



# 2009 ANNUAL REPORT



明輝國際控股有限公司<sup>\*</sup>  
Ming Fai International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 3828)

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors:

CHING Chi Fai (*Chairman*)  
 CHING Chi Keung  
 LIU Zigang  
 LEE King Hay  
 CHAN Yim Ching

### Non-executive Directors:

CHING Chau Chung  
 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

## EXECUTIVE COMMITTEE

CHING Chi Fai (*Chairman*)  
 CHING Chi Keung  
 LIU Zigang  
 LEE King Hay  
 CHAN Yim Ching

## NOMINATION COMMITTEE

CHING Chi Fai (*Chairman*)  
 SUN Kai Lit Cliff *BBS, JP*  
 MA Chun Fung Horace

## INVESTMENT COMMITTEE

CHING Chi Fai (*Chairman*)  
 MA Chun Fung Horace  
 CHIU Yu To Alan

## COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

CHIU Yu To Alan *CPA*

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
 DBS Bank (Hong Kong) Limited  
 The Hong Kong and Shanghai Banking  
 Corporation Limited

#### **AUDITOR**

PricewaterhouseCoopers

#### **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, 17/F,  
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**

Suite 501-502, 5th Floor, Low Block,  
Grand Millennium Plaza,  
181 Queen's Road Central,  
Hong Kong

#### **PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")**

Bainikeng, Pinghu, Longgang  
Shenzhen, the PRC

#### **WEBSITE**

[www.mingfaigroup.com](http://www.mingfaigroup.com)

#### **STOCK CODE**

3828

# Chairman's Statement



I am delighted to report that Ming Fai International Holdings Limited ("the Company") and its subsidiaries ("the Group") delivered another set of remarkable results for the financial year ended 31 December 2009.

## REVIEW

2009 was another difficult and challenging year for both the global economy and the Group. The effects of the global financial tsunami continued to dominate operating environment. Lower trade volumes, weak consumer confidence and rising unemployment combined to affect business conditions everywhere. In this tough climate, the Group has remained profitable in both two years since the onset of the financial crises and with strong financial positions maintained. Profit attributable to shareholders of the Company was HK\$96.1 million in 2009 as compared with HK\$100.9 million in 2008.

Given the Group's solid capital structure and high liquidity, the board (the "Board") of directors (the "Directors") is recommending a final dividend of HK5 cents per share, making a total annual dividend of HK8 cents per share, representing a dividend payout ratio of 50%.

During a time of immense economic uncertainty, the Group remained focused on its long-term sustainable development, taking steps to integrate and expand its core business, and seize opportunities to expand into new venture on the basis of its existing business foundation so as to diversify its business.

Reflecting its long term confidence in China and Hong Kong economy, the Group acquired office premises in Hong Kong Central district in October 2009 and relocated its head office and principal place of business there on 7 February 2010, where the Group will benefit from being at the heart of one of the world's pre-eminent financial centres.

In 2009, the Board conducted a review and implemented changes to the Board Committee structures to reinforce the highest standards of corporate governance. This included establishing nomination committee to focus on its nomination issues.

Caring for the environment is a one of the Group's core values. The Group strives for continuous improvement in its environmental performances and developing strategies to address environmental issues. In 2009, the Group successfully attained Ecocert, European Union ECO LABEL certification and so on. The Group is also proudly hosting its first Ming Fai Golf Open and RE-ECO Forum at the Mission Hill Golf Club, the PRC on 6-7 March 2010, presenting strategies and latest initiatives







on promoting superior quality eco-friendly products across its wide-ranging products portfolio. This illustrated the Group's commitment in helping the community to prepare for the future.

## OUTLOOK

The global recovery gathered pace during the second half of 2009. Nevertheless, huge challenges and risks remain for all of us. While Asia markets are leading global recovery, recovery in developed markets particularly United States ("US") and Europe has been slow to start, and unemployment remains high.

The Group sees Asia will be the global engine for economic growth, is the land of opportunity, and the place to do business in the 21st century. Whilst the Group does not under-estimate the challenges and uncertainties, it is excited by the opportunities. The Group has a strong presence in the Asia Pacific region and will take opportunities to bulk it up. It is in the right markets and has clear strategies and strong networks.

Looking forward, the Group will use its competitive strengths, including its strong capital and liquidity positions, customer service excellence and effective business model, to deepen relationships with customers and suppliers, reinforce its strong market position and take advantage of new arena of business growth.

## APPRECIATION

I am proud to be working with all the intelligent, creative, dedicated and loyal employees, who are the Group's most valuable assets. I wish to take this opportunity to thank my fellow directors, management, all staff as well as business partners for their continued support and commitment.

### CHING Chi Fai

*Chairman*

HONG KONG, 18 March 2010

# Management Discussion and Analysis



## FINANCIAL REVIEW

Total consolidated revenue for the year ended 31 December 2009 decreased by 7.4% to HK\$811.3 million, compared with the same period last year, reflecting soft demand for amenity products and accessories. Profit attributable to equity holders of the Company was HK\$96.1 million for the year ended 31 December 2009, a decrease of 4.8%, compared with HK\$100.9 million for the year ended 31 December 2008.

Basic earnings per share was HK16 cents (2008: HK17 cents).

The overall gross profit margin for the year increased by 2.4% to 28.9% from 26.5% for the year ended 31 December 2008 which was achieved through the Group's persistent cost control initiative.

The consolidated net asset value increased to HK\$793.8 million as at 31 December 2009 from HK\$760.9 million as at 31 December 2008.

The Board has resolved to propose a final dividend of HK5.0 cents per share for the year ended 31 December 2009 making a total annual dividend of HK8.0 cents per share (2008: HK8.4 cents per share). The proposed dividend is subject to approval at the forthcoming annual general meeting (the "AGM") on 13 May 2010.





The Group's profit for the year included the following items:

- Increase in fair value of investment properties in Central district of Hong Kong of HK\$9.7 million, comprising a fair value gain of HK\$11.6 million and the corresponding deferred income tax charge of HK\$1.9 million;
- Accelerated depreciation charges of HK\$1.6 million in respect of the old head office in Tuen Mun, Hong Kong on relocating the Company's head office;
- The expensing of fair value of share options granted to the eligible employees (including the directors) of HK\$2.9 million;
- A loss of HK\$1.5 million was recognised in respect of its operation in towels manufacturing plant in Guangxi Province which is 51% owned by the Group; and
- A loss of HK\$2.0 million was recognised in respect of its 51% held two retail shops in Hong Kong.

Set out below are the consolidated financial highlights of the Group for the year ended 31 December 2009:

|                                                      | 2009<br>HK\$ million | 2008<br>HK\$ million |
|------------------------------------------------------|----------------------|----------------------|
| Revenue                                              | <b>811.3</b>         | 876.0                |
| Gross profit                                         | <b>234.6</b>         | 232.5                |
| Profit attributable to equity holders of the Company | <b>96.1</b>          | 100.9                |
| Net asset value                                      | <b>793.8</b>         | 760.9                |
| Basic earnings per share (HK\$)                      | <b>0.16</b>          | 0.17                 |
| Diluted earnings per share (HK\$)                    | <b>0.16</b>          | 0.17                 |



## Management Discussion and Analysis



### BUSINESS REVIEW

Although improved financial and capital market conditions led to a recovery, the impact of global recession on the business activities was broad and deep. Revenue and profit of the Group declined in this tough period as a result of the weak global economy.

The year 2009 saw continued growth in the Group's operations in China and other Asia Pacific countries (ex-Australia) with revenue contribution accounted for approximately of 21% and 11% (2008: 17% and 9%) respectively. Throughout the crisis, all other major markets in North America, Europe, Hong Kong and Australia remain profitable in terms of earnings before depreciation and amortisation with revenue constrained by lower demand as a result of tougher economic conditions. The increased revenues from emerging markets were a substantial offset to the impact of the lower revenues from developed markets. This signals the Group's commitment to increase its focus in faster-growing markets, which is in line with the market consensus that emerging markets will account for the majority of global growth over the next decade.

To further progress its business and enhance the services and products in meeting the customers needs, the Group acquired various properties in Dalian City at a total consideration of Renminbi ("RMB") 2.3 million (equivalent to approximately HK\$2.6 million), increased its presence in Liaoning Province to support the growing needs of its customers in China. Through the construction of a laundry plant in Jiangsu Province and the formation of a 51% owned subsidiary in Guangxi Province for supplying towels and other linens, the Group continues to expand its business and broaden its product range in China.

For airline business, the Group secured new orders through its distributor customers.

The Group continued to integrate and expand its operations in Hong Kong, in line with its positive outlook for Hong Kong economy. In October 2009, the Group acquired office premises in Central district at a total consideration of HK\$128.9 million. These office premises are located at the 5th Floor, Low Block, Grand Millennium Plaza, No. 181 Queen's Road Central, Hong Kong (with an aggregate gross floor area of approximately 15,451 square feet) together with two car-parking spaces. In February 2010, the Company moved its head office from Tuen Mun to this Central office occupying approximately 7,227 square feet, reflecting its deep roots in Hong Kong – the gateway to greater China. The remaining office premises are recognised in the Group's balance sheet as investment properties which are fully leased out to third party tenants.



In view of improving economic sentiments in Hong Kong and a rebound in retail sales in the fourth quarter of 2009, the Group contributed HK\$10 million to establish a 51% held subsidiary with a beauty consultant who is an expert and specialist in beauty care industry. The aim of this subsidiary is to develop and create a chain of bath and body care concept outlets named "everyBody Labo" with selected bath and body care brands, to serve the growingly sophisticated and stylish clientele in the Asia Pacific region whom are yearning for a better quality and priced bath and body care products. In December 2009, this subsidiary has successfully taken the first step to launch its new personal care products through the opening of two retail shops in Causeway Bay and Mongkok, respectively.

## PROSPECTS

Global major markets continued to recover in the early of 2010, even turbulence emerged in the latter part of 2009 due to the Dubai and Greece debt crisis. Although major central banks pledged to keep the loose monetary policy in place, some of them planned to have "exit strategy" to avoid asset price bubble and hyper-inflation. The year 2010 is a crucial year to address the international financial crisis and maintain balanced and rather fast economic development.

Against this backdrop, the Group is very optimistic about the long-term prospect, and its core market outlook for the upcoming years has turned positive, mostly due to continued demand from China and the Asia Pacific region, as well as the US economy which returned to growth in the second half of 2009. China achieved a 8.7% GDP growth last year and the annual growth of China is expected to be around 9% in 2010. The Group believes that the stable growth of China economy coupled with the hosting of the World Expo in Shanghai and the Asian Games in Guangzhou this year will present it with attractive business opportunities. With strong presence in China and the Asia Pacific region, as well as successful business model, the Group is well placed to further increase its market share and earning base from emerging markets and consider acquisitions that add value to its business portfolio. Going forward, the Group expects to see its revenue from China and the Asia Pacific region becoming a much more significant part of its overall operations.

While the Group positions itself at the heart of the Asia Pacific region and reinforced its focus on emerging markets, it will continue to build its presence and scale in all other major markets, both through organic expansion and by building its strategic partnerships.

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group's cash and cash equivalents totalled HK\$455.0 million (2008: HK\$482.7 million).

As at 31 December 2008, the Group had outstanding borrowings drawn in US dollars ("US\$") with carrying amount of HK\$63.5 million, which were fully repaid by the Group during the year ended 31 December 2009. In November 2009, the Group entered into a mortgage deed with a leading bank in Hong Kong to raise HK\$64.4 million for the completion of acquisition of office premises in Central district. This facility bears interest at one month Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.75% per annum or 1.75% below Hong Kong dollars Prime Rate, whichever is the lower. The facility is secured by the office premises with maturity date on 27 November 2019. As at 31 December 2009, the outstanding borrowing of this facility amounted to HK\$63.9 million. Details of the borrowings are set out in note 21 of the consolidated financial statements.

The gearing ratio at 31 December 2009, calculated on the basis of borrowings over total equity, is 8.0% as compared with 8.3% at 31 December 2008.

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. The Group currently does not have a foreign currency hedging policy.

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

### CHARGES ON GROUP ASSETS

As at 31 December 2009, certain subsidiaries of the Company pledged assets with aggregate carrying value of HK\$146.1 million (2008: Nil) to secure drawn bank borrowings.

### CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2009, the capital commitments of the Group were HK\$69.0 million (2008: HK\$4.1 million), which mainly relate to the construction of laundry plant at Changshu City Jiangsu Province of the PRC. At the balance sheet date, the Group had no material contingent liabilities.

Details of capital commitments are set out in note 34(a) of the consolidated financial statements.

## EMPLOYEES

As at 31 December 2009, the total number of employees of the Group was approximately 4,300. The Group offers a comprehensive remuneration package 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.

The Group values employees as its most valuable assets and believes effective employee engagement is an integral part of business success. In this context, effective communication with staff at all levels is highly valued with the ultimate goal to enhance the efficiency in providing quality service to the customers. The Group also has Commendation Annual Award Scheme to motivate its employees and recognize their outstanding performance.

## CORPORATE SOCIAL RESPONSIBILITIES

The Group is committed to the principle of sustainable development. The Group sets environmental policies and implements internationally certified environmental management systems such as ISO 14001:2004, Hong Kong Green Mark Certification Scheme and Global Security Verification. In 2009, the Group successfully attained Ecocert and European Union ECO LABEL certification, and is proud to be the first hotel amenities supplier in Asia attaining these certificates. Corporate Social Responsibilities ("CSR") is not just about philanthropy. It is about the Group's responsibility towards the community and being able to provide a platform for it to give back in a way that is meaningful, fulfilling and sustainable. CSR will remain a prominent feature in the Group's agenda, and environmental management has become an integral part of the Group's business planning and daily operations.



# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. CHING Chi Fai**, aged 48, 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. 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 Chi Keung**, aged 45, is an executive Director. Mr. Ching has been responsible for human resources and administrative matters. Mr. Ching joined our Group with Mr. CHING Chi Fai and Mr. CHING Chau Chung and has over 20 years of experience in the amenity industry. 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 45, 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 10 years of experience in the amenity industry. Mr. Liu holds a diploma from Shenzhen University.

**Mr. LEE King Hay**, aged 55, is an executive Director. Mr. Lee is responsible for overseeing manufacturing and business development. 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 10 years of experience in the amenity industry. 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 42, 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.



## NON-EXECUTIVE DIRECTORS

**Mr. NG Bo Kwong**, aged 54, 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.

**Mr. CHING Chau Chung**, aged 50, was re-designated as a non-executive Director in September 2009. Mr. Ching was first appointed as a Director of the Company on 29 May 2007 and designated as an executive Director on 9 July 2007. Mr. Ching has over 20 years of experience in the amenity industry. Mr. CHING Chau Chung is not related to Mr. CHING Chi Fai or Mr. CHING Chi Keung.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. SUN Kai Lit Cliff** *BBS, JP*, aged 56, is an independent non-executive Director (“INED”). Mr. Sun is an Associate of the Institute of Industrial Engineers of Ohio and has over 30 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 Government of the Hong Kong Special Administrative Region of the PRC in 2006. Mr. Sun is also an independent non-executive director of Ka Shui International Holdings Limited and a non-executive director of China South City Holdings Limited, both companies are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Sun involves himself in many public services in both the PRC and Hong Kong too.

**Mr. HUNG Kam Hung Allan**, aged 55, 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 privatized 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.

## Biographical Details of Directors and Senior Management

**Mr. MA Chun Fung Horace**, aged 39, 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 Hong Kong, as well as a council member of HKICPA. Mr. Ma is an independent non-executive director of Universe International Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange.

### SENIOR MANAGEMENT

**Mr. CHIU Yu To Alan**, aged 43, is our chief financial officer and company secretary. Mr. Chiu is responsible for finance, accounting and company secretarial matters. Mr. Chiu joined our group in February 2008. Mr. Chiu graduated from the University of Southern Queensland in Australia with a bachelor degree in commerce. He has been a member of HKICPA since February 1994, a fellow of ACCA since November 1998, and a member of CPA Australia since October 2001. Prior to joining our Company, Mr. Chiu served as a chief financial officer and qualified accountant of a company, the shares of which are listed on the Main Board of the Stock Exchange.

# Directors' Report

The Directors of Ming Fai International Holdings Limited are pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2009.

## 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 principal subsidiary of the Group are set forth in note 17 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2009 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 39 to 107 of this annual report.

An interim dividend of HK\$0.03 per share, amounting to a total of HK\$18,000,000 was paid on 8 October 2009.

