思嘉集團有限公司
SIJIA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1863

2010
ANNUAL REPORT

Contents

Corporate Information

BOARD OF Directors

Executive Directors

Lin Shengxiong *(Chairman)*
Zhang Hongwang
Huang Wanneng

Independent Non-executive Directors

Chong Chi Wah
Cai Weican
Wu Jianhua
Chan Tsz Fu, Jacky

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1603, 16th Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Chan Wing Hang, *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Lin Shengxiong
Chan Wing Hang, *FCCA, CPA*

AUDIT COMMITTEE

Chong Chi Wah *(Chairman)*
Cai Weican
Wu Jianhua

REMUNERATION COMMITTEE

Lin Shengxiong *(Chairman)*
Cai Weican
Wu Jianhua
Chong Chi Wah

NOMINATION COMMITTEE

Cai Weican *(Chairman)*
Lin Shengxiong
Wu Jianhua
Chong Chi Wah

LEGAL ADVISER

As to Hong Kong Law
Tung & Co.

AUDITORS

Ernst & Young
Certified Public Accountants

INTERNAL CONTROL REVIEW ADVISER

SHINEWING Risk Services Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

CORPORATE WEBSITE

http://www.sijia.hk

INVESTOR RELATIONS CONTACT

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Financial Highlights

	2010 RMB million	2009 RMB million
Results		
Revenue	965.3	570.5
Gross profit	437.2	258.9
Profit before taxation	264.7	204.6
Net profit	217.2	171.2
Basic earnings per share (RMB cents)	28.86	28.54
Gross profit margin	45.3	45.4
Net profit margin	22.5	30.0
Financial position		
Cash and cash equivalents	333.9	174.0
Total assets	1,316.9	469.9
Total debts	119.9	118.9
Total equity	1,197.0	351.0
Current ratio (Times)	5.4	3.0
Quick ratio (Times)	4.9	2.7
Gearing – borrowings to total assets (%)	1.1	8.3
Efficiency ratios		
Trade receivables (Days)	56	55
Trade payables (Days)	56	53
Inventories turnover (Days)	38	34
Cash conversion (Days)	38	36

Chairman's Statement

Lin Shengxiong
Chairman

Dear Sijia Group Shareholders:

"You need a master to recognise talent, before a horse can become a thousand-mile horse. There are always thousand-mile horses but seldom do we see a master."

2010 is a year to be remembered by Sijia Group Company Limited (the "Company") and its subsidiaries (the "Group" or "Sijia Group"). On 29 April, the shares of our Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). We raised a total of HK$751 million which among other uses, were mainly used to expand our production facilities. The listing of the Company's shares in Hong Kong also symbolises the Group's expansion out of Mainland China, onto the international equity platform.

In September 2010, we commenced the operations of our manufacturing plants in Chengdu and Wuhan for productions of end products (the "End Products") including biogas tank, wader and protective clothing. In the second half of 2010, we have determined to start production of our brand-new new materials (the "New Materials") in the manufacturing plant located in Jinshan, Shanghai in the fourth quarter of 2011 tentatively. As we expanded our production capacity, we also continue to expand our product range to include new innovative products such as architectural membrane, waterproofing membrane and membrane for double membrane gas holders. At the time of writing this report, the construction of our second phrase of the Fuzhou factory has completed which will provide enlarged capacities for our existing product range and at the same time, we will also place more focus on the development of TPU materials.

The board of directors (the "Directors") of the Company (the "Board") has confidence in the launch of our other new products. Since we commenced our production of red mud biogas tanks in 2009, the results have been very positive with a 6-fold growth in terms of annual revenue to approximately RMB136.2 million in 2010 (2009: RMB19.7 million). We are confident that our biogas tank business will have a sustainable growth going forward. Sijia Group is currently working hard with the Ministry of Agriculture in setting up the national standard for biogas tanks.

The Company possesses a strong R&D team and numerous core patent technologies, with our products and production techniques meet the principles of independent innovation, environmental-friendly and energy conservation as encouraged in the "Twelfth Five-year Plan" of the PRC. This contributed to the trend to change the "Made in China" to "Innovated by China". Our production process is basically free from environmental pollution. With years of exploration and practices, we have attained our unique patent technologies, building up ourselves the market leader with our compelling competitive advantages.

As a leading player in the New Materials industry, Sijia Group is setting its sights on expanding the range of industries that the New Materials can be utilised. We have initiated strategic review to evaluate current operations and future opportunities to examine and re-establish business goals and financial objectives, to ensure advancing in a strategic direction appropriate to its intellectual and financial resources, and to determine the most prudent course for accomplishing them.

The wise man once said, "You need a master to recognise talent, before a horse can become a thousand-mile horse. There are always thousand-mile horses but seldom do we see a master." We are indeed grateful to receive our shareholders' loyal supports. We believe Sijia Group is a thousand-mile horse which will continue to work hard to achieve higher values to repay the faith shown by our shareholders.

Thank you!

Sincerely,
LIN Shengxiong
Chairman

Management Discussion and Analysis

Business Review

Corporate Profile

Sijia Group is a recognised industry leader in the People's Republic of China (the "PRC") for providing reinforced New Materials for a wide spectrum of industries, such as modern transportation, construction, renewable energy, agriculture, healthcare, sports, outdoor leisure and daily supplies. The management team of the Group has substantial experience in proprietary technology, product innovation and marketing and insists on market-focused strategy and joint development, manufacturing, sales of novel products with research and development team and academic institutions. Various novel products and production techniques of the Group possess independent intellectual property rights and national patents on technology.

Our Reinforced Materials (the "Reinforced Materials") business, located in our headquarters in Fuzhou, utilises self-developed facilities and techniques, which has acquired national patents on innovation, to produce New Materials, including architectural membrane, waterproofing membrane, TPU materials, air tightness materials, inflatable materials, biogas tank materials, tarpaulin materials, wader and protective garment materials, etc. Such materials exhibit nine characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, low temperature resistance and sunlight resistance. Meanwhile, the Group has also expanded into downstream End Products business, with factories located in Xiamen, Wuhan and Chengdu, which develops and manufactures clean energy products such as biogas tank; and outdoor leisure sports consumer products such as wader and protective clothing, inflatable boats, and large inflatable toys.

Segments by Product

Sijia Group generated the most revenue from the Reinforced Materials which accounted for 59.9% (2009: 59.7%) of total revenue. Local sales continued to be our major source of revenue, representing 98.3% (2009: 97.8%) of the total revenue while export sales only accounted for 1.7% (2009: 2.2%) of the total revenue. Given the diverse applications of our Reinforced Materials and End Products, our products can be applied in eleven major markets including outdoor, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies.

Reinforced Materials

During 2010, revenue from the Reinforced Materials amounted to RMB578.5 million which accounted for 59.9% of total revenue, with sales up 69.8%, due to strong market demand. Sijia Group sold the most in wader and protective garment materials, followed by inflatable materials, air tightness materials, bag materials and biogas tank materials, which accounted for 12.8%, 11.8%, 10.0%, 7.1% and 6.6% of total revenue respectively for the year under review (2009: 16.0%, 15.7%, 11.9%, 6.6% and 2.5%). The sale of biogas tank material was up 339.8% for the year, followed by bag materials, air tightness materials, protective garment materials and inflatable materials with sales up 82.3%, 42.9%, 34.9% and 27.3% respectively. During the year, we launched a series of promotional and advertising activities including advertising on CCTV and increasing our presence in professional magazines. Sijia Group actively participated in trade exhibitions and organised industry-specific seminars to further develop our image and increase our presence in the industry. We further penetrated into the end market to capture larger market share of the Reinforced Materials.

Conventional Materials

For the year under review, revenue from the Conventional Materials amounted to RMB101.2 million which accounted for 10.5% of total revenue, with sales up 7.7%.

End Products

For the year under review, revenue from the End Products amounted to RMB285.6 million which accounted for 29.6% of total revenue, with sales up 110.3%, due to strong market demand. During the year, we set up seven local sales offices for the sales of our End Products namely in Foshan, Changsha, Nanning, Nanchang, Wuhan, Chengdu and Linyi.

- **Outdoor Leisure Sports Consumer Market**

  As to the End Products, Sijia Group generated sales primarily from waders and protective garment and inflatable boats, which delivered 11.7% and 6.8% of total revenue respectively for the year under review (2009: 8.8% and 13.1%). The sales of waders and protective garment was up 124.1% for the year.

