INVENTORIES

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Raw materials | **29,265** | 25,432 |
| Work in progress | **920** | 1,192 |
| Finished goods | **27,952** | 34,132 |
| | **58,137** | 60,756 |
| Less: Provision for obsolete inventories | **(3,758)** | (4,927) |
| Inventories, net | **54,379** | 55,829 |

The cost of inventories included in cost of sales during the year amounted to approximately HK$434,041,000 (2006: HK$362,245,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK$3,758,000 (2006: HK$4,927,000) as at 31 December 2007. Full provision has been made with regard to these balances.

## 13 TRADE AND BILLS RECEIVABLES

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Trade receivables | **154,447** | 150,628 |
| Bills receivables | **11,808** | 11,018 |
| | **166,255** | 161,646 |
| Less: provision for impairment of receivables | **(4,196)** | (3,010) |
| Trade and bills receivables, net | **162,059** | 158,636 |

Ageing analysis of trade and bills receivables as at 31 December 2007 is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Current | **93,296** | 85,597 |
| 1-30 days | **40,681** | 44,847 |
| 31-60 days | **17,927** | 17,389 |
| 61-90 days | **6,538** | 7,528 |
| 91-180 days | **3,983** | 2,726 |
| Over 180 days | **3,830** | 3,559 |
| | **166,255** | 161,646 |
| Denominated in: | | |
| – US$ | **99,631** | 108,468 |
| – RMB | **35,733** | 26,897 |
| – HK$ | **25,810** | 21,268 |
| – Other currencies | **5,081** | 5,013 |
| | **166,255** | 161,646 |

The fair values of trade and bills receivables are as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Trade and bills receivables | **162,059** | 158,636 |

The credit period granted by the Group ranges from 30 to 120 days.

## 13 TRADE AND BILLS RECEIVABLES (CONTINUED)

As at 31 December 2007, trade and bills receivables of approximately HK$4,196,000 (2006: HK$3,010,000) were impaired and have been provided for. The individually impaired receivables mainly represent sales made to PRC customers which have remained long overdue.

As at 31 December 2007, trade and bills receivables of approximately HK$68,763,000 (2006: HK$73,039,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Up to 90 days | 65,102 | 69,711 |
| 91 to 180 days | 3,504 | 2,481 |
| Over 180 days | 157 | 847 |
| | 68,763 | 73,039 |

Movements on the provision for impairment of trade and bills receivables are as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| At beginning of the year | 3,010 | 1,551 |
| Add: provision for impairment of receivables | 1,186 | 1,459 |
| At end of the year | 4,196 | 3,010 |

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the fair values of trade and bills receivables disclosed above.

## 14 AMOUNTS DUE TO RELATED PARTIES

The amounts are denominated in HK$, US$ and RMB, unsecured, interest free and repayable upon demand. The carrying values of these balances approximate their fair values. The balances were fully settled during the current year.

## 15 AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are denominated in HK$ and RMB. Other than interest bearing loans from shareholders of approximately HK$4,000,000 as at 31 December 2006, amounts due to shareholders are unsecured, interest free and are repayable upon demand. The interest bearing loans are unsecured, bear interest at 2.5% per annum. The carrying values of these balances approximate their fair values. The balances were fully settled during the current year.

## 16 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company |
|---|---|---|---|
| | **2007** | 2006 | **2007** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Deposits | **214** | 279 | **–** |
| Prepayments | **10,026** | 5,038 | **257** |
| Other receivables | **8,313** | 6,280 | **619** |
| | **18,553** | 11,597 | **876** |
| The fair values are as follows: | | | |
| Deposits | **214** | 279 | **–** |
| Prepayments | **10,026** | 5,038 | **257** |
| Other receivables | **8,313** | 6,280 | **619** |
| | **18,553** | 11,597 | **876** |
| Denominated in: | | | |
| HK$ | **1,704** | 1,331 | **847** |
| RMB | **14,877** | 9,684 | **–** |
| US$ | **1,722** | 516 | **29** |
| Other currencies | **250** | 66 | **–** |
| | **18,553** | 11,597 | **876** |

## 17 RESTRICTED CASH

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Restricted cash | 32,526 | 16,095 |
| Denominated in: | | |
| – HK$ | – | 15,969 |
| – RMB | 32,390 | – |
| – SG$ | 136 | 126 |
| | 32,526 | 16,095 |

Restricted cash as at 31 December 2006 represents mandatory reserve deposit placed in banks as pledges against facilities granted.