The Directors recommend the payment of a final dividend of HK\$0.05 per share of the Company (the "**Share**") for the year ended 31 December 2009. Subject to the approval of the Directors' recommendation by the shareholders at the AGM of the Company to be held on 13 May 2010, the final dividend will be paid on or about 27 May 2010 to shareholders whose name appear on the register of shareholders of the Company as at the close of business on 28 April 2010. The total amount of such proposed final dividend is HK\$30,000,000.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 29 April 2010 to Tuesday, 4 May 2010 (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, 28 April 2010.

## GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 108.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

### **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in note 20 to the consolidated financial statements.

### **RESERVES**

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2009 are set out in the consolidated statement of changes in equity on page 43 and note 18(c) to the consolidated financial statements, respectively.

As at 31 December 2009, distributable reserves of the Company amounted to approximately HK\$637,908,000.

### **SUBSIDIARIES**

Particulars of the Group's principal subsidiaries are set out in note 17 to the consolidated 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 2009, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares of the Company.

### **BORROWINGS**

Details of the borrowings of the Group during the year ended 31 December 2009 are set out in note 21 to the consolidated financial statements.

### **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save and except for the Share Option Scheme (as defined below), 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.

## DIRECTORS

The Directors during the year were as follows:

### Executive Directors

Mr. CHING Chi Fai (*Chairman*)  
 Mr. CHING Chi Keung  
 Mr. LIU Zigang  
 Mr. LEE King Hay  
 Ms. CHAN Yim Ching

### Non-executive Directors

Mr. NG Bo Kwong  
 Mr. CHING Chau Chung (*re-designated from executive Director to non-executive Director on 1 September 2009*)

### Independent non-executive Directors

Mr. SUN Kai Lit Cliff *BBS, JP*  
 Mr. HUNG Kam Hung Allan  
 Mr. MA Chun Fung Horace

In accordance with article 130 of the Company's Articles of Association, Mr. LEE King Hay, Ms. CHAN Yim Ching, Mr. NG Bo Kwong and Mr. SUN Kai Lit Cliff will retire at the AGM and, being eligible, shall offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out on pages 12 to 14.

## 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

Each of Mr. CHING Chi Fai, Mr. CHING Chi Keung, Mr. LIU Zigang, Mr. LEE King Hay and Ms. CHAN Yim Ching 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 unless terminated in accordance with the terms of the service contracts.



Mr. NG Bo Kwong has signed a letter of appointment with the Company under which he agreed to act as non-executive Director for a period of one year commencing from 21 September 2009 unless terminated in accordance with the terms of the appointment letter.

Mr. CHING Chau Chung has signed a letter of appointment with the Company under which he agreed to act as non-executive Director for a period of from 1 September 2009 to 31 August 2010 unless terminated in accordance with the terms of the 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 with the Company under which they agreed to act as independent non-executive Directors for a period of one year commencing from 21 September 2009 unless terminated in accordance with the terms of the respective appointment letter.

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 consolidated financial statements.

#### **CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS**

##### **(A) Connected Transaction**

On 15 September 2009, Cinese Textile Ltd. (梧州市金富盈酒店紡織用品有限公司), an indirect 51% owned subsidiary of the Company, as the purchaser and Wuzhou Guanghua Textile Product Co. Ltd. (梧州市光華紡織製品有限責任公司) as the seller entered into an agreement to purchase certain equipment at the consideration of RMB5 million. The equipment is to be used by the Group to manufacture textile products for the Group's hotel customers. The consideration will be paid within 10 days after delivery and completion of 30-day testing of the equipment to the satisfaction of the purchaser.

The seller holding 30% interest of the purchaser is a substantial shareholder of the purchaser and therefore a connected person under the Listing Rules. The agreement constituted a connected transaction of the Company under the Listing Rules.

As each of the relevant percentage ratios was less than 2.5%, the connected transaction was only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## (B) Continuing Connected Transactions

For the financial year ended 31 December 2009, the total amount of annual consideration paid by the Group to each of Ming Fai Plastic Industrial Co (“**Ming Fai Plastic**”), Mr. Liu Zigang and Advance Management Consultants Limited (“**Advance Management**”), either a connected person or an associate of a connected person under Chapter 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 constituted an exempted continuing connected transaction for the Company under rule 14A.33(3) of the Listing Rules and were exempted from the reporting, announcement and independent shareholders’ approval requirements set forth under Chapter 14A of the Listing Rules.

### (1) Lease of properties by Ming Fai Plastic to Ming Fai Enterprise (Shenzhen) Company Limited (“Ming Fai Shenzhen”)

Ming Fai Plastic is a partnership beneficially owned as to 1/3 by each of Mr. Ching Chi Fai (executive Director), Mr. Ching Chi Keung (executive Director) and Mr. Ching Chau Chung (non-executive Director) and therefore is an associate of a connected person under the Listing Rules.

Ming Fai Shenzhen, a limited liability company incorporated in the PRC on 7 September 1992, is an indirect wholly-owned subsidiary of the Company.

Ming Fai Shenzhen leases properties 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., two workshops of 8,686.2 sq.m., and a workshop of 1,893 sq.m. from Ming Fai Plastic Industrial Co. The properties are located at Bainikeng, Pinghu, Guangdong Province, the People’s Republic of China (中國廣東省平湖白泥坑).

Ming Fai Shenzhen and Ming Fai Plastic entered into three lease agreements in this respect:

- (i) an agreement dated 12 June 2007 under which Ming Fai Shenzhen leases the parcel of land of 4,400.0 sq.m. together with a 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 from Ming Fai Plastic 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 by six months’ written notice. If the lease agreement is terminated prior to the end of the term, Ming Fai Plastic will refund the rent paid for the unleased part of the term. The rent paid by Ming Fai Shenzhen during the year ended 31 December 2009 was nil;

- (ii) a lease agreement dated 1 January 2009 in relation to the two workshops of 8,686.2 sq.m. for a term of 2 years commencing from 1 January 2009 ending 31 December 2010. The monthly rental is RMB60,803 and payable monthly. The lease is terminable by Ming Fai Plastic by six months' written notice. The rent paid by Ming Fai Shenzhen for the year ended 31 December 2009 was approximately HK\$828,000.
- (iii) a lease agreement dated 1 January 2009 in relation to the workshop of 1,893 sq.m. for a term of 2 years commencing from 1 January 2009 ending 31 December 2010. The monthly rental is RMB10,790 and payable monthly. The lease is terminable by Ming Fai Plastic by six months' written notice. The rent paid by Ming Fai Shenzhen for the year ended 31 December 2009 was approximately HK\$147,000.

**(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 1101 of Block A of Huapu Garden, Dongsishi, Dongcheng District, Beijing, the PRC (北京市東城區東直門南大街9號華普花園A座1101室) from Mr. Liu for office and dormitory uses, and they entered into a lease agreement on 1 January 2009 for a term of two years commencing from 1 January 2009.

The monthly rental is RMB11,000 and payable monthly. The rent paid by Ming Fai Shenzhen for the year ended 31 December 2009 was approximately HK\$150,000.

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

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.

Ming Fai Asia Pacific, a wholly owned subsidiary of the Company, and Advance Management entered into an agreement on 10 January 2009 whereby Advance Management provides consultancy services to Ming Fai Asia Pacific in relation to corporate development strategy from January 2009 to the end of December 2009. The consultancy fee is HK\$280,000 and shall be paid in three installments.

Save as disclosed above, no material continuing connected transaction or connected transaction has been conducted during the year ended 31 December 2009.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that they have been entered into:

- (i) in the ordinary and usual course of business of the Company;
- (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to/from (as appropriate) independent third parties; and
- (iii) in accordance with the terms of the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section above with heading, "Continuing Connected Transactions and Connected Transactions" set out on pages 18 to 21 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 2009, 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 | Interest in<br>Number of Shares | Approximate<br>percentage of<br>shareholding<br>of the Company |
|---------------------|---------------------|---------------------------------|----------------------------------------------------------------|
| Ching Chi Fai       | Corporate (Note 1)  | 183,666,600                     | 30.61%                                                         |
|                     | Personal (Note 5)   | 2,642,000                       | 0.44%                                                          |
| Ching Chi Keung     | Corporate (Note 2)  | 44,499,600                      | 7.42%                                                          |
|                     | Personal (Note 5)   | 4,000,000                       | 0.67%                                                          |
| Chan Yim Ching      | Corporate (Note 2)  | 44,499,600                      | 7.42%                                                          |
|                     | Personal (Note 5)   | 4,388,000                       | 0.73%                                                          |
| Liu Zigang          | Corporate (Note 3)  | 23,857,200                      | 3.98%                                                          |
|                     | Personal (Note 5)   | 4,000,000                       | 0.67%                                                          |
| Lee King Hay        | Personal (Note 5)   | 5,336,000                       | 0.89%                                                          |
| Ng Bo Kwong         | Personal (Note 5)   | 600,000                         | 0.10%                                                          |
| Ching Chau Chung    | Corporate (Note 4)  | 170,976,600                     | 28.50%                                                         |
|                     | Personal (Note 5)   | 600,000                         | 0.10%                                                          |
| Hung Kam Hung Allan | Personal (Note 5)   | 600,000                         | 0.10%                                                          |
| Sun Kai Lit Cliff   | Personal (Note 5)   | 600,000                         | 0.10%                                                          |
| Ma Chun Fung Horace | Personal (Note 5)   | 600,000                         | 0.10%                                                          |

## 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 Targetwise Trading Limited ("Targetwise"), which is owned as to 50% and 50% by Mr. Ching Chi Keung and Ms. Chan Yim Ching respectively.
3. These Shares are owned by Favour Power Limited ("Favour Power"), which is wholly-owned by Mr. Liu Zigang.
4. These Shares are owned by Pacific Plus Limited ("Pacific Plus"), which is wholly-owned by Mr. Ching Chau Chung.
5. Options granted to the above Directors under the Share Option Scheme as at 31 December 2009 are set out under the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2009, 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 2009, so far as the Directors are aware of, the following substantial shareholders (other than a Director or chief executive of the Company) 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     | Approximate percentage of shareholding |
|------------------------------------|------------------------------|----------------------|----------------------------------------|
| Prosper Well International Limited | Beneficial owner             | 183,666,600 (Note 1) | 30.61%                                 |
| Ms. Lo Kit Ling                    | Family interest              | 186,308,600 (Note 1) | 31.05%                                 |
| Pacific Plus Limited               | Beneficial owner             | 170,976,600 (Note 2) | 28.50%                                 |
| Ms. Wong Sei Hang                  | Family Interest              | 170,976,600 (Note 2) | 28.50%                                 |
| Targetwise Trading Limited         | Beneficial owner             | 44,499,600 (Note 3)  | 7.42%                                  |
| Ms. Po Fung Kiu                    | Family interest              | 48,499,600 (Note 4)  | 8.08%                                  |
| Mr. Lee King Keung                 | Personal and Family Interest | 48,887,600 (Note 5)  | 8.15%                                  |



*Notes:*

1. 183,666,600 Shares were owned by Prosper Well International Limited, which is wholly-owned by Mr. Ching Chi Fai (the chairman and an executive Director). Mr. Ching Chi Fai also beneficially owned 2,042,000 Shares and held a share option to subscribe 600,000 Shares. Ms. Lo Kit Ling, being Mr. Ching Chi Fai's spouse, was deemed to be interested in the 186,308,600 Shares in which Mr. Ching Chi Fai had interests by virtue of Part XV of the SFO.
2. These 170,976,600 Shares were owned by Pacific Plus Limited, which is wholly-owned by Mr. Ching Chau Chung (a non-executive Director). Mr. Ching Chau Chung also held a share option to subscribe 600,000 Shares. Ms. Wong Sei Hang, being Mr. Ching Chau Chung's spouse, was deemed to be interested in the 170,976,000 Shares in which Ching Chau Chung had interests by virtue of Part XV of the SFO.
3. These 44,499,600 Shares were owned by Targetwise Trading Limited, which is beneficially owned as to 50% by each of Mr. Ching Chi Keung and Ms. Chan Yim Ching, both are executive Directors.
4. Ms. Po Fung Kiu, being Mr. Ching Chi Keung's spouse, was deemed to be interested in the 48,499,600 Shares in which Mr. Ching Chi Keung had interests by virtue of Part XV of the SFO.
5. Mr. Lee King Keung held a share option to subscribe 388,000 Shares. Mr. Lee, being Ms. Chan Yim Ching's spouse, was deemed to be interested in the 48,887,600 Shares in which Ms. Chan Yim Ching had interests by virtue of Part XV of the SFO.

**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.

**REMUNERATION POLICY**

Remuneration of our employees (including the Directors) are generally structured by reference to market terms and individual merits. Salaries are normally reviewed and discretionary bonuses are paid on an annual basis based on the results of the Group, individual performance and other relevant factors.

### SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 5 October 2007 (the "Share Option Scheme"). The Share Option Scheme has become unconditional upon the commencement of the trading of the Shares on the Stock Exchange.

On 23 June 2009, share options to subscribe for 32,000,000 Shares were granted to the Directors and employees of the Company at an exercise price of HK\$1.12 per share. The closing price of Shares on the date of grant was HK\$1.11 per share.

Movements on the share options during the year as follows:

| Grantee          | Date of grant | Exercise period        | Exercise price per share<br>HK\$ | Number of share options          |                         |                           |                        |                                    |
|------------------|---------------|------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------|------------------------|------------------------------------|
|                  |               |                        |                                  | Outstanding as at 1 January 2009 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2009 |
|                  |               |                        |                                  |                                  |                         |                           |                        |                                    |
| <b>Directors</b> |               |                        |                                  |                                  |                         |                           |                        |                                    |
| Ching Chi Fai    | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
| Ching Chi Keung  | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
| Chan Yim Ching   | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
| Liu Zigang       | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
| Lee King Hay     | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 2,000,000               | -                         | -                      | 2,000,000                          |
| Ng Bo Kwong      | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                  | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |

| Grantee                | Date of grant | Exercise period        | Exercise price per share<br>HK\$ | Number of share options          |                         |                           |                        |                                    |
|------------------------|---------------|------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------|------------------------|------------------------------------|
|                        |               |                        |                                  | Outstanding as at 1 January 2009 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2009 |
|                        |               |                        |                                  |                                  |                         |                           |                        |                                    |
| Ching Chau Chung       | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                        | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
| Sun Kai Lit Cliff      | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                        | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
| Hung Kam<br>Hung Allan | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                        | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
| Ma Chun Fung<br>Horace | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
|                        | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 300,000                 | -                         | -                      | 300,000                            |
| <b>Employees</b>       |               |                        |                                  |                                  |                         |                           |                        |                                    |
| In aggregate           | 23-6-2009     | 23-6-2011 to 22-6-2019 | 1.12                             | -                                | 6,200,000               | -                         | 579,000                | 5,621,000                          |
|                        | 23-6-2009     | 23-6-2013 to 22-6-2019 | 1.12                             | -                                | 6,200,000               | -                         | 579,000                | 5,621,000                          |
| Total                  |               |                        |                                  | -                                | 32,000,000              | -                         | 1,158,000              | 30,842,000                         |

## Notes:

- Included in employees was 388,000 options granted to Mr. Lee King Keung, being spouse of Ms. Chan Yim Ching who is an Executive Director of the Company.
- In assessing the fair value of the share options granted during the year, the binomial model (the "Model") has been used. The Model is one of the generally accepted methodologies used to calculate the fair value of options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The variables of the Model include risk-free rate, expected volatility and expected dividend rate (if any) of the Company's shares. The variables of the Model used in assessing the fair value of the share options granted during the year and the estimated fair values as at the date of grant are listed as follows:

| Grantee   | Date of grant | Vesting date | Risk-free rate | Expected volatility | Expected dividend yield | Estimated fair value per option<br>HK\$ |
|-----------|---------------|--------------|----------------|---------------------|-------------------------|-----------------------------------------|
| Directors | 23-06-2009    | 23-06-2011   | 2.865%         | 64%                 | 6.51%                   | 0.4801                                  |
|           |               | 23-06-2013   | 2.865%         | 64%                 | 6.51%                   | 0.4691                                  |
| Employees | 23-06-2009    | 23-06-2011   | 2.865%         | 64%                 | 6.51%                   | 0.4085                                  |
|           |               | 23-06-2013   | 2.865%         | 64%                 | 6.51%                   | 0.4289                                  |

## Directors' Report

- (a) The risk-free rate applied to the Model represents the yield of the Hong Kong Exchange Fund Notes at the measurement date corresponding to the expected life of the options as at the measurement Date.
- (b) In the determination of volatility, we considered the historical volatility of the Company prior to the issuance of option. The expected volatility used in the calculation is based on the weekly price change.
- (c) Based on historical pattern, it is assumed that dividend yield is 6.51% during the expected life of the options.
- (d) It should be noted that the value of options calculated using the Model is based on various assumptions and is only an estimate of the fair value of options granted during the period. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value estimated using the Model at the measurement Date.

