# World Houseware (Holdings) Limited

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

Stock code: 713

2009 Annual Report

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Lee Tat Hing *(Chairman)*
Madam Fung Mei Po *(Vice Chairperson and Chief Executive Officer)*
Mr. Lee Chun Sing *(Vice Chairman)*
Mr. Lee Pak Tung
Mr. Kwong Bau To
Madam Chan Lai Kuen Anita

### Non-executive Director

Mr. Cheung Tze Man Edward

### Independent Non-executive Directors

Mr. Tsui Chi Him Steve
Mr. Ho Tak Kay
Mr. Hui Chi Kuen Thomas

## QUALIFIED ACCOUNTANT

Mr. Leung Cho Wai, *FCCA, CPA*

## COMPANY SECRETARY

Mr. Tsui Chi Yuen, *CPA*

## PRINCIPAL OFFICE

Flat C, 18th Floor
Bold Win Industrial Building
16-18 Wah Sing Street
Kwai Chung
New Territories
Hong Kong

## REGISTERED OFFICE

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

## PRINCIPAL BANKERS

Standard Chartered Bank
Hang Seng Bank
DBS Hong Kong
Bank of China
HSBC

## AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICES

### In Hong Kong

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

### In the Cayman Islands

The Harbour Trust Company Limited
P.O. Box 1787
Midland Bank Building
One Regis Place
George Town
Grand Cayman
Cayman Islands
British West Indies

## STOCK CODE

713

## COMPANY'S WEBSITE

http://www.worldhse.com

# Summary of Notice of Annual General Meeting

Set out below is a summary of the notice of annual general meeting, the full version of which is set out in the circular to shareholders dispatched at 28 April 2010.

An Annual General Meeting of World Houseware (Holdings) Limited (the "Company") will be held at The Jade Room, 6th Floor, The Marco Polo Hongkong Hotels, Harbour City, Kowloon, Hong Kong at 2:30 p.m. on Wednesday, 9 June 2010 for the following purposes:

1. To receive and adopt the audited Financial Statements of the Company and its subsidiaries and the Reports of the Directors and Auditors for the year ended 31 December 2009.

2. To re-elect Directors and to authorise the Board to fix the Directors' remuneration.

3. To re-appoint Auditors and authorise the Board to fix their remuneration.

4. A. To grant a general mandate to the Directors to allot shares.

   B. To grant a general mandate to the Directors to repurchase the Company's own shares.

   C. To add the nominal amount of the shares repurchased under resolution 4B to the mandate granted to the Directors under resolution 4A.

## BUSINESS REVIEW

For the year ended 31 December 2009, the Group recorded a consolidated turnover of HK$922,576,000 representing a decrease of 7.7% from HK$999,169,000 last year. Gross profit and gross profit margin were HK$158,321,000 and 17.2% respectively. Profit for the year was HK$29,405,000.

The global economy has experienced an unfavorable environment in recent years. In 2009, China had adopted certain moderate monetary policy and active fiscal policy to stimulate the economy and its economy had rebounded first. Governments of various countries have also implemented certain economic policies to boost economic growth. As a result the global economy began to stabilize and gradually recovered and the Group also benefited by such economic environment.

Despite the unfavourable international economic environment, the household products industry also benefited from stable prices of raw materials this year and the gross profit margin increased and the result is turning from loss to profit.

The business of PVC pipes and fitting in Shenzhen and Changshu have a steady growth and generated a favourable return to the Group as it also benefited from the improved economy in the PRC and the Company's solid relationship with its customers.

During the year under review, the turnover of property investment amounted to HK$1,277,000, representing a increase of 18% from HK$1,082,000 of the same period last year. Gain arising from fair value changes of investment properties was HK$2,620,000.

## PROSPECTS

The Group will continue to closely monitor the fluctuation of the prices of plastic raw materials and adopt its flexible purchasing strategy. It is hoped that the Group can tackle the prices fluctuation risk and securing the Group's profit.

Despite unforeseen global business situation, trading environment is improving gradually. The Group will keep abreast of the times and take aggressive attitude to consolidate management and enhance factories' productivity and we look to the future with confidence.

Technologies and developments in some reborn resources projects have significant progress and 2 technologies have successfully been granted patents in the PRC. We will apply patents for other technologies achieved in the future. Next year, the Group plans to focus its investments in those matured reborn resources projects and it is expected that the increased production will generate contribution to the Group. The Group will also focus its research and development in environmental protection projects which are considered to be profitable. The Group will also thoughtfully study the feasibility of developing environment protection business in Hong Kong.

## RESULTS

- The Group recorded a turnover of HK$922,576,000 for the year ended 31 December 2009, representing a decrease of 7.7% as compared to the same period last year.

- Gross profit and gross profit margin of the Group recorded were HK$158,321,000 and 17.2%, representing an increase of HK$89,768,000 and an increase of 131% respectively as compared to the same period last year.

- Profit for the year was HK$29,405,000, as compared to a loss of HK$68,908,000 for the same period last year.

- Basic earnings per share was 4.3 HK cents, as compared to loss per share of 10.2 HK cents for the same period last year.

- The Board of Directors do not propose any payment of dividend for the year.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group finances its operations from internally generated cash flows, term loans and trade finance facilities provided by banks in Hong Kong and the PRC. At 31 December 2009, the Group had bank balances and cash and pledged bank deposits of approximately HK$113,991,000 (31.12.2008: HK$69,863,000) and had interest-bearing bank borrowings of approximately HK$205,613,000 (31.12.2008: HK$198,313,000). The Group's interest-bearing bank borrowings was mainly computed at Hong Kong Inter-Bank Offering Rate plus a margin. The Group's total banking facilities available as at 31 December 2009 amounted to HK$441,393,000; of which HK$205,613,000 of the banking facilities was utilised (utilisation rate was at 46.6%).

The Group continued to conduct its business transactions principally in Hong Kong dollars, US dollars and Renminbi. The Group's exposure to the foreign exchange fluctuations has not experienced any material difficulties in the operations or liquidity as a result of fluctuations in currency exchange.

At 31 December 2009, the Group had current assets of approximately HK$515,240,000 (31.12.2008: HK$454,000,000). The Group's current ratio was approximately 1.3 as at 31 December 2009 as compared with approximately 1.1 as at 31 December 2008. Total shareholders' funds of the Group as at 31 December 2009 increase by 4.1% to HK$889,486,000 (31.12.2008: HK$853,963,000). The gearing ratio (measured as total liabilities/total shareholders' funds) of the Group as at 31 December 2009 was 0.49 (31.12.2008: 0.51).

## CHARGES ON ASSETS

Certain leasehold land and buildings, investment properties, prepaid lease payments, bank deposits and financial asset at fair value through profit or loss with an aggregate net book value of HK$297,446,000 were pledged to banks for general banking facilities granted to the Group.

## STAFF AND EMPLOYMENT

At 31 December 2009, the Group employed a total workforce of about 2,952 (31.12.2008: 3,110) including 2,902 staff in our factories located in the PRC. The total staff remuneration incurred during the period was HK$98,711,000 (31.12.2008: HK$99,672,000). It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industries. It is the Group's policy to encourage its subsidiaries to send the management and staff to attend training classes or seminars that related to the Group's business. Tailor made internal training program was also provided to staff in our PRC factories.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**LEE Tat Hing,** aged 72, is the Chairman of the Group. Mr. Lee has over 40 years' experience in the trading and manufacture of household products and is responsible for the strategic planning and business development of the Group.

**FUNG Mei Po,** aged 54, is the wife of Mr. Lee Tat Hing and the Vice Chairperson and Chief Executive Officer of the Group. She has over 20 years' experience in marketing, production planning and factory management and has been with the Group for over 20 years. Madam Fung is in charge of sales of the Group's North American markets and the Group's Hong Kong operations and administration.

**LEE Chun Sing,** aged 49, is the son of Mr. Lee Tat Hing and the Vice Chairman of the Group. He is responsible for the planning and production management of the Group's PRC operations and has been with the Group since 1985.

**LEE Pak Tung,** aged 63, joined the Group in 1976. He has over 30 years' experience in trading and is responsible for the Group's sales to the Asia and Latin American markets.

**KWONG Bau To,** aged 54, being a member of the Institution of Engineering Designers, has gained extensive experience in engineering and marketing field by working with sizable corporations in Hong Kong in the past. He joined the Group in 1994. He is responsible for the business development of the Group.

**CHAN Lai Kuen Anita,** aged 58, is the chief accounting officer and treasurer of the Group and is responsible for the overall accounting, treasury and human resources of the Group. She has gained extensive experience in accounting, taxation, financial and personnel management by working in various sizable corporations in Hong Kong before she joined the Group in 1986.

## NON-EXECUTIVE DIRECTOR

**CHEUNG Tze Man Edward,** aged 57, is a practising solicitor in Hong Kong. He obtained his Bachelor of Laws degree from the University of London and Master of Laws in Chinese Law from University of Hong Kong and is a member of the Law Society in Hong Kong and in England and Wales. He is also a member of the Institute of Chartered Secretaries and Administrators.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**TSUI Chi Him Steve,** aged 54, had engaged in managerial positions in major British and Chinese banks in Hong Kong in the past with more than 20 years' experience in credit, credit audit and credit risk management, involving many medium size and some large corporations listed in China or in Hong Kong. Mr. Tsui joined the Group in 2007.

## INDEPENDENT NON-EXECUTIVE DIRECTORS – *continued*

**HO Tak Kay,** aged 53, is a fellow member of the Association of Chartered Certified Accountants as well as the Hong Kong Institute of Certified Public Accountants. He has developed his career over the past 30 years' in the accounting profession with strong audit and financial experience in a spectrum of sectors. He gained extensive exposure from working with international accounting firms for 18 years from 1973 to 1991. Mr. Ho joined the Group in 2004.

**HUI Chi Kuen Thomas,** aged 53, is a professional accountant. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in Australia and CPA Australia. He has over 20 years' experience in accounting, taxation and financial management gained from multinational corporations and publicly listed companies in Hong Kong and Australia. Mr. Hui joined the Group in 2004.

## SENIOR MANAGEMENT

**LEUNG Cho Wai,** aged 43, is the Financial Controller and Qualified Accountant of the Group. He joined the Group in 2007. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institution of Certified Public Accountants. He has gained extensive experience in auditing, accounting, taxation and financial management by working in certified public accountants firm and publicly listed companies in Hong Kong. He is responsible for the overall financial management and planning of the Group.

**TSUI Chi Yuen,** aged 45, is the secretary of the Company and joined the Group in 2007. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tsui has over 20 years of experience in auditing, accounting and financial management.

**LEE Fung Mei Belinda,** aged 44, is the daughter of Mr. Lee Tat Hing and senior sales manager of the Group. Madam Lee has been with the Group since 1989 and graduated from York University in Canada with a Bachelor's degree in Economics. Madam Lee assists Madam Fung Mei Po in the marketing of the Group's products in the United States of America and Canada.

**LEE Hon Sing Alan,** aged 46, is the son of Mr. Lee Tat Hing. Mr. Lee is responsible for the administration, management and production of one of the major production plant in Shenzhen, the PRC. He joined the Group in 1989 and has over 15 years' experience in factory management.

