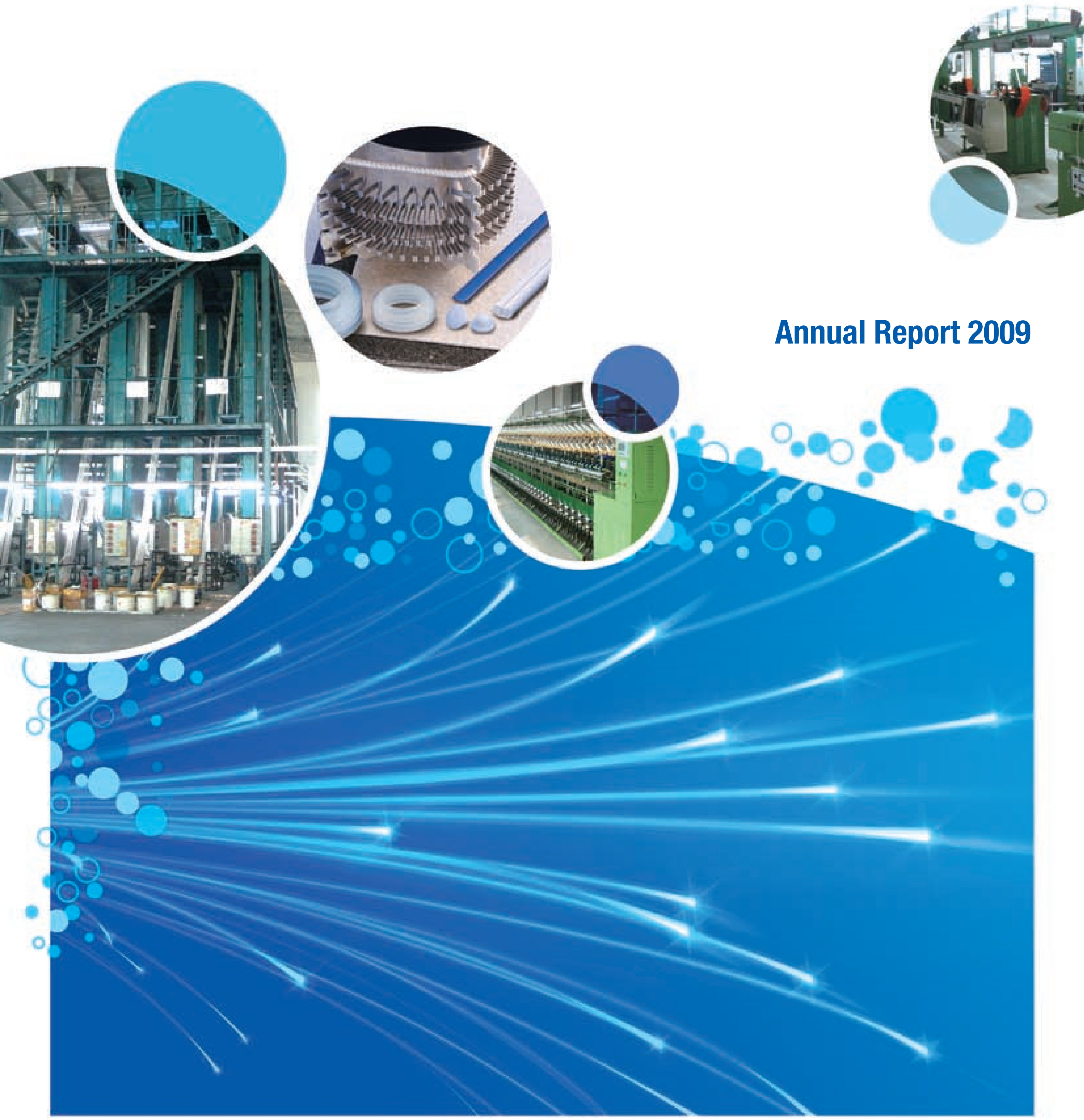
Vitar International Holdings Limited

威達國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 195



Annual Report 2009

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Corporate Profile

We are an established insulation and heat-resistance solution provider in Southern China. Our products are used in a wide range of household electrical appliances. With 30 years' experience, we are specialized in the production, design and sales of insulation and heat-resistance materials. Our products are sold to customers in Hong Kong, China and overseas markets, and are broadly classified into fibre-glass sleeving, silicon-based tubes, high-temperature electric wires and mica sheets. As part of our ordinary course of business, we are also engaged in the trading of copper and silicone rubber, both of which are our principal raw materials, with our trading customers. Most of our customers are OEM manufacturers of household electrical appliances for leading brands in Southern China.

Based on "2007 Industrial Enterprise Database" published by China Statistics Bureau, CCID Consultancy Company Limited ranked us the 10th among the 60 largest insulation material manufacturers in China in 2007 in terms of annual production value. Our Directors consider that we are one of the established players in the industry with significant market share.

Our headquarters are based in Hong Kong with our principal production facilities, customer service centre, showroom, product research and development centre and warehouses in China. The production facilities are accredited with various awards and recognized quality standards, such as ISO 9001:2008.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Chau Hiu *(Chairman)*
Mr. Leung Kai Wing *(Chief Executive Officer)*
Ms. Tsang Chi Yung
Ms. Leung Chun Yin
Mr. Cheung Wai Kuen
Mr. Cheng Pak Lung
Mr. Chang Yong Tian
Mr. Chen Liang

Independent Non-executive Directors

Mr. Wong Hing Tat
Mr. Cheng Hau Yan
Mr. Zhong Wei Guang

BOARD COMMITTEES

Audit Committee

Mr. Wong Hing Tat *(Chairman)*
Mr. Cheng Hau Yan
Mr. Zhong Wei Guang

Remuneration Committee

Mr. Cheng Hau Yan *(Chairman)*
Mr. Leung Kai Wing
Mr. Wong Hing Tat

COMPANY SECRETARY

Mr. Leung Ka Wai

AUTHORISED REPRESENTATIVES

Mr. Leung Kai Wing
Mr. Leung Ka Wai

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 4-6 3rd Floor
New Trade Plaza Tower B
6 On Ping Street
Siu Lek Yuen
Shatin
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

COMPIANCE ADVISOR

China Everbright Capital Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

In Hong Kong
The Hongkong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor The Centre
99 Queen's Road Central
Central, Hong Kong

Dah Sing Bank, Limited
35th Floor, Dah Sing Financial Centre
108 Gloucester Road
Hong Kong

In China
China Construction Bank Corporation
Luohu Branch, Shenzhen City
No. 2028 Jian She Road
Luohu District, Shenzhen 518005
China

COMPANY WEBSITE

www.vitar.com.hk

STOCK CODE

195

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of Vitar International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

2009 is a difficult and challenging year for the Group under the difficult global economic conditions. Like many of the manufacturing enterprises, the Group was significantly impacted by the rapid global economic downturn caused by the financial tsunami in the second half of the year 2008.

During the year under review, the economic environment was difficult and the decline in global economic activities suppressed consumption and demand for electrical appliance in the US and European markets. Such reduction in demand in return caused a corresponding drop in the sales of our product which is a component of most electrical appliances. It was particularly challenging when revenue from most of our major markets contracted simultaneously that posed considerable pressure to the performance of the Group.

The Group has pursued different strategies to cope with the depressing economic and business environment. In order to sustain our market shares, we had put more effort in marketing activities such as participating in various international insulation materials exhibitions, establishment of sales office, modernization of warehouse and optimization of distribution outlet. To enhance our product features and its competitiveness, we had modification of existing production lines, refinement of labor force, research on materials application, reengineering of manufacturing process and product development. The Group endeavored to maintain the position of being one of the major insulation material manufacturers in Mainland China.

Under the above circumstances, the Group reported a turnover of approximately HK$134.6 million for 2009, representing a decrease of approximately 30.6% as compared to previous financial year. The Group also recorded a loss of approximately HK$12.7 million in the year 2009 due to the drop in sales and squeeze in profit margin during the year.

In order to have a better business opportunities and development to the Company, a shareholder was introduced to the Company in August 2009 by the controlling shareholder, Vitar Development, upon its private placing of 28% of the company's issued share capital to the shareholder, Wright Source Limited, which is wholly owned by Mr. Cheung Wai Kuen, an executive director of the Company.

The Company had further entered into a number of transactions after the year end including share placing, share subdivision, entering of a non-legally binding memorandum of understanding, disposal of properties. Details of the transactions are shown under the note (events after the reporting period) to the consolidated financial statement of the Group for the year ended 31 December 2009.

Chairman's Statement

On 1 February 2010, the Group obtained the certification of ISO/TS16949:2009 auto components supplier quality control system certification from a certification organization. The implementation of this quality management system implies that the Group has further enhanced in the quality control standard on its products, which serves to safeguard and further improve the competitive edge of its products in future.

With the introduction of additional Directors, certain new business ideas are introduced to the Board. The Company is now strategically positioned to venture into the natural resources business. As announced on 1 February 2010, the Company has entered into a non-legally binding memorandum of understanding for a possible acquisition of certain oilfield project.

Lastly, we are encouraged to see signs of recovery in the global market. Although the global economies have been stabilized, we do not expect consumer confidence in Americans and European markets to rebound substantially especially when their unemployment rates are still at a high level. Insulation and heat-resistance solution provider business will remain as our Group's core business. As economic conditions gradually improve in 2010, along with the recovery, the Group is expected to achieve business growth through product innovation, market exploration and diversification of businesses. The Group will explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalization, divertment and/or diversification will be appropriate in order to enhance the long term potential of the Group. Any acquisition or disposal will be made in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. However, at present no detailed plan has been formulated. With future emphasis being placed on business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth. The Group will continue to strive for advancement in both quantity and quality of earnings and expansion of business by all means, including merger, acquisition or establishment of business ventures.

On behalf of the Board, I would like to express my sincere gratitude to management, staff of all levels for their dedication and contributions in the past year. I would also like to express my appreciation to our customers, suppliers, business partners and shareholders for their continuous supports.

Leung Chau Hiu
Chairman

Hong Kong, 27 April 2010

Management Discussion and Analysis

BUSINESS OVERVIEW

2009 is a difficult and challenging year for the Group under the difficult global economic conditions. Like many of the manufacturing enterprises, the Group was significantly impacted by the rapid global economic downturn caused by the financial tsunami in the second half of the year 2008.

During the year under review, the economic environment was difficult and the decline in global economic activities suppressed consumption and demand for electrical appliance in the US and European markets. Such reduction in demand in return caused a corresponding drop in the sales of our product which is a component of most electrical appliances. It was particularly challenging when revenue from most of our major markets contracted simultaneously that posed considerable pressure to the performance of the Group.

The Group has pursued different strategies to cope with the depressing economic and business environment. In order to sustain our market shares, we had put more effort in marketing activities such as participating in various international insulation materials exhibitions, establishment of sales office, modernization of warehouse and optimization of distribution outlets. To enhance our product features and its competitiveness, we had modification of existing production lines, refinement of labor force, research on materials application, reengineering of manufacturing process and product development. The Group endeavored to maintain the position of being one of the major insulation material manufacturers in Mainland China.

For management purposes, the business activity of the Group is organised into two business segments – (1) manufacturing and sales of insulation and heat resistance materials ("Manufacturing") and (2) trading of copper and silicone rubber ("Trading"). Each business has a different customer base and requires different marketing strategies.

Under the above circumstances, the Group reported a turnover of approximately HK$134.6 million (of which HK$105.6 million and HK$29 million were generated from Manufacturing and Trading segment respectively) for 2009, representing a decrease of approximately 30.6% as compared to previous financial year. By business segment, the turnover contributed by Manufacturing and Trading decreased by 26% and 44% respectively as compared to previous financial year. The Group also recorded a loss of approximately HK$12.7 million in the year 2009 due to the drop in revenue and squeeze in profit margin during the year.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's audited consolidated revenue and loss attributable to the Company's shareholders for the year ended 31 December 2009 were amounted to approximately HK$134.6 million (2008: HK$193.9 million) and HK$12.7 million (2008: Profit of HK$6.2 million) respectively. The Group's revenue has decreased by 30.6% from that of last year.

We were adversely affected by the global financial crisis throughout 2009. Sales in the first half of 2009 was particularly worse and it recovered a lot in the second half of 2009 with an increase of 45.6% compared with the first half of 2009. The overall decrease in revenue was contributed by the decrease in sales of manufacturing products by 25.9% and trading business of 43.6%.

Cost of sales

Cost of sales includes mainly direct material costs, direct labor costs and manufacturing overhead absorbed during the production process of our products. It was approximately HK$115.3 million for the year ended 31 December 2009 and HK$155.9 million for the year ended 31 December 2008, representing respectively 85.7% and 80.4% of the revenue recorded in the respective years.