- **New Energy Market**

  As to the End Products, the sale of biogas tank accounted for 7.5% of total revenue for the year under review.

  Sijia Group offered both the Reinforced Materials and the End Products for the biogas tank business. An impressive sale performance was achieved in the biogas tank business with sales up approximately 6 times when compared with that of 2009. Rapid growth in sales gain was led by our strengths in R&D, strong market demand and government encouragement coupled with its favourable policies. For the year under review, the production and sales of biogas tank Reinforced Materials and End Products accounted for RMB63.5 million, or 6.6% and RMB72.7 million, or 7.5% (2009: RMB14.4 million, or 2.5% and RMB5.3 million, or 0.9%) of total revenue respectively. Compared with traditional biogas tanks, our biogas tank products are advantaged with the benefit of high air tightness and sustainable gas generating at low temperature. In addition, the Chinese government exerts great efforts in supporting biogas tank projects and implements specific subsidy policies, we have managed to accelerate the growth of our business in biogas tank.

Research and Development (the "R&D")

Sijia Group insists on achieving continuous growth by ways of R&D and innovations. Its significant investments in R&D enables Sijia Group to be market oriented with continuous launches of new products and technologies that meet the needs of the market. The Group forms a solid strategic alliance with the clients, which develops new products satisfying clients' needs, provides technical, equipment and service support for the design, manufacturing and sales of clients' products. Product development and technology functions are located primarily in our headquarter in Fuzhou. Sijia Group's investments in developing new products and improving equipment technology over the last two years were as follows: RMB97.9 million (10.1% of revenue) in 2010 and RMB34.0 million (6.0 % of revenue) in 2009.

Over the years, we increased our R&D investments in an attempt to accelerate the commercialisation of certain products, particularly the biogas tank materials and biogas tank products in 2009. In order to enable commercialisation once our Shanghai plant is ready for operations (tentatively in the fourth quarter of 2011), we accelerated our development of architectural membrane, waterproofing membrane, membrane for double membrane gas holder and TPU materials for substitution of those imported products, and replacement of materials that are not environmental friendly, lower cost production and reduced build time.

The applications of our New Materials are as follows:

Architectural membrane. Our architectural membrane creates distinctively impressive buildings as it offers the flexibility to form infinite number of shapes. Membrane roofs weigh far less than conventional roofing and thus lower the construction price of wall and roofing. Architectural membrane construction has further advantages of short construction lead-time, low energy consumption and wide-span construction space. Architectural membrane structures are internationally recognised as part of permanent construction as it exhibits stain resistant and durability.

Waterproofing membrane. Traditional waterproofing flat roofs which use tar based surface tend to fail when there is pooling of water and under colder climates. We developed Thermoplastic Polyolefin (the "TPO") waterproofing membrane for the construction of waterproofing system, it helps protect structures from the damaging effects of water and extreme weather. Due to the huge market potential and demand for waterproofing membrane and the excellence that are not available in other waterproofing materials on the market, it is a very popular choice for green buildings.

Membrane for double membrane gas holder. Architectural membrance applied in large scale biogas holders is a very flexible and economical biogas holder material. Cost expenditure, and time for purchase and building can be greatly reduced while there is no need for expensive steel concrete structures for double membrane gas holder produced with membrane. These biogas holders demonstrate excellent air tightness, stain resistance and weather resistance that the tank requires no maintenance other than visual inspection.

TPU Materials. It is a new environmental friendly material. It exhibits special characteristics such as oil resistance, waterproofing, high tension, high tensile force, durable, anti-abrasive, low temperature resistance. It is widely used for the manufacturing of products like medical equipments, water bag, oil bag, spill containment boom, sports equipment, inflatable boats and daily supplies in the areas such as military, ocean, industry, and modern agriculture.

The markets we serve are characterised by rapid technological change. To compete effectively in our markets, we must continually match with the pace of such market change by continuously innovating and improving our products and our manufacturing technologies and developing new techniques and products that compete effectively on the basis of performance and that adequately address needs of current and potential customers.

Financial Review

Financial Results

Revenue

Revenue for the year under review was RMB965.3 million, an increase of RMB394.8 million, or 69.2%, compared to revenue of RMB570.5 million for the same period last year. The increase in revenue was primarily due to the increase in market demand on our Reinforced Materials and End Products during the year.

During the year under review, the sales of Reinforced Materials increased RMB237.9 million, or 69.8%, to RMB578.5 million compared to RMB340.7 million for the same period last year. The sales of Reinforced Materials increased the most in wader and protective garment materials, followed by inflatable materials, biogas tank materials and tarpaulin materials. These increases were due primarily to the increase in demand on our Reinforced Materials. On the other hand, the sale of Conventional Materials increased RMB7.2 million, or 7.7%, to RMB101.2 million compared to RMB94.0 million for the same period last year.

During the year under review, the sales of the End Products increased RMB149.8 million, or 110.3%, to RMB285.6 million compared to RMB135.8 million for the same period last year. The increase was due primarily to increase in demand on wader and protective clothing, biogas tank and inflatable boat.

The split of these revenue based on products compared to 2010 and 2009, is shown below:-

	For the year ended 31 December			
	2010		2009	
	(RMB million)	%	(RMB million)	%
Reinforced Materials	578.5	59.9	340.7	59.7
Conventional Materials	101.2	10.5	94.0	16.5
End Products	285.6	29.6	135.8	23.8
	965.3	100.0	570.5	100.0

The split of these revenues based on geographically locations compared to 2010 and 2009, is shown below:-

	For the year ended 31 December			
	2010		2009	
	(RMB million)	%	(RMB million)	%
PRC	949.2	98.3	557.9	97.8
Non-PRC	16.1	1.7	12.6	2.2
	965.3	100.0	570.5	100.0

Gross Profit and Gross Margin

Gross profit increased to RMB437.2 million for the year ended 31 December 2010 (2009: RMB258.9 million). The gross profit margin was 45.3% for the year ended 31 December 2010 (2009: 45.4%). Due to the continuous refinement of product mix to offer more of the Reinforced Materials and the End Products which commanded higher gross profit margin as compared with that of the Conventional Materials, a stable gross profit margin was maintained.

The split of these gross profit margin based on products compared to 2009, is shown below.

	2010 %	2009 %
Reinforced Materials	42.5	44.9
Conventional Materials	16.1	15.6
End Products	61.4	67.1
	45.3	45.4

Selling and Distribution Costs

For the year under review, selling and distribution costs increased RMB17.1 million or 472.9% to RMB20.7 million, or 2.1% of revenue for the year under review, from RMB3.6 million, or 0.6% of revenue for the same period last year. The increase in selling and distribution costs was primarily due to increases in exhibition expenses and staff costs amounted to RMB4.0 million and RMB2.5 million respectively for the year under review, as we stepped up our marketing efforts to promote our product and increase our market shares. We also incurred marketing consultant fee amounted to RMB9.5 million (2009: RMB0.9 million) to seek advice on marketing strategies including brand building and sales network expansion, and research on market of the Reinforced Materials and TPU materials.

Administrative Expenses

For the year under review, administrative expenses increased RMB103.1 million or 207.7% to RMB152.8 million, or 15.8% of revenue for the year under review, from RMB49.7million, or 8.7% of revenue for the same period last year. The increase in administrative expenses was primarily due to the incurrence of legal and professional fees for the global offering and share option expenses amounted to RMB14.9 million (2009: RMB5.7 million) and RMB13.1 million respectively for the year under review. In addition, research and development costs increased RMB63.9 million, or 187.7%, to RMB97.9 million, or 10.1% of revenue for the year under review, from RMB34.0 million, or 6.0% of revenue for the same period last year. The increase is mainly related to the refinement of current products and development of the New Materials including the material cost incurred in architectural membrane, water proofing membrane and membrane for double membrane gas tank. Such research and development expenses demonstrates our commitment to ensuring our R&D capability for improving existing product and developing new products and is expected to stand us in good stead as our Group moves up the value chain.

Finance Costs

Finance cost for the year under review was RMB2.1 million (2009: RMB2.1 million). This equates to 0.2% and 0.4% of revenue for 2010 and 2009 respectively.

Interest Income

Interest income amounted to RMB1.9 million for the year under review (2009: RMB0.6 million).