Using the Model in assessing the fair value of share options granted during the year, the options would have an aggregate estimated fair value of approximately HK\$14,494,000, calculated as follows:

| Grantee             | Date of grant | Vesting date | Number of share options granted during the year | Estimated fair value of share options granted during the year<br>HK\$ |
|---------------------|---------------|--------------|-------------------------------------------------|-----------------------------------------------------------------------|
| <b>Directors</b>    |               |              |                                                 |                                                                       |
| Ching Chi Fai       | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
| Ching Chi Keung     | 23-06-2009    | 23-06-2011   | 2,000,000                                       | 960,200                                                               |
|                     |               | 23-06-2013   | 2,000,000                                       | 938,200                                                               |
| Liu Zigang          | 23-06-2009    | 23-06-2011   | 2,000,000                                       | 960,200                                                               |
|                     |               | 23-06-2013   | 2,000,000                                       | 938,200                                                               |
| Lee King Hay        | 23-06-2009    | 23-06-2011   | 2,000,000                                       | 960,200                                                               |
|                     |               | 23-06-2013   | 2,000,000                                       | 938,200                                                               |
| Chan Yim Ching      | 23-06-2009    | 23-06-2011   | 2,000,000                                       | 960,200                                                               |
|                     |               | 23-06-2013   | 2,000,000                                       | 938,200                                                               |
| Ching Chau Chung    | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
| Ng Bo Kwong         | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
| Sun Kai Lit Cliff   | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
| Hung Kam Hung Allan | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
| Ma Chun Fung Horace | 23-06-2009    | 23-06-2011   | 300,000                                         | 144,030                                                               |
|                     |               | 23-06-2013   | 300,000                                         | 140,730                                                               |
|                     |               |              | 19,600,000                                      | 9,302,160                                                             |
| <b>Employees</b>    |               |              |                                                 |                                                                       |
| In aggregate        | 23-06-2009    | 23-06-2011   | 6,200,000                                       | 2,532,700                                                             |
|                     |               | 23-06-2013   | 6,200,000                                       | 2,659,180                                                             |
|                     |               |              | 12,400,000                                      | 5,191,880                                                             |
| TOTAL               |               |              | 32,000,000                                      | 14,494,040                                                            |

The following is a summary of the principal terms of the rules of the Share Option Scheme:

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

The purpose of the Share Option Scheme is to enable the board of directors of the Company (the "Board") to grant options to selected employees (whether full time or part time including the directors) of any member of the Group (the "Eligible Persons") 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 2 November 2007, 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 of the Company (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.



## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of sales and purchases for the year ended 31 December 2009 attributable to the Group's major customers and suppliers are as follows:

|                                   |       |
|-----------------------------------|-------|
| Sales                             |       |
| – the largest customer            | 9.6%  |
| – five largest customers combined | 29.9% |
| Purchases                         |       |
| – the largest supplier            | 6.2%  |
| – five largest suppliers combined | 20.4% |

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 30 to 36 of this annual 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\$11,000.

## AUDIT COMMITTEE

In compliance with rule 3.21 of the Listing Rules the Board has established an audit committee (the "**Audit Committee**") 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 18 March 2010.

## AUDITOR

The Company's auditor, 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, 18 March 2010

# Corporate Governance Report

## 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 during the year ended 31 December 2009, except the following deviation:

- 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.

## BOARD OF DIRECTORS

The Board currently comprises the following ten Directors:

### Executive Directors

Mr. CHING Chi Fai (*Chairman*)

Mr. CHING Chi Keung

Mr. LIU Zigang

Mr. LEE King Hay

Ms. CHAN Yim Ching

### Non-executive Directors

Mr. NG Bo Kwong

Mr. CHING Chau Chung (*re-designated from executive Director to non-executive Director on 1 September 2009*)

### Independent non-executive Directors

Mr. SUN Kai Lit Cliff *BBS, JP*

Mr. HUNG Kam Hung Allan

Mr. MA Chun Fung Horace

All five 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 Directors and independent non-executive Directors) have been consulted on all major and material matters of the Group.

The Board supervises the management of the business and affairs of the Group, including convening Shareholders' meetings and reporting their work in the Shareholders' meetings, implementing the Shareholders' resolutions, determining the Group's business plans and strategies, formulating the Group's annual budget and final accounts, formulating proposals for dividend and bonus distributions and for increase or reduction of share capital, determining the Group's corporate structure, formulating investment plans 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, the Audit Committee and the Remuneration Committee meetings during the year ended 31 December 2009 are as follows:

|                                                                                                                      | No. of meetings attended/held |                         |                                |
|----------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------|--------------------------------|
|                                                                                                                      | Regular Full Board Meeting    | Audit Committee Meeting | Remuneration Committee Meeting |
| <b>Executive Directors</b>                                                                                           |                               |                         |                                |
| Mr. CHING Chi Fai ( <i>Chairman</i> )                                                                                | 5/5                           | 2/3                     | 2/2                            |
| Mr. CHING Chi Keung                                                                                                  | 5/5                           | 2/3                     | 1/2                            |
| Mr. LIU Zigang                                                                                                       | 5/5                           | 2/3                     | –                              |
| Mr. LEE King Hay                                                                                                     | 5/5                           | 2/3                     | –                              |
| Ms. CHAN Yim Ching                                                                                                   | 5/5                           | 1/3                     | –                              |
| <b>Non-executive Directors</b>                                                                                       |                               |                         |                                |
| Mr. NG Bo Kwong                                                                                                      | 4/5                           | 3/3                     | 2/2                            |
| Mr. CHING Chau Chung<br><i>(re-designated from executive Director to non-executive Director on 1 September 2009)</i> | 5/5                           | 2/3                     | –                              |
| <b>Independent non-executive Directors</b>                                                                           |                               |                         |                                |
| Mr. SUN Kai Lit Cliff                                                                                                | 5/5                           | 3/3                     | 2/2                            |
| Mr. HUNG Kam Hung Allan                                                                                              | 5/5                           | 3/3                     | 2/2                            |
| Mr. MA Chun Fung Horace                                                                                              | 5/5                           | 3/3                     | 2/2                            |

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. 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.

Under their respective appointment letters, Mr. NG Bo Kwong and Mr. CHING Chau Chung, both being non-executive Directors have been appointed for a period of one year from 21 September 2009 and 1 September 2009 respectively unless terminated in accordance with the terms of the appointment letters. All independent non-executive Directors have been appointed for a period of one year from 21 September 2009 unless terminated in accordance with the terms of the appointment letters. 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. All the current non-executive Directors and independent non-executive Directors are 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.

Mr. Ching Chi Keung, an executive Director, is the brother of Mr. Ching Chi Fai, the chairman and an executive Director.

During the year ended 31 December 2009, five full Board meetings 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.

#### **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company 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 on 5 October 2007. 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 year ended 31 December 2009.

#### **AUDIT COMMITTEE**

An audit committee (the "**Audit Committee**") has been established by the Board 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 (all are independent non-executive Directors) and Mr. NG Bo Kwong (a non-executive Director). Mr. MA Chun Fung Horace, who possesses professional accounting qualifications 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, in particular, to focus 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 external auditors to management in respect of the accounting records, financial accounts or systems of control and management's response.

During the year ended 31 December 2009 and up to the date of this report, the Audit Committee discharged its responsibilities by:

- reviewing the interim and annual results of the Group, and the relevant statements and reports prior to Board approval and reviewing the external auditor's reports and findings on the work performed;
- reviewing the external auditor's audit plan and terms of engagement for the audit;
- considering and approving the audit fee payable to the external auditor;
- reviewing the independency and objectivity of the external auditor, and the non-audit service fee payable to the external auditor; 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 (the "**Remuneration Committee**") has been established by the Board 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.

### EXECUTIVE COMMITTEE

An executive committee (the “**Executive Committee**”) has been established by the Board from 1 May 2008. Other than the matters reserved for the Board, the Executive Committee has been delegated with the general powers to deal with the daily operations and management of the Company, including but not limited to opening bank accounts, arranging banking facilities, affixing the Common Seal, issue of shares upon exercise of any subscription or conversion rights under any share option scheme, warrants or convertible notes and promoting new companies.

The current members of the Executive Committee are Mr. CHING Chi Fai, Mr. CHING Chi Keung, Mr. LIU Zigang, Mr. LEE King Hay and Ms. CHAN Yim Ching, all being executive Directors. Mr. CHING Chi Fai is the chairman of the Executive Committee.

7 meetings were held by the Executive Committee during the year ended 31 December 2009.

### INVESTMENT COMMITTEE

An investment committee (the “**Investment Committee**”) has been established by the Board from 1 May 2008. The Investment Committee has been delegated by the Board to deal with investments and divestments of the Group which are less than US\$20 million or 5% of the total market capitalization of the Company in aggregate, whichever is lower. Each investment shall not exceed 10% of the aforesaid aggregate amount.

The current members of the Investment Committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director) and Mr. CHIU Yu To Alan. Mr. CHING Chi Fai is the chairman of the Investment Committee.

The Investment Committee meets as required to select and propose to the Board suitable investments within its authority. As no investment opportunity fell within the scope of its authority, no meeting was held by the Investment Committee during the year ended 31 December 2009.

### NOMINATION COMMITTEE

A nomination committee (the “**Nomination Committee**”) has been established by the Board from 1 July 2009. The Nomination Committee is responsible for identification and recommendation to the Board of possible appointees as Directors, making recommendations to the Board on matters relating to appointment or reappointment of Directors, succession planning for Directors and assessing the independence of the independent non-executive Directors.

The current members of the Nomination Committee are Mr. CHING Chi Fai (an executive Director), Mr. MA Chun Fung Horace (an independent non-executive Director) and Mr. SUN Kai Lit Cliff (an independent non-executive Director). Mr. CHING Chi Fai is the chairman of the Nomination Committee.



The work performed by the Nomination Committee during the year ended 31 December 2009 and up to the date of this report included:

- to review the structure, size and composition of the Board;
- to assess the independence of the independent non-executive Directors; and
- to recommend the re-designation of Mr. CHING Chau Chung as a non-executive Director and cease to act as a member of Executive Committee and Investment Committee of the Company.

One meeting was held by the Nomination Committee on 9 February 2010. All the members, Mr. CHING Chi Fai, Mr. MA Chun Fung Horance and Mr. SUN Kai Lit attended this meeting.

### **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, safeguarding assets against unauthorized use or disposition, ensuring proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and ensuring compliance with relevant legislations and regulations. In addition, the Group has established risk management procedures to identify and prioritise risks for the business to be addressed by management.

During the year ended 31 December 2009, 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 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.

### **COMMUNICATION WITH SHAREHOLDERS**

Communication with shareholders is given high priority by the Group. Extensive information about the Group's activities is provided in the Annual Report and Financial Statements and the Interim Report which are sent to shareholders and are available on the Company's website [www.mingfaigroup.com](http://www.mingfaigroup.com). All shareholders are encouraged to attend the general meetings of the Company to discuss the businesses of the Group with the Directors and senior management in the general meetings.

### **DIRECTORS' AND AUDITOR'S 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 its results and cash flow for the period. In preparing the financial statements for the year ended 31 December 2009, 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 a going concern basis. The Directors also warrant that the Group's financial statements will be published in a timely manner.

The statement of the auditor 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 37 to 38 of this annual report.

### **AUDITOR'S REMUNERATION**

The external auditor of the Company is PricewaterhouseCoopers. For the year ended 31 December 2009, the fees payable by the Company to the external auditor are listed as below:

- HK\$1,880,000 for the performance of audit services;
- HK\$680,000 for financial advisory services (non-audit service);
- HK\$450,000 for provision of consultancy services on the implementation of new SAP system (non-audit service); and
- US\$18,000 (equivalent to approximately HK\$140,000) for provision of tax services (non-audit service).

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

The Audit Committee will take into account certain factors including the audit performance, quality and objectivity and independence of the auditor, when assessing the external auditor.

On behalf of the Board

**CHING Chi Fai**

*Chairman*

Hong Kong, 18 March 2010

# 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 39 to 107, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, in accordance with our agreed terms of engagement 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.

## Independent Auditor's Report

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 18 March 2010

# Consolidated Balance Sheet

As at 31 December 2009

|                                                                 | Note      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------------------------------------------------------|-----------|------------------|------------------|
| <b>ASSETS</b>                                                   |           |                  |                  |
| <b>Non-current assets</b>                                       |           |                  |                  |
| Leasehold land and land use rights                              | 6         | 68,245           | 15,245           |
| Property, plant and equipment                                   | 7         | 152,578          | 134,850          |
| Investment properties                                           | 8         | 82,640           | –                |
| Intangible assets                                               | 9         | 583              | 523              |
| Investment in an associated company                             | 10(a)     | 396              | 278              |
| Deferred income tax assets                                      | 11        | 4,040            | 6,214            |
| <b>Total non-current assets</b>                                 |           | <b>308,482</b>   | 157,110          |
| <b>Current assets</b>                                           |           |                  |                  |
| Inventories                                                     | 12        | 78,520           | 84,795           |
| Trade and bills receivables                                     | 13        | 188,189          | 181,602          |
| Amount due from an associated company                           | 10(b)     | 1,292            | 1,037            |
| Prepaid tax                                                     |           | 1,806            | 6,666            |
| Deposits, prepayments and other receivables                     | 14        | 28,653           | 31,360           |
| Restricted cash                                                 | 15        | –                | 65,888           |
| Cash and cash equivalents                                       | 16        | 455,015          | 482,704          |
| <b>Total current assets</b>                                     |           | <b>753,475</b>   | 854,052          |
| <b>Total assets</b>                                             |           | <b>1,061,957</b> | 1,011,162        |
| <b>EQUITY</b>                                                   |           |                  |                  |
| <b>Equity attributable to the equity holders of the Company</b> |           |                  |                  |
| Share capital                                                   | 20        | 6,000            | 6,000            |
| Share premium                                                   | 20        | 408,242          | 408,242          |
| Reserves                                                        | 18(a),(b) | 347,536          | 296,292          |
| Proposed final dividend                                         | 32        | 30,000           | 50,400           |
|                                                                 |           | <b>791,778</b>   | 760,934          |
| Minority interest                                               |           | 2,044            | –                |
| <b>Total equity</b>                                             |           | <b>793,822</b>   | 760,934          |

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

As at 31 December 2009

|                                              | Note | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------------|------|------------------|------------------|
| <b>LIABILITIES</b>                           |      |                  |                  |
| <b>Non-current liabilities</b>               |      |                  |                  |
| Long-term bank borrowings                    | 21   | 57,677           | –                |
| Deferred income tax liabilities              | 11   | 2,155            | 343              |
| <b>Total non-current liabilities</b>         |      | <b>59,832</b>    | 343              |
| <b>Current liabilities</b>                   |      |                  |                  |
| Current portion of long-term bank borrowings | 21   | 6,207            | –                |
| Short-term bank borrowings                   | 21   | –                | 63,460           |
| Trade payables                               | 22   | 89,785           | 82,968           |
| Accruals and other payables                  |      | 97,960           | 95,667           |
| Current income tax liabilities               |      | 13,690           | 7,022            |
| Loans from minority shareholders             | 23   | 661              | 495              |
| Derivative financial instruments             |      | –                | 273              |
| <b>Total current liabilities</b>             |      | <b>208,303</b>   | 249,885          |
| <b>Total liabilities</b>                     |      | <b>268,135</b>   | 250,228          |
| <b>Total equity and liabilities</b>          |      | <b>1,061,957</b> | 1,011,162        |
| <b>Net current assets</b>                    |      | <b>545,172</b>   | 604,167          |
| <b>Total assets less current liabilities</b> |      | <b>853,654</b>   | 761,277          |

**CHING Chi Fai**  
Director

**CHAN Yim Ching**  
Director

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.