Gross profit and margin

The Group record a gross profit of HK$19.3 million for the year ended 31 December 2009. This represents a decrease of 49.2% comparing with the gross profit of HK$37.9 million in 2008. Gross profit as a percentage of revenue for 2009 drops significantly to 14.3% (2008: 19.6%) due to the increase in material and overhead cost.

Other gains and losses

Other losses increased from HK$0.7 million for the year ended 31 December 2008 to HK$4.0 million in 2009 mainly as a result of the increase in allowance for bad and doubtful debts and impairment loss recognized in respect of intangible asset.

Selling and distribution costs

Selling and distribution costs, representing 1.2% of Group's revenue, decrease by approximately 27.3% from HK$2.1 million for the year ended 31 December 2008 to HK$1.5 million for the year ended 2009. Such decrease was in line with the drop in sales for the year ended 31 December 2009.

Management Discussion and Analysis

Administrative expenses

Administration expenses, which represented 17.6% of the Group's revenue, increase by approximately 43.4% from HK$16.5 million for the year ended 31 December 2008 to HK$23.7 million for the year of 2009. Such increase was mainly attributable to the increase in various additional professional fees and expenses after listing in November 2008, higher depreciation charge on additional property, plant and equipment acquired during the year, increase in other administration expenses.

Finance costs

With the general decline in interest rates during the year 2009 together with our decrease in bank borrowing on comparison with those in 2008. The finance cost of the Group deceased from HK$1.9 million in 2008 to HK$0.8 million in 2009.

Taxation

Income tax increase from HK$1.3 million for the year ended 31 December 2008 to HK$2.7 million for the year ended 31 December 2009 due to underprovision of Hong Kong profits tax in prior years.

Loss for the year

There was an abrupt change in operating result for the year 2009 from a profit of HK$6.2 million for the year ended 31 December 2008 to a loss of HK$12.7 million for the year ended 31 December 2009. The loss was attributed to the increase in other losses and administrative expense, decrease in revenue and gross profit.

Profit attributable to shareholders as a percentage of revenue decrease greatly from approximately 3.2% for the year ended 31 December 2008 to a loss of 9.5% for 2009.

Major Financial Ratios

	2009	2008
Trade receivables turnover (days)	**130**	107
Trade payable turnover (days)	**49**	42
Inventory turnover (days)	**48**	77
Gearing ratio	**14.2%**	17.2%

Management Discussion and Analysis

Trade receivable turnover

The trade receivables turnover is calculated by dividing the trade receivables as of the end of the respective year by revenue for the year, multiplied by 365 days. Due to change in market conditions, the trade receivables turnover day was increased from 107 days as of 31 December 2008 to 130 days as of 31 December 2009.

Trade payables turnover

The trade payable turnover is calculated by dividing the trade payables as of the end of the respective year by cost of sales for the year, multiplied by 365 days. The trade payable turnover days stayed close for both years and stood at 42 days as of 31 December 2008 and 49 days as of 31 December 2009.

Inventories turnover

The inventory turnover is calculated by dividing the inventories as of the end of the respective year by cost of sales for the year, multiplied by 365 days. The inventories turnover days was more cautiously monitored during the year in order to maintain the minimum level to meet our customers order. It was 77 days as of 31 December 2008 and 48 days as of 31 December 2009.

Gearing ratio

The gearing ratio is calculated by dividing the total bank borrowings by total assets at the end of the respective year. Following our listing on 12 November 2008, the gearing ratio was further improved and it dropped from 17.2% as at 31 December 2008 to 14.2% as at 31 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations through internally generated cash flows and bank borrowings. At 31 December 2009, the Group had bank facilities amounted to HK$96.3 million of which HK$29.8 million were utilized. Majority of the bank borrowings were in HK dollars while bank borrowings in USD amounted to HK$10.1 million. All bank borrowings were mostly repayable within one year and on floating interest rates basis ranging from HIBOR plus 1.25% to 2.25% during the year. The gearing ratio of the Group, calculated as a ratio of bank borrowings to total assets, was 14.2% as at 31 December 2009 (2008: 17.2%). As at 31 December 2009, the Group had net current assets of approximately HK$76.8 million (2008: HK$101.0 million). Current ratio as at 31 December 2009 was slightly lower than last year and stood at 2.4% (2008: 2.6%). The net cash position of the Group as at 31 December 2009 was approximately HK$59.1 million (2008: HK$68.7 million). The Group has consistently maintained a sound financial position with low gearing ratio, high liquidity and adequate financial resources.

Management Discussion and Analysis

The Group has bank balances, bank borrowings, other payable, sales and purchases denominated in foreign currencies, which expose the Group to foreign currency risk. The currency risk for those subsidiaries with functional currency in HK Dollars is mainly attributable to the bank balances, trade receivables, trade payables and bank borrowings denominated in Renminbi ("RMB") and United States Dollars ("USD") as at the end of the reporting period. As the exchange rate of HK$ is pegged against USD, in our opinion, the currency risk of USD is insignificant to these subsidiaries. For RMB, we managed to balance the RMB assets and liability in order to minimize the exchange exposure.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

CHARGES OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, our outstanding bank borrowings of HK$29.8 million and our banking facilities of HK$96.3 million (among which HK$66.5 million had not been utilized) were secured by the properties and deposit placed for a life insurance policy owned by the Group in Hong Kong. Details of the above are disclosed in relevant notes in the audited consolidated financial statements.

As at 31 December 2009, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2009, capital expenditure of the group for property, plant and equipment and leasehold land in PRC amounted to approximately HK$8.3 million (2008: HK$16.7 million).

EMPLOYMENT AND REMUNERATION POLICY

The Group employed approximately 340 employees in total as at 31 December 2009. The Group implemented its remuneration policy, bonus and share option schemes based on the achievements and performance of employees. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong and state-owned retirement benefit scheme in the PRC. The Group continues to provide training facilities to our staff to enhance knowledge of industry quality standards.

SHARE OPTION SCHEME

On 21 October 2008, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Eligible participants of Scheme include, without limitation, employees, Directors, shareholder and any other eligible persons of the Group. Up to 31 December 2009, no share option has been granted or agreed to be granted to any person under the Scheme.

Management Discussion and Analysis

PROSPECT

On 1 February 2010, the Group obtained the certification of ISO/TS16949:2009 auto components supplier quality control system certification from a certification organization. The implementation of this quality management system implies that the Group has further enhanced in the quality control standard on its products, which serves to safeguard and further improve the competitive edge of its products in future.

With the introduction of additional Directors, certain new business ideas are introduced to the Board. The Company is now strategically positioned to venture into the natural resources business. As announced on 1 February 2010, the Company has entered into a non-legally binding memorandum of understanding for a possible acquisition of certain oilfield project.

Lastly, we are encouraged to see signs of recovery in the global market. Although the global economies have been stabilized, we do not expect consumer confidence in Americans and European markets to rebound substantially especially when their unemployment rates are still at a high level. Insulation and heat-resistance solution provider business will remain as our Group's core business. As economic conditions gradually improve in 2010, along with the recovery, the Group is expected to achieve business growth through product innovation, market exploration and diversification of businesses. The Group will explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalization, divertment and/or diversification will be appropriate in order to enhance the long term potential of the Group. Any acquisition or disposal will be made in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. However, at present no detailed plan has been formulated. With future emphasis being placed on business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth. The Group will continue to strive for advancement in both quantity and quality of earnings and expansion of business by all means, including merger, acquisition or establishment of business ventures.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LEUNG Chau Hiu (梁秋曉), aged 72, is our founder and is a director and chairman of Vitar Hong Kong since November 1978. Mr. LEUNG is an executive Director and is principally responsible for formulating our overall strategic planning. Mr. LEUNG has over 30 years of experience in the insulation materials industry and business management. Mr. LEUNG is the father of Mr. LEUNG Kai Wing and Ms. LEUNG Chun Yin and the father-in-law of Ms. TSANG Chi Yung. In January 2007, Mr. LEUNG was appointed as a member of the Chinese People's Political Consultative Conference, Longchuan County, Guangdong Province. Mr. LEUNG was appointed as a Director on 22 January 2008 and re-designated as an executive Director on 6 March 2008.

Mr. LEUNG Kai Wing (梁啟榮), aged 44, is an executive Director and our chief executive officer. Mr. LEUNG is principally responsible for our business planning and general management. Mr. LEUNG has over 19 years of experience in the insulation materials industry. Mr. LEUNG is the son of Mr. LEUNG Chau Hiu, the spouse of Ms. TSANG Chi Yung and an elder brother of Ms. LEUNG Chun Yin. Mr. LEUNG joined us in May 1988 as a marketing executive. Mr. LEUNG was promoted to become our marketing manager in November 1991 and a director in May 1992. Mr. LEUNG has obtained two diplomas in marketing from Lingnan College and The Chartered Institute of Marketing in November 1988 and December 1989 respectively. Mr. LEUNG was appointed as an executive Director on 6 March 2008.

Ms. TSANG Chi Yung (曾志蓉), aged 45, is an executive Director and our marketing manager. Ms. TSANG is principally responsible for our sales and marketing. Ms. TSANG is the spouse of Mr. LEUNG Kai Wing and the daughter-in-law of Mr. LEUNG Chau Hiu. Ms. TSANG has over 18 years of experience in the insulation materials industry. From July 1990 to 1998, Ms. TSANG had held various positions in Vitar Hong Kong including marketing executive, senior marketing executive and marketing manager. Ms. TSANG became a director of Vitar Hong Kong in August 1999. Ms. TSANG obtained a diploma in Asian Pacific Studies from Lingnan College in July 1989. Ms. TSANG was appointed as an executive Director on 6 March 2008.

Ms. LEUNG Chun Yin (梁春燕), aged 42, is an executive Director and is principally responsible for our purchasing and system administration. Ms. LEUNG is the daughter of Mr. LEUNG Chau Hiu and a younger sister of Mr. LEUNG Kai Wing. Ms. LEUNG has over 16 years of experience in the insulation materials industry. Ms. LEUNG joined us in October 1991 as a production and operation manager. Ms. LEUNG became our system and administration manager in October 1996 and served as a director of Vitar Hong Kong in May 1995. Ms. LEUNG graduated from Oxford Brookes University in the United Kingdom with a bachelor's degree in business administration and management and catering in July 1991. Ms. LEUNG was appointed as an executive Director on 6 March 2008.

Directors and Senior Management

Mr. CHEUNG Wai Kuen (張偉權), aged 36, is an executive Director. Mr. CHEUNG has established a number of enterprises in various industries in the PRC since 1997, including property investment, hospital and trading business. Mr. Cheung has over 10 years' extensive experience in capital management and corporate management. Mr. CHEUNG was appointed as an executive Director on 4 December 2009.

Mr. CHENG Pak Lung (鄭伯龍), aged 45, is an executive Director. Mr. CHENG holds a bachelor degree in Mathematics & Operational Research in University of Lancaster, United Kingdom. Mr. Cheng has more than 20 years' of experience in the finance and investment banking industry. Mr. CHENG was appointed as an executive Director on 4 December 2009.

Mr. CHANG Yong Tian (常永田), aged 58, is an executive Director. Mr. CHANG graduated from the Sichuan Party Technical Secondary School and Sichuan University with a degree in business administration respectively. He was also a postgraduate in Executive Management in Zhongnan University of Economics and Law. Mr. CHANG joined the Fourth Branch of the First Bureau of State Construction Commission in 1971. He was the head of engineering department, branch manager and company general manager of Fourth Engineering Company of Sichuan Province from 1981 to 1999. In 1998, he was the chairman of Sichuan Mianyang International Economic and Technological Cooperation Company. Mr. Chang also held the posts as the vice-chairman, general manager and secretary of the Party Committee of China Huashi Enterprises Company Limited in 2000. Mr. CHANG was appointed as an executive Director on 22 January 2010.

Mr. CHEN LIANG (陳亮), aged 40, is an executive Director. Mr. CHEN holds a Doctoral Degree in Coal, Oil and Gas Geology and Exploration from the Petroleum University of China, and is a Postdoctoral Fellow in the Research Institute of Petroleum Exploration & Development, Beijing and the Department of Geology & Geochemistry, Institute Francais du Petrole, France. Mr. CHEN held the position of vice president of Technology and Planning of CITIC Seram Energy Limited during the period from December 2006 to February 2010 and CITIC Resources Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited (stock code: 1205), during the period from September 2005 to November 2006. He was also the senior geologist at Teknica Petroleum Services Limited, Calgary, Canada from August 2002 to August 2005. Prior to that, he worked for various petroleum companies and research institutes in China, France, United Kingdom and Canada. He has over 10 years' experience in petroleum exploration and development. Mr. CHEN was appointed as an executive Director on 13 April 2010.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Hing Tat (黃慶達), aged 45, is an independent non-executive Director. Mr. WONG is a certified public accountant in Hong Kong and the managing director of H. T. Wong & Co. Limited, Certified Public Accountants. He has over 20 years of experience in accounting, auditing and taxation. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate of the Institute of Chartered Accountants in England and Wales. He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1988. Mr. WONG was appointed as an independent non-executive Director on 23 December 2009.