The RMB denominated balances as at 31 December 2007 represent fixed terms deposits placed in a commercial bank in the PRC by one of the subsidiaries of the Group, as pledged against the US$ denominated loans drawn from the bank. Please refer to Note 22 "Borrowings" for further details of the arrangement. The weighted average effective interest rate per annum on restricted cash was 3.04% as at 31 December 2007 (2006: 3.53%).

## 18 CASH AND CASH EQUIVALENTS

| | Group | | Company |
|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 |
| Cash at banks and on hand | 122,888 | 31,477 | 16,642 |
| Bank deposit | 412,136 | 11,392 | 401,120 |
| | 535,024 | 42,869 | 417,762 |
| Denominated in: | | | |
| – HK$ | 439,474 | 11,775 | 417,762 |
| – RMB | 11,176 | 9,649 | – |
| – US$ | 81,586 | 19,477 | – |
| – Other currencies | 2,788 | 1,968 | – |
| | 535,024 | 42,869 | 417,762 |

The effective interest rate on short-term bank deposit was 3.26% (2006: 4.11%) per annum as at 31 December 2007, the deposit has an average maturity of 26 days (2006: 16 days).

## 18 CASH AND CASH EQUIVALENTS (CONTINUED)

The Group's cash and bank balances denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Cash and cash equivalents include the following for the purposes of the consolidated cash flow statement:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Cash and bank balances | **535,024** | 42,869 |

## 19 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE TO SUBSIDIARIES

### (a) Investment in a subsidiary

| | **2007** |
|---|---|
| | **HK$'000** |
| Investment, at cost | **228,647** |

As at 31 December 2007, the Company had direct and indirect interests in the following principal subsidiaries:

| Name of company | Place of incorporation and kind of legal entity | Principal activities and place of operation | Issued/paid-in capital | Attributable equity Directly held by the Company | Attributable equity Indirectly held by the Company |
|---|---|---|---|---|---|
| Ming Fai Holdings Limited | British Virgin Islands, limited liability company | Investment holding; Hong Kong | US$2 | 100% | - |
| Ming Fai Plastic Enterprise Company Limited | Hong Kong, limited liability company | Investment holding; Hong Kong | HK$10,000 | - | 100% |
| Pacific Harvest International Limited | Hong Kong, limited liability company | Investment holding; Hong Kong | HK$5,000,000 | - | 100% |
| Quality Amenities Supply Limited | Hong Kong, limited liability company | Trading of amenity products and accessories; Hong Kong | HK$1,000,000 | - | 100% |
| Ming Fai Asia Pacific Company Limited | Hong Kong, limited liability company | Trading of amenity products and accessories; Hong Kong | HK$10,000,000 | - | 100% |
| Ming Fai Enterprise International Company Limited | Hong Kong, limited liability company | Trading of amenity products and accessories; Hong Kong | HK$3 | - | 100% |
| Ming Fai Enterprise (Shenzhen) Company Limited (明輝實業(深圳)有限公司) | PRC, limited liability company | Manufacturing and sales of amenity products and accessories; PRC | HK$50,000,000 | - | 100% |

## 19 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE TO SUBSIDIARIES (CONTINUED)

### (a) Investment in a subsidiary (Continued)

| Name of company | Place of incorporation and kind of legal entity | Principal activities and place of operation | Issued/paid-in capital | Attributable equity Directly held by the Company | Attributable equity Indirectly held by the Company |
|---|---|---|---|---|---|
| Quality Amenities Supply Pte. Ltd | Singapore, limited liability company | Trading of amenity products and accessories; Singapore | SG$2 | - | 100% |
| Luoding Quality Amenities Company Limited 羅定市品質旅遊用品有限公司 | PRC, limited liability company | Manufacturing and sales of amenity products and accessories; PRC | US$2,000,000 | - | 100% |
| Good Corporation Limited | Hong Kong, limited liability company | Trading of amenity products and accessories; Hong Kong | HK$10,000 | - | 100% |

### (b) Amounts due to subsidiaries

The amounts due are denominated in HK$ and US$, unsecured, interest free and are repayable upon demand. The carrying values of these balances approximate their fair values.