**LEE Kwok Sing Stanley,** aged 47, is the son of Mr. Lee Tat Hing. Mr. Lee is responsible for the administration, management and production of the production plant in Zhongshan, the PRC. He joined the Group in 1989 and has over 15 years' experience in factory management.

**CHEN Hsin Hsiung,** aged 67, is the engineering and production manager of the printing roller division. Before joining the Group in 1992, Mr. Chen had over 30 years' experience in PVC printing roller technology.

**SENIOR MANAGEMENT** – *continued*

**Huang Liang Kuei,** aged 48, is a technical engineer of PVC sheeting production. Mr. Huang is responsible for the engineering and production of the Group. Before joining the Group, Mr. Huang worked in a leading PVC manufacturer in Taiwan. He has over 20 years' experience in production and administration.

**WANG Wen Bi,** aged 44, is graduated from the Taiwan Culture University. He is the engineering and technology manager of PVC pipes and fittings segment. He joined the Group in 1995 and has over 14 years' experience in technological management, production and administration.

**CHAN Lan Ying Shirley,** aged 52, is the production planning manager of the Group and is responsible for production planning, purchasing and materials control functions. She has been with the Group for over 20 years.

**WONG Sung Kong,** aged 50, is the chief artist and has been with the group since 1985. He holds a certificate in art and design from the Department of Extramural Studies of the Chinese University of Hong Kong. In 1985, he was invited by the Urban Council to participate in the Contemporary Hong Kong Art Biennial Exhibition.

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of World Houseware (Holdings) Limited (the "Company") believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Board regularly reviews the Company's corporate governance guidelines and developments. The Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

## BOARD OF DIRECTORS

The Board of the Company currently comprises:

**Executive Directors:**

| | |
|---|---|
| Lee Tat Hing | *(Chairman)* |
| Fung Mei Po | *(Vice Chairperson and Chief Executive Officer)* |
| Lee Chun Sing | *(Vice Chairman)* |
| Lee Pak Tung | |
| Kwong Bau To | |
| Chan Lai Kuen Anita | |

**Non-executive Director:**

Cheung Tze Man Edward

**Independent Non-executive Directors:**

Tsui Chi Him Steve
Ho Tak Kay
Hui Chi Kuen Thomas

The three Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

**BOARD OF DIRECTORS** – *continued*

Madam Fung Mei Po, the Vice Chairperson and Chief Executive Officer, is the wife of Mr. Lee Tat Hing, the Chairman whereas Mr. Lee Chun Sing, the Vice Chairman, is the son of Mr. Lee Tat Hing, the Chairman.

During the year, ten full board meetings were held and the attendance of each director is set out as follows:

| Name of director | Number of board meetings attended in 2009 | Attendance rate |
|---|---|---|
| Lee Tat Hing | 10/10 | 100% |
| Fung Mei Po | 10/10 | 100% |
| Lee Chun Sing | 10/10 | 100% |
| Lee Pak Tung | 10/10 | 100% |
| Kwong Bau To | 10/10 | 100% |
| Chan Lai Kuen Anita | 10/10 | 100% |
| Cheung Tze Man Edward | 5/10 | 50% |
| Tsui Chi Him Steve | 5/10 | 50% |
| Ho Tak Kay | 5/10 | 50% |
| Hui Chi Kuen Thomas | 5/10 | 50% |

The Board formulates overall strategy of the Company, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Company's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The regular Board meeting schedule for any year is planned in the preceding year. At least 14 days notice of all board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all directors at least 3 days before the date of every board meeting so that the directors have the time to review the documents. Minutes of every board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following board meeting.

## BOARD OF DIRECTORS – *continued*

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

The Board has a defined schedule of matters reserved for the Board decision in various major categories and events.

When the Board considers any material proposal or transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction present at such board meeting. At the meeting, the Director who has interests declares his interest and is required to abstain from voting.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Board reviews the extent of this insurance annually.

Composition of the Board, by category of Directors, including names of Chairman, Executive Directors, Independent Non-executive Directors and Non-executive Director is disclosed in all corporate communications.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Lee Tat Hing and Madam Fung Mei Po respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Company in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has fixed a term of 3 years' appointment for Non-executive Director and subject to re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

All directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises the Chairman, a Non-executive Director and three Independent Non-executive Directors.

The Remuneration Committee was formed in September 2005 and meetings shall be held at least once a year. One meeting was held in 2009. The attendance of each member is set out as follows:

| Name of member | Number of meetings attended in 2009 | Attendance rate |
|---|---|---|
| Lee Tat Hing *(Chairman of remuneration committee)* | 1/1 | 100% |
| Cheung Tze Man Edward | 1/1 | 100% |
| Tsui Chi Him Steve | 1/1 | 100% |
| Ho Tak Kay | 1/1 | 100% |
| Hui Chi Kuen Thomas | 1/1 | 100% |

The emoluments payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 11 (i) to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the directors, the Chief Executive Officer and key senior management officers.

2. To review annually the performance of the Executive Directors, the Chief Executive Officer and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration for Non-executive Director and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of Company.

4. To review and approve the compensation payable to Executive Directors, the Chief Executive Officer and key senior management officers in connection with any loss or termination of their office or appointment.

5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.

6. To ensure that no director is involved in deciding his own remuneration.

**REMUNERATION COMMITTEE** – *continued*

The terms of reference of the Remuneration Committee are available from the Company Secretary on request.

**NOMINATION COMMITTEE**

The Nomination Committee of the Company comprises the Chairman, one Executive director and three independent Non-executive Directors. The Nomination Committee was formed in September 2007 and meetings shall be held at least once a year. One meeting was held in 2009. The attendance of each member is set out as follows:

| Name of member | Number of meetings attended in 2009 | Attendance rate |
|---|---|---|
| Lee Tat Hing *(Chairman of remuneration committee)* | 1/1 | 100% |
| Fung Mei Po | 1/1 | 100% |
| Tsui Chi Him Steve | 1/1 | 100% |
| Ho Tak Kay | 1/1 | 100% |
| Hui Chi Kuen Thomas | 1/1 | 100% |

The Nomination Committee which has written term of reference, is responsible for making recommendations to the Board on all board appointments and re-appointments. The Nomination Committee responsibilities are as follows:

a. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

b. to identify suitable individuals qualified to become Board members and make recommendations to the Board on suitable candidates to be nominated for directorships;

c. to establish a mechanism for formal assessment and to perform periodic assessment on the effectiveness of the Board;

d. to assess the independence of independent non-executive directors on its appointment or when their independence is called into question;

e. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The terms of reference of the Nomination Committee are available from the Company Secretary on request.

## ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2009, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises one Non-executive Director and three Independent Non-executive Directors.

The Audit Committee shall meet at least three times a year. Four meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

| **Name of member** | **Number of meetings attended in 2009** | **Attendance rate** |
|---|---|---|
| Tsui Chi Him Steve *(Chairman of audit committee)* | 4/4 | 100% |
| Cheung Tze Man Edward | 4/4 | 100% |
| Hui Chi Kuen Thomas | 4/4 | 100% |
| Ho Tak Kay | 4/4 | 100% |

During the meetings held in 2009, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2008 and for the six months ended 30 June 2009;

(ii) reviewed the effectiveness of internal control system;

(iii) discussed with the external auditors the audit fee in respect of the financial statements for the year ended 31 December 2008.

**AUDIT COMMITTEE** – *continued*

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Company.

2. To discuss with the external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the Board.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

The terms of reference of the Audit Committee are available from the Company Secretary on request.

**AUDITORS' REMUNERATION**

During the year under review, the remuneration paid to the Company's auditors, Messrs Deloitte Touche Tohmastu, is set out as follows:

| **Services rendered** | **Fees paid/payable** |
|---|---|
| | HK$'000 |
| Audit services | 2,300 |
| Review on interim financial statements | 520 |
| Non-audit services i.e. taxation and internal control assessment and recommendation | 367 |
| | 3,187 |

**COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS**

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit, Remuneration and Nomination Committees together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in our investor relations website.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS – *continued*

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Company. The Company has announced its annual and interim results in a timely manner as laid down in the Listing Rules after the end of the relevant periods in 2009.

## INTERNAL CONTROL

The Board has overall responsibility for reviewing the effectiveness of its internal control. The Company has engaged an internal controls assessment services company to perform internals controls design assessment of certain systems, conduct an entity-level risk assessment and develop a high-level three years internal audit plan, and to prepare an assessment report (the "Internal Controls Assessment Report"). The first to third years' Internal Controls Assessment Report have been issued, the board has decided to carry out all the appropriate recommended controls issued in these three years' Internal Controls Assessment Report.

The directors have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of PVC and fabric household products, PVC pipes and fittings and property investment.

The details of the Company's principal subsidiaries at 31 December 2009 are set out in note 36 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 26.

The directors do not recommend the payment of a dividend for the year.

## INVESTMENT PROPERTIES

The investment properties held by the Group were revalued at 31 December 2009, resulting in a net increase in fair value of HK$2,620,000, which has been credited directly to profit or loss.

Details of these and other movements of investment properties of the Group are set out in note 13 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure of approximately HK$30,709,000 on additions to production and other facilities. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the aggregate of the share premium and the special reserve less deficit which amounted to approximately HK$304,906,000 (2008: HK$309,724,000). Under the Companies Law in the Cayman Islands and the provisions of the Memorandum and Articles of Association of the Company, all reserves of the Company are available for distribution to shareholders, either by way of dividend or bonus issue of shares, provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

## DIRECTORS

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

**Executive directors:**

Lee Tat Hing *(Chairman)*
Fung Mei Po *(Vice Chairperson and Chief Executive Officer)*
Lee Chun Sing *(Vice Chairman)*
Lee Pak Tung
Kwong Bau To
Chan Lai Kuen Anita

**Non-executive director:**

Cheung Tze Man Edward

**Independent non-executive directors:**

Tsui Chi Him Steve
Hui Chi Kuen Thomas
Ho Tak Kay

In accordance with Article 116 of the Company's Articles of Association, Mr. Lee Tat Hing, Mr. Lee Pak Tung and Mr. Ho Tak Kay retire by rotation and, being eligible, offer themselves for re-election.

Each of the non-executive directors has entered into a service agreement with the Company for a term of three years from 6 September 2008 except Mr. Tsui Chi Him Steve who has entered into a service agreement with the Company for a term of three years from 17 November 2007 and subject to re-election in accordance with the Company's Articles of Association.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SHARES

At 31 December 2009, the interests of the directors, chief executive and their respective associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) to be recorded in the register to be kept pursuant to Section 352 of the SFO; or (c) pursuant to Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

| | Number of issued ordinary shares held | | | | | Percentage of the issued |
|---|---|---|---|---|---|---|
| Name of director | Personal interests | Family interests | Corporate interests | Other interests | Total | share capital of the Company |
| Lee Tat Hing | 1,756,072 | 38,479,087 (a) | 28,712,551 (c) | 280,895,630 (d) | 349,843,340 | 51.72% |
| Fung Mei Po | 38,479,087 | 30,468,623 (b) | – | 280,895,630 (d) | 349,843,340 | 51.72% |
| Lee Chun Sing | 21,815,830 | – | – | 280,895,630 (d) | 302,711,460 | 44.75% |
| Lee Pak Tung | 2,766,448 | – | – | – | 2,766,448 | 0.41% |
| Kwong Bau To | 3,103 | – | – | – | 3,103 | – |
| Hui Chi Kuen Thomas | 100,000 | – | – | – | 100,000 | 0.01% |
| Chan Lai Kuen Anita | 2,623 | – | – | – | 2,623 | – |

Notes:

(a) Mr. Lee Tat Hing is the husband of Madam Fung Mei Po whose personal interests are therefore also the family interests of Mr. Lee Tat Hing.