# Balance Sheet

As at 31 December 2009

|                                                                 | Note  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------------------------------------------------------|-------|------------------|------------------|
| <b>ASSETS</b>                                                   |       |                  |                  |
| <b>Non-current asset</b>                                        |       |                  |                  |
| Investment in a subsidiary                                      | 17(a) | 231,380          | 228,647          |
| <b>Total non-current asset</b>                                  |       | <b>231,380</b>   | 228,647          |
| <b>Current assets</b>                                           |       |                  |                  |
| Deposits, prepayments and other receivables                     | 14    | 148              | 1,163            |
| Amounts due from subsidiaries                                   | 17(b) | 104,051          | –                |
| Cash and cash equivalents                                       | 16    | 308,612          | 417,698          |
| <b>Total current assets</b>                                     |       | <b>412,811</b>   | 418,861          |
| <b>Total assets</b>                                             |       | <b>644,191</b>   | 647,508          |
| <b>EQUITY</b>                                                   |       |                  |                  |
| <b>Equity attributable to the equity holders of the Company</b> |       |                  |                  |
| Share capital                                                   | 20    | 6,000            | 6,000            |
| Share premium                                                   | 20    | 408,242          | 408,242          |
| Reserves                                                        | 18(c) | 199,666          | 182,565          |
| Proposed final dividend                                         | 32    | 30,000           | 50,400           |
| <b>Total equity</b>                                             |       | <b>643,908</b>   | 647,207          |
| <b>LIABILITIES</b>                                              |       |                  |                  |
| <b>Current liabilities</b>                                      |       |                  |                  |
| Accruals and other payables                                     |       | 283              | 301              |
| <b>Total current liabilities</b>                                |       | <b>283</b>       | 301              |
| <b>Total liabilities</b>                                        |       | <b>283</b>       | 301              |
| <b>Total equity and liabilities</b>                             |       | <b>644,191</b>   | 647,508          |
| <b>Net current assets</b>                                       |       | <b>412,528</b>   | 418,560          |
| <b>Total assets less current liabilities</b>                    |       | <b>643,908</b>   | 647,207          |

CHING Chi Fai  
Director

CHAN Yim Ching  
Director

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

|                                                                                             | Note  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Revenue                                                                                     | 5     | 811,336          | 876,044          |
| Cost of sales                                                                               | 24    | (576,768)        | (643,528)        |
| <b>Gross profit</b>                                                                         |       | <b>234,568</b>   | 232,516          |
| Distribution costs                                                                          | 24    | (73,135)         | (67,855)         |
| Administrative expenses                                                                     | 24    | (56,258)         | (51,447)         |
| Other income                                                                                | 25    | 1,480            | 1,068            |
| <b>Operating profit</b>                                                                     |       | <b>106,655</b>   | 114,282          |
| Finance income                                                                              | 28    | 1,848            | 12,062           |
| Finance costs                                                                               | 28    | (505)            | (4,950)          |
| Share of profit of an associated company                                                    | 10(a) | 118              | 123              |
| Fair value gains on investment properties                                                   | 8     | 11,597           | –                |
| <b>Profit before income tax</b>                                                             |       | <b>119,713</b>   | 121,517          |
| Income tax expenses                                                                         | 29    | (25,357)         | (20,673)         |
| <b>Profit for the year</b>                                                                  |       | <b>94,356</b>    | 100,844          |
| <b>Other comprehensive income</b>                                                           |       |                  |                  |
| Currency translation differences                                                            |       | 315              | 4,298            |
| <b>Total comprehensive income for the year</b>                                              |       | <b>94,671</b>    | 105,142          |
| <b>Profit/(loss) attributable to:</b>                                                       |       |                  |                  |
| Equity holders of the Company                                                               |       | 96,069           | 100,870          |
| Minority interest                                                                           |       | (1,713)          | (26)             |
|                                                                                             |       | <b>94,356</b>    | 100,844          |
| <b>Total comprehensive income/(loss) attributable to:</b>                                   |       |                  |                  |
| Equity holders of the Company                                                               |       | 96,387           | 105,168          |
| Minority interest                                                                           |       | (1,716)          | (26)             |
|                                                                                             |       | <b>94,671</b>    | 105,142          |
| <b>Earnings per share attributable to equity holders of the Company (Expressed in HK\$)</b> |       |                  |                  |
| – Basic                                                                                     | 31    | 0.16             | 0.17             |
| – Diluted                                                                                   | 31    | 0.16             | 0.17             |
| <b>Dividends</b>                                                                            |       |                  |                  |
| Interim dividend paid                                                                       | 32    | 18,000           | –                |
| Proposed final dividend                                                                     | 32    | 30,000           | 50,400           |
|                                                                                             |       | <b>48,000</b>    | 50,400           |

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

|                                               | Attributable to equity holders of the Company |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
|-----------------------------------------------|-----------------------------------------------|---------------------------|--------------------------------------------|----------------------------------------------------|---------------------------------------------------------------|-------------------------------|-------------------------------|-------------------|-------------------------------|-------------------|
|                                               | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Merger reserve<br>(Note 18(a))<br>HK\$'000 | Statutory reserve fund<br>(Note 18(b))<br>HK\$'000 | Share-based compensation<br>reserves<br>(Note 19)<br>HK\$'000 | Exchange reserves<br>HK\$'000 | Retained earnings<br>HK\$'000 | Total<br>HK\$'000 | Minority interest<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Balance at 1 January 2008</b>              | 6,000                                         | 408,242                   | 61,510                                     | 2,101                                              | -                                                             | 7,625                         | 220,688                       | 706,166           | -                             | 706,166           |
| <b>Comprehensive income/(loss)</b>            |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
| Profit/(loss) for the year                    | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | 100,870                       | 100,870           | (26)                          | 100,844           |
| <b>Other comprehensive income</b>             |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
| Currency translation differences              | -                                             | -                         | -                                          | -                                                  | -                                                             | 4,298                         | -                             | 4,298             | -                             | 4,298             |
| <b>Total comprehensive income/(loss)</b>      | -                                             | -                         | -                                          | -                                                  | -                                                             | 4,298                         | 100,870                       | 105,168           | (26)                          | 105,142           |
| Dividends relating to 2007                    | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | (50,400)                      | (50,400)          | -                             | (50,400)          |
| Profit appropriation to statutory reserves    | -                                             | -                         | -                                          | 4,468                                              | -                                                             | -                             | (4,468)                       | -                 | -                             | -                 |
| Capital injection from a minority shareholder | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | -                             | -                 | 26                            | 26                |
| <b>Balance at 31 December 2008</b>            | 6,000                                         | 408,242                   | 61,510                                     | 6,569                                              | -                                                             | 11,923                        | 266,690                       | 760,934           | -                             | 760,934           |
| <b>Balance at 1 January 2009</b>              | 6,000                                         | 408,242                   | 61,510                                     | 6,569                                              | -                                                             | 11,923                        | 266,690                       | 760,934           | -                             | 760,934           |
| <b>Comprehensive income/(loss)</b>            |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
| Profit/(loss) for the year                    | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | 96,069                        | 96,069            | (1,713)                       | 94,356            |
| <b>Other comprehensive income/(loss)</b>      |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
| Currency translation differences              | -                                             | -                         | -                                          | -                                                  | -                                                             | 318                           | -                             | 318               | (3)                           | 315               |
| <b>Total comprehensive income/(loss)</b>      | -                                             | -                         | -                                          | -                                                  | -                                                             | 318                           | 96,069                        | 96,387            | (1,716)                       | 94,671            |
| Final dividend relating to 2008               | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | (50,400)                      | (50,400)          | -                             | (50,400)          |
| Interim dividend relating to 2009             | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | (18,000)                      | (18,000)          | -                             | (18,000)          |
| Profit appropriation to statutory reserves    | -                                             | -                         | -                                          | 3,024                                              | -                                                             | -                             | (3,024)                       | -                 | -                             | -                 |
| Capital injection from minority shareholders  | -                                             | -                         | -                                          | -                                                  | -                                                             | -                             | -                             | -                 | 3,760                         | 3,760             |
| Share-based compensation                      | -                                             | -                         | -                                          | -                                                  | 2,857                                                         | -                             | -                             | 2,857             | -                             | 2,857             |
| <b>Balance at 31 December 2009</b>            | 6,000                                         | 408,242                   | 61,510                                     | 9,593                                              | 2,857                                                         | 12,241                        | 291,335                       | 791,778           | 2,044                         | 793,822           |
| Representing:                                 |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               |                   |
| Share capital and reserves                    |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               | 763,822           |
| Proposed final dividend (Note 32)             |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               | 30,000            |
| <b>Balance at 31 December 2009</b>            |                                               |                           |                                            |                                                    |                                                               |                               |                               |                   |                               | 793,822           |

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

|                                                               | Note  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------------------|-------|------------------|------------------|
| <b>Cash flows from operating activities</b>                   |       |                  |                  |
| Cash generated from operations                                | 33(a) | 146,549          | 81,447           |
| Interest paid                                                 |       | (4,533)          | (922)            |
| Income tax paid                                               |       | (9,880)          | (42,980)         |
| <b>Net cash generated from operating activities</b>           |       | <b>132,136</b>   | 37,545           |
| <b>Cash flows from investing activities</b>                   |       |                  |                  |
| Purchase of property, plant and equipment ("PPE")             | 7     | (42,343)         | (23,476)         |
| Purchase of leasehold land and land use rights                | 6     | (53,591)         | (1,422)          |
| Purchase of intangible assets                                 | 9     | (177)            | –                |
| Purchase of investment properties                             | 8     | (71,043)         | –                |
| Proceeds from sales of PPE                                    | 33(b) | 158              | 578              |
| Interest received                                             |       | 5,296            | 9,222            |
| <b>Net cash used in investing activities</b>                  |       | <b>(161,700)</b> | (15,098)         |
| <b>Cash flows from financing activities</b>                   |       |                  |                  |
| Decrease/(increase) in restricted cash                        | 15    | 65,888           | (33,362)         |
| Proceeds from borrowings                                      | 33(c) | 64,400           | 61,323           |
| Repayments of borrowings                                      | 33(c) | (63,994)         | (53,152)         |
| Dividends paid                                                |       | (68,400)         | (50,400)         |
| Capital injection from minority shareholders                  |       | 3,760            | 26               |
| Proceeds from loans from minority shareholders                | 33(c) | 20               | 625              |
| <b>Net cash generated from/(used in) financing activities</b> |       | <b>1,674</b>     | (74,940)         |
| <b>Net decrease in cash and cash equivalents</b>              |       |                  |                  |
| Cash and cash equivalents at the beginning of the year        |       | 482,704          | 535,024          |
| Exchange gains on cash and cash equivalents                   |       | 201              | 173              |
| <b>Cash and cash equivalents at the end of the year</b>       | 16    | <b>455,015</b>   | 482,704          |

The notes on pages 45 to 107 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 1 GENERAL INFORMATION

Ming Fai International Holdings Limited (the "Company") is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and sales of amenity products and accessories.

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. Its registered address is at the office of M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company has its primary listing on The Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollar (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors ("the Board") on 18 March 2010.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) 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 as modified by the revaluation of investment properties, and certain financial liabilities (including derivative instruments) at fair value through profit or loss.

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 4.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (a) Basis of preparation *(Continued)*

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group.

The Group has adopted the following new standards and amended HKFRS as at 1 January 2009:

- HKAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- HKFRS 8, ‘Operating segments’. HKFRS 8 replaces HKAS 14, ‘Segment reporting’. It requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. The financial information has been prepared under the new requirement. This has resulted in an increase in the number of reportable segments presented. In addition, operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board that makes strategic decisions.
- Amendment to HKFRS 7, ‘Financial instruments: disclosures’. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant to the Group:

|                         |                                                    |
|-------------------------|----------------------------------------------------|
| HKFRS 2 (amendment)     | Share-based payment                                |
| HKAS 23 (amendment)     | Borrowing costs                                    |
| HKAS 32 (amendment)     | Financial instruments: presentation                |
| HK(IFRIC) 9 (amendment) | Reassessment of embedded derivatives               |
| HKAS 39 (amendment)     | Financial instruments: Recognition and measurement |
| HK(IFRIC) 13            | Customer loyalty programmes                        |
| HK(IFRIC) 15            | Agreements for the construction of real estate     |
| HK(IFRIC) 16            | Hedges of a net investment in a foreign operation  |

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods, but the Group has not early adopted them:

|                     |                                                       | <b>Effective for<br/>annual periods<br/>beginning on<br/>or after</b> |
|---------------------|-------------------------------------------------------|-----------------------------------------------------------------------|
| HKAS 1 (Amendment)  | Presentation of financial statements                  | 1 January 2010                                                        |
| HKAS 7 (Amendment)  | Statement of cash flows                               | 1 January 2010                                                        |
| HKAS 17 (Amendment) | Leases                                                | 1 January 2010                                                        |
| HKAS 24 (Revised)   | Related party disclosures                             | 1 January 2011                                                        |
| HKAS 27 (Revised)   | Consolidated and separate<br>financial statements     | 1 January 2010                                                        |
| HKAS 32 (Amendment) | Classification of rights issue                        | 1 February 2010                                                       |
| HKAS 39 (Amendment) | Eligible hedge items                                  | 1 July 2009                                                           |
| HKFRS 1 (Revised)   | First-time adoption of HKFRS                          | 1 July 2009                                                           |
| HKFRS 2 (Amendment) | Group cash-settled share-based<br>payment transaction | 1 January 2010                                                        |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(a) Basis of preparation** (Continued)

|                                                                   |                                                                                                                                                                     | <b>Effective for<br/>annual periods<br/>beginning on<br/>or after</b> |
|-------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| HKFRS 3 (Revised)                                                 | Business combination                                                                                                                                                | 1 January 2010                                                        |
| HKFRS 9                                                           | Financial instruments                                                                                                                                               | 1 January 2013                                                        |
| Amendment to<br>HK(IFRIC) 14                                      | Prepayments of a minimum<br>funding requirement                                                                                                                     | 1 January 2011                                                        |
| HK(IFRIC) 17                                                      | Distribution of non-cash assets to owners                                                                                                                           | 1 July 2009                                                           |
| HK(IFRIC) 19                                                      | Extinguishing financial liabilities<br>with equity instruments                                                                                                      | 1 July 2010                                                           |
| <i>Improvements to HKFRS published by HKICPA in May 2008:</i>     |                                                                                                                                                                     |                                                                       |
| HKFRS 5                                                           | Non-current assets held for sale and<br>discontinued operations<br>(and consequence amendment to<br>HKFRS 1 "First-time adoption")                                  | 1 July 2009                                                           |
| <i>Improvements to HKFRS published by HKICPA in October 2008:</i> |                                                                                                                                                                     |                                                                       |
| HKAS 1 (Amendment)                                                | Current/non-current classification of<br>convertible instruments                                                                                                    | 1 January 2010                                                        |
| HKAS 7 (Amendment)                                                | Classification of expenditures on<br>unrecognised assets                                                                                                            | 1 January 2010                                                        |
| HKAS 17 (Amendment)                                               | Classification of leases of<br>land and buildings                                                                                                                   | 1 January 2010                                                        |
| HKAS 36 (Amendment)                                               | Unit of accounting for goodwill<br>impairment test                                                                                                                  | 1 January 2010                                                        |
| HKAS 38 (Amendment)                                               | Additional consequential amendments<br>arising from HKFRS 3 (revised) and<br>measuring the fair value of an<br>intangible asset acquired in<br>business combination | 1 July 2009                                                           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

|                                   |                                                                                                                                   |                |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------|
| HKAS 39 (Amendment)               | Treating loan prepayment penalties as closely related derivatives                                                                 | 1 January 2010 |
| HKAS 39 (Amendment)               | Cash flow hedge accounting                                                                                                        | 1 January 2010 |
| HKAS 39 (Amendment)               | Scope exemption for business combination contracts                                                                                | 1 January 2010 |
| HKFRS 2 (Amendment)               | Scope of HKFRS 2 and HKFRS 3 (revised)                                                                                            | 1 July 2009    |
| HKFRS 5 (Amendment)               | Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations | 1 January 2010 |
| HKFRS 8 (Amendment)               | Disclosure of information about segment assets                                                                                    | 1 January 2010 |
| HK(IFRIC) and HKFRS 3 (Amendment) | Reassessment of embedded derivatives                                                                                              | 1 July 2009    |
| HK(IFRIC) 16 (Amendment)          | Hedges of a net investment in a foreign operation                                                                                 | 1 July 2009    |

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

#### (b) 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. 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (b) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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 statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

#### (c) 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 statement of comprehensive income, 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

#### (e) 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 the Group's 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 statement of comprehensive income.

##### (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 consolidated statement of comprehensive income 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 statement of comprehensive income as part of the gain or loss on sale.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) 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 statement of comprehensive income 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 statement of comprehensive income.

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) 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 statement of comprehensive income on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated statement of comprehensive income.

#### (h) Investment properties

Properties that are held for long-term rental yields and not occupied by the Group, are classified as investment properties.