## 20 RESERVES

### (a) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

### (b) Statutory reserve fund

Under the relevant PRC laws and regulations, PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

## 20 RESERVES (CONTINUED)

### (c) Equity movement of the Company

| | Share capital HK$'000 | Share premium HK$'000 | Other reserve (Note a) HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Balance at 29 May 2007, date of incorporation *(Note 21 (a))* | – | – | – | – | – |
| Ordinary shares issued *(Note 21 (a))* | – | – | – | – | – |
| Issue of ordinary shares in respect of Reorganisation *(Note 21 (c))* | 1,000 | – | 227,647 | – | 228,647 |
| Capitalisation for issuance of new shares *(Note 21(d))* | 3,500 | – | (3,500) | – | – |
| Issue of ordinary shares, net of issuing expense of approximately HK$37,258,000 *(Note 21(e))* | 1,500 | 408,242 | – | – | 409,742 |
| Profit for the period *(Note 30)* | – | – | – | 3,413 | 3,413 |
| Balance at 31 December 2007 | 6,000 | 408,242 | 224,147 | 3,413 | 641,802 |
| Representing: | | | | | |
| Share capital and reserves | | | | | 591,402 |
| Proposed final dividend *(Note 32)* | | | | | 50,400 |
| Balance at 31 December 2007 | | | | | 641,802 |

## 21 SHARE CAPITAL

| | Number of shares | Approximate amount HK$'000 |
|---|---|---|
| Authorised: | | |
| As at 29 May 2007, date of incorporation *(Note (a))* | 36,000,000 | 360 |
| Increase in authorised share capital *(Note (b))* | 9,964,000,000 | 99,640 |
| As at 31 December 2007 | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| As at 29 May 2007, date of incorporation *(Note (a))* | 1 | – |
| Ordinary shares issued *(Note (a))* | 1 | – |
| Issue of ordinary shares in respect of Reorganisation *(Note (c))* | 99,999,998 | 1,000 |
| Capitalisation for issuance of new shares *(Note (d))* | 350,000,000 | 3,500 |
| Issue of ordinary shares for initial public offerings *(Note (e))* | 150,000,000 | 1,500 |
| As at 31 December 2007 | 600,000,000 | 6,000 |

## 21 SHARE CAPITAL (CONTINUED)

*Notes:*

(a) The Company was incorporated on 29 May 2007 with an authorised share capital of HK$360,000 divided by 36,000,000 ordinary shares of HK$0.01 each. On 29 May 2007, one subscriber's share was issued at par to the initial subscriber of the Company, which was subsequently transferred to one of the Major Shareholders of the Group. On 15 June 2007, one additional share was issued at par to another Major Shareholders of the Group.

(b) On 5 October 2007, the authorised share capital was increased to HK$100,000,000 which was approved by the board of Directors (the "Board") on the same date.

(c) On 5 October 2007, the Company issued 99,999,998 shares to acquire the entire issued share capital of Ming Fai Holdings Limited through a share swap and became the holding company of the companies comprising the Group.

(d) Pursuant to a written resolution on 5 October 2007, the Company alloted and issued a total of 350,000,000 shares credited as fully paid at par to the then shareholders of the Company at the close of business on 10 October 2007 in proportion to their respective shareholdings by way of capitalisation of the sum of HK$3,500,000, conditional on the initial public offerings of the Company's shares in Hong Kong.

(e) On 2 November 2007, a total number of 150,000,000 shares were issued to the public at HK$2.98 per share for cash totaling approximately HK$ 447,000,000. The excess of the issue price over the par value of the shares, net of share issuing expenses of HK$37,258,000, was debited to the share premium account of the Company.