Mr. CHENG Hau Yan (鄭孝仁), aged 63, is an independent non-executive Director. Mr. CHENG obtained a master of business administration degree from the Shanghai Jiao Tong University in 1983 and has experience in banking. Mr. CHENG held the posts of deputy division chief of the Finance and Planning Division of Yunnan Provincial Geology and Mining Bureau during the period from October 1984 to March 1986, and deputy director of the Economic Commission of Kunming for the period from April 1986 to April 1988. During the period from May 1988 to 1996, the was the president of the Yunnan Branch of Bank of Communications. Mr. Cheng was an executive director of Yunnan Enterprises Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited (stock code: 455), during the period from April 1998 to March 2006, and west China regional director of the Chinese Estates Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited (stock code: 127), for the period from March 2006 to present. Mr. CHENG was appointed as an independent non-executive Director on 23 December 2009.

Mr. ZHONG Wei Guang (鍾偉光), aged 42, is an independent non-executive Director. Mr. ZHONG serves as Guangdong province Huizhou committee member of the Chinese People's Political Consultative Conference and vice chairman of the Huizhou City Chamber of Commerce. Mr. ZHONG has over 20 years experience in PRC business. He is also a general manager of Huizhou Peng Feng Group, whose main business is sales of motor vehicles and post-sales services. Mr. ZHONG was appointed as an independent non-executive Director on 23 December 2009.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. WONG Fai Kit (黃暉傑), aged 50, is our financial controller, qualified accountant and the former company secretary. Mr. WONG is responsible for our financial management and treasury matters. Mr. WONG joined us in February 2007. Mr. WONG has over 20 years of experience in auditing, accounting and financial management. Since 1986, Mr. WONG held various senior finance and management positions with various companies. Mr. WONG has been a fellow member of the Hong Kong Institute of Certified Public Accountants since July 2002, and Mr. WONG received a MBA degree from the Asia International Open University (Macau) in July 1994.

MR. LEUNG Ka Wai (梁嘉威), aged 29, was appointed as our company secretary in November 2009. Mr. LEUNG is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and has accumulated over six years of professional experience in accounting and auditing. Mr. LEUNG joined us on 27 November 2009.

Mr. FENG Jianzhong (馮建中), aged 35, is a financial manager and an assistant to our financial controller since June 2004. Mr. FENG is primarily responsible for handling our financial matters in Weida Longchuan and Vitar Shenzhen. Prior to joining us, Mr. FENG worked as an assistant to chief auditor in Shenzhen Xingyue Accounting Firm (深圳興粵會計師事務所) from February 1996 to May 2004. Mr. FENG is a PRC accounting professional with Certificate of Accounting Professional issued by the Ministry of Finance of the PRC since August 2005. Mr. FENG completed a course on international accounting from Shenzhen University in August 1995.

Mr. XIA Zhibing (夏志兵), aged 29, is our quality control manager. Mr. XIA joined us in April 1999 and is now primarily responsible for product and raw materials quality control. Mr. XIA graduated from China Hunan Yiyang City Industrial Trading School (中國湖南益陽市工業貿易學校) in July 1998 and has obtained a certificate confirming his status as a quality professional technician in China (中國質量專業技術人員) in June 2003.

Mr. CHENG Weimin (程偉民), aged 87, is our technology consultant. Mr. CHENG is primarily responsible for our research and development activities. Mr. CHENG joined us in May 1995. In April 1981, Mr. CHENG was granted a certificate confirming his status as an approved engineer in chemistry in the PRC by the Scientific Technician Bureau of the PRC State Council (國務院科學技術幹部局).

Corporate Governance Report

THE BOARD OF DIRECTORS

The board of directors (the "Board") provides effective and responsible leadership for the company. The directors, individually and collectively, act in good faith in the best interests of the company and its shareholders. The company had adopted, for corporate governance purposes, the Code Provisions of the Code on Corporate Governance Practices (appendix 14 of the Listing Rules). The company is in compliance with the Code Provisions therein.

As at 31 December 2009, the Board comprises six executive directors and three independent non-executive directors. The Board has appointed the audit committee and the remuneration committee to oversee specific areas of the company's affairs. The composition of the Board and the committees are set out below and their respective responsibilities are discussed later in this report.

Board of Directors	**Audit Committee**	**Remuneration Committee**
Executive Directors		
Leung Chau Hiu *(Chairman)*	Wong Hing Tat *(Chairman)*	Cheng Hau Yan *(Chairman)*
Leung Kai Wing *(Chief Executive Officer)*	Cheng Hau Yan	Leung Kai Wing
Tsang Chi Yung	Zhong Wei Guang	Wong Hing Tat
Leung Chun Yin		
Cheung Wai Kuen (appointed on 4 December 2009)		
Cheng Pak Lung (appointed on 4 December 2009)		
Chang Yong Tian (appointed on 22 January 2010)		
Chen Liang (appointed on 13 April 2010)		
Independent Non-executive Directors		
Wong Hing Tat (appointed on 23 December 2009)		
Cheng Hau Yan (appointed on 23 December 2009)		
Zhong Wei Guang (appointed on 23 December 2009)		
Wong Chi Kin (resigned on 23 December 2009)		
Chau Shing Yu (resigned on 23 December 2009)		
Lee Wing Yiu, William (resigned on 23 December 2009)		

Corporate Governance Report

On 6 March 2008, Mr. Leung Chau Hiu was appointed as the chairman and executive director of the company, Mr. Leung Kai Wing was appointed as the chief executive officer and executive director of the company, and Ms. Tsang Chi Yung and Ms. Leung Chun Yin were appointed as the executive directors of the Company. On 4 December 2009, Mr. Cheung Wai Kuen and Mr. Cheng Pak Lung were appointed as executive directors. On 23 December 2009, Mr. Wong Hing Tat, Mr. Cheung Hau Yan and Mr. Zhong Wei Guang were appointed as the independent non-executive directors of the Company, and on the same day, Mr. Wong Chi Kin, Mr. Chau Shing Yu and Mr. Lee Wing Yiu, William resigned as the independent non-executive directors of the company.

The Board sets the Group's objectives and monitors its performance. The Board also decides on matters such as annual and interim results, notifiable and connected transactions, director appointments, and dividends and accounting policies. The Board has delegated the authority and responsibility of managing and overseeing the Group's day to day operations to its management.

The company secretary assists the Chairman of the company in setting the agenda of Board meetings as instructed and each director is invited to present any businesses that he wishes to discuss or propose at the meetings. All directors have timely access to all relevant information of the meetings and may take professional advice if necessary. The company held four full Board meetings in 2009. Attendance of the full Board meetings are as follows:

Attendance	**No. of meetings attended/held**
Mr. Leung Chau Hiu	4/4
Mr. Leung Kai Wing	4/4
Ms. Tsang Chi Yung	4/4
Ms. Leung Chun Yin	4/4
Mr. Cheung Wai Kuen (appointed on 4 December 2009)	–
Mr. Cheng Pak Lung (appointed on 4 December 2009)	–
Mr. Chang Yong Tian (appointed on 22 January 2010)	–
Mr. Chen Liang (appointed on 13 April 2010)	–
Mr. Wong Chi Kin (resigned on 23 December 2009)	4/4
Mr. Chau Shing Yu (resigned on 23 December 2009)	4/4
Mr. Lee Wing Yiu William (resigned on 23 December 2009)	4/4
Mr. Wong Hing Tat (appointed on 23 December 2009)	–
Mr. Cheng Hau Yan (appointed on 23 December 2009)	–
Mr. Zhong Wei Guang (appointed on 23 December 2009)	–

All independent non-executive directors are financially independent from the company and any of its subsidiaries.

The Company has received confirmation from each of the independent non-executive Directors regarding his independence pursuant to the requirements of Rule 3.13 of the Listing Rules.

Based on these confirmations, the Board considers that each of the independent non-executive Directors to be independent.

The full Board participates in the selection and approval of new directors and has not established a Nomination Committee. The independent non-executive directors are appointed for a specific term. Under the articles of association of the company, all the directors are currently required to offer themselves for re-election by rotation at least once every three years. The Board takes into consideration criteria such as expertise, experience, integrity and commitment when selecting new directors.

AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive Directors. It is responsible for accounting principles and practices, auditing, internal controls and legal and regulatory compliance of the Group. It also reviewed the interim and final results of the Group prior to recommending them to the Board for approval. It meets to review financial reporting and internal control matters and to this end has unrestricted access to the company's auditor. The Committee was formerly chaired by Mr. Wong Chi Kin and is presently chaired by Mr. Wong Hing Tat since 23 December 2009, both of them are certified public accountants with relevant experience in financial reporting and control. In 2009, the Audit Committee had held 2 meetings to review respectively the annual results of the Group for the financial year ended 31 December 2008 and the interim results of the Group for the six months ended 30 June 2009 and all members of the Audit Committee were present with 100 percent attendance.

REMUNERATION COMMITTEE

The Remuneration Committee reviews and approves the remunerations of directors. To minimize any conflict of interest, any member who is interested in any given proposed motion is required to abstain from voting on such motion.

The main elements of the company's remuneration policy are no individual should determine his or her own remuneration, and remuneration should reflect performance, complexity, position, duties and responsibility of the individual. The committee was formerly chaired by Mr. Chau Shing Yu and is presently chaired by Mr. Cheng Hau Yan since 23 December 2009. The Remuneration Committee had held 1 meeting in 2009 to review the remunerations of directors and senior management and all members of the Remuneration Committee were present with 100 percent attendance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has a separate Chairman, Mr. Leung Chau Hiu and Chief Executive Officer, Mr. Leung Kai Wing. This segregation of duties ensures a clear distinction between the Chairperson's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business.

AUDITORS' REMUNERATION

Auditors' remuneration in relation to audit amounted to HK$0.74 million (2008: HK$0.86million) . The following remuneration was paid by the Group to its auditor, Deloitte Touche Tohmatsu:

(in HK$ millions)	**2009**	2008
Audit service	**0.74**	0.86
Non audit services (The Listing and taxation services)	**0.02**	3.37
Total	**0.76**	4.23

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and its effectiveness. It has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, including updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board has conducted a review on the effectiveness of the system of internal control of the Company for the financial year ending 31 December 2009. The Board had, with the management, conducted a high-level risk assessment of its core business management processes and risk management function. The management is following up the recommendations in order to enhance the internal control policies and procedures of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2009.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements 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 and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are reasonable, and have prepared the financial statements on the going concern basis.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of maintaining on-going communication with the shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Chairman of the Board and chairman of Audit Committee and Remuneration Committee will make themselves available at the annual general meeting to meet with shareholders. The Company will ensure that there are separate resolutions for separate issues at general meetings.

The Company will continue to maintain an open and effective investor communication policy and to update investors via the company's website on relevant information on its business in a timely manner, subject to relevant regulatory requirements.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of Vitar International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The activities of the Company's subsidiaries are set out in note 42 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 32.

An interim dividend of HK$5 cents per share amounting to HK$5,000,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

INVESTMENT PROPERTY

Details of the movements in the investment property of the Group during the year are set out in note 21 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 39 to the consolidated financial statements.

No option has been granted under the Company's share option scheme since its adoption on 21 October 2008.

Directors' Report

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31 December 2009, the Company's reserves available for distribution to shareholders were as follows:

	HK$
Share premium	41,574,386
Accumulated losses	(28,267)
	41,546,119

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

BORROWINGS

Bank borrowings repayable within one year are classified under current liabilities. Details of borrowings are set out in note 31 to the consolidated financial statements.

DIRECTORS

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

Executive directors:

Mr. Leung Chau Hiu	
Mr. Leung Kai Wing	
Ms. Tsang Chi Yung	
Ms. Leung Chun Yin	
Mr. Cheung Wai Kuen	(appointed on 4 December 2009)
Mr. Cheng Pak Lung	(appointed on 4 December 2009)
Mr. Chang Yong Tian	(appointed on 22 January 2010)
Mr. Chen Liang	(appointed on 13 April 2010)

Directors' Report

Independent non-executive directors:

Mr. Wong Hing Tat	(appointed on 23 December 2009)
Mr. Cheng Hau Yan	(appointed on 23 December 2009)
Mr. Zhong Wei Guang	(appointed on 23 December 2009)
Mr. Wong Chi Kin	(resigned on 23 December 2009)
Mr. Chau Shing Yu	(resigned on 23 December 2009)
Mr. Lee Wing Yiu, William	(resigned on 23 December 2009)

In accordance with the provisions of the Company's Bye-Laws, Ms. Tsang Chi Yung, Ms. Leung Chun Yin, Mr. Cheung Wai Kuen and Mr. Cheng Pak Lung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Leung Chau Hiu, Mr. Leung Kai Wing, Ms. Tsang Chi Yung and Ms. Leung Chun Yin have entered into service contracts with our Company for an initial term of three years commencing from 21 October 2008 and will continue thereafter until terminated by three months' notice in writing served by either party of the other, which notice shall not expire until after the initial fixed term of three years.