Investment properties are measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices from less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers with changes in fair values are recorded in the consolidated statement of comprehensive income.

#### (i) 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.

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

Assets that have an indefinite useful life 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).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(k) 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.

#### **(l) Derivatives instruments**

Derivative instruments that do not qualify for hedge accounting are classified as financial assets at fair value through profit or loss. The derivative instruments are initially recognised and subsequent remeasured at fair value. Changes in the fair value of these derivative instruments are recognised in the consolidated statement of comprehensive income.

#### **(m) 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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) 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 statement of comprehensive income. 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 statement of comprehensive income.

#### (o) Cash and cash equivalents

Cash and cash equivalents includes cash on 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.

#### (p) Trade payables

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

#### (q) 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 statement of comprehensive income 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (r) 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 and its 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. It 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (s) Employee benefits

##### (i) 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Employee benefits (Continued)

##### (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.

##### (iii) Pension obligations

The Group companies in the People's Republic of China (the "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.

##### (iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments options of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (s) Employee benefits *(Continued)*

##### (iv) *Share-based compensation (Continued)*

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

##### (v) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (t) 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.

#### (u) 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.

##### (i) Sales of goods – wholesale

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (u) Revenue recognition *(Continued)*

##### (ii) Rental income

Rental income from investment properties is on a straight-line basis over the period of the lease term.

##### (iii) Interest income

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

#### (v) 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 statement of comprehensive income on a straight-line basis over the period of the lease.

#### (w) 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.

#### (x) 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.

### 3 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (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.

During the year ended 31 December 2009, if HK\$ had strengthened/weakened by 5% against the RMB, with all other variables held constant, post-tax profit for the year would have been approximately HK\$1,034,000 (2008: HK\$5,294,000), lower or higher.

##### (ii) Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions which generate interest income for the Group.

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 21.

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

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 200 basis-point shift would be a maximum increase/decrease of HK\$194,000 (2008: HK\$1,294,000) for the year ended 31 December 2009.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (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 ongoing 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 based on their past repayment patterns, latest business developments and other factors. The Group's historical experience in collection of trade and bills receivables falls within the recorded allowances.

The table below shows the credit limit and balance of the five major debtors at 31 December 2009 and 31 December 2008.

| Counterparty | As at 31 December          |                      |                            |                      |
|--------------|----------------------------|----------------------|----------------------------|----------------------|
|              | 2009                       |                      | 2008                       |                      |
|              | Credit limited<br>HK\$'000 | Utilised<br>HK\$'000 | Credit limited<br>HK\$'000 | Utilised<br>HK\$'000 |
| A            | 12,000                     | 11,768               | 12,000                     | 9,590                |
| B            | 18,000                     | 11,273               | 18,000                     | 12,188               |
| C            | 12,000                     | 10,481               | 12,000                     | 8,700                |
| D            | 10,000                     | 9,926                | 9,000                      | 7,878                |
| E            | 10,000                     | 9,479                | 10,000                     | 8,874                |
| F            | 12,000                     | 5,645                | 12,000                     | 11,241               |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**3 FINANCIAL RISK MANAGEMENT (Continued)****(a) Financial risk factors (Continued)****(iv) Credit risk (Continued)**

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 |                  |
|----------------------------------------------|-------------------|------------------|
|                                              | 2009<br>HK\$'000  | 2008<br>HK\$'000 |
| Trade and bills receivables                  |                   |                  |
| Customers accepted within the past 12 months | 14,116            | 8,553            |
| Customers accepted beyond the past 12 months | 98,476            | 90,826           |
| <b>Total</b>                                 | <b>112,592</b>    | <b>99,379</b>    |

Bank deposits placed in the licensed banks of Hong Kong are secured by the Hong Kong Deposits Protection Board and Hong Kong Special Administrative Region Government Exchange Fund.

The restricted cash and cash and cash equivalents are analysed below:

|                                  | As at 31 December |                  |
|----------------------------------|-------------------|------------------|
|                                  | 2009<br>HK\$'000  | 2008<br>HK\$'000 |
| <b>Cash and cash equivalents</b> |                   |                  |
| Cash at banks and bank deposits  |                   |                  |
| Listed financial institutions    | 454,307           | 479,046          |
| Unlisted financial institutions  | 336               | 2,758            |
|                                  | <b>454,643</b>    | 481,804          |
| Cash on hand                     | 372               | 900              |
| <b>Total</b>                     | <b>455,015</b>    | <b>482,704</b>   |
| <b>Restricted cash</b>           |                   |                  |
| Listed financial institution     | –                 | 65,888           |
| <b>Total</b>                     | <b>–</b>          | <b>65,888</b>    |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**3 FINANCIAL RISK MANAGEMENT** (Continued)**(a) Financial risk factors** (Continued)**(v) Liquidity risk**

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

As at 31 December 2009, the cash and cash equivalents of the Group approximated HK\$455,015,000 (2008: HK\$482,704,000).

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.

|                                  | <b>Less than<br/>1 year</b> | <b>Between<br/>1 and 2<br/>years</b> | <b>Between<br/>2 and 5<br/>years</b> | <b>Over<br/>5 years</b> | <b>Total</b> |
|----------------------------------|-----------------------------|--------------------------------------|--------------------------------------|-------------------------|--------------|
|                                  | HK\$'000                    | HK\$'000                             | HK\$'000                             | HK\$'000                | HK\$'000     |
| <b>At 31 December 2008</b>       |                             |                                      |                                      |                         |              |
| Borrowings                       | 67,993                      | –                                    | –                                    | –                       | 67,993       |
| Trade payables                   | 82,968                      | –                                    | –                                    | –                       | 82,968       |
| Accruals and other payables      | 37,225                      | –                                    | –                                    | –                       | 37,225       |
| Loan from a minority shareholder | 495                         | –                                    | –                                    | –                       | 495          |
| <b>At 31 December 2009</b>       |                             |                                      |                                      |                         |              |
| Borrowings                       | 6,709                       | 6,709                                | 20,128                               | 32,988                  | 66,534       |
| Trade payables                   | 89,785                      | –                                    | –                                    | –                       | 89,785       |
| Accruals and other payables      | 44,917                      | –                                    | –                                    | –                       | 44,917       |
| Loans from minority shareholders | 661                         | –                                    | –                                    | –                       | 661          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 3 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 considers a gearing ratio of not more than 30% as reasonable.

|               | As at 31 December |                  |
|---------------|-------------------|------------------|
|               | 2009<br>HK\$'000  | 2008<br>HK\$'000 |
| Borrowings    | 63,884            | 63,460           |
| Total equity  | 793,822           | 760,934          |
| Gearing ratio | 8.0%              | 8.3%             |

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to interest bearing current accounts and time deposits, with appropriate maturities to manage its overall liquidity position. As at 31 December 2009, the Group maintains cash and cash equivalents of approximately HK\$455,015,000 (2008: HK\$482,704,000), respectively, that are expected to be readily available to meet the cash outflows of its financial liabilities.

#### (c) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, restricted cash, trade and bills receivables, trade payables, amounts due from subsidiaries, amount due from an associated company, borrowings and loans from minority shareholders, approximate their fair values due to their short maturities.

As at 31 December 2008, the fair value of forward contracts, which are classified as derivative financial instruments, is determined using forward exchange rate at the balance sheet date. There were no such contracts as at 31 December 2009.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 4 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, Australia 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.

##### (iii) *Estimated valuation of investment properties*

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair values estimated. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers by using the open market value approach, and (ii) other principal assumptions including the receipt of contractual rentals, expected future market rentals and discount rates to determine the fair value of the investment properties. Had the Group used different future market rentals, discount rates and other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated statement of comprehensive income.

##### (iv) *Estimated valuation of share-based compensation*

The Group operates a share option scheme. The fair value of the options granted during the year (Note 19) is determined by using valuation techniques. The Group uses its judgements to select the valuation method and make assumptions for the significant inputs into the valuation model. At each balance sheet date, the Group reviews its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (b) Critical judgements

##### (i) *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\$15,760,000 (2008: HK\$16,825,000) as at 31 December 2009. Accordingly, no impairment for such assets is considered necessary to be made according to the Group's accounting policies.

If there were any disputes 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.

##### (ii) *Impairment of trade and bills receivables*

The Group makes provision for impairment of trade and bills receivables based on an assessment of the recoverability of trade and bills receivables. Provisions are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and provision for impaired receivables in the year in which such estimate has been changed.

##### (iii) *Impairment of obsolete inventories*

The Group makes provision for obsolete inventories based on consideration of obsolescence of raw materials and work in progress and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventory and impairment provision in the year in which such estimate has been changed.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**5 SEGMENT INFORMATION** (Continued)

|                                                                                                   | <b>The PRC</b> | <b>Hong Kong</b> | <b>Australia</b> | <b>Other<br/>locations<br/>(Note iii)</b> | <b>Total</b>     |
|---------------------------------------------------------------------------------------------------|----------------|------------------|------------------|-------------------------------------------|------------------|
|                                                                                                   | HK\$'000       | HK\$'000         | HK\$'000         | HK\$'000                                  | HK\$'000         |
| <b>As at 31 December 2009</b>                                                                     |                |                  |                  |                                           |                  |
| Total assets                                                                                      | <b>320,427</b> | <b>723,610</b>   | <b>2,697</b>     | <b>15,223</b>                             | <b>1,061,957</b> |
| Include:                                                                                          |                |                  |                  |                                           |                  |
| Investment in an associated company                                                               | –              | <b>396</b>       | –                | –                                         | <b>396</b>       |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | <b>30,846</b>  | <b>136,176</b>   | <b>117</b>       | <b>15</b>                                 | <b>167,154</b>   |
| <b>Total liabilities</b>                                                                          | <b>144,230</b> | <b>121,603</b>   | <b>1,050</b>     | <b>1,252</b>                              | <b>268,135</b>   |
| <b>As at 31 December 2008</b>                                                                     |                |                  |                  |                                           |                  |
| Total assets                                                                                      | 374,224        | 623,739          | 859              | 12,340                                    | 1,011,162        |
| Include:                                                                                          |                |                  |                  |                                           |                  |
| Investment in an associated company                                                               | –              | 278              | –                | –                                         | 278              |
| Additions to non-current assets (other than financial instruments and deferred income tax assets) | 20,744         | 3,159            | 619              | 376                                       | 24,898           |
| <b>Total liabilities</b>                                                                          | <b>205,718</b> | <b>43,409</b>    | <b>508</b>       | <b>593</b>                                | <b>250,228</b>   |

## Notes:

- (i) Other Asia Pacific countries mainly include Japan, United Arab Emirates, Thailand, Philippines, Malaysia, Singapore, Fiji and New Zealand.
- (ii) Others mainly include South Africa, Egypt, Morocco and Nigeria.
- (iii) Other locations mainly include Singapore and British Virgin Islands.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 5 SEGMENT INFORMATION (Continued)

The Group is domiciled in Hong Kong and the PRC. The result of its revenue from external customers in Hong Kong and the PRC for the year 31 December 2009 is approximately HK\$250,846,000 (2008: approximately HK\$238,726,000), and the total of its revenue from external customers from other countries is approximately HK\$560,490,000 (2008: approximately HK\$637,318,000).

At 31 December 2009, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong and the PRC are approximately HK\$303,422,000. (2008: approximately HK\$149,762,000), and the total of the non-current assets located in other countries is approximately HK\$1,020,000 (2008: approximately HK\$1,134,000).

### 6 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 |                  |
|----------------------------------|-------------------|------------------|
|                                  | 2009<br>HK\$'000  | 2008<br>HK\$'000 |
| Opening net book amount          | 15,245            | 13,568           |
| Additions                        | 53,591            | 1,422            |
| Amortisation (Note 24)           | (610)             | (340)            |
| Exchange differences             | 19                | 595              |
| Closing net book amount          | 68,245            | 15,245           |
| In Hong Kong, held on:           |                   |                  |
| Leases of between 10 to 50 years | 55,382            | 3,390            |
| In the PRC, held on:             |                   |                  |
| Leases of between 10 to 50 years | 11,392            | 10,362           |
| Leases of over 50 years          | 1,471             | 1,493            |
|                                  | 68,245            | 15,245           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**6 LEASEHOLD LAND AND LAND USE RIGHTS** (Continued)

Amortisation of the Group's leasehold land and land use rights has been charged to the consolidated statement of comprehensive income as follows:

|                         | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Cost of sales           | 53               | 53               |
| Distribution costs      | 237              | 199              |
| Administrative expenses | 320              | 88               |
|                         | <b>610</b>       | 340              |

During the year ended 31 December 2009, the Group has entered into a RMB35 million banking facilities arrangement. This facility has not been utilised as at 31 December 2009. The banking facilities are secured by certain leasehold land and land use rights with an aggregate carrying value of approximately HK\$2,146,000 and property, plant and equipments with a net carrying value of approximately HK\$26,225,000.

In November 2009, the Group has also entered into a HK\$ denominated mortgage loan arrangement with a commercial bank in Hong Kong. Certain leasehold land and land use rights with an aggregate carrying value of approximately HK\$52,080,000 were pledged as security for the mortgage loan drawn by the Group (Note 21).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 7 PROPERTY, PLANT AND EQUIPMENT

|                                    | Buildings     | Leasehold improvements | Motor vehicles | Furniture and fixtures | Computer equipment | Plant and machinery | Construction in progress | Total          |
|------------------------------------|---------------|------------------------|----------------|------------------------|--------------------|---------------------|--------------------------|----------------|
|                                    | HK\$'000      | HK\$'000               | HK\$'000       | HK\$'000               | HK\$'000           | HK\$'000            | HK\$'000                 | HK\$'000       |
| <b>At 1 January 2008</b>           |               |                        |                |                        |                    |                     |                          |                |
| 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)       |
| <b>Net book amount</b>             | <b>53,594</b> | <b>31,228</b>          | <b>3,459</b>   | <b>1,878</b>           | <b>1,942</b>       | <b>34,085</b>       | <b>612</b>               | <b>126,798</b> |
| <b>Year ended 31 December 2008</b> |               |                        |                |                        |                    |                     |                          |                |
| Opening net book amount            | 53,594        | 31,228                 | 3,459          | 1,878                  | 1,942              | 34,085              | 612                      | 126,798        |
| Additions                          | 2,251         | 64                     | 4,510          | 1,092                  | 1,076              | 12,221              | 2,262                    | 23,476         |
| Transfer upon completion           | -             | 751                    | -              | -                      | -                  | 564                 | (1,315)                  | -              |
| Disposals                          | -             | -                      | -              | -                      | -                  | (106)               | -                        | (106)          |
| Depreciation (Note 24)             | (3,609)       | (4,366)                | (1,818)        | (960)                  | (1,219)            | (9,532)             | -                        | (21,504)       |
| Exchange differences               | 2,936         | 1,483                  | 96             | 54                     | 89                 | 1,484               | 44                       | 6,186          |
| <b>Closing net book amount</b>     | <b>55,172</b> | <b>29,160</b>          | <b>6,247</b>   | <b>2,064</b>           | <b>1,888</b>       | <b>38,716</b>       | <b>1,603</b>             | <b>134,850</b> |
| <b>At 31 December 2008</b>         |               |                        |                |                        |                    |                     |                          |                |
| Cost                               | 74,642        | 50,447                 | 10,708         | 4,891                  | 7,495              | 78,006              | 1,603                    | 227,792        |
| Accumulated depreciation           | (19,470)      | (21,287)               | (4,461)        | (2,827)                | (5,607)            | (39,290)            | -                        | (92,942)       |
| <b>Net book amount</b>             | <b>55,172</b> | <b>29,160</b>          | <b>6,247</b>   | <b>2,064</b>           | <b>1,888</b>       | <b>38,716</b>       | <b>1,603</b>             | <b>134,850</b> |
| <b>Year ended 31 December 2009</b> |               |                        |                |                        |                    |                     |                          |                |
| Opening net book amount            | 55,172        | 29,160                 | 6,247          | 2,064                  | 1,888              | 38,716              | 1,603                    | 134,850        |
| Additions                          | 13,066        | 1,562                  | 662            | 534                    | 514                | 22,021              | 3,984                    | 42,343         |
| Transfer upon completion           | -             | 4,514                  | -              | -                      | -                  | 271                 | (4,785)                  | -              |
| Disposals                          | -             | -                      | (69)           | -                      | -                  | (171)               | -                        | (240)          |
| Depreciation (Note 24)             | (3,898)       | (6,151)                | (1,945)        | (1,022)                | (1,257)            | (10,398)            | -                        | (24,671)       |
| Exchange differences               | 80            | 45                     | 24             | 15                     | 10                 | 121                 | 1                        | 296            |
| <b>Closing net book amount</b>     | <b>64,420</b> | <b>29,130</b>          | <b>4,919</b>   | <b>1,591</b>           | <b>1,155</b>       | <b>50,560</b>       | <b>803</b>               | <b>152,578</b> |
| <b>At 31 December 2009</b>         |               |                        |                |                        |                    |                     |                          |                |
| Cost                               | 87,822        | 56,610                 | 10,582         | 5,399                  | 8,007              | 99,615              | 803                      | 268,838        |
| Accumulated depreciation           | (23,402)      | (27,480)               | (5,663)        | (3,808)                | (6,852)            | (49,055)            | -                        | (116,260)      |
| <b>Net book amount</b>             | <b>64,420</b> | <b>29,130</b>          | <b>4,919</b>   | <b>1,591</b>           | <b>1,155</b>       | <b>50,560</b>       | <b>803</b>               | <b>152,578</b> |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**7 PROPERTY, PLANT AND EQUIPMENT** (Continued)

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

|                         | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Cost of sales           | 14,946           | 14,184           |
| Distribution costs      | 1,913            | 2,801            |
| Administrative expenses | 7,812            | 4,519            |
|                         | <b>24,671</b>    | 21,504           |

As at 31 December 2009, certain property, plant and equipment with an aggregate carrying value of approximately HK\$11,415,000 were pledged as security for the mortgage loan drawn by the Group (Note 21). In addition, bank facilities in RMB are secured by certain property, plant and equipment with an aggregate carrying value of approximately HK\$26,225,000 (2008: Nil) (Note 21). This facility has not been utilised as at 31 December 2009.