(b) Madam Fung Mei Po is the wife of Mr. Lee Tat Hing whose personal and corporate interests are therefore also the family interests of Madam Fung Mei Po.

(c) The shares are held by Lees International Investments Limited, a company wholly owned by Mr. Lee Tat Hing.

(d) The shares are held by Goldhill Profits Limited which is wholly owned by a discretionary trust of which Mr. Lee Tat Hing, Lee Chun Sing and Madam Fung Mei Po are discretionary objects.

## DIRECTORS' INTERESTS IN SHARES – *continued*

At 31 December 2009, the following directors had personal interests in the deferred non-voting shares of certain subsidiaries of the Company:

| Name of director | Name of subsidiary | Number of deferred non-voting shares held |
|---|---|---|
| Lee Tat Hing | World Houseware Producing Company Limited | 1,555 |
| Fung Mei Po | World Home Linen Manufacturing Company Limited | 100 |
| Lee Pak Tung | World Houseware Producing Company Limited | 50 |
| | Hong Kong PVC Placemat Manufacturing Company Limited | 25,000 |

The deferred shares do not carry any rights to vote at general meetings of these subsidiaries or to participate in any distributions of profits until the profits of these subsidiaries which are available for dividend exceed HK$10 billion, or to receive a return of capital until a total sum of HK$10 billion has been distributed to the ordinary shareholders of each of these subsidiaries.

At 31 December 2009, save as aforesaid and options holdings disclosed under the heading of "Share Options and Directors' Rights to Acquire Shares or Debentures" and other than certain nominee shares in subsidiaries held by directors in trust for the Group, none of the directors, chief executives or their associates had any interests or short positions in the shares or any securities of the Company and its associated corporations.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests in shares disclosed above in respect of the directors of the Company, the Company has not been notified of any other interests representing 5 percent or more of the Company's issued share capital as at 31 December 2009.

## SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 26 to the consolidated financial statements.

During the year, no share options were granted under the share option scheme by the Company. In addition, as of 31 December 2009, no share options were outstanding.

Other than as disclosed above at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There were no contracts of significance subsisting to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The largest customer of the Group by itself and together with the next four largest customers accounted for 9.7% and 36.8%, respectively of the Group's turnover for the year.

The largest supplier of the Group by itself and together with the next four largest suppliers accounted for 6.0% and 23.3%, respectively of the Group's purchases for the year.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital has a beneficial interest in the share capital of any of the above major customers and suppliers of the Group.

## PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

Other than the share options as disclosed above, the Company had no convertible securities, options, warrants or other similar rights in issue during the year or at 31 December 2009.

## PRE-EMPTIVE RIGHTS

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

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company had adopted a share option scheme as an incentive to directors and eligible employees, details of which are set out in note 26 to the consolidated financial statements.

## INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independency pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

## DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$317,000.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2009.

## AUDITOR

A resolution will be submitted at the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Lee Tat Hing**
*CHAIRMAN*

Hong Kong
20 April 2010

Deloitte.
德勤

**TO THE SHAREHOLDERS OF WORLD HOUSEWARE (HOLDINGS) LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of World Houseware (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 87, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 consolidated 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 the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

**Auditor's responsibility** – *continued*

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the 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.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
20 April 2010

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Turnover | 6 | **922,576** | 999,169 |
| Cost of sales | | **(764,255)** | (930,616) |
| Gross profit | | **158,321** | 68,553 |
| Other income | | **8,019** | 6,668 |
| Other gains and losses | 7 | **(1,940)** | (15,556) |
| Selling and distribution costs | | **(14,186)** | (15,796) |
| Administrative expenses | | **(91,291)** | (103,021) |
| Allowance for bad and doubtful debts | | **(15,389)** | (3,288) |
| Finance costs | 8 | **(8,253)** | (11,853) |
| Profit (loss) before taxation | | **35,281** | (74,293) |
| Taxation | 9 | **(5,876)** | 5,385 |
| Profit (loss) for the year, attributable to owners of the Company | 10 | **29,405** | (68,908) |
| Other comprehensive income | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **6,118** | 72,781 |
| Total comprehensive income for the year, attributable to owners of the Company | | **35,523** | 3,873 |
| Earnings (loss) per share – basic | 12 | **4.3 HK cents** | (10.2) HK cents |

# Consolidated Statement of Financial Position

At 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 13 | **19,170** | 16,550 |
| Property, plant and equipment | 14 | **648,216** | 674,116 |
| Prepaid lease payments | 15 | **129,489** | 132,338 |
| Deposits paid for acquisition of property, plant and equipment | | **1,221** | 2,622 |
| Intangible assets | 16 | **2,496** | 2,869 |
| Financial asset at fair value through profit or loss | 17 | **6,859** | 6,267 |
| | | **807,451** | 834,762 |
| Current assets | | | |
| Inventories | 18 | **192,776** | 167,419 |
| Trade and other receivables | 19 | **201,525** | 209,227 |
| Prepaid lease payments | 15 | **3,470** | 3,454 |
| Taxation recoverable | | **3,478** | 4,037 |
| Pledged bank deposits | 20 | **46,595** | 22,946 |
| Bank balances and cash | 20 | **67,396** | 46,917 |
| | | **515,240** | 454,000 |
| Current liabilities | | | |
| Trade and other payables | 21 | **180,894** | 196,148 |
| Amounts due to directors | 22 | **30,125** | 27,798 |
| Taxation payable | | **8,097** | 1,301 |
| Bank borrowings – amount due within one year | 23 | **171,014** | 176,481 |
| | | **390,130** | 401,728 |
| Net current assets | | **125,110** | 52,272 |
| Total assets less current liabilities | | **932,561** | 887,034 |

At 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Bank borrowings – amount due after one year | 23 | **34,599** | 21,832 |
| Deferred taxation liabilities | 24 | **8,476** | 11,239 |
| | | **43,075** | 33,071 |
| | | **889,486** | 853,963 |
| Capital and reserves | | | |
| Share capital | 25 | **67,642** | 67,642 |
| Reserves | | **821,844** | 786,321 |
| | | **889,486** | 853,963 |

The consolidated financial statements on pages 26 to 87 were approved and authorised for issue by the Board of Directors on 20 April 2010 and are signed on its behalf by:

**Lee Tat Hing**
*Chairman*

**Fung Mei Po**
*Vice Chairperson*
*and*
*Chief Executive Officer*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | Share capital HK$'000 | Share premium HK$'000 | Non-distributable reserve HK$'000 (Note a) | Translation reserve HK$'000 | PRC statutory reserve HK$'000 (Note b) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 67,642 | 313,127 | 251,393 | 137,765 | – | 80,163 | 850,090 |
| Loss for the year | – | – | – | – | – | (68,908) | (68,908) |
| Other comprehensive income for the year | – | – | – | 72,781 | – | – | 72,781 |
| Total comprehensive income for the year | – | – | – | 72,281 | – | (68,908) | 3,873 |
| Transfers | – | – | – | – | 9,203 | (9,203) | – |
| At 31 December 2008 | 67,642 | 313,127 | 251,393 | 210,546 | 9,203 | 2,052 | 853,963 |
| Profit for the year | – | – | – | – | – | 29,405 | 29,405 |
| Other comprehensive income for the year | – | – | – | 6,118 | – | – | 6,118 |
| Total comprehensive income for the year | – | – | – | 6,118 | – | 29,405 | 35,523 |
| Transfers | – | – | – | – | 1,818 | (1,818) | – |
| At 31 December 2009 | 67,642 | 313,127 | 251,393 | 216,664 | 11,021 | 29,639 | 889,486 |

Notes:

(a) The non-distributable reserve of the Group arose as a result of capitalisation of retained profits by subsidiaries.

(b) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China ("PRC"), the PRC subsidiaries are required to maintain a statutory surplus reserve fund. Statutory surplus reserve fund is non-distributable. Appropriations to such reserve are made out of net profit after taxation of the PRC subsidiaries at the discretion of its board of directors. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied to convert into capital by means of capitalisation issue.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit (loss) before taxation | | **35,281** | (74,293) |
| Adjustments for: | | | |
| Allowance for bad and doubtful debts | | **15,389** | 3,288 |
| Allowance for inventories obsolescence, net | | **303** | 4,237 |
| Amortisation of intangible assets | | **393** | 372 |
| Amortisation of prepaid lease payments | | **3,469** | 3,829 |
| Depreciation | | **50,822** | 53,353 |
| Foreign exchange difference on inter-company balances | | **1,448** | 17,906 |
| Gain on disposal of a subsidiary | 28 | **–** | (14,639) |
| Impairment loss recognised in respect of property, plant and equipment | | **1,841** | 16,663 |
| Interest expense | | **8,253** | 11,853 |
| Interest income | | **(769)** | (997) |
| (Gain) loss arising from fair value changes of investment properties | | **(2,620)** | 620 |
| Gain on disposal of investment properties | | **–** | (3,628) |
| Loss on disposal of property, plant and equipment | | **884** | 1,566 |
| (Gain) loss arising from fair value change of financial asset at fair value through profit or loss | | **(592)** | 753 |
| Write off of trade receivables | | **–** | 112 |
| Write off of other receivables | | **1,527** | – |
| Write off of other payables | | **2,210** | – |
| Operating cash flows before movements in working capital | | **117,839** | 20,995 |
| (Increase) decrease in inventories | | **(24,529)** | 37,831 |
| (Increase) decrease in trade and other receivables | | **(8,244)** | 52,619 |
| Decrease in derivative financial instruments classified as held for trading | | **–** | 89 |
| Decrease in trade and other payables | | **(10,977)** | (44,201) |
| Net cash generated from operations | | **74,089** | 67,333 |
| Hong Kong Profits tax paid | | **(4,737)** | (710) |
| Hong Kong Profits tax refunded | | **–** | 164 |
| Profits tax paid outside Hong Kong | | **–** | (197) |
| Profits tax refunded outside Hong Kong | | **3,404** | 1,389 |
| Net cash generated from operating activities | | **72,756** | 67,979 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Cash flows from investing activities | | | |
| Interest received | | **769** | 997 |
| Purchase of property, plant and equipment | | **(36,741)** | (33,792) |
| Deposits paid for acquisition of property, plant and equipment | | **(163)** | (5,547) |
| Proceeds from disposal of property, plant and equipment | | **6,544** | 6,177 |
| Prepaid lease payments paid | | **–** | (4,742) |
| Proceeds from disposal of investment properties | | **–** | 25,128 |
| Purchase of financial asset at fair value through profit or loss | | **–** | (7,020) |
| Disposal of a subsidiary | 28 | **–** | 26,168 |
| Pledged bank deposits raised during the year | | **(273,195)** | (10,823) |
| Release of pledged bank deposits | | **249,546** | 15,188 |
| Net cash (used in) generated from investing activities | | **(53,240)** | 11,734 |
| Cash flows from financing activities | | | |
| Bank loans raised during the year | | **220,536** | 126,892 |
| Repayment of bank loans | | **(204,207)** | (186,527) |
| Advances from directors | | **6,000** | 14,890 |
| Repayment to directors | | **(3,688)** | (100) |
| Interest paid | | **(8,253)** | (11,853) |
| Bank overdrafts raised during the year | | **70,623** | 132,992 |
| Repayment of bank overdrafts | | **(70,382)** | (141,079) |
| Net decrease in trust receipts and import loans | | **(9,957)** | (8,800) |
| Net cash generated from (used in) financing activities | | **672** | (73,585) |
| Net increase in cash and cash equivalents | | **20,188** | 6,128 |
| Cash and cash equivalents at 1 January | | **46,917** | 38,868 |
| Effect of foreign exchange rate changes | | **291** | 1,921 |
| Cash and cash equivalents at 31 December | | **67,396** | 46,917 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | **67,396** | 46,917 |