## 22 BORROWINGS

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Current | | |
| Current portion of long-term bank loans | **–** | 5,764 |
| Short-term bank loans | **52,192** | 2,258 |
| Total bank borrowings | **52,192** | 8,022 |
| Representing: | | |
| Unsecured | **–** | 1,258 |
| Secured | **52,192** | 6,764 |
| | **52,192** | 8,022 |

As at 31 December 2007, borrowings drawn in the PRC were secured by the Group's leasehold land and land use rights with net carrying value of approximately HK$2,126,000 (2006: HK$2,019,000) (Note 7) and property, plant and equipment with net carrying value of approximately HK$28,463,000 (2006: HK$28,132,000) (Note 8). As at 31 December 2006, bank overdrafts and the remaining borrowings were secured by restricted cash (Note 17).

## 22 BORROWINGS (CONTINUED)

On 11 September, 14 September and 13 December 2007, a subsidiary of the Group has entered into arrangements with a bank in the PRC. Under these arrangements, borrowings denominated in US$ of approximately US$1,019,000, US$1,108,000 and US$1,935,000, with maturities of 12 months, 12 months and 3 months, respectively, were drawn. Simultaneously, RMB equivalent amounts in the forms of fixed term deposits and having same maturities with the US$ loans, were placed with the bank. These RMB deposits were used to pledge against the loans. The parties have agreed to use the RMB deposits for repayment of the US$ loans at forward exchange rates specified in the arrangements upon maturities. Forward contracts are initially recognised at fair values at inception and are subsequently remeasured at their fair values. Changes in fair values of the forward contracts are recognised in the income statement.

The Group's borrowings are all denominated in RMB and US$ and repayable as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Within one year: | | |
| – HK$ | **–** | 8,022 |
| – RMB | **20,373** | – |
| – US$ | **31,819** | – |
| | **52,192** | 8,022 |

The weighted average effective interest rate per annum of the Group's borrowings at 31 December 2007 is set out as follows:

| | **2007** | 2006 |
|---|---|---|
| Total borrowings: | | |
| – HK$ | **–** | 6.06% |
| – RMB | **7.41%** | – |
| – US$ | **6.52%** | – |

The carrying amounts of current portion of long-term bank borrowings and short-term bank borrowings approximate their fair values as the impact of discounting is not significant.

At the balance sheet date, the Group had the following undrawn borrowing facilities:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Floating rate | | |
| – Expiring within one year | **17,156** | 52,086 |

## 23 TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Current | **69,644** | 58,791 |
| 1-30 days | **20,568** | 20,804 |
| 31-60 days | **579** | 1,680 |
| 61-90 days | **464** | 200 |
| Over 90 days | **2,517** | 434 |
| | **93,772** | 81,909 |
| Denominated in: | | |
| – HK$ | **18,796** | 49,575 |
| – RMB | **63,903** | 21,595 |
| – US$ | **11,047** | 10,599 |
| – Other currencies | **26** | 140 |
| | **93,772** | 81,909 |

## 24 EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are presented as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Changes in inventories | **434,041** | 362,245 |
| Auditors' remuneration | **1,483** | 152 |
| Amortisation of leasehold land and land use rights *(Note 7)* | **267** | 928 |
| Depreciation of property, plant and equipment *(Note 8)* | **17,739** | 17,026 |
| Amortisation of intangible assets *(Note 9)* | **104** | 104 |
| Operating lease rental in respect of buildings | **2,137** | 1,328 |
| (Write-back of)/Provision for obsolete inventories | **(1,169)** | 3,030 |
| Provision for impairment of trade and bills receivables *(Note 13)* | **1,186** | 1,459 |
| Employee benefit expenses *(Note 26)* | **119,860** | 99,761 |
| Transportation expenses | **27,677** | 20,815 |
| Exchange losses | **5,664** | 4,786 |
| Advertising costs | **1,746** | 1,704 |
| Loss on disposal of property, plant and equipment | **59** | – |

## 25 OTHER INCOME

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest income | **4,985** | 743 |
| Gain on disposal of property, plant and equipment | **–** | 36 |
| Income from sales of scrap materials | **1,107** | 838 |
| | **6,092** | 1,617 |