Income Tax

For the year under review, the Group had an overall income tax expense of RMB47.4 million, or 17.9% of pre-tax income compared to the tax expense of RMB33.3 million, or 16.3% of pre-tax income for the same period last year.

Net Income

The Group generated profit attributable to owners of the parent for the year under review of RMB217.2 million, or RMB28.86 cents for basic earnings per share, compared to profit attributable to owners of the parent of RMB171.2 million, or RMB28.54 cents for basic earnings per share for the same period last year. The weighted average number of common shares outstanding at 31 December 2010 was 752,720,000 compared to 600,000,000 at 31 December 2009.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to RMB1,197 million, as compared to RMB351.0 million at 31 December 2009, an increase of 241.0%.

Financial Position

The Group's net gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 1.1% as compared to 8.3% as at 31 December 2009.

Bank Borrowings

The Group had cash and bank balances of RMB356.0 million (31 December 2009: RMB185.0 million), most of which were denominated in Hong Kong dollars or Renminbi. As at 31 December 2010, the Group had interest-bearing bank borrowings of RMB15.0 million (31 December 2009: RMB38.9 million).

Working Capital

Total inventory was at RMB55.4 million as compared to RMB29.4 million as at 31 December 2009. The number of days of inventory was at 38 days (31 December 2009: 34 days).

Trade receivables turnover days was at 56 days (31 December 2009: 55 days). The Group strikes to exercise due care in managing credit exposure.

Trade payables turnover days was at 56 days (31 December 2009: 53 days).

Overall, the Group maintained a current ratio of 5.4 as at 31 December 2010 (31 December 2009: 3.0).

Capital Expenditure

For the year under review, the Group incurred capital expenditure of approximately RMB307.9 million and advanced payment for property, plant and equipment for RMB279.5 million, which were financed by the Group's internal resources and the proceeds of its global offering.

Capital Commitments and Contingent Liabilities

As at 31 December 2010, total capital commitments amounted to RMB119.6 million (31 December 2009: RMB50.0 million). There were no material contingent liabilities or off balance sheet obligations.

Human Resources

The Group employed a total of 985 employees (31 December 2009: 490 employees) in China and Hong Kong.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improve the quality, competence and skills of all employees. It provides job related training throughout the organisation. The Group continues to offer competitive remuneration packages and bonuses to eligible staffs, based on the performance of the Group and the individual employee.

Biography of Directors and Senior Management

Directors

The Board consists of seven Directors, including three executive Directors and four independent non-executive Directors.

Executive Directors

Mr. Lin Shengxiong (林生雄), aged 48, is the Chairman and an executive Director of the Company. Mr. Lin is one of the founders of the Group and a substantial shareholder of the Company. Mr. Lin was appointed as a Director on 7 October 2009. He is responsible for all strategic planning and production management of the Group. Mr. Lin has over 25 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and strategic, financial and production management. Mr. Lin was elected as vice chairman of the 3rd session of the Fujian branch of China Chamber of International Commerce (中國國際商會福建商會) in June 2004. During that year, he also held the post of Committee Member of the 5th session of the Sanming City Sanyuan District Committee* (三明市三元區第五屆委員會) in January. Mr. Lin was elected as a committee member of the 4th session of the Fujian Association of Enterprises with Foreign Investment in November 2007, a committee member of the 3rd committee of the Fujian Federation of Industry & Commerce in April 2007 and the chairman of Fuzhou Plastic Society* (福州市塑膠同業公會) in 2010. Mr. Lin completed certificate course for graduate students in world economics in Graduate Students' College of Xiamen University (廈門大學研究生院) in September 2001.

Mr. Zhang Hongwang (張宏旺), aged 34, is an executive Director of the Company, who is the son-in-law of Mr. Lin Shengxiong's elder brother. Mr. Zhang was appointed as a Director on 7 October 2009. He is responsible for the strategic planning and operations of the Group. Mr. Zhang has over 14 years of experience in the polymers and plastic industry. He has extensive experience in financial management and operation. Since February 2002, Mr. Zhang served as the general manager of Fujian Sijia Industrial Material Co., Ltd ("Fujian Sijia"), a subsidiary of the Company, responsible for products promotion, formulating and implementing development strategies and operation plans of the Group. Prior to joining the Group, Mr. Zhang served as the accountant and was later promoted as accounting manager of Fujian Sanming Yongfeng Plastics Co., Ltd.* (福建三明市永豐塑膠有限公司) from September 1996 to October 2000. Subsequently, Mr. Zhang acted as general manager of Fujian Fang Ya from October 2000 to December 2002 responsible for the production, sales and operation in manufacturing rain coats. Through the above work experience with these companies, Mr. Zhang gained substantial knowledge and experience in technologies, formulae and production techniques in manufacturing of polymer products. He has also completed the certificate course for senior business management chief executive seminars (高級工商管理總裁研修班) in Qinghua University in December 2007.

Mr. Huang Wanneng (黃萬能), aged 43, is an executive Director of the Company. Mr. Huang was appointed as a Director on 7 October 2009. He is principally responsible for the research and development of the Group. Mr. Huang is a chief mechanical engineer and has about 21 years of experience in the polymer and plastic industry. He has extensive experience in on-site management, development of technology and equipments and improvement in production techniques. Mr. Huang served as deputy general manager and chief engineer of Fujian Sijia, mainly responsible for the new equipments, technology and product development, equipment management and technology reform of equipments since September 2002. Prior to joining the Group, Mr. Huang worked for Fujian Hongming Plastics Co., Ltd.* (福建省宏明塑膠股份有限公司) where he served various positions, namely, workshop technician, workshop supervisor, equipment engineer and department chief of equipment department from July 1989 to August 2002. During this period, Mr. Huang specialized in management of production automation system used in the manufacturing of polymer products. He obtained his bachelor's degree in electric engineering from Southeast University in July 1989.

* *For identification purpose only*

Independent non-executive Directors

Mr. Chong Chi Wah (莊志華), aged 49, is an independent non-executive Director of the Company. Mr. Chong was appointed as a Director on 14 February 2011. Mr. Chong graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Diploma in Management Studies in 1991 and graduated from University of San Francisco of the United States with a Master degree in Business Administration (MBA) in 1997. Mr. Chong is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom, an associate member of Hong Kong Institute of Certified Public Accountants, associate member of The Institute of Chartered Secretaries and Administrators and associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Chong is currently a Director of three subsidiaries of Tonic Industries Holdings Limited, a company listed on the Main Board of Hong Kong Stock Exchange. Mr. Chong was the assistant financial controller of Guangdong Investment Limited during the period from February 1992 to October 1996, a Director and the financial controller of Guangdong Tannery Limited during the period from November 1996 to May 2001, the group financial controller of Climax International Company Limited during the period from August 2001 to October 2002 and the financial controller of a subsidiary of SNP Leefung Holdings Limited during the period from February 2004 to May 2006. Guangdong Investment Limited, Guangdong Tannery Limited and Climax International Company Limited are currently listed on the Main Board of the Stock Exchange.

Mr. Chan Tsz Fu, Jacky (陳子虎), aged 36, an independent non-executive Director of the Company. Mr. Chan was appointed as a Director on 6 January 2010. Mr. Chan has over 16 years of experience in auditing and has established Jacky Chan CPA Ltd. in April 2007. Mr. Chan was a qualified accountant and company secretary of Dahe Media Co., Ltd. (stock code: 8243), a company listed on the Hong Kong Stock Exchange, from 31 July 2005 to 1 September 2006. Prior to that, he served Fujian Zhenyun Plastics Industry Co., Ltd., a company listed on the Singapore Stock Exchange, as chief financial officer during the period from November 2006 to January 2008. Mr. Chan is also an independent non-executive Director of Addchance Holdings Limited (stock code: 3344), a company listed on the Hong Kong Stock Exchange, since June 2005. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, a member of Hong Kong Institute of Certified Public Accountants, a member of the Taxation Institute of Hong Kong and a practicing certified public accountant.