## 1. GENERAL

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law and registered thereunder as an exempted company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 36.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of financial statements |
| HKAS 23 (Revised 2007) | Borrowings costs |
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations |
| HKFRS 7 (Amendment) | Improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| HK(IFRIC) – INT 9 & HKAS 39 (Amendments) | Embedded derivatives |
| HK(IFRIC) – INT 13 | Customer loyalty programmes |
| HK(IFRIC) – INT 15 | Agreements for the construction of real estate |
| HK(IFRIC) – INT 16 | Hedges of a net investment in a foreign operation |
| HK(IFRIC) – INT 18 | Transfers of assets from customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the financial statements of the Group for the current or prior accounting periods.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – *continued*

**New and revised HKFRSs affecting presentation and disclosure only**

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

*HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 6).

*Improving disclosure about financial instruments (amendments to HKFRS 7 Financial instruments: Disclosures)*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related party disclosures[6] |
| HKAS 27 (Revised) | Consolidated and separate financial statements[1] |
| HKAS 32 (Amendment) | Classification of right issues[4] |
| HKAS 39 (Amendment) | Eligible hedged items[1] |
| HKFRS 1 (Amendment) | Additional exemptions for first-time adopters[3] |
| HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5] |
| HKFRS 2 (Amendments) | Group cash-settled share-based payments transactions[3] |
| HKFRS 3 (Revised) | Business combinations[1] |
| HKFRS 9 | Financial instruments[7] |
| HK(IFRIC) – INT 14 (Amendment) | Prepayments of a minimum funding requirement[6] |
| HK(IFRIC) – INT 17 | Distribution of non-cash assets to owners[1] |
| HK(IFRIC) – INT 19 | Extinguishing financial liabilities with equity instrument[5] |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – *continued*

[1] Effective for annual periods beginning on or after 1 July 2009.

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2010.

[4] Effective for annual periods beginning on or after 1 February 2010.

[5] Effective for annual periods beginning on or after 1 July 2010.

[6] Effective for annual periods beginning on or after 1 January 2011.

[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entitles controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties in the ordinary course of business is recognised when sale and purchase agreements had been signed during the year and legal completion took place.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset including financial assets at fair value through profit or loss ("FVTPL") is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is transferred to property, plant and equipment when it is evidenced by the commencement of owner-occupation. The fair value, at the date of transfer, which is the deemed cost of the property for subsequent accounting in accordance with HKAS 16 Property, plant and equipment. The property interest held under an operating lease which was previously classified as investment property under the fair value model is continued to account for as a finance lease after the transfer.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amounts of the asset) is included in the profit or loss in the period in which the item is derecognised.

### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the reducing balance method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Leasing**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

**Leasehold land and building**

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payment cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis except for those that are classified and accounted for as investment properties under the fair value model.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Foreign currencies** – *continued*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme in Hong Kong and retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for the current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Taxation** – *continued*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Intangible assets**

Expenditure on research activities is recognised as an expense on the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

*Impairment*

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Impairment losses on tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Impairment losses on tangible and intangible assets** – *continued*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are mainly classified as loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Financial instruments** – *continued*

***Financial assets*** – *continued*

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL of the Group has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or intereset earned on the financial assets.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Financial instruments** – *continued*

***Impairment of financial assets*** – *continued*

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

3. **SIGNIFICANT ACCOUNTING POLICIES** – *continued*

**Financial instruments** – *continued*

***Financial liabilities and equity*** – *continued*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Financial instruments** – *continued*

***Financial liabilities and equity*** – *continued*

*Other financial liabilities*

Other financial liabilities including trade and other payables, bank borrowings and amounts due to directors are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Derivative financial instruments and hedging***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements.

**Estimated provision for impairment of inventory**

The Group makes allowance for inventories obsolescence based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

**Estimated provision for impairment of inventory** – *continued*

The carrying amount of inventories at 31 December 2009 is HK$192,776,000 (net of allowance for inventories obsolescence of HK$14,729,000) (2008: HK$167,419,000 (net of allowance for inventories obsolescence of HK$14,331,000)).

**Estimated provision for impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of trade receivables at 31 December 2009 is HK$176,222,000 (net of allowance for bad and doubtful debts of HK$34,435,000) (2008: HK$191,701,000 (net of allowance for bad and doubtful debts of HK$18,922,000)).

**Estimated impairment loss recognised in respect of property, plant and equipment**

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of property, plant and equipment at 31 December 2009 is HK$648,216,000 (net of impairment loss recognised in respect of property, plant and equipment of HK$18,504,000) (2008: HK$674,116,000 (net of impairment loss recognised in respect of property, plant and equipment of HK$16,663,000)).

**Income taxes**

As at 31 December 2009, a deferred taxation asset of HK$1,912,000 (2008: HK$5,442,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$135,514,000 (2008: HK$148,563,000) due to the unpredictability of future profit streams. The realisability of the deferred taxation asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than or more than expected, a material reversal or recognition of deferred taxation assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes bank borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and the issue of new debt.

## 6. TURNOVER AND SEGMENT INFORMATION

**Business segment**

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating and reportable segments under HKFRS 8 are as follows:

| | | |
|---|---|---|
| Household products | – | manufacture and distribution of household products |
| PVC pipes and fittings | – | manufacture and distribution of PVC pipes and fittings |

In addition, "others" segments represents the investment in properties.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, gain on disposal of a subsidiary, gain arising from derivative financial instruments classified as held for trading, gain (loss) arising from fair value change of financial asset at fair value through profit or loss and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## 6. TURNOVER AND SEGMENT INFORMATION – *continued*

### Segment turnover and results

The following is an analysis of the Group's turnover and results by operating segments.

***For the year ended 31 December 2009***

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Turnover | | | | | |
| Sales of goods | | | | | |
| External sales | 389,905 | 531,394 | – | – | 921,299 |
| Inter-segment sales | 890 | 1,350 | – | (2,240) | – |
| Rental income | – | – | 1,277 | – | 1,277 |
| Total | 390,795 | 532,744 | 1,277 | (2,240) | 922,576 |
| Segment profit | 24,418 | 36,834 | 3,778 | – | 65,030 |
| Gain arising from fair value changes of financial asset at fair value through profit or loss | | | | | 592 |
| Interest income | | | | | 769 |
| Unallocated corporate expenses | | | | | (22,857) |
| Finance costs | | | | | (8,253) |
| Profit before taxation | | | | | 35,281 |

Inter-segment sales are charged at cost plus certain mark-up.

## 6. TURNOVER AND SEGMENT INFORMATION – *continued*

**Segment turnover and results** – *continued*

*For the year ended 31 December 2008*

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Turnover | | | | | |
| Sales of goods | | | | | |
| External sales | 471,126 | 526,961 | – | – | 998,087 |
| Inter-segment sales | 673 | 1,043 | – | (1,716) | – |
| Rental income | – | – | 1,082 | – | 1,082 |
| Total | 471,799 | 528,004 | 1,082 | (1,716) | 999,169 |
| Segment (loss) profit | (32,954) | (28,628) | 3,920 | – | (57,662) |
| Gain on disposal of a subsidiary | – | – | 14,639 | – | 14,639 |
| Gain arising from derivative financial instruments classified as held for trading | | | | | 2,039 |
| Loss arising from fair value changes of financial asset at fair value through profit or loss | | | | | (753) |
| Interest income | | | | | 997 |
| Unallocated corporate expenses | | | | | (21,700) |
| Finance costs | | | | | (11,853) |
| Loss before taxation | | | | | (74,293) |

Inter-segment sales are charged at cost plus certain mark-up.

## 6. TURNOVER AND SEGMENT INFORMATION – *continued*

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segment:

***At 31 December 2009***

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | **500,289** | **598,122** | **19,170** | **1,117,581** |
| Unallocated assets | | | | **205,110** |
| Consolidated total assets | | | | **1,322,691** |
| Liabilities | | | | |
| Segment liabilities | **59,163** | **117,945** | **–** | **177,108** |
| Unallocated liabilities | | | | **256,097** |
| Consolidated total liabilities | | | | **433,205** |

*At 31 December 2008*

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Segment assets | 524,122 | 585,301 | 16,550 | 1,125,973 |
| Unallocated assets | | | | 162,789 |
| Consolidated total assets | | | | 1,288,762 |
| Liabilities | | | | |
| Segment liabilities | 79,656 | 114,889 | 75 | 194,620 |
| Unallocated liabilities | | | | 240,179 |
| Consolidated total liabilities | | | | 434,799 |

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to operating and reportable segments without allocation of financial asset at fair value through profit or loss, taxation recoverable, pledged bank deposits, bank balances and cash and leasehold buildings and prepaid lease payments provided to group directors as residential accommodation.

– all liabilities are allocated to operating and reportable segments without allocation of amounts due to directors, taxation payable, bank borrowings, deferred taxation liabilities, bonus payable and accruals of administrative expenses in head office.

## 6. TURNOVER AND SEGMENT INFORMATION *– continued*

### Other Segment Information

***For the year ended 31 December 2009***

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or segment assets: | | | | | | |
| Additions to non-current assets (note) | 16,056 | 13,839 | – | 29,895 | 814 | 30,709 |
| Depreciation | 24,387 | 25,372 | – | 49,759 | 1,063 | 50,822 |
| Amortisation of intangible assets | 393 | – | – | 393 | – | 393 |
| Amortisation of prepaid lease payments | 1,714 | 879 | – | 2,593 | 876 | 3,469 |
| Allowance for bad and doubtful debts | 4 | 15,385 | – | 15,389 | – | 15,389 |
| (Reversal of allowance) allowance for inventories obsolescence, net | (132) | 435 | – | 303 | – | 303 |
| Exchange loss (gain), net | 1,177 | (277) | – | 900 | – | 900 |
| Loss (gain) on disposal of property, plant and equipment | 1,090 | (206) | – | 884 | – | 884 |
| Gain arising from fair value changes of investment properties | – | – | (2,620) | (2,620) | – | (2,620) |
| Write off of other receivables | 1,527 | – | – | 1,527 | – | 1,527 |
| Impairment loss recognised in respect of property, plant and equipment | 1,841 | – | – | 1,841 | – | 1,841 |

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets:

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Gain arising from fair value change of financial asset at fair value through profit or loss | – | – | – | – | (592) | (592) |
| Interest income | (261) | (508) | – | (769) | – | (769) |
| Interest expenses | 4,788 | 3,465 | – | 8,253 | – | 8,253 |
| Income tax expenses | 4,289 | 1,587 | – | 5,876 | – | 5,876 |

Note: Non-current assets excluded financial asset at fair value through profit or loss.