## 26 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Salaries, wages and bonuses | **100,451** | 85,383 |
| Pension costs-defined contribution plans | **592** | 473 |
| Welfare and other expenses | **18,817** | 13,905 |
| | **119,860** | 99,761 |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to directors of the Company by the Group are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Fees | **891** | – |
| Basic salaries, housing allowances, other allowances and benefits-in-kind | **4,984** | 5,174 |
| Contributions to pension plans | **88** | 89 |
| | **5,963** | 5,263 |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (a) Directors' emoluments (Continued)

The emoluments of every director for the year ended 31 December 2007 is as follows:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Ching Chi Fai | 120 | 1,106 | 150 | 12 | 1,388 |
| Mr. Ching Chau Chung | 120 | 1,106 | 150 | 12 | 1,388 |
| Mr. Ching Chi Keung | 120 | 412 | 99 | 12 | 643 |
| Mr. Liu Zigang | 76 | 87 | 10 | 16 | 189 |
| Mr. Lee King Hay | 120 | 295 | 104 | 12 | 531 |
| Ms. Chan Yim Ching | 120 | 546 | 88 | 12 | 766 |
| Ms. Chan Wing | 120 | 751 | 80 | 12 | 963 |
| **Independent non-executive directors** | | | | | |
| Mr. Hung Kam Hung | 25 | – | – | – | 25 |
| Mr. Ma Chun Fung | 25 | – | – | – | 25 |
| Mr. Sun Kai Lit | 25 | – | – | – | 25 |
| **Non-executive director** | | | | | |
| Mr. Ng Bo Kwong | 20 | – | – | – | 20 |
| Total | 891 | 4,303 | 681 | 88 | 5,963 |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (a) Directors' emoluments (Continued)

The emoluments of every director for the year ended 31 December 2006 is as follows:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Ching Chi Fai | - | 1,226 | 150 | 12 | 1,388 |
| Mr. Ching Chau Chung | - | 1,226 | 150 | 12 | 1,388 |
| Mr. Ching Chi Keung | - | 503 | 99 | 12 | 614 |
| Mr. Liu Zigang | - | 70 | 116 | 21 | 207 |
| Mr. Lee King Hay | - | 357 | 104 | 12 | 473 |
| Ms. Chan Yim Ching | - | 640 | 88 | 12 | 740 |
| Ms. Chan Wing | - | 365 | 80 | 8 | 453 |
| Total | - | 4,387 | 787 | 89 | 5,263 |

None of the directors waived any emoluments during the year.

The emoluments of the directors fall within the following bands:

| | Number of individuals 2007 | 2006 |
|---|---|---|
| Nil to HK$1,000,000 | 9 | 5 |
| HK$1,000,001 to HK$1,500,000 | 2 | 2 |

## 27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2007 include four directors (2006: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 674 | 672 |
| Contributions to pension plans | 12 | 12 |
| | 686 | 684 |

The emoluments of the remaining individual fall within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2007 | 2006 |
| Nil to HK$1,000,000 | 1 | 1 |

**(c)** No emoluments have been paid to the individual or the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2007 (2006: Nil).

## 28 FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on bank borrowings and overdrafts – wholly repayable within five years | 1,652 | 1,716 |
| Interest on loans from shareholders – wholly repayable within five years | 69 | 40 |
| | 1,721 | 1,756 |

## 29 INCOME TAX EXPENSES

The amount of income tax expenses charged to the consolidated income statement represents:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Current income tax: | | |
| – Hong Kong profits tax | 31,407 | 13,765 |
| – PRC enterprise income tax | 91 | 5,358 |
| – Singapore income tax | 810 | 475 |
| | 32,308 | 19,598 |
| Deferred income tax *(Note 11)* | (2,198) | (892) |
| | 30,110 | 18,706 |

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31 December 2007.

In pursuant to the Income Tax Law for Foreign Invested Enterprises and Foreign Owned Enterprise, Ming Fai Enterprise Industrial (Shenzhen) Company Limited is eligible to enjoy a preferential enterprise income tax rate of 15%. Ming Fai Enterprise Industrial (Shenzhen) Company Limited is entitled to a further tax rate reduction to 10% should its export sales exceed 70% of its revenue. As at the date of this report, since Ming Fai Enterprise Industrial (Shenzhen) Company Limited has not yet obtained all the necessary approval from the relevant government bodies on the afore-mentioned tax benefits, the applicable enterprise income tax rate of Ming Fai Enterprise Industrial (Shenzhen) Company Limited remains at 15%.