**8 INVESTMENT PROPERTIES**

|                                           | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------------------|------------------|------------------|
| Open net book value                       | –                | –                |
| Additions                                 | 71,043           | –                |
| Fair value gains on investment properties | 11,597           | –                |
| At 31 December                            | <b>82,640</b>    | –                |

The following amounts have been recognised in the consolidated statement of comprehensive income:

|                                                                                                   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------------------------------------------------------|------------------|------------------|
| Rental income (Note 25)                                                                           | 331              | –                |
| Direct operating expense arising from investment properties that generate rental income (Note 24) | 115              | –                |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 8 INVESTMENT PROPERTIES (Continued)

- (a) The basis of the valuation of investment properties is at fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 2009 revaluations were based on independent assessments made by Vigers Appraisal & Consulting Limited, an independent professional qualified valuer.

- (b) The Group's interests in investment properties at their carrying amounts are analysed as follows:

|                              | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|------------------------------|------------------|------------------|
| In Hong Kong, held on:       |                  |                  |
| Leases of less than 50 years | 82,640           | –                |

- (c) At 31 December 2009, certain investment properties with an aggregate carrying amount of HK\$82,640,000 (2008: Nil) were pledged as security for the mortgage loan drawn by the Group (Note 21).

- (d) At 31 December 2009, the future aggregate minimum lease receipts under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements, which are receivable by the Group as follows:

|                                                  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------------|------------------|------------------|
| Within one year                                  | 3,453            | –                |
| Later than one year but no later than five years | 780              | –                |
|                                                  | 4,233            | –                |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 9 INTANGIBLE ASSETS

|                                    | Trademarks<br>HK\$'000 | Investment<br>in club<br>debentures<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------------------|------------------------|-------------------------------------------------|-------------------|
| <b>At 1 January 2008</b>           |                        |                                                 |                   |
| Cost                               | 74                     | 968                                             | 1,042             |
| Accumulated amortisation           | (20)                   | (395)                                           | (415)             |
| Net book amount                    | 54                     | 573                                             | 627               |
| <b>Year ended 31 December 2008</b> |                        |                                                 |                   |
| Opening net book amount            | 54                     | 573                                             | 627               |
| Amortisation (Note 24)             | (7)                    | (97)                                            | (104)             |
| Closing net book amount            | 47                     | 476                                             | 523               |
| <b>At 31 December 2008</b>         |                        |                                                 |                   |
| Cost                               | 74                     | 968                                             | 1,042             |
| Accumulated amortisation           | (27)                   | (492)                                           | (519)             |
| Net book amount                    | 47                     | 476                                             | 523               |
| <b>Year ended 31 December 2009</b> |                        |                                                 |                   |
| Opening net book amount            | 47                     | 476                                             | 523               |
| Addition                           | 177                    | –                                               | 177               |
| Amortisation (Note 24)             | (20)                   | (97)                                            | (117)             |
| Closing net book amount            | 204                    | 379                                             | 583               |
| <b>At 31 December 2009</b>         |                        |                                                 |                   |
| Cost                               | 251                    | 968                                             | 1,219             |
| Accumulated amortisation           | (47)                   | (589)                                           | (636)             |
| Net book amount                    | 204                    | 379                                             | 583               |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**10 INVESTMENT IN AN ASSOCIATED COMPANY****(a) Investment in an associated company**

|                              | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|------------------------------|------------------|------------------|
| Beginning of the year        | 278              | 155              |
| Share of profit for the year | 118              | 123              |
| End of the year              | 396              | 278              |

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

| Name of company                           | Particulars<br>of issued<br>shares held | Country of<br>incorporation | %<br>interest<br>held | 31 December 2009 |             |         |        | 31 December 2008 |             |         |        |
|-------------------------------------------|-----------------------------------------|-----------------------------|-----------------------|------------------|-------------|---------|--------|------------------|-------------|---------|--------|
|                                           |                                         |                             |                       | Assets           | Liabilities | Revenue | Profit | Assets           | Liabilities | Revenue | Profit |
|                                           |                                         |                             |                       | MYR              | MYR         | MYR     | MYR    | MYR              | MYR         | MYR     | MYR    |
| Quality Amenities Supply<br>(M) Sdn. Bhd. | 50,000                                  | Malaysia                    | 50%                   | 505,000          | 354,000     | 580,000 | 54,000 | 398,000          | 278,000     | 225,000 | 52,000 |

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

The amount due from an associated company is denominated in Malaysian ringgit ("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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**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:

|                                                                                  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------------------------------------------------|------------------|------------------|
| Deferred income tax assets                                                       |                  |                  |
| – Deferred income tax assets to be realised<br>after more than twelve months     | 4,040            | 6,214            |
| Deferred income tax liabilities                                                  |                  |                  |
| – Deferred income tax liabilities to be settled<br>after more than twelve months | (2,155)          | (343)            |
| Deferred income tax assets, net                                                  | 1,885            | 5,871            |

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

|                                                                               | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------------------------------------------------------|------------------|------------------|
| At beginning of the year                                                      | 5,871            | 4,954            |
| Recognised in the consolidated statement of<br>comprehensive income (Note 29) | (3,992)          | 606              |
| Exchange differences                                                          | 6                | 311              |
| At end of the year                                                            | 1,885            | 5,871            |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**11 DEFERRED INCOME TAX** (Continued)

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

**Deferred income tax liabilities**

|                                                                     | <b>Accelerated tax<br/>depreciation</b> | <b>Revaluation of<br/>investment<br/>properties</b> | <b>Total</b> |
|---------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------|--------------|
|                                                                     | HK\$'000                                | HK\$'000                                            | HK\$'000     |
| <b>At 1 January 2008</b>                                            | (469)                                   | –                                                   | (469)        |
| Recognised in the consolidated<br>statement of comprehensive income | (60)                                    | –                                                   | (60)         |
| Exchange differences                                                | (9)                                     | –                                                   | (9)          |
| <b>At 31 December 2008</b>                                          | (538)                                   | –                                                   | (538)        |
| Recognised in the consolidated<br>statement of comprehensive income | 296                                     | (1,913)                                             | (1,617)      |
| <b>At 31 December 2009</b>                                          | (242)                                   | (1,913)                                             | (2,155)      |

**Deferred income tax assets**

|                                                                     | <b>Decelerated<br/>tax<br/>depreciation</b> | <b>Provision<br/>of assets</b> | <b>Total</b> |
|---------------------------------------------------------------------|---------------------------------------------|--------------------------------|--------------|
|                                                                     | HK\$'000                                    | HK\$'000                       | HK\$'000     |
| <b>At 1 January 2008</b>                                            | 3,454                                       | 1,969                          | 5,423        |
| Recognised in the consolidated<br>statement of comprehensive income | 48                                          | 618                            | 666          |
| Exchange differences                                                | 200                                         | 120                            | 320          |
| <b>At 31 December 2008</b>                                          | 3,702                                       | 2,707                          | 6,409        |
| Recognised in the consolidated<br>statement of comprehensive income | 332                                         | –                              | 332          |
| Write off of deferred tax assets<br>brought forward                 | –                                           | (2,707)                        | (2,707)      |
| Exchange differences                                                | 6                                           | –                              | 6            |
| <b>At 31 December 2009</b>                                          | 4,040                                       | –                              | 4,040        |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**12 INVENTORIES**

|                                          | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|------------------------------------------|--------------------------------|------------------|
| Raw materials                            | <b>33,568</b>                  | 38,458           |
| Work in progress                         | <b>1,546</b>                   | 1,950            |
| Finished goods                           | <b>51,138</b>                  | 49,495           |
|                                          | <b>86,252</b>                  | 89,903           |
| Less: Provision for obsolete inventories | <b>(7,732)</b>                 | (5,108)          |
| Inventories, net                         | <b>78,520</b>                  | 84,795           |

The cost of inventories included in cost of sales during the year amounted to approximately HK\$418,907,000 (2008: HK\$487,187,000).

The gross amount of inventories carried at net realisable value amounted to approximately HK\$7,732,000 (2008: HK\$5,108,000) as at 31 December 2009. Full provision has been made with regard to these balances.

**13 TRADE AND BILLS RECEIVABLES**

|                                               | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|-----------------------------------------------|--------------------------------|------------------|
| Trade receivables                             | <b>182,912</b>                 | 180,778          |
| Bills receivables                             | <b>9,394</b>                   | 6,508            |
| Receivable from a minority shareholder        | <b>476</b>                     | 521              |
|                                               | <b>192,782</b>                 | 187,807          |
| Less: provision for impairment of receivables | <b>(4,593)</b>                 | (6,205)          |
| Trade and bills receivables, net              | <b>188,189</b>                 | 181,602          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**13 TRADE AND BILLS RECEIVABLES** (Continued)

Ageing analysis of trade and bills receivables as at 31 December 2009 is as follows:

|               | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------|------------------|------------------|
| Current       | <b>112,592</b>   | 99,379           |
| 1 – 30 days   | <b>42,860</b>    | 43,570           |
| 31 – 60 days  | <b>15,400</b>    | 18,745           |
| 61 – 90 days  | <b>11,463</b>    | 9,305            |
| 91 – 180 days | <b>5,438</b>     | 9,699            |
| Over 180 days | <b>5,029</b>     | 7,109            |
|               | <b>192,782</b>   | 187,807          |

The credit period granted by the Group ranges from 15 days to 120 days.

|                    | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------|------------------|------------------|
| Denominated in:    |                  |                  |
| – US\$             | <b>91,152</b>    | 98,728           |
| – RMB              | <b>64,873</b>    | 55,837           |
| – HK\$             | <b>21,563</b>    | 24,144           |
| – Other currencies | <b>15,194</b>    | 9,098            |
|                    | <b>192,782</b>   | 187,807          |

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

|                             | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------------------|------------------|------------------|
| Trade and bills receivables | <b>188,189</b>   | 181,602          |

As at 31 December 2009, trade and bills receivables of approximately HK\$4,593,000 (2008: HK\$6,205,000) were impaired and have been provided for. The individually impaired receivables mainly represent sales made to the PRC customers which have remained long overdue.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**13 TRADE AND BILLS RECEIVABLES** (Continued)

As at 31 December 2009, trade and bills receivables of approximately HK\$75,597,000 (2008: HK\$82,223,000) 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:

|                | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------|------------------|------------------|
| Up to 90 days  | 69,723           | 71,498           |
| 91 to 180 days | 5,438            | 9,594            |
| Over 180 days  | 436              | 1,131            |
|                | <b>75,597</b>    | <b>82,223</b>    |

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

|                                                                                 | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------------------------------------|------------------|------------------|
| At beginning of the year                                                        | 6,205            | 4,196            |
| Add: (write-back of)/provision for<br>impairment of trade and bills receivables | <b>(1,612)</b>   | 2,009            |
| At end of the year                                                              | <b>4,593</b>     | <b>6,205</b>     |

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income. 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**14 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

|                                 | Group            |                  | Company          |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Deposits                        | 3,258            | 294              | –                | –                |
| Prepayments                     | 14,065           | 19,361           | 145              | 174              |
| Other receivables               | 11,330           | 11,705           | 3                | 989              |
|                                 | <b>28,653</b>    | 31,360           | <b>148</b>       | 1,163            |
| The fair values are as follows: |                  |                  |                  |                  |
| Deposits                        | 3,258            | 294              | –                | –                |
| Prepayments                     | 14,065           | 19,361           | 145              | 174              |
| Other receivables               | 11,330           | 11,705           | 3                | 989              |
|                                 | <b>28,653</b>    | 31,360           | <b>148</b>       | 1,163            |
| Denominated in:                 |                  |                  |                  |                  |
| – HK\$                          | 8,839            | 5,567            | 148              | 1,134            |
| – RMB                           | 19,110           | 25,057           | –                | –                |
| – US\$                          | –                | 30               | –                | 29               |
| – Other currencies              | 704              | 706              | –                | –                |
|                                 | <b>28,653</b>    | 31,360           | <b>148</b>       | 1,163            |

**15 RESTRICTED CASH**

|                            | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Restricted cash            | –                | 65,888           |
| Denominated in:            |                  |                  |
| – RMB                      | –                | 65,753           |
| – Singapore dollar ("SGD") | –                | 135              |
|                            | –                | 65,888           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**15 RESTRICTED CASH** (Continued)

As at 31 December 2009, no restricted cash is placed (2008: HK\$65,888,000). The balance as at 31 December 2008 mainly represented mandatory reserve deposit placed in bank as pledges against the United States dollars ("US\$") denominated loans. The restricted cash was released during the year after the repayment of the loans, details of which are set out in Note 21.

**16 CASH AND CASH EQUIVALENTS**

|                           | Group            |                  | Company          |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Cash at banks and on hand | <b>278,546</b>   | 99,361           | <b>133,529</b>   | 35,708           |
| Bank deposit              | <b>176,469</b>   | 383,343          | <b>175,083</b>   | 381,990          |
|                           | <b>455,015</b>   | 482,704          | <b>308,612</b>   | 417,698          |
| Denominated in:           |                  |                  |                  |                  |
| – HK\$                    | <b>338,139</b>   | 433,693          | <b>308,612</b>   | 417,698          |
| – RMB                     | <b>20,887</b>    | 18,519           | –                | –                |
| – US\$                    | <b>81,644</b>    | 20,188           | –                | –                |
| – Other currencies        | <b>14,345</b>    | 10,304           | –                | –                |
|                           | <b>455,015</b>   | 482,704          | <b>308,612</b>   | 417,698          |

The effective interest rate on short-term bank deposit was 0.04% (2008: 2.03%) per annum as at 31 December 2009, the deposit has an average maturity of 17 days (2008: 37 days).