Mr. Cai Weican (蔡維燦), aged 51, is an independent non-executive Director of the Company. Mr. Cai was appointed as a Director on 6 January 2010. Mr. Cai joined Sanming Vocational and Technical College (三明職業技術學院) since June 2005, holding various positions ranging from senior lecturer assistant professor, senior accountant of the Financial and Accounting Department, Second Convenor (presiding over works) of the Department of Economics and Management, party sub-committee secretary of the Department of Humanity, Economics and Management. Mr. Cai is currently the supervisor and party sub-committee secretary of the Department of Economics and Management at Sanming Vocational and Technical College (三明職業技術學院). Mr. Cai has been the vice president of the Sanming Institute of Auditors (三明市審計學會) and a member of the Expert Team of Budget Audit and Oversight of People's Congress Standing Committee of Sanming City (三明市人大常委會預算審查監督專家組). Mr. Cai obtained a number of honorary titles such as Outstanding Teacher Award by the Finance Department of Fujian Province (福建省財政廳) and Outstanding Teacher of Fujian Province. He obtained a bachelor's degree in Hunan University specializing in accounting in 2004.

Mr. Wu Jianhua (吳建華), aged 66, is an independent non-executive Director of the Company. Mr. Wu was appointed as a Director on 14 January 2011. Mr. Wu is currently the chairman of the Agricultural Society of Fujian, the PRC. Mr. Wu was a postgraduate of Fujian Agriculture and Forestry University specialized in Agriculture Economy Management and graduated from University of North Virginia of the United States with a Master degree in Business Administration (MBA) in 2003. Mr. Wu had been a Representative of the 9th National People's Congress, a member of the 7th Provincial Party Committee and a member of 7th and 9th Provincial Political Consultative Conference. During the period from 1969 to 1988, he had worked for Fuzhou Car Manufactory and Repair Plant (福州汽車修造廠), Provincial Traffic Department (省交通廳), industry and traffic division of Executive Office of the Provincial Government (省政府辦公廳工交處), Putian City Planning Commission (莆田市計委), Bureau of Legislative Affairs of the Provincial Government (省政府法制局), served as Deputy Commissioner, Deputy Head, Head of the Planning Commission, Legal Secretary respectively. Between 1988 and 2005, Mr. Wu served as Deputy Secretary General of the Provincial Government, Putian City Mayor, Director of Provincial Agriculture Office engaging in the agricultural economic management works. Since August 2005, Mr. Wu had served as Deputy Director of the Provincial Committee of Economy, Science and Technology and continued to lead in agricultural economic management works. During this period, Mr. Wu had also chaired the formulation of "Shi•Wu (十 • 五)", "Shiyi•Wu (十一 • 五)" agricultural development planning and characteristic agricultural industry of Fujian province, and had participated in research and implementation of projects involving comprehensive law enforcement in agriculture, deepening Taiwan and Fujian agricultural cooperation, establishing 969155 agricultural information hotline. At the same time, he had: organized and implemented agricultural "Crossing Plans (跨越計劃)", "Harvest Plans (豐收計劃)", "New Farmer Training Project (新型農民培訓工程)" and "the Green Certificate Project (綠色證書工程)" and "Science and Technology for Farmers-home Project (農民科技入戶工程)"; perfected curing mechanism of agricultural science and technology innovation and achievements; organized and implemented "Digital Agriculture" project advancing the Fujian agricultural informative progress. Mr. Wu has established certain academic standards and influence in strategic research areas of agriculture and the rural economy and related subjects in the PRC. He had released more than 60 papers on the above provincial level CN publications, Guangming Daily and Fujian Daily. One of the papers, namely "Some Thoughts Related to Development of Rural Economic《關於發展農村經濟的幾點思考》" was incorporated by the Central Party School into "Revenue Base on Deng Xiaoping Theory《鄧小平理論研究文庫》". Mr. Wu also edited and wrote science and technology books, such as "Agricultural Science and Technology Innovation, Cycling Agriculture, Theory and Practice of Construction of new Countryside《農業科技創新、迴圈農業與新農村建設的理論與實踐》", "Ping Shan Night Talks《屏山夜話》", "Fujian's Three Types of Farmers Working Dictionary《福建三農工作大典》". Mr. Wu had awarded "The Country's Helping Disabled Individuals (全國扶殘先進個人)"、"Assisting Disabled Mayor (助殘市長)"、"The Country's Prevention and Control of Animal Diseases Individuals (全國防治畜禽疫病先進個人)"、"Against Flood and Disasters Advanced Individual (抗洪救災先進個人)" and the Department of Agriculture's "Prize for Contributions to the development of the Institute (學會發展貢獻獎)".

None of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Senior Management

Mr. Chan Wing Hang (陳永恒), *FCCA, CPA*, aged 33, is the chief financial officer and company secretary of the Company and is responsible for the overall financial control, company secretarial, compliance and investor relation functions of the Company. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in October 2009, Mr. Chan was the financial controller, qualified accountant and company secretary of China National Materials Company Limited (中國中材股份有限公司) (stock code: 1893), the shares of which are listed on the Main Board of Hong Kong Stock Exchange. He has also served as the assistant financial controller, qualified accountant and company secretary of Western Mining Company Limited (西部礦業股份有限公司) (stock code: 601168), the shares of which are listed on the Shanghai Stock Exchange. Prior to that, Mr. Chan was also the qualified accountant and company secretary of Shinhint Acoustic Link Holdings Limited (成謙聲匯控股有限公司) (stock code: 2728), the shares of which are listed on the Main Board of Hong Kong Stock Exchange. Mr. Chan has more than 12 years of experience in accounting, finance, compliance, company secretarial, investor relations and initial public offerings. He graduated from City University of Hong Kong (香港城市大學) in November 1999 with a degree of Bachelor of Business Administration (Honours) in Accountancy.

Mr. Lai Derong (賴德榮), aged 38, is the vice president of the Group and is primarily responsible for overseeing the production management of the Group. Mr. Lai joined the Group in June 2008. Prior to joining the Group, he worked for Intex Group from July 1994 to July 2005 and served various positions as technician, team leader and division head of production and management department. From August 2005 to May 2008, he served as manager of Polytree Group, mainly responsible for the technology, production and management of the factory.

Ms. Zheng Lijuan(鄭麗娟), aged 31, is the deputy general manager and division head of the procurement department of the Group and is responsible for the procurement of the Group, cost control and the management of the Group's 7S. Ms. Zheng joined the Group in October 2005. During the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of the Group and in March 2010, the division head of the procurement department of the Group. In June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

Mr. Huang Daohuo (黃道火), aged 38, is the product technology manager and the division head of sales support of the Group, primarily responsible for overseeing the marketing of new products and the after-sale technical support service of the Group. Mr. Huang joined the Group in July 2003 and has 15 years of experience in polymer materials industry.

Mr. Jiang Shisheng (蔣石生), aged 41, is the division head of technology of the Group, primarily responsible for technological development of the Group. Mr. Jiang was approved as an engineer by Fujian Provincial Bureau of Personnel in December 1998. Prior to joining the Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd. (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelors degree in engineering from Tianjin University of Light Industry* (天津輕工業學院).

Mr. Wu Yonggui (伍永貴), aged 31, is the division head of finance of the Group, mainly responsible for accounting and audit of the Group. Mr. Wu is also an accountant and assistant economist. Before joining the Group in January 2006, Mr. Wu held various posts with Xiamen Huier-Kang Food Co., Ltd.* (廈門惠爾康食品有限公司), namely, costs analyst, production planning officer and costs accountant for the period from July 2003 to December 2004. From January 2005 to December 2005, he worked as sales accountant for Fujian Huier-Kang Dairy Co., Ltd.* (福建惠爾康乳業有限公司). Mr. Wu graduated from Jimei University majoring financial management (with human resource management).

Company Secretary

Mr. Chan Wing Hang (陳永恒), for further details, please see the sub-section headed "Senior Management" above.

* *For identification purpose only*

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance. To enhance the overall management quality of the Company, the Board has adopted corporate governance practices with special emphasis on an effective Board for leadership and control, sound business ethics and integrity in all business activities, transparency and accountability to shareholders.

Code on Corporate Governance Practices

Save as disclosed in section headed "Chairman and Chief Executive Officer", during the year, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Company's Directors, the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

The Board of Directors

The Board of Directors (the "Board") consists of the following Directors during the year and up to the date of this report were:

	Date of first becoming Director
Executive Directors	
Lin Shengxiong *(Chairman)*	7 October 2009
Zhang Hongwang	7 October 2009
Huang Wanneng	7 October 2009
Independent Non-executive Directors	
Chan Tsz Fu, Jacky	6 January 2010
Cai Weican	6 January 2010
Wu Jianhua	14 January 2011
Chong Chi Wah	14 February 2011
Choi Tze Kit, Sammy *(Resigned on 28 February 2011)*	6 January 2010

Mr. Zhang Hongwang is the son-in-law of Mr. Lin Shengxiong's elder brother.