The applicable enterprise income tax rate of Luoding Quality Amenities Supply Limited is 33%. Luoding Quality Amenities Supply Limited is eligible for enterprise income tax exemption for two years starting from 2008, followed by a 50% reduction in enterprise income tax rate in the next three years. Luoding Quality Amenities Supply Limited was in a net loss position for the years ended 31 December 2006 and 2007.

Corporate tax in Singapore has been provided at the rate of 18% (2006: 20%) on the estimated assessable profit for the year ended 31 December 2007.

## 29 INCOME TAX EXPENSES (CONTINUED)

The difference between the actual income tax charged to the consolidated income statement and the amounts which would result from applying the enacted tax rates to profit before income tax can be reconciled as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Profit before income tax | 156,042 | 111,060 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 27,755 | 16,800 |
| Income not subject to tax | (884) | (134) |
| Expenses not deductible for tax purposes | 3,299 | 1,946 |
| Utilisation of previously unrecognised tax losses | (82) | (116) |
| Tax losses for which no deferred income tax asset was recognised | 22 | 210 |
| Tax charge | 30,110 | 18,706 |

The weighted average applicable tax rate was 18% (2006: 15%) per annum for the year ended 31 December 2007.

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxation profits is probable. The Group has unrecognised tax losses of approximately HK$529,000 (2006: HK$652,000) as at 31 December 2007 to carry forward against future taxable income. These tax losses expire in the following years:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| In the first to fifth years inclusive | 466 | 621 |
| No expiry date | 63 | 31 |
| | 529 | 652 |

## 30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$3,413,000.

## 31 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 125,932 | 92,354 |
| Weighted average number of ordinary shares in issue (thousands) | 474,658 | 450,000 |
| Basic earnings per share (HK$ per share) | 0.27 | 0.21 |

In determining the weighted average number of ordinary shares in issue, a total of 450,000,000 ordinary shares were deemed to be in issue since 1 January 2006.

### (b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2007 and 31 December 2006.

## 32 DIVIDENDS

A dividend in respect of the year ended 31 December 2007 of HK$0.084 per share, amounting to a total dividend of HK$50,400,000, is proposed on 29 February 2008, which is subject to approval at the Annual General Meeting to be held on 10 April 2008. These financial statements do not reflect this dividend payable.

| | | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| (a) | Dividend attributable to the previous year, approved and paid by Ming Fai Asia Pacific Company Limited ("MFAP"), a wholly owned subsidiary of the Company, to its then shareholder during the year: | | |
| | 2005 final, paid, of HK$1 per ordinary share *(Note i)* | – | 10,000 |
| (b) | Dividend attributable to the previous year, approved and paid by Ming Fai Enterprise International Company Limited ("MFEI"), a wholly owned subsidiary of the Company, to its then shareholder during the year: | | |
| | 2006 interim, paid, of HK$5,000,000 per ordinary share *(Note ii)* | – | 15,000 |
| | 2006 final, paid, of HK$8,000,000 per ordinary share *(Note ii)* | – | 24,000 |
| (c) | Dividend declared by the Company: | | |
| | Proposed final dividend of HK$0.084 per ordinary share *(Note iii)* | **50,400** | – |
| | | **50,400** | 49,000 |

*Notes:*

(i) The number of MFAP's shares in issue at the time of payment of the 2005 final dividend was 10,000,000 shares.

(ii) The number of MFEI's shares in issue at the time of payment of the 2006 interim and final dividend was 3 shares.