Mr. Chang Yong Tian and Mr. Chen Liang have entered into service contracts with our Company for a term of one year commencing from 22 January 2010 and 13 April 2010 respectively and renewable by mutual agreement on annual basis.

Each of the existing independent non-executive directors has entered into a service contract with the Company for a term of one year commencing from 23 December 2009 and renewable by mutual agreement on annual basis.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2009, the interests of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") are as follows:

Long position in ordinary shares of HK$0.1 each of the Company ("Shares")

Name of director	Nature of interest	Number of shares	Percentage of shareholding %
Mr. Leung Chau Hiu (note 1)	Interest of a controlled corporation	44,000,000	44
Mr. Leung Kai Wing (note 1)	Interest of a controlled corporation	44,000,000	44
Ms. Tsang Chi Yung (note 1)	Interest of a controlled corporation	44,000,000	44
Ms. Leung Chun Yin (note 1)	Interest of a controlled corporation	44,000,000	44
Mr. Cheung Wai Kuen (note 2)	Interest of a controlled corporation	28,000,000	28

Notes:

(1) Mr. Leung Chau Hiu, Mr. Leung Kai Wing, Ms. Tsang Chi Yung and Ms. Leung Chun Yin's interests in the Company are held through Vitar Development Holdings Limited ("Vitar Development") incorporated in British Virgin Islands, which is owned as to 35% by Mr. Leung Chau Hiu, as to 32.5% by Mr. Leung Kai Wing as to 10% by Ms. Tsang Chi Yung and as to 10% by Ms. Leung Chun Yin.

(2) Mr. Cheung Wai Kuen's interest in the Company is held through Wright Source Limited ("Wright Source").

Save as disclosed above, as at 31 December 2009, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following person (not being a director or a chief executive of the Company) have interest in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Long position in Shares

Name of shareholder	Nature of interest	Number of shares	Percentage of shareholding %
Vitar Development (note 1)	Beneficial owner	44,000,000	44
Wright Source (note 2)	Beneficial owner	28,000,000	28

Notes:

(1) Vitar Development is owned by Mr. Leung Chau Hiu, Mr. Leung Kai Wing, Mr. Yip Sai Keung, Ms. Leung Chun Yin, Ms. Tsang Chi Yung and Ms. Wong Lai Mui as to 35%, 32.5%, 7.5%, 10%, 10% and 5%.

(2) Wright Source is wholly owned by Mr. Cheung Wai Kuen.

Saved as disclosed above, the register required to be kept under section 336 of the SFO shows that as at 31 December 2009, the Company had not been notified of any other person who had an interest or short position in the shares and underlying shares of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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.

NON-COMPETITION UNDERTAKING

Each of Vitar Development, Mr. Leung Chau Hiu, Mr. Leung Kai Wing, Ms. Tsang Chi Yung, Ms. Leung Chun Yin, Ms. Wong Lai Mui and Mr. Yip Sai Keung (each a "Non-Compete Covenantor") has entered into a deed of non-competition dated 21 October 2008 with the Company, to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Group from time to time.

The Company has received from each Non-Compete Covenantor's annual declaration on whether it, he or she has complied with the Non-Competition Deed. The independent non-executive directors have confirmed that they are not aware of any instance where the Non-competition Deed has not been complied with.

During the year, none of the directors, the management shareholders or substantial shareholders of the Company of their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) had any interest in a business which competed with or might compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for around 37% and 51% of the total sales and purchases for the year, respectively. The Group's largest customer and supplier accounted for around 11% and 21% of the total sales and purchases for the year, respectively.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

EMOLUMENT POLICY

The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company will be decided by the remuneration committee having regard to the Group's operating results, individual performance and comparable market statistics.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFIT SCHEMES

Other than operating a Hong Kong Mandatory Provident Fund Scheme and participating in the state-managed retirement benefit scheme in the People's Republic of China, the Group has not operated any other retirement benefit schemes for the Group's employees. Particulars of the retirement benefit schemes are set out in note 34 to the consolidated financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to Listing Rules during the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

AUDIT COMMITTEE

The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group and reports directly to the Board of Directors of the Company.

The Group's consolidated financial statements for the year ended 31 December 2009 have been reviewed by the audit committee of the Company, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2009.

Directors' Report

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the period are set out in note 41 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

LEUNG CHAU HIU
DIRECTOR
27 April 2010

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF VITAR INTERNATIONAL HOLDINGS LIMITED
威達國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vitar International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 93, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE 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.

Independent Auditor's Report

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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss 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
27 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 HK$	2008 HK$
Revenue	7	**134,585,928**	193,889,613
Cost of sales		**(115,317,929)**	(155,932,050)
Gross profit		**19,267,999**	37,957,563
Interest income	9	**163,780**	273,603
Other income	9	**592,010**	470,663
Other gains and losses	10	**(4,039,745)**	(711,304)
Selling and distribution costs		**(1,543,955)**	(2,124,981)
Administrative expenses		**(23,722,646)**	(16,543,025)
Other expenses	11	**–**	(9,873,447)
Finance costs	12	**(774,123)**	(1,925,684)
(Loss) profit before taxation		**(10,056,680)**	7,523,388
Taxation	15	**(2,680,991)**	(1,313,683)
(Loss) profit for the year	16	**(12,737,671)**	6,209,705
Other comprehensive income for the year			
Exchange gains arising on translating foreign operations		**152,755**	1,513,524
Total comprehensive (loss) income for the year		**(12,584,916)**	7,723,229
			(restated)
(Loss) earnings per share			
Basic	18	**(0.64 cents)**	0.41 cents

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 HK$	2008 HK$
Non-current assets			
Property, plant and equipment	19	**57,966,380**	56,864,838
Prepaid lease payments	20	**15,575,590**	15,986,689
Investment property	21	**1,968,988**	2,022,204
Intangible asset	22	**1,060,851**	1,905,792
Deferred taxation	35	**755,000**	–
Deposit placed for a life insurance policy	23	**1,918,669**	–
		79,245,478	76,779,523
Current assets			
Inventories	24	**15,076,652**	32,808,815
Trade receivables	25	**47,864,401**	56,760,230
Other receivables, prepayments and deposits		**8,401,417**	4,473,293
Prepaid lease payments	20	**429,651**	429,428
Amount due from a related company	26	**56,000**	56,000
Tax recoverable		**–**	1,112,707
Pledged bank deposits	27	**–**	8,029,587
Bank balances and cash	27	**59,098,699**	60,671,691
		130,926,820	164,341,751
Current liabilities			
Trade payables	28	**15,576,481**	18,088,657
Other payables and accruals		**7,640,008**	6,668,751
Amount due to a related company	29	**740,879**	118,504
Amounts due to directors	30	**1,166,102**	–
Bank borrowings – due within one year	31	**26,172,997**	38,052,993
Other payable – due within one year	32	**–**	227,741
Dividend payable		**–**	141,506
Tax payable		**2,830,539**	–
		54,127,006	63,298,152
Net current assets		**76,799,814**	101,043,599
Total assets less current liabilities		**156,045,292**	177,823,122

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	2009 HK$	2008 HK$
Capital and reserves			
Share capital	33	**10,000,000**	10,000,000
Reserves		**142,445,292**	162,530,208
Total equity		**152,445,292**	172,530,208
Non-current liabilities			
Deferred taxation	35	**–**	900,000
Bank borrowings – due after one year	31	**3,600,000**	3,333,026
Other payable – due after one year	32	**–**	1,059,888
		3,600,000	5,292,914
		156,045,292	177,823,122

The consolidated financial statements on pages 32 to 93 were approved and authorised for issue by the Board of Directors on 27 April 2010 and are signed on its behalf by:

LEUNG CHAU HIU	**LEUNG KAI WING**
DIRECTOR	DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital HK$	Share premium HK$	Translation reserve HK$	Special reserve HK$	Retained profits HK$	Total HK$
At 1 January 2008	10,000,000	–	4,230,807	–	126,201,786	140,432,593
Profit for the year	–	–	–	–	6,209,705	6,209,705
Other comprehensive income for the year (note i)	–	–	1,513,524	–	–	1,513,524
Total comprehensive income for the year	–	–	1,513,524	–	6,209,705	7,723,229
Reserve arising from corporate reorganisation (note ii)	(7,800,000)	–	–	7,800,000	–	–
Issue of shares	2,800,000	56,000,000	–	–	–	58,800,000
Transaction costs attributable to issue of shares	–	(9,425,614)	–	–	–	(9,425,614)
Capitalisation issue (note 33(e))	5,000,000	(5,000,000)	–	–	–	–
Dividend recognised as distribution (note 17)	–	–	–	–	(25,000,000)	(25,000,000)
At 31 December 2008	10,000,000	41,574,386	5,744,331	7,800,000	107,411,491	172,530,208
Loss for the year	–	–	–	–	(12,737,671)	(12,737,671)
Other comprehensive income for the year (note i)	–	–	152,755	–	–	152,755
Total comprehensive income (loss) for the year	–	–	152,755	–	(12,737,671)	(12,584,916)
Dividends recognised as distribution (note 17)	–	–	–	–	(7,500,000)	(7,500,000)
At 31 December 2009	**10,000,000**	**41,574,386**	**5,897,086**	**7,800,000**	**87,173,820**	**152,445,292**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

Notes:

(i) All other comprehensive income for the years ended 31 December 2009 and 2008 represent exchange gains arising on translating foreign operations. There is no tax effect relating to other comprehensive income.

(ii) Pursuant to the sale and purchase agreement dated 17 October 2008 entered into between Mr. Leung Chau Hiu, Mr. Leung Kai Wing, Ms. Tsang Chi Yung, Ms. Leung Chun Yin, Ms. Wong Lai Mui and Mr. Yip Sai Keung (collectively referred to as "Vendors") and Vitar Insulation Holdings Limited ("Vitar Insulation"), Vitar Insulation issued 1,000 shares of US$1.00 each to the Vendors for acquiring the entire issued capital of Vitar Insulation Manufacturers Limited ("Vitar Hong Kong"), the then holding company of the Group. On 21 October 2008, the Company acquired the entire issued capital of Vitar Insulation from the Vendors, which was satisfied by transferring the nil-paid share of the Company to Vitar Development Holdings Limited ("Vitar Development"), a company owned by the Vendors, and the issue of 21,999,999 ordinary shares of HK$0.1 each of the Company, all credited as fully paid, to Vitar Development. The special reserve of the Group represents the difference between the nominal value of the issued share capital of the Company and Vitar Hong Kong in the event of share swap.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$	2008 HK$
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(10,056,680)**	7,523,388
Adjustments for:		
Interest income	**(163,780)**	(273,603)
Interest expense	**774,123**	1,925,684
Loss (gain) on disposal of property, plant and equipment	**85,104**	(80,090)
(Gain) loss on fair value change of derivative financial instruments	**(750,016)**	62,240
Allowance for bad and doubtful debts	**4,067,946**	415,735
Allowance for obsolete inventories	**2,830,905**	–
Impairment loss recognised in respect of intangible asset	**844,941**	–
Depreciation of property, plant and equipment	**7,006,226**	5,650,989
Release of prepaid lease payments	**421,090**	395,908
Amortisation of investment property	**53,216**	53,216
Operating cash flows before movements in working capital	**5,113,075**	15,673,467
Decrease in inventories	**14,901,258**	1,016,316
Decrease in trade receivables	**4,827,883**	22,993,475
(Increase) decrease in other receivables, prepayments and deposits	**(3,178,108)**	714,152
Increase in amount due from a related company	**–**	(56,000)
(Decrease) increase in trade payables	**(2,512,176)**	803,935
Decrease in other payables and accruals	**(316,372)**	(812,438)
Increase in amount due to a related company	**622,375**	–
Increase in amounts due to directors	**1,166,102**	–
Cash generated from operations	**20,624,037**	40,332,907
Income taxes paid	**(392,745)**	(2,951,047)
NET CASH FROM OPERATING ACTIVITIES	**20,231,292**	37,381,860
INVESTING ACTIVITIES		
Repayment from related companies	**–**	90,903
Interest received	**90,070**	273,603
Decrease (increase) in pledged bank deposits	**8,029,587**	(2,171,710)
Purchase of property, plant and equipment	**(8,284,608)**	(8,681,802)
Purchase of leasehold land	**–**	(6,431,750)
Proceeds from disposal of property, plant and equipment	**161,240**	118,374
Purchase of intangible asset	**–**	(618,163)
Payment of deposit placed for a life insurance policy	**(1,844,959)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(1,848,670)**	(17,420,545)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009	2008
	HK$	HK$
FINANCING ACTIVITIES		
Proceeds from issue of shares	–	58,800,000
Transaction costs attributable to issue of shares	–	(9,425,614)
Interest paid	(774,123)	(1,925,684)
Dividend paid	(7,641,506)	(29,238,746)
Repayment of bank borrowings	(67,109,407)	(18,834,454)
New bank borrowings raised	55,496,385	11,840,825
Advance from a related company	–	118,504
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(20,028,651)	11,334,831
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,646,029)	31,296,146
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	73,037	(252,451)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	60,671,691	29,627,996
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	59,098,699	60,671,691

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Laws of 1961, as consolidated and revised) of the Cayman Islands on 22 January 2008. From the date of incorporation to 20 October 2008, the Company was solely owned by Mr. Leung Chau Hiu. For the period from 21 October 2008 to 11 August 2009, its immediate and ultimate holding company was Vitar Development, a limited company incorporated in the British Virgin Islands owned by the Vendors, the controlling shareholders of the Company. On 12 August 2009, Vitar Development completed a placing of 28,000,000 existing shares, representing 28% of the Company's issued share capital to Wright Source Limited and since then Vitar Development ceased to be the immediate and ultimate holding company of the Company. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited the ("Stock Exchange") since 12 November 2008. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Flat 4-6, 3rd Floor, New Trade Plaza Tower B, 6 On Ping Street, Siu Lek Yuen, Shatin, Hong Kong, respectively.