The executive Directors draw on a rich and diverse experience of the industry while the independent non-executive Directors possess appropriate professional qualifications and management expertise. Each independent non-executive Director gives the Company an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent pursuant to Rule 3.13 of the Listing Rules. The names, brief biography of the Directors and relationship among them are set out on pages 12 to 16 under "Biography of Directors and Senior Management".

The Board meets regularly throughout the year to formulate overall strategy of the Group, monitor its financial performance and maintain effective oversight over the management. Notice of meetings is given to Directors prior to a regular board meeting, and each Director may request inclusion of matters in the agenda for board meetings. A detailed agenda, minutes of the previous meeting and accompanying board papers are sent to Directors before the meeting to facilitate informed discussion and decision-making.

Every board member is entitled to have access to board papers and related materials and has access to the advice and services of the company secretary, and has the liberty to seek external professional advice if necessary. The company secretary is responsible to the Board for ensuring the procedures are followed and that all applicable rules and regulations are complied with.

During the year, full board meetings were held and the attendance of each Director is set out on page 21.

The Board has established three committees, Nomination Committee, Remuneration Committee and Audit Committee, to assist it in overseeing the Group's affairs. Each committee has defined terms of reference setting out its duties, powers and functions. The committees report regularly to the Board and make recommendations on matters where appropriate. The Board, in addition to its overall supervisory role, retains specific responsibilities such as approving specific senior appointments, approving financial statements, recommending dividend payments, approving policies relating to the Board's compliance, etc.

Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Lin Shengxiong. Mr. Zhang Hongwang, an executive Director of the Company, has assumed the function of a chief executive officer during the year under review. However, the redesignation of Mr. Zhang as a chief executive officer has yet been resolved by the Board. In this regards, the Chairman does not exercise the role of a chief executive officer and the balance of authority and power is assumed.

Non-executive Directors

Each of the non-executive Directors of the Company has been appointed as a non-executive Director for an initial term of two years subject to rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Appointments, Re-election and Removal of Directors

All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election. Every Director newly appointed by the Board is subject to election at the first general meeting after his appointment.

Responsibilities of Directors

Every newly appointed Director of the Company, on the first occasion of his appointment, shall receive a tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the senior management and the company secretary will conduct briefing if necessary to ensure that the Directors have a proper understanding of the operations and business of the Group and that they are aware of their responsibilities under the laws and applicable regulations.

Nomination Committee

The Nomination Committee of the Company has been established since 15 January 2010 and its members during the year and up to the date of this report were:

Cai Weican *(Chairman)*
Lin Shengxiong *(Appointed on 2 December 2010)*
Wu Jianhua *(Appointed on 14 January 2011)*
Chong Chi Wah *(Appointed on 14 February 2011)*
Choi Tze Kit, Sammy *(Resigned on 2 December 2010)*
Chan Tsz Fu, Jacky *(Resigned on 15 January 2011)*

Major roles and functions of the Nomination Committee are as follows:

- To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes
- To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individual nominated for directorships
- To access the independence of independent non-executive Directors
- To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Managing Director

The nomination of Directors should be taken into consideration of the nominee's qualification, experience, ability and potential contributions to the Company.

For the period between the listing date on 29 April 2010 and 31 December 2010, no Director was appointed and thus no Nomination Committee meeting was held. From 2011, the Nomination Committee shall meet at least once a year.

Remuneration Committee

The Remuneration Committee of the Company has been established since 15 January 2010 and its members during the year and up to the date of this report were:

Lin Shengxiong *(Chairman) (Appointed on 2 December 2010)*
Cai Weican
Wu Jianhua *(Appointed on 14 January 2011)*
Chong Chi Wah *(Appointed on 14 February 2011)*
Choi Tze Kit, Sammy *(Resigned on 2 December 2010)*
Chan Tsz Fu, Jacky *(Resigned on 15 January 2011)*

Major roles and functions of the Remuneration Committee are as follows:

- To make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration
- To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration
- To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time

- To review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company

- To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate

- To ensure that no Director or any of his associates is involved in deciding his own remuneration

The Remuneration Committee shall meet at least once a year. During the year, one Remuneration Committee meeting was held and the attendance of each member is set out on page 21. At the meeting held during the year, the overall pay levels in Hong Kong and China where the Group has establishments were reviewed and considered. The remuneration of Directors is pre-determined and is based on their respective contractual terms of appointment, if any, and as recommended by the Remuneration Committee. Details of the emoluments paid/payable to individual Director of the Company are set out in Note 8 to the financial statements.

Audit Committee

The Audit Committee of the Company has been established since 15 January 2010 and its members during the year and up to the date of this report were:

Chong Chi Wah *(Chairman) (Appointed on 14 February 2011)*
Cai Weican
Wu Jianhua *(Appointed on 14 January 2011)*
Choi Tze Kit, Sammy *(Resigned on 2 December 2010)*
Chan Tsz Fu, Jacky *(Resigned on 15 January 2011)*

During the financial year under review, the number of the Audit Committee members had once fallen below three. Subsequently, on 14 January 2011, Wu Jianhua has been appointed as an independent non-executive Director and a member of the Audit Committee of the Company to comply with the requirements under the Listing Rules.

Major roles and functions of the Audit Committee are as follows:

- To make recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors of the Group

- To review and monitor the independence of external auditors and discuss with the external auditors the nature and scope of the audit

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

- To review the financial controls, internal controls and risk management system of the Group and make recommendations to the Board

- To review the external auditors' management letter and material queries raised by the auditors to management in respect of accounting records, financial statements or systems of control and management's response

At the meeting held during the year, the Audit Committee had performed the following work:

- To review the annual financial statements and interim financial statements
- To review the management letters and reports issued by the external auditors
- To review the effectiveness of internal control and financial control systems
- To consider and review material related party transactions and connected transactions, if any

For the period between the listing date on 29 April 2010 and 31 December 2010, one Audit Committee meeting was held and the independent non-executive Directors, the management and the external auditors attended to provide necessary information. The attendance of each member to the meeting is set out below. From 2011, the Audit Committee shall meet at least twice a year.

Attendance of Board and Board Committees' Meetings

The attendance rates of individual members in the Board and the Board Committees' meetings held in 2010 are detailed as follows:

	Number of meetings attended/held in 2010				
	Board	Remuneration Committee	Nomination Committee	Audit Committee	Attendance rate
Executive Directors					
Lin Shengxiong *(Chairman)*	4/4	1/1	–	1/1	100%
Zhang Hongwang	4/4	1/1	–	1/1	100%
Huang Wanneng	4/4	1/1	–	1/1	100%
Independent Non-executive Directors					
Chan Tsz Fu, Jacky	3/4	1/1	–	1/1	83%
Choi Tze Kit, Sammy *(resigned on 2 December 2010)*	2/4	1/1	–	1/1	67%
Cai Weican	4/4	1/1	–	1/1	100%

Internal Control

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication.

The Board has, through the engagement of SHINEWING Risk Services Limited, conducted an annual review of the effectiveness of the internal control systems of the Group, covering all material controls, including financial, operation, compliance controls, etc.

According to the internal control report, the Audit Committee is satisfied with the internal control systems of the Company and no material deficiencies have been found on the internal control systems.

Accountability and Audit

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements, the Directors adopt applicable accounting policies and apply consistently. The Directors also make prudent and reasonable judgements and to ensure the financial statements are on going concern basis.

Management Functions

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

While the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Matters reserved to be approved by the Board include:

- Appointment of Directors and senior executives
- Business plans and establishment of new markets
- Proposal for selection of external auditors
- Financial statements and budgets
- Substantial capital investments and commitments
- Formation of policies and codes as required by regulatory bodies
- Formation of board committees

Auditor's Remuneration

During the year, the fees paid/payable to the Company's external auditor, Ernst & Young, for the provision of audit services amounted to RMB2.4 million. No non-audited service was provided by our external auditor.