(iiii) At a meeting held on 29 February 2008, the Directors proposed a final dividend of HK$0.084 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

## 33 NOTE TO CONSOLIDATED CASH FLOW STATEMENTS

### (a) Reconciliation of profit before income tax for the year to cash generated from operating activities

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Profit before income tax | 156,042 | 111,060 |
| Adjustments for: | | |
| – Amortisation of leasehold land and land use rights | 267 | 928 |
| – Depreciation of property, plant and equipment | 17,739 | 17,026 |
| – Amortisation of intangible assets | 104 | 104 |
| – Loss/(gain) on disposal of property, plant and equipment | 59 | (36) |
| – Interest income | (4,985) | (743) |
| – Interest expense | 1,721 | 1,756 |
| – (Write-back of)/provision for obsolete inventories | (1,169) | 3,030 |
| – Provision for impairment of trade and bills receivables | 1,186 | 1,459 |
| – Share of profit of an associated company | (35) | (12) |
| Changes in working capital: | | |
| – Inventories | 2,619 | (15,034) |
| – Trade and bills receivables | (4,609) | (58,321) |
| – Deposits, prepayments and other receivables | (6,956) | (5,301) |
| – Trade and bills payables | 11,863 | 18,483 |
| – Accruals and other payables | 28,976 | 15,779 |
| – Amounts due to related parties | (7,414) | 670 |
| – Amount due from an associated company | 138 | (484) |
| Cash generated from operations | 195,546 | 90,364 |

### (b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Net book amount: | | |
| – Property, plant and equipment | 96 | 29 |
| (Loss)/gain on disposal of property, plant and equipment | (59) | 36 |
| Proceeds from disposal of property, plant and equipment | 37 | 65 |

## 33 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

### (c) Analysis of changes in financing during the year

Bank borrowings

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Beginning of the year | 8,022 | 28,557 |
| Proceeds from borrowings | 80,223 | 29,452 |
| Repayments of borrowings | (36,053) | (49,987) |
| End of the year | 52,192 | 8,022 |

## 34 COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted by the Group at the balance sheet date but not yet provided for is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Property, plant and equipment | 1,754 | 247 |

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases of the Group are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| No later than one year | 608 | 763 |
| Later than one year and no later than five years | 385 | 948 |
| | 993 | 1,711 |

A subsidiary of the Group has entered into management consultancy services agreements on 3 August 2006, 12 April 2007 and 9 July 2007, respectively with Advance Management Consultants Limited, a company controlled by Mr. Ng Bo Kwong, who has been appointed as an non-executive director of the Group. As at 31 December 2007, the total commitment entered into with regard to such services amounted to HK$33,000 (2006: HK$200,000).

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling parties of the Group are Mr. Ching Chi Fai, Mr. Ching Chau Chung, Mr. Ching Chi Keung, Mr. Liu Zigang and Ms. Chan Yim Ching.

### (a) Significant related party transactions

The Group has carried out significant transactions with the following related parties:

| Name of related party | Principal business activities | Relationship with the Group |
|---|---|---|
| Liu Zigang | Not applicable | Shareholder of the Group |
| Ching Chi Keung | Not applicable | Shareholder of the Group |
| AMF Supply, Inc. | Trading of hotel amenities and accessories (Dissolved on 4 June 2007) | Company controlled by Ching Chi Fai, Ching Chau Chung and Ching Chi Keung |
| Ming Fai Plastic Industrial Company | Manufacturing of plastic products (Ceased manufacturing of plastic products since April 2003) | Partnership owned by Ching Chi Fai, Ching Chau Chung and Ching Chi Keung |
| Quality Amenities Supply (M) Sdn. Bhd. | Trading of hotel amenities and accessories | Associated company of the Group |
| Advance Management Consultants Limited | Provision of consultancy services | Company owned by Ng Bo Kwong |

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Significant related party transactions (Continued)

The Group had the following significant transactions with related parties:

| | | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| (i) | Sales of goods | | |
| | – to Quality Amenities Supply (M) Sdn. Bhd. | **147** | 33 |
| (ii) | Rental charged | | |
| | – by Ming Fai Plastic Industrial Company | **753** | 1,387 |
| | – by Liu Zigang | **136** | 211 |
| (iii) | Purchase of assets and services rendered from | | |
| | – Trademarks from AMF Supply, Inc. | **–** | 43 |
| | – Marketing service from AMF Supply, Inc. | **442** | 1,234 |
| | – A property from Ching Chi Keung | **900** | – |
| | – Consultancy service from Advance Management Consultants Limited | **231** | – |
| | – Freight and administrative charge from Quality Amenities Supply (M) Sdn. Bhd | **671** | – |

Sales of goods are transacted at normal commercial terms that are consistently applied to all customers.