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 statement of cash flows:

|                      | Group            |                  |
|----------------------|------------------|------------------|
|                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Cash at bank balance | <b>455,015</b>   | 482,704          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 17 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM SUBSIDIARIES

## (a) Investment in a subsidiary

|                     | Company          |                  |
|---------------------|------------------|------------------|
|                     | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Investment, at cost | 231,380          | 228,647          |

As at 31 December 2009, 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            | Indirectly |
| Ming Fai Holdings Limited                                        | British Virgin Islands, limited liability company | Investment holding; Hong Kong                                        | US\$100                | 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<br>(明輝實業(深圳)有限公司) | The PRC, limited liability company                | Manufacturing and sales of amenity products and accessories; the PRC | HK\$50,000,000         | –                   | 100%       |
| Quality Amenities Supply Pte. Ltd                                | Singapore, limited liability company              | Trading of amenity products and accessories; Singapore               | SG\$100,000            | –                   | 100%       |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**17 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM 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            | Indirectly |
| Luoding Quality Amenities Company Limited<br>(羅定市品質旅遊用品有限公司)       | The PRC, limited liability company              | Manufacturing and sales of amenity products and accessories; the PRC | US\$2,000,000          | –                   | 100%       |
| MF Roommaster Australia Pty Ltd                                    | Australia, limited liability company            | Trading of Amenity products and accessories; Australia               | AUD10,000              | –                   | 51%        |
| 卓譽佳(四川)商貿有限公司                                                      | The PRC, limited liability company              | Trading of amenity products and accessories; the PRC                 | HK\$1,000,000          | –                   | 100%       |
| <i>New subsidiaries set up in 2009:</i>                            |                                                 |                                                                      |                        |                     |            |
| Cinese Textile Ltd<br>(梧州市金富盈酒店紡織用品有限公司)                           | The PRC, limited liability company              | Manufacturing and sales of amenity products and accessories; the PRC | RMB5,000,000           | –                   | 51%        |
| Changshu Mingfai Travel Products Company Limited<br>(常熟明輝旅遊用品有限公司) | The PRC, limited liability company              | Laundry plant under construction; the PRC                            | US\$1,500,000          | –                   | 100%       |
| Prosperity International Creation Ltd                              | Hong Kong, limited liability company            | Retail of amenity products and accessories; Hong Kong                | HK\$2,000,000          | –                   | 51%        |
| Chartered Properties Limited                                       | Hong Kong, limited liability company            | Property holding and investment; Hong Kong                           | HK\$100,000            | –                   | 100%       |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 17 INVESTMENT IN A SUBSIDIARY AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

#### (b) Amounts due from subsidiaries

At 31 December 2009, except for an amount of approximately HK\$72,500,000 due from a subsidiary, which currently bears interest at 5% per annum, and was unsecured and repayable on demand, the remaining balances are unsecured, interest free and repayable on demand. The carrying values of these balances approximate their fair values.

|                                  | Company          |                  |
|----------------------------------|------------------|------------------|
| The balances are denominated in: | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Amounts due from subsidiaries    |                  |                  |
| HK\$                             | <b>104,051</b>   | –                |

### 18 RESERVES

#### (a) Merger reserve

Merger reserve of the Group represents the difference between the cost of investment in subsidiaries and nominal value of the share capital and share premium of the subsidiaries in 2007 arising from the application of merger accounting in the consolidation of the financial information of the consolidating entities.

#### (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 against 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**18 RESERVES** (Continued)**(c) Equity movement of the Company**

|                                    | Share capital<br>HK\$'000 | Share compensation<br>premium<br>HK\$'000 | Share-based<br>reserves<br>HK\$'000 | Merger<br>reserve<br>(Note a)<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------------------|---------------------------|-------------------------------------------|-------------------------------------|-------------------------------------------|----------------------------------|-------------------|
| <b>Balance at 1 January 2008</b>   | 6,000                     | 408,242                                   | –                                   | 224,147                                   | 3,413                            | 641,802           |
| <b>Comprehensive income</b>        |                           |                                           |                                     |                                           |                                  |                   |
| Profit for the year                | –                         | –                                         | –                                   | –                                         | 55,805                           | 55,805            |
| <b>Total comprehensive income</b>  | –                         | –                                         | –                                   | –                                         | 55,805                           | 55,805            |
| Dividends relating to 2007         | –                         | –                                         | –                                   | –                                         | (50,400)                         | (50,400)          |
| <b>Balance at 31 December 2008</b> | 6,000                     | 408,242                                   | –                                   | 224,147                                   | 8,818                            | 647,207           |
| <b>Balance at 1 January 2009</b>   | 6,000                     | 408,242                                   | –                                   | 224,147                                   | 8,818                            | 647,207           |
| <b>Comprehensive income</b>        |                           |                                           |                                     |                                           |                                  |                   |
| Profit for the year                | –                         | –                                         | –                                   | –                                         | 62,244                           | 62,244            |
| <b>Total comprehensive income</b>  | –                         | –                                         | –                                   | –                                         | 62,244                           | 62,244            |
| Final dividends relating to 2008   | –                         | –                                         | –                                   | –                                         | (50,400)                         | (50,400)          |
| Interim dividends relating to 2009 | –                         | –                                         | –                                   | –                                         | (18,000)                         | (18,000)          |
| Share-based compensation           | –                         | –                                         | 2,857                               | –                                         | –                                | 2,857             |
| <b>Balance at 31 December 2009</b> | 6,000                     | 408,242                                   | 2,857                               | 224,147                                   | 2,662                            | 643,908           |
| Representing:                      |                           |                                           |                                     |                                           |                                  |                   |
| Share capital and reserves         |                           |                                           |                                     |                                           |                                  | 613,908           |
| Proposed final dividend (Note 32)  |                           |                                           |                                     |                                           |                                  | 30,000            |
| <b>Balance at 31 December 2009</b> |                           |                                           |                                     |                                           |                                  | 643,908           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 19 SHARE-BASED PAYMENT

Pursuant to a written resolution of the Shareholders dated 5 October 2007, a share option scheme (the "Scheme") was adopted by the Company. Pursuant to the Scheme, the Board may, at its discretion, grant any full time or part time employees, including the directors of any member of the Group, options to subscribe for ordinary shares of the Company. Details of the Scheme are disclosed under the paragraph "Share Option Scheme" in the Directors' Report and in the prospectus of the Company dated 22 October 2007.

At 23 June 2009, a total of 32,000,000 share options were granted to certain directors and employees, and a total of 1,158,000 share options were lapsed/forfeited during the year of 2009. 50% of the options are exercisable after two years from date of grant and the remaining of 50% of the options exercisable after four years from date of grant. The grantees can exercise the options at an exercise price of HK\$1.12 per share. The options shall lapse on 23 June 2019, or when the grantees ceased to be an eligible person as defined in the Scheme.

The fair value of the share options granted on 23 June 2009, determined using the binominal model (the "Model"), ranging from HK\$0.4085 to HK\$0.4801 per option. The significant inputs into the model were the closing price of the share on the grant date of HK\$1.11 per share, the expected dividend yield rate of 6.51% and risk-free rate of 2.865%. The volatility measured is based on the historical volatility of the Company prior to the issuance of the option. The expected volatility used in the calculation is based on the weekly price change over the past 20 months.

The total expense recognised in the consolidated statement of comprehensive income for share options granted to directors and employees approximates HK\$2,857,000 during the year ended 31 December 2009.

Movements in the number of share options outstanding and their related exercise prices are as follows:

|                       | <b>2009</b>                                             |                                                 |
|-----------------------|---------------------------------------------------------|-------------------------------------------------|
|                       | <b>Average exercise<br/>price in HK\$<br/>per share</b> | <b>No. of<br/>Share options<br/>(thousands)</b> |
| <b>At 1 January</b>   |                                                         |                                                 |
| Granted               | 1.12                                                    | 32,000                                          |
| Lapsed/forfeited      | 1.12                                                    | (1,158)                                         |
| Exercised             | –                                                       | –                                               |
| Expired               | –                                                       | –                                               |
| <b>At 31 December</b> | 1.12                                                    | 30,842                                          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**19 SHARE-BASED PAYMENT** (Continued)

Share options outstanding at the end of the year have the following expiry date and exercise price:

| Expiry date  | Exercise price in HK\$ per share | No. of Share options (thousands) |
|--------------|----------------------------------|----------------------------------|
| 23 June 2019 | 1.12                             | 30,842                           |

No options are exercisable as at 31 December 2009.

**20 SHARE CAPITAL AND SHARE PREMIUM**

|                                         | 2009                  |                | 2008           |          |
|-----------------------------------------|-----------------------|----------------|----------------|----------|
|                                         | No. of shares         | HK\$'000       | No. of shares  | HK\$'000 |
| <b>Ordinary shares of HK\$0.01 each</b> |                       |                |                |          |
| Authorised:                             |                       |                |                |          |
| At 1 January and 31 December            | <b>10,000,000,000</b> | <b>100,000</b> | 10,000,000,000 | 100,000  |
| Issued and fully paid:                  |                       |                |                |          |
| At 1 January and 31 December            | <b>600,000,000</b>    | <b>6,000</b>   | 600,000,000    | 6,000    |

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 approximately HK\$37,258,000, which amounting to approximately HK\$408,242,000, was credited to the share premium account of the Company.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 21 BORROWINGS

|                                              | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------------|------------------|------------------|
| <b>Non-current:</b>                          |                  |                  |
| Long-term bank borrowings                    | 57,677           | –                |
| <b>Current:</b>                              |                  |                  |
| Short-term bank borrowings                   | –                | 63,460           |
| Current portion of long-term bank borrowings | 6,207            | –                |
|                                              | <b>63,884</b>    | 63,460           |
| Representing:                                |                  |                  |
| Secured                                      | <b>63,884</b>    | 63,460           |

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

|                                                  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------------|------------------|------------------|
| <b>Non-current:</b>                              |                  |                  |
| – HK\$                                           | 57,677           | –                |
| Representing:                                    |                  |                  |
| Later than one year and no later than five years | 25,358           |                  |
| Over five years                                  | 32,319           | –                |
|                                                  | <b>57,677</b>    | –                |

|                 | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------|------------------|------------------|
| <b>Current:</b> |                  |                  |
| – HK\$          | 6,207            | –                |
| – US\$          | –                | 63,460           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 21 BORROWINGS (Continued)

The weighted average effective interest rate per annum of the Group's borrowings at 31 December 2009 and 31 December 2008 are set out as follows:

|                   | 2009         | 2008  |
|-------------------|--------------|-------|
| Total borrowings: |              |       |
| – HK\$            | <b>0.81%</b> | –     |
| – US\$            | –            | 6.22% |

In November 2009, the Group has obtained a HK\$ denominated mortgage loan, which bears interest at the lower of one month Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.75% and HK\$ Prime rate less 1.75%, for acquiring certain properties in Hong Kong. These properties were pledged against the mortgage loan and included in leasehold land and land use rights (Note 6), property, plant and equipment (Note 7) and investment properties (Note 8) in the consolidated financial statements of the Group, with net carrying values of HK\$52,080,000, HK\$11,415,000 & HK\$82,640,000, respectively, as at 31 December 2009.

In 2008, the Group entered into arrangements with a bank in the PRC. Under these arrangements, borrowings denominated in US\$ with maturities of 12 months were drawn. Simultaneously, RMB equivalent amounts in the forms of fixed term deposits and having the same maturities with the US\$ loans, were placed with that bank. These RMB deposits were used to pledge against the loans (Note 15). The RMB deposits would be converted to US\$ at forward exchange rates specified in the arrangements upon maturities for repayment of the US\$ loans. The related borrowings were settled during the year end 31 December 2009.

The carrying amounts of long-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:

|                            | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Floating rate              |                  |                  |
| – Expiring within one year | <b>39,765</b>    | –                |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 22 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

|                    | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------|------------------|------------------|
| Current            | <b>55,474</b>    | 51,372           |
| 1 – 30 days        | <b>27,194</b>    | 25,035           |
| 31 – 60 days       | <b>2,789</b>     | 2,828            |
| 61 – 90 days       | <b>2,349</b>     | 379              |
| Over 90 days       | <b>1,979</b>     | 3,354            |
|                    | <b>89,785</b>    | 82,968           |
| Denominated in:    |                  |                  |
| – HK\$             | <b>13,792</b>    | 12,956           |
| – RMB              | <b>69,921</b>    | 60,421           |
| – US\$             | <b>5,301</b>     | 9,008            |
| – Other currencies | <b>771</b>       | 583              |
|                    | <b>89,785</b>    | 82,968           |

### 23 LOAN FROM MINORITY SHAREHOLDERS

Loan from minority shareholders are unsecured, interest free and repayable on demand. The carrying values of these liabilities approximate their fair values.

The balances are denominated as follows:

|                           | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------|------------------|------------------|
| HK\$                      | <b>20</b>        | –                |
| Australian dollar ("AUD") | <b>641</b>       | 495              |
|                           | <b>661</b>       | 495              |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**24 EXPENSES BY NATURE**

The following expenses/(gains) are included in cost of sales, distribution costs and administrative expenses:

|                                                                                                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|------------------------------------------------------------------------------------------------------|------------------|------------------|
| Changes in inventories (Note 12)                                                                     | 418,907          | 487,187          |
| Auditor's remuneration                                                                               | 1,880            | 2,060            |
| Amortisation of leasehold land and land use rights (Note 6)                                          | 610              | 340              |
| Depreciation of property, plant and equipment (Note 7)                                               | 24,671           | 21,504           |
| Amortisation of intangible assets (Note 9)                                                           | 117              | 104              |
| Operating lease rental in respect of buildings                                                       | 3,607            | 2,139            |
| Provision for obsolete inventories (Note 12)                                                         | 2,624            | 1,350            |
| (Write-back of)/provision for impairment of<br>trade and bills receivables (Note 13)                 | (1,612)          | 2,009            |
| Employee benefit expenses (Note 26)                                                                  | 135,937          | 127,380          |
| Transportation expenses                                                                              | 34,033           | 31,243           |
| Exchange losses/(gains)                                                                              | 502              | (1,042)          |
| Advertising costs                                                                                    | 3,312            | 3,100            |
| Loss on disposal of property, plant and equipment                                                    | 82               | –                |
| Direct operating expenses arising from investment<br>properties that generate rental income (Note 8) | 115              | –                |
| Utilities                                                                                            | 15,681           | 14,619           |

**25 OTHER INCOME**

|                                                   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------|------------------|------------------|
| Gain on disposal of property, plant and equipment | –                | 472              |
| Income from sales of scrap materials              | 876              | 869              |
| Changes in fair value of financial instruments    | 273              | (273)            |
| Rental income (Note 8)                            | 331              | –                |
|                                                   | <b>1,480</b>     | <b>1,068</b>     |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

|                                            | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------|------------------|------------------|
| Salaries, wages and bonuses                | 125,482          | 117,125          |
| Pension costs – defined contribution plans | 482              | 614              |
| Welfare and other expenses                 | 7,116            | 9,641            |
| Share-based compensation                   | 2,857            | –                |
|                                            | <b>135,937</b>   | <b>127,380</b>   |

**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:

|                                                                              | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|------------------------------------------------------------------------------|------------------|------------------|
| Fees                                                                         | 1,290            | 1,379            |
| Basic salaries, housing allowances,<br>other allowances and benefits-in-kind | 6,451            | 7,279            |
| Share-based compensation                                                     | 1,840            | –                |
| Contributions to pension plans                                               | 78               | 86               |
|                                                                              | <b>9,659</b>     | <b>8,744</b>     |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Continued)**(a) Directors' emoluments** (Continued)

The emoluments of every director for the year ended 31 December 2009 is as follows:

| Name of Director                               | Fees<br>HK\$'000 | Salary<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Share-based<br>compensation<br>HK\$'000 | Employer's<br>contribution       | Total<br>HK\$'000 |
|------------------------------------------------|------------------|--------------------|--------------------------------------|-----------------------------------------|----------------------------------|-------------------|
|                                                |                  |                    |                                      |                                         | to pension<br>scheme<br>HK\$'000 |                   |
| <b>Executive Directors</b>                     |                  |                    |                                      |                                         |                                  |                   |
| Mr. Ching Chi Fai                              | 120              | 1,180              | 800                                  | 56                                      | 12                               | 2,168             |
| Mr. Ching Chau Chung (Note i)                  | 80               | 788                | –                                    | 56                                      | 8                                | 932               |
| Mr. Ching Chi Keung                            | 120              | 433                | 350                                  | 376                                     | 12                               | 1,291             |
| Mr. Liu Zigang                                 | 120              | 441                | 500                                  | 376                                     | 22                               | 1,459             |
| Mr. Lee King Hay                               | 120              | 433                | 350                                  | 376                                     | 12                               | 1,291             |
| Ms. Chan Yim Ching                             | 120              | 676                | 500                                  | 376                                     | 12                               | 1,684             |
| <b>Independent non-executive<br/>Directors</b> |                  |                    |                                      |                                         |                                  |                   |
| Mr. Hung Kam Hung                              | 150              | –                  | –                                    | 56                                      | –                                | 206               |
| Mr. Ma Chun Fung                               | 150              | –                  | –                                    | 56                                      | –                                | 206               |
| Mr. Sun Kai Lit                                | 150              | –                  | –                                    | 56                                      | –                                | 206               |
| <b>Non-executive Director</b>                  |                  |                    |                                      |                                         |                                  |                   |
| Mr. Ching Chau Chung (Note i)                  | 40               | –                  | –                                    | –                                       | –                                | 40                |
| Mr. Ng Bo Kwong                                | 120              | –                  | –                                    | 56                                      | –                                | 176               |
| <b>Total</b>                                   | <b>1,290</b>     | <b>3,951</b>       | <b>2,500</b>                         | <b>1,840</b>                            | <b>78</b>                        | <b>9,659</b>      |

Note:

- (i) Mr. Ching Chau Chung was re-designated as a non-executive Director upon his retirement as an Executive Director on 1 September 2009.