Investor Relations and Shareholders' Rights

The Board recognises the importance of good communication with all shareholders and potential investors. Communication with shareholders, investors and analysts are maintained through the followings:

- Delivery of interim and annual reports to all shareholders through either printed or electronic forms

- Publication of announcements on the interim and annual results on the websites of the Stock Exchange and the Company, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules

- Holding of annual and extraordinary general meetings to provide a channel for the Chairman of the Board and the Board Committees to answer shareholders' questions as well as seeking approval from shareholders for relevant business and capital transactions. At the annual general meetings, a separate resolution was proposed by the Chairman in respect of each separate issue including the re-election of Directors

- Establishing dedicated division and personnel for liaison with investors and analysts by answering their questions

- Arranging on-site visits to the Group's establishments to enhance their timely understanding of the situations and latest development of the Group's business operations

- Making available information on the Company's website, including description of the Group and its business, the Board and corporate governance, results of the Group, financial highlights and promotional materials, etc.

- Actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meetings with institutional investors upon the announcements of the interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly

The procedures of shareholders' voting by poll at the annual general meetings were incorporated in the circular despatched together with the annual report to shareholders. The Company is responsible for ensuring the votes are properly counted and recorded.

Report of the Directors

The Directors submit their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 17 to the financial statements. The Group is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statements on page 32.

The board of Directors recommends the payment of a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2010 (2009: Nil).

Use of Proceeds From the Company's Global Offering

The net proceeds from the Company's issue of new shares in connection with its listing on the Stock Exchange, after deduction of related expenses, amounted to approximately HK$691.3 million, were applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 16 April 2010 ("Prospectus"). Up to 31 December 2010 and in line with the plans to expand the production capacity of the Group as set out in the Prospectus, approximately HK$303.9 million was utilised. The remaining net proceeds are temporarily placed in short-term deposits with licensed banks in Hong Kong.

Reserves

The distributable reserves of the Company, calculated in accordance with the Companies Laws (Revised) Chapter 22 of the Cayman Islands, as at 31 December 2010 amounted to RMB1,126 million.

The share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Movements in the reserves of the Group and of the Company during the year are set out in Note 29 to the financial statements.

Fixed Assets

Movements in fixed assets of the Group are set out in Note 13 to the financial statements.

Share Capital

Movements in the share capital of the Company during the year are set out in Note 27 to the financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2010.

Directors

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

Executive Directors

Lin Shengxiong *(Chairman)*
Zhang Hongwang
Huang Wanneng

Independent Non-executive Directors

Chan Tsz Fu, Jacky
Cai Weican
Wu Jianhua *(Appointed on 14 January 2011)*
Chong Chi Wah *(Appointed on 14 February 2011)*
Choi Tze Kit, Sammy *(Resigned on 28 February 2011)*

In accordance with Articles 83 and 84 of the Company's Articles of Association, Mr. Lin Shengxiong, Mr. Huang Wanneng, Mr. Chong Chi Wah and Mr. Wu Jianhua retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of directorship of all the independent non-executive Directors is two-year unless terminated by either party giving not less than three months' notice to the other party.

All the independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and based on such confirmation, the Company is of the opinion that the independence status of the independent non-executive Directors remains intact as at 31 December 2010.

Biography of Directors and Senior Management

Brief biography of Directors and senior management are set out on pages 12 to 16.

Directors' Service Contracts

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

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

Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company

As at 31 December 2010, the interests of each Director and chief executive in the shares and underlying shares 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in shares of the Company

Name of Director	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the Company
Lin Shengxiong	Interests in controlled corporation	Long position	480,000,000	57.91%

Note: These shares are held by Hopeland International Holdings Company Limited, which is wholly-owned by Lin Shengxiong. Therefore, Lin Shengxiong is deemed to be interested in these shares under the SFO.

Interest in shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the associated corporation
Lin Shengxiong	Hopeland International Holdings Company Limited	Beneficial owner	Long position	1	100.00%

Save as disclosed above and the section "Share Option Scheme", as at 31 December 2010, none of the Directors or chief executive had any interests in or short positions in the shares, underlying shares and debentures of the Company or any associated corporation or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in shares or underlying shares in, or debentures of, the Company or its associated corporations.

Share Option Scheme

The Company has adopted its share option scheme (the "Share Option Scheme") on 8 April 2010 to provide incentives to the employees, including any executive and non-executive Directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees and attract and retain human resources that are valuable to the Group. Pursuant to the Share Option Scheme, the Directors may, at their discretion, invite eligible participants including employees, executive and non-executive Directors, officers, agents or consultants of the Group to take up options to subscribe for the Company's shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for ten years.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue on 29 April 2010, the date of completion of the global offering and capitalisation issue. No options may be granted under the Share Option Scheme if this will result in such limit exceeded unless another shareholders' approval is obtained. As at 31 December 2010, the number of shares available for issue under the Share Option Scheme is 80,000,000, representing 9.65% of the total number of shares of the Company in issue. The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year ended 31 December 2010, the following share options were granted on 22 July 2010 and exercisable from 22 July 2010 to 21 July 2015 at an exercise price of HK$3.30 per share:

Executive Directors

Zhang Hongwang	8,000,000
Huang Wanneng	6,000,000

During the year ended 31 December 2010, the following share options were granted on 30 September 2010 and exercisable from 30 September 2010 to 29 September 2015 at an exercise price of HK$3.50 per share:

Other participants

Employees	36,000,000

Non-listed Warrants

On 17 November 2010, the Company issued 35,000,000 non-listed warrants at HK$0.01 each, the net proceeds of approximately HK$170,000 was raised as general working capital of the Group. Each warrant has subscription right to subscribe for one new share of the Company at subscription price of HK$4.50 per new share, subject to adjustment, for a period of 30 months commencing from the date immediately after the expiry date of 6 months after the date of the issue of the warrants.

None of such warrants was ever exercised since the date of issue. At the end of reporting period, the Company had outstanding 35,000,000 non-listed warrants to be exercised before 16 November 2013. Exercised in full of such warrants would result in the issue of 35,000,000 additional ordinary shares.

Substantial Shareholders' Interests in Shares and Underlying Shares of the Company

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 31 December 2010, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed under the section "Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company".

Name of shareholder	Long/Short position	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Hopeland International Holdings Company Limited *(Note 1)*	Long position	Beneficial owner	480,000,000	57.91%
Lin Hongting *(Note 2)*	Long position	Interests of spouse	480,000,000	57.91%
Glory Bright Investments Enterprise Limited *(Note 3)*	Long position	Beneficial owner	59,073,000	7.12%
Lin Wanpeng *(Note 3)*	Long position	Interests in controlled corporation	59,073,000	7.12%
Wang Huiqing *(Note 4)*	Long position	Interests of spouse	59,073,000	7.12%

Notes:

1. The entire issued share capital of Hopeland International Holdings Company Limited is beneficially owned by Lin Shengxiong who is deemed to be interested in the shares of the Company held by Hopeland International Holdings Company Limited pursuant to the SFO.

2. Lin Hongting is the spouse of Lin Shengxiong. Therefore, Lin Hongting is deemed to be interested in the shares of the Company in which Lin Shengxiong is interested for the purposes of the SFO.

3. The entire issued share capital of Glory Bright Investments Enterprise Limited is beneficially owned by Lin Wanpeng who is deemed to be interested in the shares of the Company held by Glory Bright Investments Enterprise Limited pursuant to the SFO.

4. Wang Huiqing is the spouse of Lin Wanpeng. Therefore, Wang Huiqing is deemed to be interested in the shares of the Company in which Lin Wanpeng is interested for the purposes of the SFO.

Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company was recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2010.

Management Contracts

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

Major Customers and Suppliers

The aggregate sales during the year attributable to the Group's five largest customers were 14.5% of the Group's total turnover.

The aggregate purchases attributable to the Group's five largest suppliers were 45.5% of the Group's total purchases.

None of the Directors, their associates or any shareholder of the Company which to the knowledge of the Directors owns more than 5% of the Company's share capital, had any beneficial interest in the Group's five largest suppliers.

Compliance with Code on Corporate Governance Practices

Information on the Company's compliance of the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules is set out in the Corporate Governance Report on pages 17 to 23.

Sufficiency of Public Float

On the basis of information that is publicly available to and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares throughout the year and up to the date of this report.