Pursuant to group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the Company became the holding company of the Group on 21 October 2008. The Corporate Reorganisation completed on 21 October 2008 was to intersperse the Company between Vitar Insulation Manufacturers Limited ("Vitar Hong Kong"), and the then shareholders of Vitar Hong Kong. Details of the Corporate Reorganisation were set out in the prospectus dated 30 October 2008 issued by the Company (the "Prospectus").

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2008 are prepared as if the current group structure had been in existence throughout the year ended 31 December 2008, or since the respective dates of incorporation of the relevant entity, where this is a shorter period.

The Company acts as an investment holding company and provides corporate management services. The principal activities of its subsidiaries are set out in note 42.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also 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 (the "HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing 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 on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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

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 consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments (see note 8) nor changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). The revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

The application of the HKAS 23 (Revised 2007) has had no material effect on the consolidated financial statements of the Group for the year ended 31 December 2009.

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

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 rights 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 adopers[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment 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	Distributions of non-cash assets to owners[1]
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[5]

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.*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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 consolidated 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain 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 HKFRSs 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 and by the Hong Kong Companies Ordinance (the "Companies Ordinance"). The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that 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)*

Property, plant and equipment

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

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 straight-line method or 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.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment property over its estimated useful live and after taking into account of its estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and 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 amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible asset – club membership

Club membership with indefinite life is carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of the club membership are measured at the difference between the net disposal proceeds and the carrying amount of the club membership and are recognised in profit or loss in the period when the club membership is derecognised.

Leasing

Leases are classified as finance leases whenever 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 expenses 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. To the extent the allocation of the lease payments can be made reliability, leasehold interest in land are accounted for as operating leases and released over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 at 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 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.

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. HK$) 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). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 for which the commencement date for capitalisation is on or after 1 January 2009, 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 other borrowing costs are recognised as finance costs in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 year 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)*

Impairment of 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 asset with indefinite useful live is tested for impairment annually, and whenever there is an indication that it 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.

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.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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 and 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 classified as loan and receivables.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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 receivables, other receivables, deposit place for a life insurance policy, amount due from a related company, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Deposit placed for a life insurance policy

Life insurance premium are charged as expenses over the relevant period being insured, with a corresponding reduction in deposit paid to the insurance company.

Interest income from the insurance deposit is accrued on a time basis, by reference to the deposit outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the deposit to the deposit's net carrying amount on initial recognition.

Impairment of financial assets

Financial assets 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 assets, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- the receivables become past due from a long period of time.

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 and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

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. 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 loss 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amount due from a related company 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 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.

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.

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 (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition

Interest expense is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities

Financial liabilities including trade payables, other payables, certain accruals, amount due to a related company, amounts due to directors, bank borrowings and dividend payable 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

Derivative financial instruments are financial assets which are not designated and effective as hedging instruments and 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.

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 is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. 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 process of applying the Group's accounting policies, which are described in note 3, the directors of the Company have made various estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of future and other information that are considered to be relevant. Actual results may differ from these estimates.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of trade receivables and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. 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. As at 31 December 2009, the carrying amount of trade receivables was HK$47,864,401 (2008: HK$56,760,230) (net of allowance for bad and doubtful debts of HK$4,772,902 (2008: HK$1,061,732)).

Allowances for inventories

The management of the Group estimates the net realisable value for finished goods, work-in-progress and raw materials based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting date and makes allowance for obsolete items. Where the actual net realisable value is less than expected, a material allowance may arise. As at 31 December 2009, the carrying amount of inventories was HK$15,076,652 (2008: HK$32,808,815) (net of allowance for obsolete inventories of HK$2,830,905 (2008: nil)).

Income taxes

As at 31 December 2009, a deferred tax asset of HK$1,655,000 (2008: nil) in relation to estimated 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 approximately HK$4,780,000 due to the unpredictability of future profit streams. The realisability of the deferred tax 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 expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 HK$	2008 HK$
Financial assets		
Loans and receivables (including cash and cash equivalents)	**114,412,414**	126,975,098
Financial liabilities		
Amortised cost	**53,197,880**	66,446,683

Financial risk management objective and policies

The Group's major financial instruments include trade receivables, other receivables, deposit placed for a life insurance, amounts due from and to a related company and directors, pledged bank deposits, bank balances and cash, trade payables, other payables, certain accruals and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the polices 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.

There has been no significant changes to the Group's exposure to financial risks and the manner in which its manages and measures the risk.

5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Market risk

Currency risk

Certain subsidiaries of the Company have amounts due from and to group entities, pledged bank deposits, bank balances, bank borrowings, other payable, sales and purchases denominated in foreign currencies, which expose the subsidiaries to foreign currency risk. For a subsidiary of which the functional currency is HK$, as the exchange rate of HK$ is pegged against United States Dollars ("USD"), in the opinion of the directors, the currency risk of USD is insignificant to this subsidiary.

The consolidated financial statements included the following carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of a subsidiary of which the functional currency is HK$ at the end of the reporting period:

	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
USD	**34,224,522**	36,208,417	**13,938,749**	8,744,244
Renminbi ("RMB")	**898,057**	2,588,479	**3,118,653**	3,214,711

The carrying amounts of the foreign currency denominated intra-group balances which have been eliminated in the consolidated financial statements of certain subsidiaries of which the functional currency is RMB at the end of the reporting period are as follows:

	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$	HK$	**HK$**	HK$
USD	**49,034,140**	37,882,947	**60,516,262**	50,996,202

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

For a subsidiary of which the functional currency is HK$. the following table details its sensitivity to a 5% increase and decrease in HK$ against RMB. Sensitivity rate of 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding RMB denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate. A positive number below indicates a decrease in post-tax loss (2008: an increase in post-tax profit) for the year where HK$ strengthen 5% against RMB. For a 5% weakening of HK$ against RMB, there would be an equal and opposite impact on the post-tax loss (2008: post-tax profit) for the year.

	RMB impact	
	2009	2008
	HK$	HK$
Decrease in post-tax loss (2008: increase in post-tax profit) for the year	**111,030**	31,312

For the subsidiaries of which the functional currency is RMB, the following table details its sensitivity to a 5% increase and decrease in RMB against USD. Sensitivity rate of 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding USD denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate. A positive number below indicates a decrease in post-tax loss (2008: an increase in post-tax profit) for the year where HK$ strengthen 5% against RMB. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the post-tax loss (2008: post-tax profit) for the year.

	USD impact	
	2009	2008
	HK$	HK$
Decrease in post-tax loss (2008: increase in post-tax profit) for the year	**574,106**	655,663

5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Market risk *(continued)*

Interest rate risk

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 31 for details of these borrowings), pledged bank deposits with frequent repricing features and bank balances. It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group was exposed to fair value interest rate risk in relation to fixed-rate other receivable and other payable (see notes 23 and 32 for details).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's bank borrowings denominated in HK$ or USD.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, pledged bank deposits and bank balances, the analysis is prepared assuming bank borrowings, pledged bank deposits and bank balances at the end of the reporting period was outstanding for the whole year. A 50 basis point (2008: 50 basis point) and 20 basis point (2008: 20 basis point) increase or decrease is used for bank borrowings, and pledge bank deposits and bank balances respectively which represents management's assessment of the reasonably possible change in interest rates.

For bank borrowings, if interest rates had been 50 basis point (2008: 50 basis point) higher/lower and all other variables were held constant, the Group's post-tax loss (2008: post-tax profit) for the year would increase/decrease by approximately HK$124,000 (2008: decrease/increase by approximately HK$173,000).

For pledged bank deposits and bank balances, if interest rates had been 20 basis point (2008: 20 basis point) higher/lower and all other variables were held constant, the Group's post-tax loss (2008: post-tax profit) for the year would decrease/increase by approximately HK$118,000 (2008: increase/decrease by approximately HK$135,000).

Other price risk

The Group was exposed to price risk through the copper forward derivative contracts entered into during both years. The Group entered into the copper forward contracts in order to minimise its exposure to the price fluctuations of purchase as copper is a major raw materials for production and trading goods of the Group. The management managed this exposure by appointing a special team to monitor the price risk. There were no derivative contracts outstanding as at 31 December 2009 and 2008.

5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial 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 addition, the Group reviews the recoverable amount of each individual debt at the end of the 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.

Pledged bank deposits and bank balances are placed in various authorised financial institutions and the directors of the Company consider the credit risk of such authorised financial institutions is low.

The Group has no material concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

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 had available unutilised overdraft and bank loan facilities of approximately HK$76,701,000 (2008: HK$62,748,000).

The following table details the Group's remaining contractual maturity for non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Liquidity risk *(continued)*

Liquidity tables

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	2-5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
		HK$	HK$	HK$	HK$	HK$	HK$
2009							
Trade payables	–	10,087,211	5,489,270	–	–	15,576,481	15,576,481
Other payables and accruals	–	5,955,921	–	–	–	5,955,921	5,955,921
Amount due to a related company	–	740,879	–	–	–	740,879	740,879
Amounts due to directors	–	1,166,102	–	–	–	1,166,102	1,166,102
Variable interest rates							
bank borrowings	2.3%	13,569,105	12,935,973	2,469,910	1,217,478	30,192,466	29,772,997
		31,519,218	18,425,243	2,469,910	1,217,478	53,631,849	53,212,380

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	2-5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
		HK$	HK$	HK$	HK$	HK$	HK$
2008							
Trade payables	–	14,006,113	4,082,544	–	–	18,088,657	18,088,657
Other payables and accruals	–	5,438,668	–	–	–	5,438,668	5,438,668
Amount due to a related company	–	118,504	–	–	–	118,504	118,504
Variable interest rates							
bank borrowings	3.8%	33,117,347	5,381,163	3,400,316	–	41,898,826	41,386,019
Fixed interest rate other payable	4.9%	83,431	250,292	333,723	917,739	1,585,185	1,287,629
Dividend payable	–	141,506	–	–	–	141,506	141,506
		52,905,569	9,713,999	3,734,039	917,739	67,271,346	66,460,983

5. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Liquidity risk *(continued)*

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.

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

6. 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 capital structure of the Group consists of debt, which includes the borrowings as disclosed in note 31 and equity attributable to owners of the Company, comprising issued capital and reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the raising of new debts or the repayment of existing debts.

The Group's overall strategy remains unchanged from prior year.

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENTS INFORMATION

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 the segment 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 operating segments as compared with the primary 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 executive directors are the chief operating decision maker as they collectively make strategic decisions towards the Group's operations. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of businesses. Each business is managed by an unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

(a) manufacturing and sales of insulation and heat resistance materials ("Manufacturing"); and

(b) trading of copper and silicone rubber ("Trading").