## 6. TURNOVER AND SEGMENT INFORMATION – *continued*

**Other Segment Information** – *continued*

*For the year ended 31 December 2008*

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Addition to non-current assets (note) | 20,295 | 32,359 | – | 52,654 | 258 | 52,912 |
| Depreciation | 25,521 | 26,786 | – | 52,307 | 1,046 | 53,353 |
| Amortisation of intangible assets | 372 | – | – | 372 | – | 372 |
| Amortisation of prepaid lease payments | 2,084 | 869 | – | 2,953 | 876 | 3,829 |
| Allowance for bad and doubtful debts | (417) | 3,705 | – | 3,288 | – | 3,288 |
| Allowance for inventories obsolescence, net | 3,808 | 429 | – | 4,237 | – | 4,237 |
| Exchange loss (gain), net | 17,798 | (1,650) | – | 16,148 | – | 16,148 |
| Loss (gain) on disposal of property, plant and equipment | 1,687 | (121) | – | 1,566 | – | 1,566 |
| Gain on disposal of investment properties | – | – | (3,628) | (3,628) | – | (3,628) |
| Loss arising from fair value changes of investment properties | – | – | 620 | 620 | – | 620 |
| Write off of trade receivables | 5 | 107 | – | 112 | – | 112 |
| Impairment loss recognised in respect of property, plant and equipment | 2,663 | 14,000 | – | 16,663 | – | 16,663 |

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

| | Household products HK$'000 | PVC pipes and fittings HK$'000 | Others HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| Gain arising from derivative financial instruments classified as held for trading | – | – | – | – | (2,039) | (2,039) |
| Loss arising from fair value change of financial asset at fair value through profit or loss | – | – | – | – | 753 | 753 |
| Interest income | (435) | (562) | – | (997) | – | (997) |
| Interest expenses | 8,414 | 3,439 | – | 11,853 | – | 11,853 |
| Income tax expenses | (5,473) | 75 | – | (5,398) | 13 | (5,385) |

Note: Non-current assets excluded financial asset at fair value through profit or loss.

## 6. TURNOVER AND SEGMENT INFORMATION – *continued*

### Geographical information

More than 90% of the sales of the Group's PVC pipes and fittings made to customers were in the PRC. The Group operates the sales of household products in three principal geographical areas – United States of America, Asia and Europe. The following table provides an analysis of the Group's revenue from external customers by geographical location of customers:

| | **Revenue from external customers** | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| United States of America | **345,195** | 403,130 |
| Asia | **8,538** | 31,845 |
| Europe | **14,675** | 17,054 |
| Other areas | **21,497** | 19,097 |
| Total sales of household products | **389,905** | 471,126 |

More than 90% of the Group's non-current assets, excluding financial asset at fair value through profit or loss are located in the PRC. Accordingly, no non-current assets by geographical location is presented.

### Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A[1] | **–**[2] | 129,381 |

1 Revenue from the manufacture and distribution of household products.

2 The corresponding revenue does not contribute over 10% of the total sales of the Group in the respective year.

## 7. OTHER GAINS AND LOSSES

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Gain on disposal of a subsidiary (note 28) | – | 14,639 |
| Gain (loss) arising from fair value changes of investment properties | 2,620 | (620) |
| Gain on disposal of investment properties | – | 3,628 |
| Gain arising from derivative financial instruments classified as held for trading | – | 2,039 |
| Gain (loss) arising from fair value change of financial asset at fair value through profit or loss | 592 | (753) |
| Impairment loss recognised in respect of property, plant and equipment | (1,841) | (16,663) |
| Loss on disposal of property, plant and equipment | (884) | (1,566) |
| Net foreign exchange loss | (900) | (16,148) |
| Write off of trade receivables | – | (112) |
| Write off of other receivables | (1,527) | – |
| | (1,940) | (15,556) |

## 8. FINANCE COSTS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interest on bank borrowings: | | |
| – wholly repayable within five years | 8,063 | 10,223 |
| – not wholly repayable within five years | 190 | 1,630 |
| | 8,253 | 11,853 |

## 9. TAXATION

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Hong Kong Profits Tax | | |
| – charge for the year | **(148)** | (1,195) |
| – (under)overprovision in prior years | **(1,344)** | 31 |
| | **(1,492)** | (1,164) |
| Income tax in other regions in the PRC | | |
| – charge for the year | **(7,220)** | – |
| – overprovision in prior years | **–** | 523 |
| | **(7,220)** | 523 |
| | **(8,712)** | (641) |
| Deferred taxation (note 24) | | |
| – credit for the year | **2,836** | 6,020 |
| – attributable to a change in tax rate | **–** | 6 |
| | **2,836** | 6,026 |
| Tax (charge) credit | **(5,876)** | 5,385 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

## 9. TAXATION – *continued*

Pursuant to the relevant laws and regulations in the PRC, five (2008: five) of the Company's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years commencing from their deemed first profit making year of operation in 2008, and thereafter, these PRC subsidiaries are entitled to a 50% relief on applicable domestic tax rate from PRC Enterprise Income Tax for the following three years up to 31 December 2012 under the EIT Law. For certain of the Company's subsidiaries that have not yet entitled to tax exemption and reduction because no profit is generated since commencement of operation, under the application of the Guofa [2007] No. 39 promulgated by the State Council ("Guofa"), the deemed first profit making year would be in 2008 and therefore, the PRC Enterprise Income Tax rate on these Company's subsidiaries would be 0% for two years from 2008.

Certain of the Company's subsidiaries were entitled to enjoy preferential PRC Enterprise Income Tax rate prior to 2008. Under the application of the Guofa as mentioned above, the PRC Enterprise Income Tax rate of those companies that enjoyed such tax benefits would be increased progressively to 25% in five years commencing from 1 January 2008. The applicable PRC Enterprise Income Tax rate for these subsidiaries is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

The tax (charge) credit for the year can be reconciled to the profit (loss) before taxation in the consolidated statement of comprehensive income as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit (loss) before taxation | **35,281** | (74,293) |
| Tax at the domestic income tax rate of 20% (2008: 18%) | **(7,056)** | 13,373 |
| Tax effect of expenses not deductible for tax purpose | **(4,203)** | (3,725) |
| Tax effect of income not taxable for tax purpose | **693** | 2,551 |
| (Under)overprovision in prior years | **(1,344)** | 554 |
| Tax effect of tax losses not recognised as deferred tax asset | **(1,052)** | (9,503) |
| Tax effect of change in tax rate for deferred taxation | **–** | 6 |
| Utilisation of tax losses previously not recognised as deferred tax asset | **3,662** | 2,540 |
| Effect of tax exemption granted to PRC subsidiaries | **2,500** | – |
| Income tax on concessionary rate | **1,087** | – |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(163)** | (411) |
| Tax (charge) credit for the year | **(5,876)** | 5,385 |

The PRC Enterprise Income Tax rate of 20% (2008: 18%) is the transitional domestic tax rate in the jurisdiction where the operation of the Group is substantially based. The domestic tax rate will be increased progressively and unified at 25% by 2012.

## 10. PROFIT (LOSS) FOR THE YEAR

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit (loss) for the year has been arrived at after charging: | | |
| Directors' emoluments (note 11) | **17,847** | 16,757 |
| Other staff's retirement benefit scheme contributions | **4,023** | 3,352 |
| Other staff costs | **94,688** | 96,320 |
| Total staff costs | **116,558** | 116,429 |
| Allowance for bad and doubtful debts | **15,389** | 3,288 |
| Allowance for inventories obsolescence | **1,887** | 5,300 |
| Amortisation of intangible assets (included in cost of sales) | **393** | 372 |
| Amortisation of prepaid lease payments | **3,469** | 3,829 |
| Auditors' remuneration | **2,292** | 2,220 |
| Cost of inventories recognised as an expenses | **763,952** | 926,379 |
| Depreciation | **50,822** | 53,353 |
| Exchange loss (included in other gains and losses) | **2,094** | 23,349 |
| Loss on disposal of property, plant and equipment | **884** | 1,566 |
| Operating lease rentals in respect of rented premises | **160** | 154 |
| Shipping and handling expenses (included in selling and distribution costs) | **12,096** | 11,246 |
| and after crediting: | | |
| Exchange gain (included in other gains and losses) | **1,194** | 7,201 |
| Gross rental income from investment properties | **1,277** | 1,082 |
| Less: Direct operating expenses that generated rental income | **(119)** | (55) |
| | **1,158** | 1,027 |
| Interest income | **769** | 997 |
| Reversal of allowance for inventories obsolescence (note) | **1,584** | 1,063 |
| Write off of other payables (included in other income) | **2,210** | – |

Note: Reversal of allowance for inventories obsolescence has been recognised in both years due to realisation and subsequent usage of the relevant inventories and such amount has been included in cost of sales in the consolidated statement of comprehensive income.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Details of emoluments paid by the Group to each of the directors are as follows:

***For the year ended 31 December 2009***

| | Fees | Salaries and other benefits | Bonus | Retirement benefit scheme contributions | Total emoluments |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ***Executive directors:*** | | | | | |
| Lee Tat Hing | – | 7,535 | 1,764 (Note) | – | 9,299 |
| Fung Mei Po | – | 2,701 | – | 12 | 2,713 |
| Lee Chun Sing | – | 2,700 | – | 12 | 2,712 |
| Lee Pak Tung | – | 560 | – | 12 | 572 |
| Kwong Bau To | – | 930 | – | 12 | 942 |
| Chan Lai Kuen Anita | – | 877 | – | 12 | 889 |
| ***Non-executive director:*** | | | | | |
| Cheung Tze Man Edward | 180 | – | – | – | 180 |
| ***Independent non-executive directors:*** | | | | | |
| Tsui Chi Him Steve | 180 | – | – | – | 180 |
| Hui Chi Kuen Thomas | 180 | – | – | – | 180 |
| Ho Tak Kay | 180 | – | – | – | 180 |
| | 720 | 15,303 | 1,764 | 60 | 17,847 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(i) Details of emoluments paid by the Group to each of the directors are as follows: – *continued*

*For the year ended 31 December 2008*

| | Fees | Salaries and other benefits | Bonus | Retirement benefit scheme contributions | Total emoluments |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ***Executive directors:*** | | | | | |
| Lee Tat Hing | – | 7,350 | – | – | 7,350 |
| Fung Mei Po | – | 2,700 | – | 12 | 2,712 |
| Lee Chun Sing | – | 2,700 | – | 12 | 2,712 |
| Lai Lai Wah (resigned on 31 Decemebr 2008) | – | 900 | – | 12 | 912 |
| Lee Pak Tung | – | 508 | – | 12 | 520 |
| Kwong Bau To | – | 930 | – | 12 | 942 |
| Chan Lai Kuen Anita | – | 877 | – | 12 | 889 |
| ***Non-executive director:*** | | | | | |
| Cheung Tze Man Edward | 180 | – | – | – | 180 |
| ***Independent non-executive directors:*** | | | | | |
| Tsui Chi Him Steve | 180 | – | – | – | 180 |
| Hui Chi Kuen Thomas | 180 | – | – | – | 180 |
| Ho Tak Kay | 180 | – | – | – | 180 |
| | 720 | 15,965 | – | 72 | 16,757 |

Note: The bonus is calculated at 5% of the Group's consolidated profit before taxation.