Auditors

The financial statements have been audited by Ernst & Young, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Lin Shengxiong
Chairman

Hong Kong, 15 March 2011

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Sijia Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sijia Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 94, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

15 March 2011

Consolidated Income Statements

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**965,338**	570,492
Cost of sales		**(528,092)**	(311,624)
Gross profit		**437,246**	258,868
Other income and gains	5	**6,367**	1,979
Selling and distribution costs		**(20,694)**	(3,612)
Administrative expenses		**(152,791)**	(49,657)
Other expenses		**(3,359)**	(881)
Finance costs	7	**(2,112)**	(2,139)
PROFIT BEFORE TAX	6	**264,657**	204,558
Income tax expense	10	**(47,411)**	(33,346)
PROFIT FOR THE YEAR		**217,246**	171,212
Attributable to:			
Owners of the parent		**217,246**	171,212
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic:			
– For profit for the year		**28.86 cents**	28.54 cents
Diluted:			
– For profit for the year		**28.67 cents**	28.54 cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	**217,246**	171,212
OTHER COMPREHENSIVE (LOSS)/INCOME		
Exchange differences on translation of foreign operations	**(9,861)**	23
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(9,861)**	23
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**207,385**	171,235
Attributable to:		
Owners of the parent	**207,385**	171,235

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**376,205**	79,204
Prepaid land lease payments	14	**5,305**	5,401
Intangible assets	15	**5,058**	298
Advance payments for property, plant and equipment		**329,725**	50,213
Available-for-sale investment	16	**4,140**	–
Deferred tax assets	26	**787**	–
Total non-current assets		**721,220**	135,116
CURRENT ASSETS			
Inventories	18	**55,370**	29,448
Trade receivables	19	**147,118**	86,364
Prepayments, deposits and other receivables	20	**37,220**	33,945
Pledged deposits	21	**22,109**	11,029
Cash and cash equivalents	21	**333,857**	173,958
Total current assets		**595,674**	334,744
CURRENT LIABILITIES			
Trade and bills payables	22	**80,318**	45,366
Other payables and accruals	23	**12,992**	16,763
Interest-bearing bank borrowings	24	**15,000**	35,500
Deferred income	25	**360**	–
Tax payable		**1,681**	9,600
Due to a director	34	**–**	624
Due to a related party	34	**80**	4,451
Total current liabilities		**110,431**	112,304
NET CURRENT ASSETS		**485,243**	222,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,206,463**	357,556
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**–**	3,375
Deferred income	25	**3,210**	–
Deferred tax liabilities	26	**6,267**	3,181
Total non-current liabilities		**9,477**	6,556
Net assets		**1,196,986**	351,000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	**728**	88
Reserves	29(a)	**1,126,388**	350,912
Proposed final dividends	11	**69,870**	–
Total equity		**1,196,986**	351,000

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent									
	Issued capital RMB'000 (note 27)	Capital surplus/ share premium# RMB'000 (note 29(a))	Capital reserve# RMB'000 (note 29(a))	Share option reserve# RMB'000 (note 29(a))	Warrant reserve# RMB'000 (note 29(a))	Statutory surplus funds# RMB'000 (note 29(a))	Exchange fluctuation reserve# RMB'000 (note 29(a))	Retained earnings# RMB'000 (note 29(a))	Proposed final dividends RMB'000	Total RMB'000
At 1 January 2009	88	4,366	28,917	–	–	13,930	2,698	93,897	–	143,896
Profit for the year	–	–	–	–	–	–	–	171,212	–	171,212
Exchange differences on translation of foreign operations	–	–	–	–	–	–	23	–	–	23
Total comprehensive income for the year	–	–	–	–	–	–	23	171,212	–	171,235
Transfer from retained profits	–	–	–	–	–	17,815	–	(17,815)	–	–
Arising from group reorganisation	–	35,792	77	–	–	–	–	–	–	35,869
At 31 December 2009 and 1 January 2010	88	40,158	28,994	–	–	31,745	2,721	247,294	–	351,000
Profit for the year	–	–	–	–	–	–	–	217,246	–	217,246
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(9,861)	–	–	(9,861)
Total comprehensive income for the year	–	–	–	–	–	–	(9,861)	217,246	–	207,385
Issue of shares	201	659,130	–	–	–	–	–	–	–	659,331
Share issue expenses	–	(33,992)	–	–	–	–	–	–	–	(33,992)
Capitalisation of share premium	439	(439)	–	–	–	–	–	–	–	–
Issue of warrants	–	–	–	–	300	–	–	–	–	300
Warrants issue expenses	–	–	–	–	(139)	–	–	–	–	(139)
Equity-settled share option arrangements	–	–	–	13,101	–	–	–	–	–	13,101
Proposed final 2010 dividends	–	(69,870)	–	–	–	–	–	–	69,870	–
Transfer from retained profits	–	–	–	–	–	25,347	–	(25,347)	–	–
At 31 December 2010	728	594,987	28,994	13,101	161	57,092	(7,140)	439,193	69,870	1,196,986

These reserve accounts comprise the consolidated reserves of RMB1,126,388,000 (2009: RMB350,912,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flow

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**264,657**	204,558
Adjustments for:			
Finance costs	7	**2,112**	2,139
Bank interest income	5	**(1,904)**	(614)
Foreign exchange differences, net		**–**	11
Depreciation	6	**10,823**	8,901
Loss on disposal of items of property, plant and equipment	6	**572**	839
Amortisation of prepaid land lease payments	6	**96**	98
Amortisation of intangible assets	6	**471**	84
Equity-settled share option expense	28	**13,101**	–
		289,928	216,016
(Increase)/decrease in inventories		**(25,922)**	7,377
Increase in trade receivables		**(60,754)**	(40,902)
Increase in prepayments, deposits and other receivables		**(3,275)**	(19,948)
Decrease in amounts due from directors		**–**	500
Increase/(decrease) in trade and bills payables		**34,952**	(4,736)
(Decrease)/increase in other payables and accruals		**(3,771)**	5,752
Increase in deferred income		**3,570**	–
(Decrease)/increase in amount due to a director		**(624)**	529
(Decrease)/increase in amount due to a related party		**(4,371)**	4,451
Exchange difference on consolidation		**(9,861)**	23
Cash generated from operations		**219,872**	169,062
Tax paid		**(53,031)**	(25,337)
Interest paid	7	**(2,112)**	(2,139)
Net cash flows from operating activities		**164,729**	141,586
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**1,904**	614
Purchases of items of property, plant and equipment		**(587,378)**	(64,927)
Additions to intangible assets	15	**(5,231)**	–
Proceeds from disposal of items of property, plant and equipment		**(530)**	4,536
Purchase of an available-for-sale investment	16	**(4,140)**	–
Increase in pledged time deposits	21	**(11,080)**	(11,029)
Net cash flows used in investing activities		**(606,455)**	(70,806)

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**25,000**	43,000
Repayment of bank loans		**(48,875)**	(27,500)
Proceeds from issue of shares		**659,331**	77
Share issue expenses		**(33,992)**	–
Proceeds from issue of warrants		**300**	–
Warrants issue expenses		**(139)**	–
Net cash flows from financing activities		**601,625**	15,577
NET INCREASE IN CASH AND CASH EQUIVALENTS		**159,899**	86,357
Cash and cash equivalents at beginning of year		**173,958**	87,612
Effect of foreign exchange rate changes, net		**–**	(11)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**333,857**	173,958
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**255,785**	173,958
Non-pledged time deposits with original maturity of less than 12 months when acquired	21	**78,072**	–
Cash and cash equivalents as stated in the statement of financial position		**333,857**	173,958

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**351,000**	351,000
Total non-current assets		**351,000**	351,000
CURRENT ASSETS			
Due from a subsidiary	17	**569,988**	–
Prepayments, deposits and other receivables	20	**138**	–
Cash and cash equivalents	21	**23,128**	–
Total current assets		**593,254**	–
CURRENT LIABILITIES			
Other payables and accruals	23	**61**	–
Total current liabilities		**61**	–
NET CURRENT ASSETS		**593,193**	–
TOTAL ASSETS LESS CURRENT LIABILITIES		**944,193**	351,000
Net assets		**944,193**	351,000
EQUITY			
Issued capital	27	**728**	88
Reserves	29(b)	**873,595**	350,912
Proposed final dividends	11	**69,870**	–
Total equity		**944,193**	351,000

1. Corporate Information

Sijia Group Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to the group reorganisation (the "Reorganisation") as more fully described in the section headed "Corporate Reorganisation" in Appendix V "Statutory and General Information" in the prospectus of the Company dated 16 April 2010 (the "Prospectus"), the Company became the holding company of the subsidiaries now comprising the Group on 15 December 2009.