8. SEGMENTS INFORMATION *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 31 December 2009

	Manufacturing HK$	Trading HK$	Combined HK$
REVENUE			
External sales	**105,583,694**	**29,002,234**	**134,585,928**
Segment profit	**12,635,554**	**1,737,451**	**14,373,005**
Interest income			**163,780**
Other income			**592,010**
Other gains and losses			**28,201**
Unallocated selling and distribution costs			**(716,907)**
Unallocated corporate expenses			**(23,722,646)**
Finance costs			**(774,123)**
Loss before taxation			**(10,056,680)**

For the year ended 31 December 2008

	Manufacturing HK$	Trading HK$	Combined HK$
REVENUE			
External sales	142,510,552	51,379,061	193,889,613
Segment profit	32,666,086	3,323,148	35,989,234
Interest income			273,603
Other income			470,663
Other gains and losses			(295,569)
Unallocated selling and distribution costs			(572,387)
Unallocated corporate expenses			(16,543,025)
Other expenses			(9,873,447)
Finance costs			(1,925,684)
Profit before taxation			7,523,388

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENTS INFORMATION *(continued)*

Segment revenue and results *(continued)*

The accounting policies of the operating 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 interest income, other income, unallocated selling and distribution costs, unallocated administration costs, directors' salaries, finance costs and change in fair value of derivatives financial instruments, impairment loss recognised in respect of intangible asset, income tax expenses and professional fees and expenses related to the Listing. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

At 31 December 2009

	Manufacturing HK$	Trading HK$	Combined HK$
Assets			
Segment assets	**109,022,886**	**23,709,761**	**132,732,647**
Prepaid lease payments			**4,180,027**
Investment property			**1,968,988**
Intangible asset			**1,060,851**
Deferred taxation			**755,000**
Deposit placed for a life insurance policy			**1,918,669**
Other receivables, prepayment and deposits			**8,401,417**
Amount due from a related company			**56,000**
Bank balances and cash			**59,098,699**
Consolidated assets			**210,172,298**
Liabilities			
Segment liabilities	**12,807,549**	**2,768,932**	**15,576,481**
Other payables and accruals			**7,640,008**
Amount due to a related company			**740,879**
Amounts due to directors			**1,166,102**
Bank borrowings			**29,772,997**
Tax payable			**2,830,539**
Consolidated liabilities			**57,727,006**

8. SEGMENTS INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

At 31 December 2008

	Manufacturing	Trading	Combined
	HK$	HK$	HK$
Assets			
Segment assets	134,399,927	24,140,001	158,539,928
Prepaid lease payments			4,310,072
Investment property			2,022,204
Intangible asset			1,905,792
Other receivables, prepayment and deposits			4,473,293
Amount due from a related company			56,000
Tax recoverable			1,112,707
Pledged bank deposits			8,029,587
Bank balances and cash			60,671,691
Consolidated assets			241,121,274
Liabilities			
Segment liabilities	16,919,967	1,168,690	18,088,657
Other payables and accruals			7,956,380
Amount due to a related company			118,504
Bank borrowings			41,386,019
Deferred taxation			900,000
Dividend payable			141,506
Consolidated liabilities			68,591,066

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

- all assets are allocated to operating segments, other than investment property, prepaid lease payments related to investment property, intangible asset, deposit placed for a life insurance, other receivables, prepayments, deposits, amount due from a related company, tax recoverable, pledged bank deposits, bank balances and cash.

- liabilities allocated to operating segments for both years are trade payables. Other liabilities such as other payables, accruals, amount due to a related company, amounts due to directors, dividend payable, bank borrowings and deferred taxation are unallocated.

8. SEGMENTS INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2009

Amounts included in the measure of segment profit or loss or segment assets:

	Manufacturing HK$	**Trading HK$**	**Total HK$**
Additions to property, plant and equipment	**7,769,239**	**515,369**	**8,284,608**
Depreciation of property, plant and equipment	**6,348,144**	**658,082**	**7,006,226**
Loss on disposal of property, plant and equipment	**85,104**	**–**	**85,104**
Release of prepaid lease payments	**291,045**	**–**	**291,045**
Allowance for bad and doubtful debts	**4,067,946**	**–**	**4,067,946**
Allowance for obsolete inventories	**2,830,905**	**–**	**2,830,905**

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

Finance costs	**774,123**

For the year ended 31 December 2008

Amounts included in the measure of segment profit or loss or segment assets:

	Manufacturing HK$	Trading HK$	Total HK$
Additions to property, plant and equipment	9,673,838	494,699	10,168,537
Additions of prepaid lease payments	6,431,750	–	6,431,750
Depreciation of property, plant and equipment	5,170,594	480,395	5,650,989
Release of prepaid lease payments	265,863	–	265,863
Gain on disposal of property, plant and equipment	80,090	–	80,090
Allowance for bad and doubtful debts	415,735	–	415,735

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

Finance costs	1,925,684

8. SEGMENTS INFORMATION *(continued)*

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC") (including Hong Kong).

Based on the shipping or delivery documents of each sales transaction, the management has categorised the sales by location of customers as follows:

	Revenue from external customers by geographical location	
	2009	2008
	HK$	HK$
The PRC (including Hong Kong) (country of domicile)	**117,671,640**	165,920,157
Korea, Malaysia, Singapore and Thailand (note)	**12,337,945**	23,347,746
Germany and Ireland (note)	**4,576,343**	4,621,710
	134,585,928	193,889,613

Note: During both years, the revenue from external customers attributed to an individual foreign country is insignificant.

As at 31 December 2009, non-current assets of the Group of HK$76,571,809 (2008: HK$76,779,523) were located in the PRC (including in Hong Kong).

Information about major customers

During the year ended 31 December 2009, a customer contributed revenue from Trading segment of HK$15,037,995 (2008: HK$17,564,032) of the total revenue of the Group. Other than this, none of the customer contributed over 10% of the total revenue of the Group during both years.

Revenue from major product

No information for revenue from major products have been prepared and disclosed, as in the opinion of the directors, the information is not readily available and the cost to develop such information would be excessive.

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For the year ended 31 December 2009

9. INTEREST INCOME AND OTHER INCOME

	2009 HK$	2008 HK$
Interest income from bank deposits	**90,070**	273,603
Interest income from other receivable	**73,710**	–
	163,780	273,603
Rental income	**288,000**	288,000
Sundry income	**304,010**	182,663
	592,010	470,663

10. OTHER GAINS AND LOSSES

	2009 HK$	2008 HK$
Allowance for bad and doubtful debts	**(4,067,946)**	(415,735)
Gain (loss) on fair value change of derivative financial instruments	**750,016**	(62,240)
(Loss) gain on disposal of property, plant and equipment	**(85,104)**	80,090
Impairment loss recognised in respect of intangible asset	**(844,941)**	–
Net foreign exchange gain (loss)	**208,230**	(313,419)
	(4,039,745)	(711,304)

11. OTHER EXPENSES

The amount represented professional fees and other expenses related to the Listing. Pursuant to HKAS 32 Financial Instruments: Presentation, the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are directly attributable to the issuing of new shares. The remaining costs are recognised as expenses when incurred.

12. FINANCE COSTS

	2009 HK$	2008 HK$
Interest on:		
Bank borrowings wholly repayable within five years	**754,647**	1,899,738
Other payable wholly repayable within five years	**19,476**	25,946
	774,123	1,925,684

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2008: seven) directors were as follows:

	Leung Chau Hiu	Leung Kai Wing	Tsang Chi Yung	Leung Chun Yin	Cheung Wai Kuen	Cheng Pak Lung	Cheng Hau Yan	Wong Hing Tat	Zhong Wei Guang	Wong Chi Kin	Chau Shing Yu	Lee Wing Yiu, William	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2009													
Fees	-	-	-	-	-	-	4,384	2,192	2,192	117,419	117,419	117,419	361,025
Other emoluments													
Salaries, allowances and benefits in kind	392,000	773,016	593,600	609,338	-	44,384	-	-	-	-	-	-	2,412,338
Contributions to retirement benefit scheme	-	31,850	29,680	17,150	-	-	-	-	-	-	-	-	78,680
Total emoluments	392,000	804,866	623,280	626,488	-	44,384	4,384	2,192	2,192	117,419	117,419	117,419	2,852,043

	Leung Chau Hiu	Leung Kai Wing	Tsang Chi Yung	Leung Chun Yin	Wong Chi Kin	Chau Shing Yu	Lee Wing Yiu, William	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2008								
Fees	–	–	–	–	26,774	26,774	26,774	80,322
Other emoluments								
Salaries, allowances and benefits in kind	331,230	703,870	502,800	532,400	–	–	–	2,070,300
Contributions to retirement benefit scheme	–	27,023	25,140	14,520	–	–	–	66,683
Total emoluments	331,230	730,893	527,940	546,920	26,774	26,774	26,774	2,217,305

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: two) were directors of the Company, details of whose emoluments are included in the discloses in note 13 above. The emoluments of the remaining two (2008: three) individuals were as follows:

	2009 HK$	2008 HK$
Salaries, allowances and benefits in kind	**1,337,000**	1,557,665
Contributions to retirement benefit scheme	**24,000**	36,000
	1,361,000	1,593,665

The emolument of each of the remaining two (2008: three) individuals for both years was within the banding of nil to HK$1,000,000.

During both years, no emoluments were paid by the Group to the directors or the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office and no directors of the Company waived or agreed to waive any emoluments.

15. TAXATION

The charge comprises:

	2009 HK$	2008 HK$
Current tax:		
Hong Kong Profits Tax	**–**	(1,479,990)
PRC Enterprise Income Tax	**(17,991)**	–
	(17,991)	(1,479,990)
(Under) overprovision of Hong Kong Profits Tax in prior years (note)	**(4,318,000)**	166,307
Current year deferred tax (note 35)	**1,655,000**	–
	(2,680,991)	(1,313,683)

Note: In prior years, a Hong Kong subsidiary of the Company which has entered into an import processing agreement with a PRC subsidiary of the Company was taxed under 50:50 apportionment basis with reference to a court ruling, which was subsequently overruled by Court of Appeal. As a result, additional tax provision of HK$4,318,000 was resulted.

15. TAXATION *(continued)*

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.

In current year, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Hong Kong subsidiary has no assessable profits generated during the year.

Pursuant to the relevant laws and regulations in the PRC, Long Chuan Weida Insulation Material Co., Ltd. ("Long Chuan Weida"), a PRC subsidiary of the Company, is exempted from PRC Enterprise Income Tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years ("Tax Exemption"). Long Chuan Weida commenced its first profit making year in 2008.

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 other PRC subsidiaries is 25% from 1 January 2008 onwards.

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

	2009	2008
	HK$	HK$
(Loss) profit before taxation	**(10,056,680)**	7,523,388
Tax at Hong Kong Profits Tax rate of 16.5%	**1,659,352**	(1,241,359)
Tax effect of expenses not deductible for tax purpose	**(56,791)**	(12,437,001)
Tax effect of income not taxable for tax purpose	**8,512**	11,767,874
Tax effect of estimated tax losses not recognised	**(294,559)**	(276,888)
Effect of Tax Exemption granted to a PRC subsidiary	**351,802**	639,816
Effect of different tax rate of a subsidiary operating in the PRC	**(6,117)**	–
(Under) overprovision in prior years	**(4,318,000)**	166,307
Others	**(25,190)**	67,568
Taxation for the year	**(2,680,991)**	(1,313,683)

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16. (LOSS) PROFIT FOR THE YEAR

	2009	2008
	HK$	HK$
(Loss) profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	901,487	862,575
Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$2,830,905 (2008: nil))	115,317,929	155,932,050
Depreciation of property, plant and equipment	7,006,226	5,650,989
Amortisation of investment property (included in administrative expenses)	53,216	53,216
Release of prepaid lease payments	421,090	395,908
Operating lease rentals in respect of rented premises	1,281,227	1,300,744
Staff costs (including directors' emoluments)		
– Salaries and other benefits	15,174,303	16,604,763
– Contributions to retirement benefit schemes	668,977	779,078
	15,843,280	17,383,841
Rental income from investment property	(288,000)	(288,000)
Less: direct operating expenses from investment property that generated rental income during the year	93,400	91,692
Net rental income	(194,600)	(196,308)

17. DIVIDEND

	2009	2008
	HK$	HK$
Dividends declared and recognised as distribution during the year:		
2009 Interim – HK$5 cents (on a pre-split basis) (2008: 2008 interim dividend – HK$250) per share	**5,000,000**	25,000,000
2008 Final – HK$2.5 cents (on a pre-split basis) per share	**2,500,000**	–
	7,500,000	25,000,000
Dividend proposed	**–**	2,500,000

Pursuant to the directors' meeting dated 29 September 2008, Vitar Hong Kong declared dividend of HK$250 per share, which were distributed to the then shareholders according to their respective shareholding.

18. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for each of the two years ended 31 December 2009 and 2008 is based on the consolidated (loss) profit attributable to the owners of the Company for the respective years and on the number of shares as follows as adjusted for the share split on 24 February 2010 as set out in note 41:

	2009	2008 (restated)
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share (note)	**2,000,000,000**	1,516,502,740

Note: The number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2008 was based on the assumption that the 22,000,000 shares issued and outstanding upon the Corporate Reorganisation had been outstanding as at beginning of the year and also had been adjusted for the 50,000,000 shares issued pursuant to the capitalisation issue as disclosed in note 33.

There was no diluted (loss) earnings per share presented for both years as there were no potential ordinary shares outstanding.