In addition to the amount disclosed above, during the year, the Group also provided one of its leasehold properties in Hong Kong as residential accommodation for Mr. Lee Tat Hing and Madam Fung Mei Po. The estimated monetary value of such accommodation, using the ratable value as an approximation, amounted to HK$1,225,200 (2008: HK$1,198,200) for the year.

**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** – *continued*

(ii) Information regarding employees' emoluments

The five highest paid employees of the Group in both years included three executive directors whose emoluments are included in (i) above. The emoluments of the other two highest paid employees, not being directors, are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Salaries | **3,300** | 3,300 |
| Retirement benefit scheme contributions | **24** | 24 |
| | **3,324** | 3,324 |

The emoluments of these two employees fall within the following bands:

| | Number of employees | |
|---|---|---|
| | **2009** | 2008 |
| HK$1,500,001 to HK$2,000,000 | **2** | 2 |

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

**12. EARNINGS (LOSS) PER SHARE**

The calculation of the basic earnings (loss) per share attributable to the owners of the Company is based on the following data:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit (loss) for the purpose of calculating basic earnings (loss) per share | **29,405** | (68,908) |

| | Number of shares<br>2009& 2008 |
|---|---|
| Number of shares for the purpose of calculating basic earnings (loss) per share | 676,417,401 |

## 12. EARNINGS (LOSS) PER SHARE – *continued*

Diluted earnings (loss) per share is not presented as there were no potential ordinary shares in existence during both years.

## 13. INVESTMENT PROPERTIES

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **FAIR VALUE** | | |
| At 1 January | **16,550** | 39,020 |
| Transfer to property, plant and equipment | **–** | (350) |
| Disposals | **–** | (21,500) |
| Increase (decrease) in fair value | **2,620** | (620) |
| At 31 December | **19,170** | 16,550 |

The carrying amount of investment properties shown above comprises:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties situated in Hong Kong | **9,900** | 8,250 |
| Properties situated in the PRC, other than Hong Kong | **9,270** | 8,300 |
| | **19,170** | 16,550 |

The investment properties are held under medium-term leases.

All of the Group's property interests in land and building held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2009 and 2008 have been arrived at on the basis of a valuation at that date carried out by Knight Frank Petty Limited, an independent firm of professional property valuers not connected with the Group. Knight Frank Petty Limited has appropriate qualification and recent experiences in the valuation of similar properties in the relevant locations. The fair values of HK$19,170,000 (2008: HK$16,550,000) was arrived at by reference to the basis of capitalisation of the relevant net income.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2008 | 429,983 | 86,397 | 71,333 | 22,134 | 667,131 | 10,049 | 1,287,027 |
| Currency realignment | 23,999 | 5,325 | 4,028 | 753 | 42,152 | 647 | 76,904 |
| Additions | 10,209 | 520 | 4,988 | 146 | 29,811 | 7,238 | 52,912 |
| Reclassifications | 2,951 | 52 | 1,259 | – | 7,969 | (12,231) | – |
| Disposals | – | (2,076) | (48,297) | (2,087) | (4,416) | – | (56,876) |
| Transferred from investment properties | 350 | – | – | – | – | – | 350 |
| Disposal of a subsidiary | (12,490) | – | – | – | – | – | (12,490) |
| At 31 December 2008 | 455,002 | 90,218 | 33,311 | 20,946 | 742,647 | 5,703 | 1,347,827 |
| Currency realignment | 2,700 | 555 | 187 | 75 | 4,712 | 39 | 8,268 |
| Additions | 5,617 | 500 | 760 | 1,409 | 12,044 | 10,379 | 30,709 |
| Reclassifications | 741 | – | 1,594 | – | 6,835 | (9,170) | – |
| Disposals | – | (665) | – | (1,092) | (25,950) | – | (27,707) |
| At 31 December 2009 | 464,060 | 90,608 | 35,852 | 21,338 | 740,288 | 6,951 | 1,359,097 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| At 1 January 2008 | 98,999 | 72,863 | 59,244 | 16,251 | 370,270 | – | 617,627 |
| Currency realignment | 6,144 | 4,416 | 3,262 | 472 | 21,868 | – | 36,162 |
| Provided for the year | 17,560 | 2,588 | 2,159 | 1,511 | 29,535 | – | 53,353 |
| Impairment loss recognised in profit or loss | – | – | – | – | 16,663 | – | 16,663 |
| Eliminated on disposals | – | (1,882) | (43,672) | (1,787) | (1,792) | – | (49,133) |
| Eliminated on disposal of a subsidiary | (961) | – | – | – | – | – | (961) |
| At 31 December 2008 | 121,742 | 77,985 | 20,993 | 16,447 | 436,544 | – | 673,711 |
| Currency realignment | 771 | 471 | 114 | 53 | 3,377 | – | 4,786 |
| Provided for the year | 17,276 | 2,412 | 1,843 | 977 | 28,314 | – | 50,822 |
| Impairment loss recognised in profit or loss | – | 8 | – | – | 1,833 | – | 1,841 |
| Eliminated on disposals | – | (592) | – | (579) | (19,108) | – | (20,279) |
| At 31 December 2009 | 139,789 | 80,284 | 22,950 | 16,898 | 450,960 | – | 710,881 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2009 | 324,271 | 10,324 | 12,902 | 4,440 | 289,328 | 6,951 | 648,216 |
| At 31 December 2008 | 333,260 | 12,233 | 12,318 | 4,499 | 306,103 | 5,703 | 674,116 |

The cost of leasehold land and buildings is depreciated over the shorter of the term of the lease and twenty-five to fifty years on a straight line basis.

**14. PROPERTY, PLANT AND EQUIPMENT** – *continued*

Depreciation is provided to write off the cost of other property, plant and equipment other than construction in progress over their estimated useful lives, using the reducing balance method, at the following rates per annum:

| | |
|---|---|
| Furniture, fixtures and equipment | 18 – 20% |
| Leasehold improvements | Over shorter of the term of leases or 20% |
| Motor vehicles | 20% |
| Plant and machinery | 9 – 20% |

During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. For the purposes of impairment testing, plant and machinery have been allocated to two individual cash generating units (CGUs), comprising household products segment and PVC pipes and fittings segment. Accordingly, impairment losses of HK$1,841,000 (2008: HK$16,663,000) have been recognised in respect of plant and machinery, which impairment losses of HK$1,841,000 (2008: HK$2,663,000) and HK$nil (2008: HK$14,000,000) are in the Group's household products and PVC pipes and fittings segments respectively. The recoverable amounts of the above CGUs have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use in the Group's household products and PVC pipes and fittings segments were 4.24% (2008: 7.84%) and 1.61% (2008: 3.53%) respectively.

The carrying values of the Group's leasehold land and buildings comprise:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Leasehold land and buildings in Hong Kong under medium-term leases | **49,791** | 50,305 |
| Buildings in the PRC (other than Hong Kong) on medium-term land use rights | **274,480** | 282,955 |
| | **324,271** | 333,260 |

The construction in progress comprise properties located in the PRC under medium-term lease.

The Group has pledged land and buildings having a net book value of approximately HK$172,575,000 (2008: HK$179,052,000) to secure general banking facilities granted to the Group.

## 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Leasehold land in Hong Kong under medium-term lease | **32,631** | 33,507 |
| Leasehold land in other regions in the PRC under medium-term lease | **100,328** | 102,285 |
| | **132,959** | 135,792 |

Analysed for reporting purposes as:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Current asset | **3,470** | 3,454 |
| Non-current asset | **129,489** | 132,338 |
| | **132,959** | 135,792 |

## 16. INTANGIBLE ASSETS

| | **Capitalised development costs** HK$'000 |
|---|---|
| COST | |
| At 1 January 2008 | 3,420 |
| Currency realignment | 197 |
| At 31 December 2008 | 3,617 |
| Currency realignment | 25 |
| At 31 December 2009 | 3,642 |
| AMORTISATION | |
| At 1 January 2008 | 351 |
| Currency realignment | 25 |
| Charge for the year | 372 |
| At 31 December 2008 | 748 |
| Currency realignment | 5 |
| Charge for the year | 393 |
| At 31 December 2009 | 1,146 |
| CARRYING VALUES | |
| At 31 December 2009 | 2,496 |
| At 31 December 2008 | 2,869 |

Development costs are internally generated on development activities of high value-added environmental reborn resources and recycling business.

The intangible assets are amortised over its estimated economic life of 10 years using the straight line method. The amortization expense has been included in cost of sales in the consolidated statement of comprehensive income.

## 17. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset at fair value through profit or loss comprise:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity-linked note | **6,859** | 6,267 |

The equity-linked note is denominated in United States Dollar ("USD") with principal amount of USD900,000 and the interest accrual on a daily basis is at a fixed rate for the first month and at a predetermined equation at subsequent payment dates. The equity-linked note is subject to mandatory redemption at various intervals until maturity date. The duration and the manner in which it is settled at mandatory termination are linked to the performance of a basket of Taiwan listed equity securities by comparing the market prices with the pre-determined prices of these equity securities. Accrued interest is payable on monthly basis. The notes may be redeemed at maturity in full amount of the principal amount for cash. The equity-linked note is designated as financial asset at fair value through profit or loss upon initial recognition as it contains embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

The maturity date of the equity-linked note outstanding as at 31 December 2009 is May 2011 (31 December 2008: May 2011), subject to mandatory termination, and is therefore classified as non-current. The note was stated at fair value at the end of the reporting period based on valuation amount provided by the relevant counterparty financial institution.

## 18. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **108,404** | 85,222 |
| Work in progress | **31,153** | 28,122 |
| Finished goods | **53,219** | 54,075 |
| | **192,776** | 167,419 |

## 19. TRADE AND OTHER RECEIVABLES

The following is an aging analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 0 – 30 days | **78,447** | 73,878 |
| 31 – 60 days | **42,634** | 46,004 |
| 61 – 90 days | **16,109** | 25,768 |
| 91 – 180 days | **23,547** | 23,599 |
| Over 180 days | **15,485** | 22,452 |
| Net trade receivables | **176,222** | 191,701 |
| Other receivables | **25,303** | 17,526 |
| Total trade and other receivables | **201,525** | 209,227 |

The Group allows an average credit periods of 180 days, depending on the product sold, to its trade customers. Trade and other receivables are unsecured and interest-free. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits by customer.