## Notes to the Consolidated Financial Statements

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**27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Continued)**(a) Directors' emoluments** (Continued)

The emoluments of every director for the year ended 31 December 2008 is as follows:

| Name of Director                               | Fees<br>HK\$'000 | Salary<br>HK\$'000 | Discretionary<br>bonuses<br>HK\$'000 | Employer's<br>contribution       | Total<br>HK\$'000 |
|------------------------------------------------|------------------|--------------------|--------------------------------------|----------------------------------|-------------------|
|                                                |                  |                    |                                      | to pension<br>scheme<br>HK\$'000 |                   |
| <b>Executive Directors</b>                     |                  |                    |                                      |                                  |                   |
| Mr. Ching Chi Fai                              | 120              | 1,210              | 800                                  | 12                               | 2,142             |
| Mr. Ching Chau Chung                           | 120              | 1,210              | 200                                  | 12                               | 1,542             |
| Mr. Ching Chi Keung                            | 120              | 438                | 350                                  | 12                               | 920               |
| Mr. Liu Zigang                                 | 120              | 475                | 500                                  | 24                               | 1,119             |
| Mr. Lee King Hay                               | 120              | 440                | 350                                  | 12                               | 922               |
| Ms. Chan Yim Ching                             | 120              | 690                | 500                                  | 12                               | 1,322             |
| Ms. Chan Wing (Note ii)                        | 20               | 116                | –                                    | 2                                | 138               |
| <b>Independent non-executive<br/>Directors</b> |                  |                    |                                      |                                  |                   |
| Mr. Hung Kam Hung                              | 150              | –                  | –                                    | –                                | 150               |
| Mr. Ma Chun Fung                               | 150              | –                  | –                                    | –                                | 150               |
| Mr. Sun Kai Lit                                | 150              | –                  | –                                    | –                                | 150               |
| <b>Non-executive Director</b>                  |                  |                    |                                      |                                  |                   |
| Mr. Ng Bo Kwong                                | 120              | –                  | –                                    | –                                | 120               |
| Ms Chan Wing (Note ii)                         | 69               | –                  | –                                    | –                                | 69                |
| <b>Total</b>                                   | <b>1,379</b>     | <b>4,579</b>       | <b>2,700</b>                         | <b>86</b>                        | <b>8,744</b>      |

Note:

- (ii) Ms. Chan Wing was re-designated as a non-executive Director from 4 March 2008. She retired upon the completion of her service contract on 21 September 2008.

## Notes to the Consolidated Financial Statements

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**27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Continued)**(a) Directors' emoluments** (Continued)

The emoluments of the directors fall within the following bands:

|                                | <b>Number of Individuals</b> |      |
|--------------------------------|------------------------------|------|
|                                | <b>2009</b>                  | 2008 |
| Nil to HK\$1,000,000           | <b>5</b>                     | 7    |
| HK\$1,000,001 to HK\$1,500,000 | <b>3</b>                     | 2    |
| HK\$1,500,001 to HK\$2,000,000 | <b>1</b>                     | 1    |
| HK\$2,000,001 to HK\$2,500,000 | <b>1</b>                     | 1    |

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group during the year ended 31 December 2009 include five directors (2008: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual for the year ended 31 December 2008 are as follows:

|                                                                           | 2008<br>HK\$'000 |
|---------------------------------------------------------------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 970              |
| Contributions to pension plans                                            | 11               |
|                                                                           | 981              |

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

|                      | <b>Number of Individuals</b> |
|----------------------|------------------------------|
|                      | 2008                         |
| Nil to HK\$1,000,000 | 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 2009 (2008: Nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**28 FINANCE INCOME AND FINANCE COSTS**

|                                                                          | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------------------------------------|------------------|------------------|
| Finance costs on bank borrowings<br>– wholly repayable within five years | <b>(505)</b>     | (4,950)          |
| Finance costs                                                            | <b>(505)</b>     | (4,950)          |
| Finance income                                                           | <b>1,848</b>     | 12,062           |
| Finance income – net                                                     | <b>1,343</b>     | 7,112            |

**29 INCOME TAX EXPENSES**

The amount of income tax charged/(credited) to the consolidated statement of comprehensive income represents:

|                                        | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------|------------------|------------------|
| Current income tax:                    |                  |                  |
| – Hong Kong profits tax                | <b>16,754</b>    | 12,986           |
| – PRC enterprise income tax            | <b>3,948</b>     | 8,293            |
| – Singapore income tax                 | <b>663</b>       | –                |
|                                        | <b>21,365</b>    | 21,279           |
| Deferred income tax ( <i>Note 11</i> ) | <b>3,992</b>     | (606)            |
|                                        | <b>25,357</b>    | 20,673           |

Taxation has been provided at the appropriate rates prevailing in the countries in which the Group operates. Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year ended 31 December 2009.

The new Corporate Income Tax Law in the PRC became effective since 1 January 2008 with standard income tax rate of 25%. The tax rate applicable to a subsidiary in Shenzhen, established prior to 16 March 2007, is 20% (2008: 18%) for the year ended 31 December 2009. This will be gradually increased to 25% in 2012 over a 5-year transition period.

The applicable corporate income tax rate of Luoding Quality Amenities Company Limited is 25%. Luoding Quality Amenities Company Limited is eligible for corporate tax exemption for two years in 2008 and 2009, followed by a 50% reduction in corporate income tax rate in the next three years from 2010 to 2012. Luoding Quality Amenities Company Limited was in a net loss position for the years ended 31 December 2009 and 2008.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 29 INCOME TAX EXPENSES (Continued)

Corporate tax in Singapore has been provided at the rate of 17% (2008: 18%) on the estimated assessable profit for the year ended 31 December 2009. The Group did not have any assessable profit in Singapore during the year ended 31 December 2008.

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

|                                                                                        | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------------------------------------------------------|------------------|------------------|
| Profit before income tax                                                               | 119,713          | 121,517          |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 22,052           | 19,623           |
| Income not subject to tax                                                              | (2,954)          | (299)            |
| Expenses not deductible for tax purposes                                               | 2,359            | 1,191            |
| Write off of deferred tax assets brought forward                                       | 2,707            | –                |
| Tax losses for which no deferred income tax asset was recognised                       | 1,193            | 158              |
| Tax charge                                                                             | 25,357           | 20,673           |

The weighted average applicable tax rate was 18% (2008: 16%) per annum for the year ended 31 December 2009.

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\$6,584,000 (2008: HK\$888,000) as at 31 December 2009 to carry forward against future taxable income. These tax losses expire in the following years:

|                                       | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| In the first to fifth years inclusive | 2,645            | 465              |
| No expiry date                        | 3,939            | 423              |
|                                       | 6,584            | 888              |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 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\$62,244,000 (2008: HK\$55,805,000).

### 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.

|                                                                 | 2009    | 2008    |
|-----------------------------------------------------------------|---------|---------|
| Profit attributable to equity holders of the Company (HK\$'000) | 96,069  | 100,870 |
| Weighted average number of ordinary shares in issue (thousands) | 600,000 | 600,000 |
| Basic earnings per share (HK\$ per share)                       | 0.16    | 0.17    |

#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as dilutive potential shares. A calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options.

|                                                                                              | 2009           | 2008    |
|----------------------------------------------------------------------------------------------|----------------|---------|
| <b>Earnings</b>                                                                              |                |         |
| Profit attributable to equity holders of the Company (HK\$'000)                              | 96,069         | 100,870 |
| <b>Weighted average number of ordinary shares in issue (thousands)</b>                       | <b>600,000</b> | 600,000 |
| Adjustments for:                                                                             |                |         |
| – Share options (thousands)                                                                  | 1,324          | –       |
| <b>Weighted average number of ordinary shares for diluted earnings per share (thousands)</b> | <b>601,324</b> | 600,000 |
| Diluted earnings per share (HK\$ per share)                                                  | 0.16           | 0.17    |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 32 DIVIDENDS

On 3 September 2009, the Board resolved to pay an interim dividend of HK\$0.03 per share, amounting to a total dividend of HK\$18,000,000, which was paid on 8 October 2009.

A dividend in respect of the year ended 31 December 2009 of HK\$0.05 (2008: HK\$0.084 per share) per share, amounting to a total dividend of HK\$30,000,000 (2008: HK\$50,400,000), is proposed on 18 March 2010, which is subject to approval at the Annual General Meeting to be held on 13 May 2010. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31 December 2009.

### 33 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

|                                                                                     | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------------------------------------------------------------|------------------|------------------|
| Profit before income tax                                                            | 119,713          | 121,517          |
| Adjustments for:                                                                    |                  |                  |
| – Amortisation of leasehold land and land use rights (Note 6)                       | 610              | 340              |
| – Depreciation of property, plant and equipment (Note 7)                            | 24,671           | 21,504           |
| – Amortisation of intangible assets (Note 9)                                        | 117              | 104              |
| – Changes in fair value of derivative financial instrument (Note 25)                | (273)            | 273              |
| – Loss/(gain) on disposal of property, plant and equipment (Note 24, 25)            | 82               | (472)            |
| – Finance income (Note 28)                                                          | (1,848)          | (12,062)         |
| – Finance expense (Note 28)                                                         | 505              | 4,950            |
| – Provision for obsolete inventories (Note 24)                                      | 2,624            | 1,350            |
| – (Write-back of)/provision for impairment of trade and bills receivables (Note 24) | (1,612)          | 2,009            |
| – Share of profit of an associated company                                          | (118)            | (123)            |
| – Fair value gain on investment properties (Note 8)                                 | (11,597)         | –                |
| – Share-based compensation (Note 26)                                                | 2,857            | –                |
| Changes in working capital:                                                         |                  |                  |
| – Inventories                                                                       | 3,651            | (31,766)         |
| – Trade and bills receivables                                                       | (4,975)          | (21,552)         |
| – Deposits, prepayments and other receivables                                       | (741)            | (9,967)          |
| – Trade payables                                                                    | 6,817            | (10,804)         |
| – Accruals and other payables                                                       | 6,321            | 16,837           |
| – Amount due from an associated company                                             | (255)            | (691)            |
| Cash generated from operations                                                      | 146,549          | 81,447           |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**33 NOTE TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)****(b) Proceeds from disposal of property, plant and equipment**

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

|                                                          | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------------------------------|------------------|------------------|
| Net book amount:                                         |                  |                  |
| – Property, plant and equipment                          | 240              | 106              |
| (Loss)/Gain on disposal of property, plant and equipment | (82)             | 472              |
| Proceeds from disposal of property, plant and equipment  | 158              | 578              |

**(c) Analysis of changes in financing during the year***Bank borrowings*

|                          | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Beginning of the year    | 63,460           | 52,192           |
| Proceeds from borrowings | 64,400           | 61,323           |
| Repayments of borrowings | (63,994)         | (53,152)         |
| Exchange difference      | 18               | 3,097            |
| End of the year          | 63,844           | 63,460           |

*Loans from minority shareholders*

|                       | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-----------------------|------------------|------------------|
| Beginning of the year | 495              | –                |
| Proceeds from loans   | 20               | 625              |
| Exchange difference   | 146              | (130)            |
| End of the year       | 661              | 495              |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**34 COMMITMENTS****(a) Capital commitments**

As at 31 December 2009, the capital commitments of the Group were HK\$69.0 million (2008: HK\$4.1 million).

|                                                                          | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------------------------------------|------------------|------------------|
| Contracted but not provided for in the consolidated financial statements | 31,582           | 4,143            |
| Authorised by Directors but not contracted for                           | 37,388           | –                |
|                                                                          | <b>68,970</b>    | 4,143            |

**(b) Operating lease commitments**

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

|                                                  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------------------|------------------|------------------|
| No later than one year                           | 10,192           | 1,403            |
| Later than one year and no later than five years | 9,414            | 815              |
|                                                  | <b>19,606</b>    | 2,218            |

A subsidiary of the Group has entered into management consultancy services agreements on 16 January 2008 and 27 June 2008, respectively with Advance Management Consultants Limited, a company controlled by Mr. Ng Bo Kwong, who has been appointed as a non-executive Director of the Group. As at 31 December 2008, the total commitment entered into with regard to such services amounted to approximately HK\$93,000. There was no such commitment as at 31 December 2009.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

### 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 Company                                               |
| Ming Fai Plastic Industrial Company    | Manufacturing of plastic products<br>(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 Company                                        |
| Advance Management Consultants Limited | Provision of consultancy services                                                                | Company owned by Ng Bo Kwong                                             |

The Group had the following significant transactions with related parties:

|                                                                                                                                                                                                             | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| (i) Sales of goods<br>– to Quality Amenities Supply (M) Sdn. Bhd.                                                                                                                                           | 916              | 785              |
| (ii) Rental charged<br>– by Ming Fai Plastic Industrial Company<br>– by Liu Zigang                                                                                                                          | 975<br>150       | 820<br>148       |
| (iii) Purchase of assets and services rendered from<br>– Consultancy service from Advance Management Consultants Limited<br>– Freight and administrative charge from Quality Amenities Supply (M) Sdn. Bhd. | 376<br>502       | 567<br>652       |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

**35 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(a) Significant related party transactions (Continued)**

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

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 one office premise in the PRC from Liu Zigang. The transaction is carried out at normal commercial terms.

**(b) Key management compensation**

|                                                                           | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------------------------------------------|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 9,581            | 8,658            |
| Contributions to pension plans                                            | 78               | 86               |
|                                                                           | <b>9,659</b>     | <b>8,744</b>     |

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

|                                                             | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------------------------------------|------------------|------------------|
| Amounts due from<br>– Quality Amenities Supply (M) Sdn. Bhd | 808              | 553              |

**(d) Loan to an associated company**

|                               | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Beginning of the year         | 484              | 484              |
| Loan advanced during the year | –                | –                |
| End of the year               | <b>484</b>       | <b>484</b>       |

## Notes to the Consolidated Financial Statements

*For the year ended 31 December 2009*

### **36 SUBSEQUENT EVENT**

On 29 December 2009, a subsidiary of the Company secured a bid from the Bureau of Land & Resources of Changshu City, with regard to a parcel of land in Changshu City of Jiangsu province. The land is to be used for industrial purpose, with a lease term of 50 years, at a total consideration of approximately RMB6,100,000. The land was subsequently passed to the Group on 16 January 2010 and the land title certificate was obtained on 28 January 2010. The land will be recognised as leasehold land and to be amortised over the leasehold period.

# Five Year Financial Summary

## CONSOLIDATED/COMBINED RESULTS

|                          | Year ended 31 December |                  |                  |                  | 2009<br>HK\$'000 |
|--------------------------|------------------------|------------------|------------------|------------------|------------------|
|                          | 2005<br>HK\$'000       | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |                  |
| Revenue                  | 507,387                | 687,406          | 846,017          | 876,044          | <b>811,336</b>   |
| Profit before income tax | 68,501                 | 111,060          | 156,042          | 121,517          | <b>119,713</b>   |
| Income tax expenses      | (13,499)               | (18,706)         | (30,110)         | (20,673)         | <b>(25,357)</b>  |
| Profit for the year      | 55,002                 | 92,354           | 125,932          | 100,844          | <b>94,356</b>    |

## CONSOLIDATED/COMBINED ASSETS, EQUITY AND LIABILITIES

|                               | As at 31 December |                  |                  |                  | 2009<br>HK\$'000 |
|-------------------------------|-------------------|------------------|------------------|------------------|------------------|
|                               | 2005<br>HK\$'000  | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2008<br>HK\$'000 |                  |
| <b>ASSETS</b>                 |                   |                  |                  |                  |                  |
| Non-current assets            | 110,088           | 120,090          | 146,424          | 157,110          | <b>308,482</b>   |
| Current assets                | 184,976           | 285,510          | 802,887          | 854,052          | <b>753,475</b>   |
| Total assets                  | 295,064           | 405,600          | 949,311          | 1,011,162        | <b>1,061,957</b> |
| <b>EQUITY AND LIABILITIES</b> |                   |                  |                  |                  |                  |
| Total equity                  | 114,008           | 164,556          | 706,166          | 760,934          | <b>793,822</b>   |
| Non-current liabilities       | 5,451             | 345              | 322              | 343              | <b>59,832</b>    |
| Current liabilities           | 175,605           | 240,699          | 242,823          | 249,885          | <b>208,303</b>   |
| Total liabilities             | 181,056           | 241,044          | 243,145          | 250,228          | <b>268,135</b>   |
| Total equity and liabilities  | 295,064           | 405,600          | 949,311          | 1,011,162        | <b>1,061,957</b> |