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19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Furniture and fixtures	Plant, machinery and equipment	Motor vehicles	Tools	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
COST							
At 1 January 2008	34,474,184	–	4,354,477	39,157,464	3,524,106	713,068	82,223,299
Exchange adjustments	1,459,983	26,239	137,842	987,067	98,347	–	2,709,478
Additions	1,307,718	927,787	1,201,583	5,603,786	1,064,504	63,159	10,168,537
Disposals	–	–	–	–	(332,903)	–	(332,903)
At 31 December 2008	37,241,885	954,026	5,693,902	45,748,317	4,354,054	776,227	94,768,411
Exchange adjustments	42,769	2,178	5,045	36,533	2,634	–	89,159
Additions	–	838,340	238,940	6,217,086	990,242	–	8,284,608
Disposals	–	–	(199,121)	(80,437)	(851,585)	(151,563)	(1,282,706)
At 31 December 2009	37,284,654	1,794,544	5,738,766	51,921,499	4,495,345	624,664	101,859,472
DEPRECIATION							
At 1 January 2008	2,316,099	–	2,291,516	24,759,881	2,143,147	580,189	32,090,832
Exchange adjustments	44,018	–	29,005	343,433	39,915	–	456,371
Provided for the year	951,431	–	594,893	3,426,231	639,227	39,207	5,650,989
Eliminated on disposals	–	–	–	–	(294,619)	–	(294,619)
At 31 December 2008	3,311,548	–	2,915,414	28,529,545	2,527,670	619,396	37,903,573
Exchange adjustments	2,102	–	1,661	14,701	1,191	–	19,655
Provided for the year	992,786	–	642,591	4,667,812	674,283	28,754	7,006,226
Eliminated on disposals	–	–	(175,107)	(62,619)	(664,599)	(134,037)	(1,036,362)
At 31 December 2009	4,306,436	–	3,384,559	33,149,439	2,538,545	514,113	43,893,092
CARRYING VALUES							
At 31 December 2009	32,978,218	1,794,544	2,354,207	18,772,060	1,956,800	110,551	57,966,380
At 31 December 2008	33,930,337	954,026	2,778,488	17,218,772	1,826,384	156,831	56,864,838

19. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Other than buildings which are depreciated on a straight-line basis at 1.75% to 10% per annum, the above items of property, plant and equipment (other than construction in progress) are depreciated using the reducing balance method at the following rates per annum:

Furniture and fixtures	20%
Plant, machinery and equipment	20%
Motor vehicles	25%
Tools	20%

	2009	2008
	HK$	HK$
The carrying value of properties shown above comprises:		
In Hong Kong under medium-term lease	**5,786,248**	5,939,322
In the PRC under medium-term lease	**25,399,502**	25,897,823
In the PRC under short-term lease	**1,792,468**	2,093,192
	32,978,218	33,930,337

As at 31 December 2009, the Group pledged buildings with a carrying value of HK$5,786,248 (2008: HK$5,939,322) to secure general banking facilities granted to the Group.

20. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in Hong Kong and the PRC under medium term and long term leases and are released to profit or loss over the term of the leases ranging from 42 years to 57 years.

	2009	2008
	HK$	HK$
Leasehold lands under medium-term lease in Hong Kong	**9,623,983**	9,912,695
Leasehold land under medium-term lease in the PRC	**6,381,258**	6,503,422
	16,005,241	16,416,117
Prepaid lease payments of the Group are analysed for reporting purposes as:		
Current asset	**429,651**	429,428
Non-current asset	**15,575,590**	15,986,689
	16,005,241	16,416,117

As at 31 December 2009, the Group pledged leasehold land with a carrying value of HK$9,623,983 (2008: HK$9,912,695) to secure general banking facilities granted to the Group.

21. INVESTMENT PROPERTY

	HK$
COST	
At 1 January 2008, 31 December 2008 and 31 December 2009	2,235,068
AMORTISATION AND IMPAIRMENT	
At 1 January 2008	159,648
Provided for the year	53,216
At 31 December 2008	212,864
Provided for the year	53,216
At 31 December 2009	266,080
CARRYING VALUES	
At 31 December 2009	1,968,988
At 31 December 2008	2,022,204

As at 31 December 2009, the aggregate carrying value of the Group's investment property and the relevant prepaid lease payments was HK$6,149,015 (2008: HK$6,332,276).

As at 31 December 2009, the aggregate fair value of the Group's investment property and the relevant prepaid lease payments was HK$7,040,000 (2008: HK$6,360,000). The fair values as at 31 December 2009 and 2008 have been arrived at based on a valuation carried out by Messrs. Jones Lang LaSalle Sallmanns Limited, independent valuers not connected with the Group. The valuation was determined by reference to recent market prices for similar properties.

The above investment property is rented out under an operating lease during both years.

The above investment property is held under a medium-term lease in Hong Kong and is depreciated on a straight-line basis over the lease term of 42 years.

As at 31 December 2009 and 2008, the investment property was pledged to secure banking facilities granted to the Group.

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22. INTANGIBLE ASSET

	HK$
COST	
At 1 January 2008, 31 December 2008 and 31 December 2009	1,905,792
IMPAIRMENT	
At 1 January 2008 and 31 December 2008	–
Impairment loss recognised in the year	844,941
At 31 December 2009	844,941
CARRYING VALUES	
At 31 December 2009	1,060,851
At 31 December 2008	1,905,792

The intangible asset represents the cost to acquire a club membership in Mission Hills Golf Club. The club membership is measured at cost less impairment losses at the end of the reporting period.

In current year, impairment loss was recognised with reference to the latest transaction price quoted in the second hand market.

23. DEPOSIT PLACE FOR A LIFE INSURANCE POLICY

In April 2009, Vitar Hong Kong entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the beneficiary and policy holder is Vitar Hong Kong and the total insured sum is approximately HK$10,763,000. Vitar Hong Kong is required to pay an upfront deposit of HK$1,996,800, including a premium charge at inception of the policy amounting to HK$119,808. Moreover, Vitar Hong Kong is required to pay a monthly insurance premium determined by the insurance company. Vitar Hong Kong can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront payment of HK$1,996,800 plus accumulated interest earned and minus insurance premium charged at inception of HK$119,808 and the accumulated monthly insurance premium charged ("Cash Value"). In addition, if withdrawal is made between the 1st to 15th policy year, there is a specified amount of surrender charge. The insurance company will pay Vitar Hong Kong an interest of 5.45% per annum on the outstanding Cash Value of the policy for the next 20 years. Commencing on the 21st year, the interest will become 2.9% per annum plus a premium determined by the insurance company.

The effective interest rate on initial recognition was 4.05%, which was determined by discounting the estimated future cash receipts through the expected life of the policy of 20 years, excluding the financial effect of surrender charge. The carrying amount of deposit placed for a life insurance policy as at 31 December 2009 represented the Cash Value of such insurance policy. As at 31 December 2009, the expected life of the policy was remained unchanged from the initial recognition and the directors considered that the financial impact of the option to terminate the policy was insignificant.

As at 31 December 2009, the deposit placed for a life insurance policy was pledged to a bank to secure general banking facilities granted to the Group.

The deposit placed for a life insurance policy is denominated in USD, the currency other than the functional currency of the respective group entity.

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24. INVENTORIES

	2009	2008
	HK$	HK$
Raw materials	7,668,272	19,370,545
Work-in-progress	1,155,254	1,970,650
Finished goods	6,253,126	11,467,620
	15,076,652	32,808,815

25. TRADE RECEIVABLES

	2009	2008
	HK$	HK$
Trade receivables	52,637,303	57,821,962
Less: Allowance for bad and doubtful debts	(4,772,902)	(1,061,732)
	47,864,401	56,760,230

The Group allows a credit period ranging from 30 days of 90 days to its trade customers. For certain customers in connection with trading of copper or having long established relationship with the Group, the Group may grant a longer credit period up to 120 days. The following is an aged analysis of trade receivables (net of allowance for bad and doubtful debts) presented based on invoice date at the end of the reporting period:

	2009	2008
	HK$	HK$
0 – 30 days	14,424,819	21,769,253
31 – 60 days	10,690,932	9,451,909
61 – 90 days	8,748,286	10,752,542
Over 90 days but less than two years	14,000,364	14,786,526
Total	47,864,401	56,760,230

25. TRADE RECEIVABLES *(continued)*

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Trade receivables that are neither past due nor impaired are those debtors with satisfactory credit quality under the management's assessment and with good past repayment record. The directors also believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

The carrying amounts of the trade receivables denominated in currencies other than the functional currency of the respective group entity are as follows:

	2009	2008
	HK$	HK$
USD	**25,420,824**	21,724,374
RMB	**229,486**	775,379
	25,650,310	22,499,753

Included in the Group's trade receivables are debtors with aggregate carrying amount of HK$14,000,364 (2008: HK$14,786,526) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as certain of the receivables were subsequently settled or the customers have no history of default on receivables and the directors of the Company believe that the amounts are recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 159 days (2008: 166 days).

Ageing of trade receivables which are past due but not impaired

	2009	2008
	HK$	HK$
91 – 180 days	**11,581,806**	11,431,365
181 – 365 days	**2,412,208**	3,320,111
Over 365 days but less than two years	**6,350**	35,050
Total	**14,000,364**	14,786,526

25. TRADE RECEIVABLES *(continued)*

Movement in the allowance for bad and doubtful debts

	2009	2008
	HK$	HK$
Balance at beginning of the year	**1,061,732**	836,441
Impairment losses recognised on trade receivables	**4,067,946**	415,735
Amounts written off as uncollectible	**(356,776)**	(190,444)
Balance at end of the year	**4,772,902**	1,061,732

At 31 December 2009, allowance for bad and doubtful debts were individually impaired trade debtors with an aggregate balance of HK$4,772,902 (2008: HK$1,061,732) which had been in financial difficulties. The Group did not hold any collateral over these balances.

26. AMOUNT DUE FROM A RELATED COMPANY

Particulars of amount due from a related company disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of related party	Common directorship	Beneficial shareholder	Balance at 31.12.2009	Balance at 31.12.2008	Balance at 1.1.2008	Maximum amount outstanding during the year 2009	Maximum amount outstanding during the year 2008
			HK$	HK$	HK$	**HK$**	HK$
First Phoenix Investments Limited ("First Phoenix")	Leung Kai Wing	Leung Kai Wing	**56,000**	56,000	56,000	**56,000**	56,000

The amount due from a related company is unsecured, non-interest bearing and repayable on demand.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged bank deposits represented deposits pledged to banks to secure general short-term banking facilities granted to the Group. The pledged bank deposits carried fixed interest rate with effective interest rates ranging from 1.1% to 3.3% per annum. During the year ended 31 December 2009, the pledged bank deposits were released upon settlement of relevant bank borrowings.

Bank balances comprise bank deposits held by the Group with an original maturity of three months or less. The bank balances carried effective interest rates ranging from 0.01% to 0.2% (2008: 0.2% to 0.9%) per annum. Included in the bank balances as at 31 December 2008 was an aggregate balance of bank accounts held under the name of a director of the Company of approximately HK$1,696,000 on behalf of the Group.

The Group's pledged bank deposits and bank balances that are denominated in currencies other than the functional currency of the respective group entity are set out below:

	Pledged bank deposits	
	2009	2008
	HK$	HK$
USD	**–**	6,020,758

	Bank balances	
	2009	2008
	HK$	HK$
USD	**6,885,029**	8,463,285
RMB	**668,571**	1,813,100

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28. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period is as follows:

	2009 HK$	2008 HK$
0 – 30 days	6,115,356	9,697,817
31 – 60 days	3,649,844	3,574,964
61 – 90 days	322,011	666,300
Over 90 days but less than one year	5,489,270	4,149,576
Total	15,576,481	18,088,657

The carrying amounts of the trade payables denominated in currencies other than the functional currency of the respective group entity are as follows:

	2009 HK$	2008 HK$
USD	3,866,281	3,164,795
RMB	3,118,653	1,927,082
	6,984,934	5,091,877

29. AMOUNT DUE TO A RELATED COMPANY

Name of related company	Common directorship	Beneficial shareholder	Balance as at 31.12.2009 HK$	Balance as at 31.12.2008 HK$
Arshee Trading Limited	Leung Kai Wing	Leung Kai Wing	740,879	118,504

The amount is unsecured, non-interest bearing and repayable on demand.

30. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand.

31. BANK BORROWINGS

	2009 HK$	2008 HK$
Secured bank loans	**15,513,319**	20,800,483
Secured trust receipt loans	**14,259,678**	20,585,536
	29,772,997	41,386,019
The maturity profile of the borrowings is as follows:		
Within one year	**26,172,997**	38,052,993
More than one year, but not exceeding two years	**2,400,000**	3,333,026
More than two years, but not exceeding five years	**1,200,000**	–
	29,772,997	41,386,019
Less: Amounts due within one year shown under current liabilities	**26,172,997**	38,052,993
Amounts due after one year	**3,600,000**	3,333,026

All the bank borrowings are floating-rate borrowings. The range of effective interest rates on the Group's interest bearing borrowings is 1.91% to 2.91% (2008: 3.28% to 6%) per annum.