Purchase of a property is transacted at normal commercial terms.

Purchases of assets and services are transacted at normal commercial terms that are consistently applied to all customers of the related companies.

The Group leased certain properties from Ming Fai Plastic Industrial Company as one of its production bases in the PRC. The transaction is carried out at normal commercial terms.

The Group leased two office premises in the PRC from Liu Zigang. The transactions are carried out at normal commercial terms.

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Key management compensation

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | **7,315** | 6,550 |
| Contributions to pension plans | **135** | 134 |
| | **7,450** | 6,684 |

### (c) Year end balances arising from sales/purchase of goods/assets/services

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Amounts due to | | |
| – Ever-rich (Group) Limited | **–** | 5,535 |
| – Ming Fai Plastic Industrial Company | **–** | 1,879 |
| – Quality Amenities Supply (M) Sdn. Bhd | **138** | – |

### (d) Loans from shareholders/related parties and loan to an associated company

(i) Loans from shareholders

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Beginning of the year | **32,686** | 19,185 |
| Loans drawn during the year | **5,635** | 19,933 |
| Repayments during the year | **(38,602)** | (6,730) |
| Interest expense | **69** | 40 |
| Interest paid during the year | **(69)** | (40) |
| Exchange differences | **281** | 298 |
| End of the year | **–** | 32,686 |

## 35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Loans from shareholders/related parties and loan to an associated company (Continued)

(ii) Loans from related parties

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Beginning of the year | 27,580 | 24,548 |
| Loans drawn during the year | 15,000 | 9,308 |
| Repayments during the year | (44,324) | (8,601) |
| Exchange differences | 1,744 | 2,325 |
| End of the year | – | 27,580 |

(iii) Loan to an associated company

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Beginning of the year | 484 | – |
| Loan advanced during the year | – | 484 |
| End of the year | 484 | 484 |

### (e) Shareholders' indemnity

In June 2007, the Food and Drug Administration of the United States ("FDA") issued a warning and import alert regarding toothpaste containing DEG, manufactured in China. Subsequently in August 2007, one of the Group's distributor customers in the United States made a press release on the FDA website alleging that certain toothpaste supplied by the Group was found to contain DEG, and a voluntary recall of the toothpaste has been conducted in cooperation with the FDA accordingly. For the year ended 31 December 2007, the Group made a provision of HK$3.9 million to cover the potential loss arising from this toothpaste issue. Should the potential loss exceed the existing provision amount, the shortfall will be covered by the indemnity provided by the Major Shareholders.

# FINANCIAL SUMMARY

## COMBINED RESULTS

Year ended 31 December

| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
|---|---|---|---|---|
| Revenue | 350,717 | 507,387 | 687,406 | **846,017** |
| Profit before income tax | 35,990 | 68,501 | 111,060 | **156,042** |
| Income tax expenses | (9,533) | (13,499) | (18,706) | **(30,110)** |
| Profit for ther year attributable to equity holders of the Company | 26,457 | 55,002 | 92,354 | **125,932** |

## COMBINED ASSETS, EQUITY AND LIABILITIES

| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Non-current assets | 98,428 | 110,088 | 120,090 | **146,424** |
| Current assets | 136,424 | 184,976 | 285,510 | **802,887** |
| Total assets | 234,852 | 295,064 | 405,600 | **949,311** |
| **EQUITY AND LIABILITIES** | | | | |
| Total equity | 93,345 | 114,008 | 164,556 | **706,166** |
| Non-current liabilities | 685 | 5,451 | 345 | **322** |
| Current liabilities | 140,822 | 175,605 | 240,699 | **242,823** |
| Total liabilities | 141,507 | 181,056 | 241,044 | **243,145** |
| Total equity and liabilities | 234,852 | 295,064 | 405,600 | **949,311** |

The historical financial information of the Group for the year ended 31 December 2004 and 31 December 2005 was extracted from the Prospectus.

No financial information of the Group for the year ended 31 December 2003 has been published.