The Group's trade receivable which are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| United States dollars ("USD") | **46,195** | 55,473 |

Included in the Group's trade receivable balances are debtors with carrying amount of HK$55,113,000 (2008: HK$58,912,000) which are past due at the reporting date for which the Group had not provided for impairment loss. The Group does not hold any collateral over these balances.

## 19. TRADE AND OTHER RECEIVABLES – *continued*

**Aging of trade receivables based on the invoice date which are past due but not impaired**

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 31 – 60 days | 15,777 | 9,880 |
| 61 – 90 days | 11,844 | 4,028 |
| 91 – 180 days | 12,007 | 22,552 |
| Over 180 days | 15,485 | 22,452 |
| | 55,113 | 58,912 |

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, trade receivables which are past due but not impaired are generally collectable. Allowance on doubtful debt recognised for 2008 and 2009 represent the allowance against the full amount of outstanding trade receivables which are either aged over one year because historical experience is such that receivables past due beyond one year are generally not recoverable, or individually impaired trade receivables of customers which has either been placed under liquidation or in severe financial difficulties.

**Movement in the allowance for doubtful debts**

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| 1 January | 18,922 | 27,213 |
| Currency realignment | 124 | 1,036 |
| Impairment losses recognised on receivables | 15,389 | 3,288 |
| Amounts written off as uncollectible | – | (12,615) |
| 31 December | 34,435 | 18,922 |

The directors of the Company consider the carrying amount of trade and other receivables approximates its fair value.

## 20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to banks to secure bills payable and short term bank borrowings granted to the Group and are therefore classified as current asset. The pledged bank deposits carry interest at market rates which range from 0.15% to 2.25% (2008: 0.45% to 3.87%) per annum. The pledged deposits will be released upon the settlement of relevant borrowings.

## 20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH – *continued*

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less, which carry at market interest rates. Bank balances carry interest at market rates which range from 0.01% to 1.71% (2008: 0.01% to 3.15%) per annum.

The Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **3,454** | 1,514 |
| HK$ | **827** | 3,257 |

The directors of the Company consider that the carrying amounts of pledged bank deposits and bank balances and cash approximate their fair values.

## 21. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **54,230** | 36,675 |
| 31 – 60 days | **23,451** | 22,445 |
| 61 – 90 days | **13,449** | 15,537 |
| Over 90 days | **15,607** | 38,678 |
| Total trade payables | **106,737** | 113,335 |
| Other payables | **74,157** | 82,813 |
| Total trade and other payables | **180,894** | 196,148 |

## 21. TRADE AND OTHER PAYABLES – *continued*

The following is an analysis of the Group's other payables at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accrued expenses | **11,904** | 10,711 |
| Accrued sales discount | **3,629** | 11,137 |
| Receipt in advance | **40,565** | 30,895 |
| Wages payable | **7,893** | 5,613 |
| Payable on acquisition of property, plant and equipment | **433** | 8,047 |
| Payable on acquisition of land use rights | **2,543** | 2,577 |
| Others | **7,190** | 13,833 |
| | **74,157** | 82,813 |

The average credit period on purchases of goods is 90 days.

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the relevant group companies:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **7,531** | 7,845 |

The directors of the Company consider that the carrying amount of trade and other payables approximates its fair value.

## 22. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable within one year. The directors of the Company consider the carrying amount of amounts due to directors approximates its fair value.

## 23. BANK BORROWINGS

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Variable rate bank loans | **189,617** | 172,601 |
| Variable rate bank overdrafts | **3,245** | 3,004 |
| Variable rate trust receipts and import loans | **12,751** | 22,708 |
| | **205,613** | 198,313 |
| Analysed as: | | |
| Secured | **195,696** | 193,313 |
| Unsecured | **9,917** | 5,000 |
| | **205,613** | 198,313 |
| Carrying amount repayable: | | |
| Within 1 year | **171,014** | 176,481 |
| More than 1 year, but not exceeding 2 years | **22,542** | 8,281 |
| More than 2 years, but not exceeding 5 years | **9,536** | 9,309 |
| More than 5 years | **2,521** | 4,242 |
| | **205,613** | 198,313 |
| Less: Amount due within 1 year shown under current liabilities | **(171,014)** | (176,481) |
| Amount due after 1 year | **34,599** | 21,832 |

The bank loans of the Group, which were borrowed by subsidiaries, that are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| USD | **23,918** | 29,226 |
| HK$ | **26,260** | 21,056 |

## 23. BANK BORROWINGS – *continued*

The ranges of interest rates which is repriced every three months, on the Group's borrowings are as follows:

| | 2009 | 2008 |
|---|---|---|
| Interest rate: | | |
| Variable rate borrowing | **HIBOR + 0.88% to Prime rate** | HIBOR + 0.88% to Prime rate + 1% |

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | 2009 | 2008 |
|---|---|---|
| Effective interest rate: | | |
| Variable rate borrowing | **1.00% to 5.40%** | 1.57% to 9.12% |

The directors of the Company consider that the carrying amount of bank borrowings approximates its fair value.

## 24. DEFERRED TAXATION

The following are the major deferred taxation assets and liabilities recognised and movements thereon during the current and prior years:

| | Accelerated tax depreciation | Fair value changes in investment properties | Tax losses | Others | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2008 | (23,185) | (1,061) | 5,055 | 2,974 | (16,217) |
| Exchange differences | (1,384) | – | 130 | 206 | (1,048) |
| Credit to profit or loss | 3,485 | 436 | 440 | 1,659 | 6,020 |
| Change in tax rate | 128 | 61 | (183) | – | 6 |
| At 31 December 2008 | (20,956) | (564) | 5,442 | 4,839 | (11,239) |
| Exchange difference | (135) | – | 28 | 34 | (73) |
| (Charge) credit to profit or loss | 9,820 | (433) | (3,558) | (2,993) | 2,836 |
| At 31 December 2009 | (11,271) | (997) | 1,912 | 1,880 | (8,476) |

## 24. DEFERRED TAXATION – *continued*

At the end of the reporting period, the Group had unused tax losses of approximately HK$147,101,000 (2008: HK$173,009,000) available to offset against future assessable profits. A deferred taxation asset of HK$1,912,000 (2008: HK$5,442,000) has been recognised in respect of HK$11,587,000 (2008: HK$24,446,000) of such losses. No deferred taxation asset has been recognised in respect of the remaining tax losses of HK$135,514,000 (2008: HK$148,563,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely. The Group had no other significant unprovided deferred taxation at the end of the reporting period.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$34,774,000 (2008: HK$nil) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 25. SHARE CAPITAL

| | 2009 & 2008<br>HK$'000 |
|---|---|
| Authorised: | |
| 1,500,000,000 shares of HK$0.10 each | 150,000 |

| | Nominal value<br>2009 & 2008<br>HK$'000 |
|---|---|
| Issued and fully paid: | |
| 676,417,401 shares of HK$0.10 each | 67,642 |

There were no changes in the authorised, issued and fully paid share capital in both years.

## 26. SHARE OPTION SCHEME

The Company has a share option scheme under which options may be granted as incentives to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company at any time during the ten year period following the adoption of the scheme. The scheme was adopted at an extraordinary general meeting of the Company held on 11 March 1993. Under the scheme, the subscription price will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer of the option provided that in no circumstances shall the subscription price be less than the nominal value of the Company's share.

The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option can be exercised six months after the date of acceptance but not later than five years from the date of the offer.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK$1 as the nominal consideration.

No share options were granted to directors or employees during the two years ended 31 December 2009. In addition, as of 31 December 2009 and 31 December 2008, no share options under the share option scheme were outstanding.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Categories of financial instruments**

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets | | |
| Fair value through profit or loss ("FVTPL") | **6,859** | 6,267 |
| Loans and receivables (including cash and cash equivalents) | **293,979** | 264,226 |
| Financial liabilities | | |
| Amortised costs | **357,822** | 366,733 |

**Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings and amounts due to directors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Financial risk management objectives and policies** – *continued*

***Market risk***

*Currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 41% (2008: 45%) and 41% (2008: 28%) of the Group's sales and purchases respectively are denominated in currencies other than the functional currencies of the group entity making the sale and the purchase.

Several subsidiaries of the Company have foreign currency bank balances, trade and other receivables, trade and other payables and bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entity which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2008 and 2009 are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| USD | **56,508** | 63,254 | **(31,449)** | (37,071) |
| HK$ | **827** | 3,257 | **(26,260)** | (21,056) |
| | **57,335** | 66,511 | **(57,709)** | (58,127) |

In addition, the Group is also exposed to foreign currency risk to the extent of intra-group balances when the HK$ functional entities raised funding and made intra-group trading transactions denominated in HK$ with PRC entities which RMB as their functional currency. The intra-group balances in relation to the foreign currency denominated monetary assets amounting to approximately HK$270,276,000 (2008: HK$283,003,000). The Group has not formulated a policy to hedge the foreign currency risk.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Financial risk management objectives and policies** – *continued*

***Market risk*** – *continued*

*Currency risk – continued*

The Group is mainly exposed to fluctuation in exchange rate of Renminbi ("RMB") against HK$. Exposures on balances which are denominated in USD in group companies with HK$ as functional currency, are not considered significant as HK$ is pegged to USD. The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of RMB (functional currency of the relevant group companies) against HK$ while all other variables are held constant. The sensitivity analysis includes outstanding foreign currency denominated monetary items, external loans as well as foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. It adjusts their translations at the end of the reporting period for a 5% change in RMB.

| | Increase (decrease) in profit | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Increase (decrease) in profit (loss) for the year | | |
| – if RMB weaken against HK$ | **9,794** | 10,639 |
| – if RMB strengthen against HK$ | **(9,794)** | (10,639) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*Cash flow interest rate risk*

The Group's cash flow interest rate risk relates primarily to variable rate bank borrowings (see note 23). The Group currently does not have policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Financial risk management objectives and policies** – *continued*

***Market risk*** – *continued*

*Cash flow interest rate risk – continued*

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the variable rate bank borrowings at the end of the reporting period and the management's assessment of the reasonably possible change in interest rates throughout the respective year.

| | **2009** | 2008 |
|---|---|---|
| Reasonably possible change in interest rate | **100 basis point** | 100 basis point |
| | **HK$'000** | HK$'000 |
| Increase(decrease) in profit (loss) for the year | | |
| – as a result of increase in interest rate | **(1,645)** | (1,626) |
| – as a result of decrease in interest rate | **1,645** | 1,626 |

*Other price risk*

The Group is engaged in the business activities of design, manufacture and marketing of PVC and fabric household products, PVC pipes and fittings, PVC resin is a by-product in the refinery of petroleum products from crude oil. The price of crude oil is affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such price may have favourable or unfavourable impacts to the Group. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group is exposed to general price fluctuations of crude oil.

The Group is also exposed to equity price risk through its FVTPL. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange of Taiwan. The Group will monitor the price risk and consider hedging the risk exposure should the need arise.

In management's opinion, the sensitivity analysis is unrepresentative of the other price risk as the year end exposure does not reflect the exposure during the year.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Financial risk management objectives and policies** – *continued*

***Credit risk***

The Group's credit risk is primarily attributable to trade receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In additions, the Group reviews the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 71% (2008: 66%) of the total trade receivables as at 31 December 2009.