The bank borrowings were secured by prepaid lease payments, buildings, investment property, pledged bank deposits and deposit place for an insurance policy, the details of which are set out in notes 20, 19, 21, 27 and 23 respectively.

The bank borrowings that are denominated in USD, the currency other than the functional currencies of the respective group entity, are HK$10,072,468 (2008: HK$5,579,449).

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32. OTHER PAYABLE

	2009	2008
	HK$	HK$
The maturity profile of the other payable is as follows:		
Within one year	–	227,741
More than one year, but not exceeding two years	–	248,966
More than two years, but not exceeding five years	–	810,922
	–	1,287,629
Less: Amount due within one year shown under current liabilities	–	227,741
Amount due after one year	–	1,059,888

Other payable represented payment for the acquisition of a club membership. The effective interest rate was 4.9% per annum. The interest rate was fixed at the time when the purchase agreement was entered. In current year, the amount was settled in full.

The other payable was denominated in RMB, the currency other than the functional currency of the respective group entity.

33. SHARE CAPITAL

	Notes	Number of shares	Share capital HK$
Ordinary shares of HK$0.1 each			
Authorised:			
On date of incorporation	(a)	3,800,000	380,000
Increase on 21 October 2008	(b)	996,200,000	99,620,000
At 31 December 2008 and 2009		1,000,000,000	100,000,000
Issued:			
1 share allotted and issued as nil paid on date of incorporation	(a)	1	–
Issue of shares on Corporate Reorganisation	(c)	21,999,999	2,200,000
Issued on the Listing	(d)	28,000,000	2,800,000
Issued by capitalisation of the share premium account	(e)	50,000,000	5,000,000
At 31 December 2008 and 2009		100,000,000	10,000,000

Notes:

(a) The Company was incorporated in the Cayman Islands on 22 January 2008 with an authorised share capital of HK$380,000, divided into 3,800,000 shares of HK$0.1 each. At the date of incorporation, one ordinary share was issued at par to Mr. Leung Chau Hiu, a director of the Company, at nil paid. On 21 October 2008, Mr. Leung Chau Hiu transferred the nil-paid share of the Company to Vitar Development.

(b) Pursuant to the resolutions in writing of the sole shareholder passed on 21 October 2008, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 996,200,000 shares of HK$0.1 each.

(c) Pursuant to the sale and purchase agreement dated 21 October 2008 entered into between the Vendors and the Company, the Company acquired the entire issued capital of Vitar Insulation from the Vendors, which was satisfied by the nil-paid share of the Company transferred to Vitar Development and the issue of 21,999,999 shares of the Company, all credited as fully paid, to Vitar Development.

33. SHARE CAPITAL *(continued)*

(d) On 12 November 2008, the Company issued 28,000,000 new shares pursuant to the Listing and the Company's shares were listed on the Stock Exchange on the same date.

(e) Pursuant to the resolutions in writing of the sole shareholder passed on 21 October 2008, the Company allotted and issued an aggregate of 50,000,000 shares to Vitar Development by way of capitalisation from the amount standing to the credit of the share premium account of the Company on 11 November 2008 amounting to HK$5,000,000. Details of which are set out in the Prospectus.

34. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund ("MPF") Scheme under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years as at 31 December 2009 and 2008.

The Company's subsidiaries established in the PRC, in compliance with the applicable regulations of the PRC, participate in a state-managed retirement benefit scheme operated by the local government. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the years ended 31 December 2009 and 2008, the total amounts contributed by the Group to the schemes and charged to profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes and was disclosed in note 16.

35. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, deferred tax asset and liability have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	31.12.2009	31.12.2008	1.1.2008
	HK$	HK$	HK$
Deferred tax asset	**755,000**	–	–
Deferred tax liability	**–**	(900,000)	(900,000)
	755,000	(900,000)	(900,000)

The following is the major deferred tax asset (liability) recognised by the Group and movement thereon, during the years:

	Tax losses	**Accelerated tax depreciation**	**Total**
	HK$	**HK$**	**HK$**
At 1 January 2008 and 31 December 2008	–	(900,000)	(900,000)
Credit to profit and loss (note 15)	1,655,000	–	1,655,000
At 31 December 2009	1,655,000	(900,000)	755,000

As at 31 December 2009, the Group had estimated unused tax losses of approximately HK$14,810,000 (2008: HK$2,995,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$10,030,000 (20008: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$4,780,000 (2008: HK$2,995,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$1,785,000 (2008: HK$2,995,000) that will be expired on various dates till 31 December 2014 (2008: 31 December 2013). Other losses may be carried forward indefinitely.

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. As at 31 December 2009, deferred taxation had not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$5,562,000 (2008: HK$3,684,000) 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.

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36. OPERATING LEASES

The Group as lessee

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

	2009	2008
	HK$	HK$
Within one year	**698,609**	1,016,691
In the second to fifth year inclusive	**–**	660,500
	698,609	1,677,191

Operating lease payments represent rentals payable by the Group for office premises and staff quarters. Leases are negotiated and rentals are fixed for a lease term of two to three years.

The Group as lessor

The investment property is expected to generate rental yields of 4% (2008: 5%) on an ongoing basis. Leases are negotiated and rentals are fixed for a term of two years.

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

	2009	2008
	HK$	HK$
Within one year	**144,000**	288,000
In the second to fifth year inclusive	**–**	144,000
	144,000	432,000

37. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2008, the Group purchased intangible asset of HK$1,905,792 of which HK$1,287,629 remained unsettled as at 31 December 2008 and was presented as other payable in note 32.

38. RELATED PARTY TRANSACTIONS

As at 31 December 2008, the banking facilities utilised by the Group to the extent of approximately HK$41,386,000 were secured by the personal guarantees provided by two directors and a former director of a subsidiary, personal properties of two directors and properties of First Phoenix. As at 31 December 2008, the unutilised amount was approximately HK$62,748,000. In March 2009, the aforesaid guarantees and properties as securities were released.

On 6 March 2008, the Group entered into a tenancy agreement with First Phoenix, pursuant to which First Phoenix agreed to lease the office premises to the Group. Rental paid by the Group to First Phoenix for the year ended 31 December 2009 was HK$336,000 (2008: HK$336,000).

Details of amounts due from and to related parties are set out in notes 26, 29 and 30.

Compensation of key management personnel

The remuneration of members of key management including directors of the Company during the years was as follows:

	2009	2008
	HK$	HK$
Short-term benefits	**4,110,363**	3,708,287
Contributions to retirement benefit scheme	**102,680**	102,683
	4,213,043	3,810,970

39. SHARE OPTION SCHEME

The Company's share option scheme ("Share Option Scheme") was approved and adopted by the written resolutions of the shareholder of the Company passed on 21 October 2008, to recognise and acknowledge the contributions of selected participants to the growth of the Group.

The Board of Directors (the "Board") may, in its absolute discretion, offer to grant options to any employee, executive and officer of the Group, any director (including non-executive director and independent non-executive director) and any adviser, consultant, supplier, customer and/or agent of the Group whom the Board considered have contributed or will contribute to the Group.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue as at the date on which the shares of the Company are listed on the Stock Exchange, excluding for this purpose shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the Stock Option Scheme shall not exceed 30% of the shares in issue of the Company from time to time.

The total number of shares issued and which fall to be issued upon the exercise of the options granted under the Share Option Scheme (including both exercised and outstanding options) to any individual in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares of the Company in issue as at the date of offer to grant. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by the Company's shareholders in accordance with the Share Option Scheme. Options granted to connected persons in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Subject to the rules of the Share Option Scheme, options may be exercised, in whole or in part, at any time during the period from the date of acceptance of an offer of the grant of such option to the earlier of the date on which such option lapses and the tenth anniversary of the Share Option Scheme. Options granted must be accepted by the prescribed acceptance date. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the share; the closing price of the Company's shares on the date of offer; and the average closing price of the shares for the five business days immediately preceding the date of offer.

No option has been granted since the adoption of the Share Option Scheme.

40. CAPITAL COMMITMENTS

	2009	2008
	HK$	HK$
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,830,645**	–

41. EVENTS AFTER THE REPORTING PERIOD

(a) On 19 January 2010, the Company completed a placing of shares ("Placing") and issued 20,000,000 shares which represents 20% of the shares in issue immediately before the Placing to not less than six placees at HK$2.15 per share. The net proceeds from the Placing are approximately HK$42 million and which intended to be used for the general working capital of the Group.

(b) On 9 February 2010, Vitar Insulation has entered into framework agreements with four companies wholly-owned by Vitar Development, a substantial shareholder of the Company ("Purchasers"). Pursuant to the framework agreements, Vitar Insulation agreed to sell and the Purchasers agreed to purchase an investment property, and certain prepaid lease payments and buildings of the Group for a total consideration of HK$31.1 million. The aggregate carrying amount of these properties as at 31 December 2009 was HK$17,990,633. Under the framework agreements, following the completion, Vitar Insulation shall lease back certain prepaid lease payments and buildings from the Purchasers at the current market rents for a period of three years following the completion. The resolutions were approved in the extraordinary general meeting of shareholders on 18 March 2010.

(c) Pursuant to the resolutions passed in the extraordinary general meeting of shareholders on 23 February 2010, the existing issued and unissued shares of par value of HK$0.10 each in the share capital of the Company was subdivided into twenty subdivided shares of par value of HK$0.005 each effective on 24 February 2010. The subdivided shares ranked pari passu in all respects with each other and the share subdivision did not result in any change in relevant rights of the shareholders.

(d) On 26 February 2010, the Company entered into a placing agreement with a placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent a maximum of 480,000,000 placing shares to not fewer than six placees at a price of HK$0.65 per share. The maximum of 480,000,000 placing shares under the placing represent 20% of the existing issued share capital of the Company at the date of agreement. The maximum net proceeds are estimated to be approximately HK$310.4 million and which are intended to be used for the general working capital of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2009 and 2008 are as follows:

Name of the subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital 2009	2008	Proportion of ownership interest attributable to the Group	Principal activities
Vitar Hong Kong	Hong Kong	**HK$10,000,000**	HK$10,000,000	100%	Trading of insulated sleeving, tubes, wires and mica sheets
Leader Tech Limited	Hong Kong	**HK$10,000**	HK$10,000	100%	Investment holding
Vitar Insulation*	The British Virgin Islands	**US$1,001**	US$1,001	100%	Investment holding
威達絕緣材料(深圳)有限公司# Vitar Insulation Material (Shenzhen) Limited +	The PRC	**HK$2,000,000**	HK$2,000,000	100%	Manufacturing and trading of insulated sleeving, tubes, wires and mica sheets
龍川威達絕緣材料有限公司# Long Chuan Weida +	The PRC	**US$6,600,000**	US$6,000,000	100%	Manufacturing and trading of insulated sleeving, tubes, wires and mica sheets
威達電工器材(龍川)有限公司#	The PRC	**HK$1,800,000**	–	100%	Manufacturing and trading of insulated sleeving, tubes, wires and mica sheets

* All of the subsidiaries are owned indirectly by the Company except for Vitar Insulation which is owned directly by the Company.

\# Wholly foreign owned enterprise registered in the PRC.

\+ The English names of these entities established in the PRC are for identification purpose only.

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

Financial Summary

RESULTS

	Year ended 31 December,				
	2005	2006	2007	2008	**2009**
	HK$	HK$	HK$	HK$	**HK$**
Revenue	144,045,079	175,896,091	204,539,963	193,889,613	**134,585,928**
Profit (loss) attributable to owners of the Company	18,000,556	22,659,069	24,253,304	6,209,705	**(12,737,671)**

ASSETS AND LIABILITIES

	As at 31 December,				
	2005	2006	2007	2008	**2009**
	HK$	HK$	HK$	HK$	**HK$**
Total assets	172,717,686	203,187,463	219,383,061	241,121,274	**210,172,298**
Total liabilities	56,461,393	78,529,247	78,950,468	68,591,066	**57,727,006**
Total equity	116,256,293	124,658,216	140,432,593	172,530,208	**152,445,292**

Note:

The Company was incorporated in the Cayman Islands on 22 January 2008 and became the holding company of the Group on 21 October 2008 as a result of a group reorganisation as set out in the prospectus dated 30 October 2008 issued by the Company.

The results of the Group for each of the four years ended 31 December 2008 and the assets and liabilities of the Group as at 31 December 2005, 2006 and 2007 have been prepared on a combined basis as if the Group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout the years concerned and have been extracted from the Prospectus.