***Liquidity risk***

The Group has sufficient cash and cash equivalents and available funding through bank borrowings (note 23) to meet its working capital requirement. Generally, trade payables are normally required to be settled within 3 months after receipt of goods and services.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised bank loan facilities of approximately HK$235,780,000 (2008: HK$260,790,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Financial risk management objectives and policies** – *continued*

***Liquidity risk*** – *continued*

*Liquidity and interest risk tables*

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2009 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2009 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | – | 56,918 | 37,848 | 27,318 | – | – | 122,084 | 122,084 |
| Bank borrowings – variable rate | 3.31 | 51,309 | 19,751 | 103,108 | 33,686 | 2,586 | 210,440 | 205,613 |
| Amounts due to directors | – | 30,125 | – | – | – | – | 30,125 | 30,125 |
| | | 138,352 | 57,599 | 130,426 | 33,686 | 2,586 | 362,649 | 357,822 |

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1 – 3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| As at 31 December 2008 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | — | 46,603 | 52,711 | 41,308 | — | — | 140,622 | 140,622 |
| Bank borrowings – variable rate | 5.30 | 57,273 | 24,893 | 98,097 | 18,442 | 4,415 | 203,120 | 198,313 |
| Amounts due to directors | — | — | — | 27,798 | — | — | 27,798 | 27,798 |
| | | 103,876 | 77,604 | 167,203 | 18,442 | 4,415 | 371,540 | 366,733 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

### Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets (other than financial asset at FVTPL) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

- the fair value of financial asset at FVTPL is determined based on the valuation amount provided by the relevant counterparty financial institution for equivalent instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

### Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active maket for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for asset or liability that are not based on observable market data (unobservable inputs).

| | 31 December 2009 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| Financial asset at FVTPL | – | – | 6,859 | 6,859 |

There were no transfers between Level 1, 2 and 3 in the current year.

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

**Reconciliation of Level 3 fair value measurements of financial asset**

| | **Financial asset at FVTPL** HK$'000 |
|---|---|
| At 1 January 2009 | 6,267 |
| Total gains or losses in profit or loss | 592 |
| At 31 December 2009 | 6,859 |

Of the total gains or losses for the year included in profit or loss, HK$592,000 relates to financial asset at FVTPL held at the end of the reporting period. Fair value gains are included in 'Other gains and losses'.

## 28. DISPOSAL OF A SUBSIDIARY

On 8 July 2008, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest in and the shareholder loan of Gold Earn (Hong Kong) Limited, a wholly-owned subsidiary of the Company for a consideration of HK$26,500,000. The wholly-owned subsidiary is mainly engaged in property holding. The net cash generated from such disposal which was completed on 28 July 2008, after deducting the relevant selling expenses, is approximately HK$26,168,000 which will be used as general working capital of the Group.

| | **Net assets value at the date of disposal** HK$'000 |
|---|---|
| NET ASSETS DISPOSED OF | |
| Property, plant and equipment | 11,529 |
| Amount due to immediate holding company | (6,798) |
| | 4,731 |
| Assignment of intercompany indebtedness | 6,798 |
| Gain on disposal | 14,639 |
| Total consideration, satisfied by cash | 26,168 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 26,168 |

## 29. CAPITAL COMMITMENTS

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of | | |
| – plant and machinery | **2,969** | 1,542 |
| – leasehold improvement | **83** | – |
| | **3,052** | 1,542 |

## 30. OPERATING LEASES

**The Group as lessee**

At the end of the reporting period, the Group had commitments for future lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Within one year | **38** | 151 |
| In the second to fifth year inclusive | **–** | 38 |
| | **38** | 189 |

Leases are negotiated and rentals are fixed for an average term of two years.

**The Group as lessor**

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Within one year | **687** | 985 |
| In the second to fifth year inclusive | **30** | 334 |
| | **717** | 1,319 |

The Group's investment properties are held for rental purposes. The properties held have committed tenants for periods of up to three years.

## 31. CONTINGENT LIABILITIES

On 20 November 2006, an individual filed a claim to a PRC court against World Plastic Mat (Baoan) Company Limited ("World Baoan"), a wholly-owned subsidiary of the Company, for the repayment of alleged loans of approximately RMB4,769,000 (approximately HK$5,419,000) based on documentation believed to be forged by the senior cashier who was arrested for the misappropriation of funds. On 19 December 2006, the PRC court notified World Baoan to attend the proceedings held on 25 January 2007. On 23 March 2007, the PRC court decided to suspend the legal proceedings of the case pending for the result of the criminal charge against the senior cashier. Although the PRC court issued a final verdict on 2 July 2007 for the criminal charge against the senior cashier, no notification has yet been received from the PRC court.

The directors of the Company believe that the claim has been made without valid ground and evidences. Accordingly, no provision for such claim has been made in the consolidated financial statements. Based on the advice from the PRC lawyer, pursuant to the General Principles of the Civil Law of the PRC Article 135, the limitation of action regarding application to the PRC court for protection of civil rights shall be two years and accordingly, the legal proceedings of the claim have been ended on 25 January 2009.

## 32. PLEDGE OF ASSETS

At the end of the reporting period, the Group's secured borrowings were secured by the following assets:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Leasehold land and buildings | **172,575** | 179,052 |
| Investment properties | **9,900** | 8,250 |
| Prepaid lease payments | **83,878** | 54,499 |
| Bank deposits | **24,234** | 22,946 |
| Financial asset at fair value through profit or loss | **6,859** | 6,267 |
| | **297,446** | 271,014 |

## 33. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Mandatory benefits are provided under the MPF Scheme. The Group contributes the lower of 5% of the relevant payroll costs and HK$1,000 per employee to the MPF Scheme.

## 33. RETIREMENT BENEFIT SCHEMES – *continued*

Employees of subsidiaries in the PRC are members of the state-sponsored pension schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the state-sponsored pension schemes is to make the required contributions.

The total contribution to the retirement benefit schemes charged to the consolidated statement of comprehensive income is HK$4,083,000 (2008: HK$3,424,000).

## 34. RELATED PARTIES TRANSACTIONS

(a) During the year, the Group has the following significant transactions with related parties:

| Relationship of related parties | Nature of transactions | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Close family members of certain directors | Salaries and other benefits | **4,262** | 4,275 |
| | Retirement benefit scheme contributions | **36** | 36 |
| | | **4,298** | 4,311 |

(b) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11 (i).

(c) During the year ended and as at 31 December 2009, Joy Tower Limited (note) and Madam Fung Mei Po, both are related parties of the Group, provide the residential property and securities to secure one of the Group's banking facilities amounting to HK$16,692,000 (2008: HK$21,809,000). Approximately HK$8,615,000 (2008: HK$11,292,000) was utilised in respect of this banking facility as at 31 December 2009 and 31 December 2008 respectively.

Note: Mr. Lee Tat Hing and his spouse, Madam Fung Mei Po, are directors and shareholders of Joy Tower Limited.

## 35. GOVERNMENT GRANTS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Incentive subsidies: | | |
| (i) Business encouragement subsidies | **227** | – |
| (ii) Environmental protection subsidies | **1,150** | – |
| Amounts credited to consolidated statement of comprehensive income (included in other income) | **1,377** | – |

Incentive subsidies were granted by the relevant government of the PRC to the Group in the following basis:

(i) The business encouragement subsidies were granted to the Group to encourage the establishment of environmental reborn resources and recycling business in Zhongshan City. The incentive subsidies granted to the Group were calculated according to certain percentage of bank borrowings with maximum cap of RMB200,000 (equivalent to HK$227,000).

(ii) The environmental protection subsidies were granted to the Group as development funds to establish the environmental friendly manufacturing factory by making use of public electricity instead of self-generated electricity, which is produced during the process of the manufacture of PVC pipes.

## 36. PRINCIPAL SUBSIDIARIES

The details of principal subsidiaries at 31 December 2009 and 2008, all of which are wholly-owned by the Group are as follows:

| Name of subsidiary | Place and nature of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Principal activities |
|---|---|---|---|
| Action Land Limited | Hong Kong – limited liability company | HK$6,000,000 | Provision of transportation services |
| Greatflow Investments Limited | British Virgin Islands ("BVI") – limited liability company | US$1 | Property holding |

## 36. PRINCIPAL SUBSIDIARIES – *continued*

| Name of subsidiary | Place and nature of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Principal activities |
|---|---|---|---|
| Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd. | PRC – wholly owned foreign enterprise | US$10,000,000 | Manufacturing of PVC pipes and fittings and moulds |
| Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd. | PRC – wholly owned foreign enterprise | HK$230,000,000 | Manufacturing of PVC pipes and fittings and moulds |
| South China Plastic Building Material Manufacturing Limited | Hong Kong – limited liability company | HK$2 | Trading in building materials and supplies |
| South China Reborn Resources (Zhongshan) Company Limited | PRC – wholly owned foreign enterprise | (Note a) | Manufacture and operate recycling and reborn resources related business |
| Welidy Limited | Hong Kong – limited liability company | HK$10,000 | Property holding |
| World Home Linen Manufacturing Company Limited | Hong Kong – limited liability company | HK$200<br><br>Deferred non–voting shares HK$10,000 (Note b) | Property holding |
| World Houseware (B.V.I.) Limited | BVI – limited liability company | HK$50,000 | Investment holding |
| World Houseware Producing Company Limited | Hong Kong – limited liability company | HK$200<br><br>Deferred non-voting shares HK$160,500 (Note b) | Trading in household products |

## 36. PRINCIPAL SUBSIDIARIES – *continued*

| Name of subsidiary | Place and nature of incorporation/ registration | Nominal value of issued ordinary share/ registered capital | Principal activities |
|---|---|---|---|
| World Plastic Mat (Baoan) Company Limited | PRC – wholly owned foreign enterprise | HK$360,000,000 | Manufacturing of household products |
| World Plastic-ware Manufacturing Limited | Hong Kong – limited liability company | HK$32,500,000 | Investment holding |

Notes:

(a) The registered capital of South China Reborn Resources (Zhongshan) Company Limited is US$10,610,000. As at 31 December 2009, US$10,150,000 (2008: US$9,817,590) had been contributed to this Company.

(b) None of the deferred non-voting shares are held by the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the subsidiaries operate in their respective places of incorporation/registration except Welidy Limited which holds properties in the PRC, Greatflow Investments Limited which holds properties in Hong Kong and World Houseware (BVI) Limited operates in Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| TURNOVER | 895,383 | 887,153 | 997,202 | 999,169 | **922,576** |
| PROFIT (LOSS) BEFORE TAXATION | 22,842 | (38,027) | (39,333) | (74,293) | **35,281** |
| TAXATION | (2,854) | (4,668) | (6,429) | 5,385 | **(5,876)** |
| PROFIT (LOSS) FOR THE YEAR | 19,988 | (42,695) | (45,762) | (68,908) | **29,405** |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| TOTAL ASSETS | 1,346,853 | 1,316,241 | 1,370,799 | 1,288,762 | **1,322,691** |
| TOTAL LIABILITIES | (525,525) | (498,822) | (520,709) | (434,799) | **(433,205)** |
| SHAREHOLDERS' FUNDS | 821,328 | 817,419 | 850,090 | 853,963 | **889,486** |