In the opinion of the directors, the holding company of the Company is Hopeland International Holdings Company Limited ("Hopeland International") (浩林國際控股有限公司) and the ultimate controlling shareholder of the Company is Lin Shengxiong ("Mr. Lin").

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 April 2010.

The Group is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2.1 Basis of Preparation *(Continued)*

Basis of consolidation *(Continued)*

Basis of consolidation from 1 January 2010 *(Continued)*

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

– Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

– Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs issued in October 2008*	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Servere Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 *Amendments*	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 which may result in changes in accounting policies, the other revised standards, amendments or interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of Directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties *(Continued)*

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	9% to 18%
Leasehold improvements	30%
Office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of five years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables, deposits and other receivables, and available-for-sale financial investment.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 Summary of Significant Accounting Policies *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

If there is objective evidence that an impairment loss has been incurred, the amount of the 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statements. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to directors and a related party, and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 Summary of Significant Accounting Policies *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 Summary of Significant Accounting Policies *(Continued)*

Share-based payment transactions *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the People's Republic of China ("the PRC"). Pension scheme contributions are provided at rates stipulated by the PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of certain entities in the Group is a currency other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation of foreign operations. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of certain entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

3. Significant Accounting Judgements and Estimates *(Continued)*

Estimation uncertainty

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, are discussed below.

Impairment of non-financial assets other than goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for certain temporary differences to the extent that it is probable that taxable profit will be available against which the temporary tax differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on deferred tax assets are disclosed in note 26 to these financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 10 to these financial statements.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

3. Significant Accounting Judgements and Estimates *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Share-based payment transactions

The cost of equity-settled share options granted with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model. The option pricing model takes into account, as a minimum, the following factors in estimating the fair value of the cost of equity-settled transactions:

(a) the exercise price of the option;

(b) the life of the option;

(c) the current price of the underlying shares;

(d) the expected volatility of the share price;

(e) the dividends expected on the shares; and

(f) the risk-free rate for the life of the option.

The cost of equity-settled share option scheme is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. Should the estimates including other relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve. The share option expense recognised for the year amounted to approximately RMB13,101,000 (2009: Nil).

4. Operating Segment Information

For management purposes, the Group is not organised into business units based on their products and services and there are no reportable operating segments.

Geographical information

	PRC RMB'000	Non-PRC RMB'000	Total RMB'000
Year ended 31 December 2010			
Revenue from external customers	949,207	16,131	965,338
Non-current assets	716,293	–	716,293
Year ended 31 December 2009			
Revenue from external customers	557,874	12,618	570,492
Non-current assets	135,116	–	135,116

The revenue information is based on the location of the customers.

All of the non-current assets of the Group are located in the PRC and exclude financial instruments and deferred tax assets.

Information about a major customer

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue for the year (2009: Nil).

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	**965,338**	570,492
Other income and gains		
Bank interest income	**1,904**	614
Government subsidies	**4,288**	1,202
Others	**175**	163
	6,367	1,979

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		**488,500**	291,187
Depreciation	13	**10,823**	8,901
Amortisation of prepaid land lease payments	14	**96**	98
Amortisation of intangible assets	15	**471**	84
Research and development costs		**97,909**	34,030
Operating lease expenses		**1,784**	331
Loss on disposal of items of property, plant and equipment		**572**	839
Auditors' remuneration		**2,358**	8
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**22,993**	10,739
Pension scheme contributions		**952**	559
Equity-settled share option expense	28	**13,101**	–
Staff welfare expenses		**3,558**	950
		40,604	12,248
Foreign exchange differences, net		**2,450**	34
Bank interest income	5	**(1,904)**	(614)

7. Finance Costs

An analysis of finance costs is as follows:

	Group 2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	**2,112**	1,893
Interest on other loans	**–**	246
	2,112	2,139

8. Directors' Remuneration

Details of directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Other emoluments:		
Salaries, allowances and benefits in kind	**1,603**	382
Equity-settled share option expense	**4,314**	–
Pension scheme contributions	**23**	6
	5,940	388

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive Directors

There was no fees payable to the independent non-executive directors during the year. The other emoluments paid to the independent non-executive directors during the year were as follows:

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010				
Mr. Chan Tsz Fu, Jacky	**127**	–	–	**127**
Mr. Cai Weican	**38**	–	–	**38**
Mr. Choi Tze Kit, Sammy	**127**	–	–	**127**
	292	–	–	**292**

There was no independent non-executive director for the year ended 31 December 2009.

8. Directors' Remuneration *(Continued)*

(b) Executive Directors

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010				
Mr. Lin	**597**	**–**	**8**	**605**
Mr. Zhang Hongwang	**402**	**2,465**	**8**	**2,875**
Mr. Huang Wanneng	**312**	**1,849**	**7**	**2,168**
	1,311	**4,314**	**23**	**5,648**
2009				
Mr. Lin	148	–	2	150
Ms. Lin Hongting	24	–	–	24
Mr. Zhang Hongwang	120	–	2	122
Mr. Huang Wanneng	90	–	2	92
	382	–	6	388

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2009: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: two) non-director, highest paid employees for the year are as follows:

	Group 2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**386**	265
Equity-settled share option expense	**4,395**	–
Pension scheme contributions	**3**	5
	4,784	270

9. Five Highest Paid Employees *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
Nil to RMB1,000,000	**–**	2
RMB1,000,001 to RMB2,000,000	**3**	–
	3	2

During the year, share options were granted to non-Director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in the income statement, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-Director, highest paid employees' remuneration disclosures.

10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is subject to corporate income tax ("CIT") at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as Sijia International Holding Limited ("HK Sijia") had no taxable income during the year (2009: Nil).

10. Income Tax *(Continued)*

In accordance with the Corporate Tax Law of the PRC, the profits of the following PRC subsidiaries are subject to the following tax rates:

	Notes	2010	2009
Xiamen Grandsoo Industrial & Trade Co., Ltd. ("Xiamen Grandsoo")	(a)	**12.5%**	Nil
Fujian Sijia Industrial Material Co., Ltd. ("Fujian Sijia")	(b)	**15%**	15%
Fujian Hausa Import and Export Co., Ltd. ("Fujian Hausa")	(c)	**25%**	Nil
Hubei Sijia Industrial Material Co., Ltd. ("Hubei Sijia")	(c)	**25%**	Nil
Sichuan Jiajie Environmental Protection Technology Co., Ltd. ("Sichuan Jiajie")	(c)	**25%**	Nil
Sijia New Material (Shanghai) Co., Ltd. ("Sijia Shanghai")	(c)	**25%**	Nil

(a) Xiamen Grandsoo was registered as a foreign-invested enterprise on 26 May 2006. Pursuant to the approval of the tax bureau, Xiamen Grandsoo is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the PRC Corporate Income Tax Law which has been effective on 1 January 2008 (the "New Corporate Income Tax Law"), a company is still able to enjoy the above mentioned tax holiday within a five-year transitional period from 1 January 2008. The company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy tax holiday at that time. Since Xiamen Grandsoo was under an accumulative loss position and has not yet started to enjoy tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it makes profit in 2008. Therefore, Xiamen Grandsoo is entitled to a 50% tax reduction (12.5%) during the year (2009: Nil).

(b) Pursuant to the approval of the tax bureau, Fujian Sijia, being a high-tech enterprise, was levied at the tax rate of 15% for the year (2009: 15%) according to the New Corporate Income Tax Law.

(c) Fujian Hausa, Hubei Sijia, Sichuan Jiajie, and Sijia Shanghai, being entities set up on 28 July 2010, 30 July 2010, 20 August 2010 and 22 November 2010, respectively, are subject to a corporate income tax rate of 25% during the year according to the New Corporate Income Tax Law.

Under the New Corporate Income Tax Law and implementation regulations issued by the State Council, and in accordance with the Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, any dividends received by the Company from Fujian Sijia and Xiamen Grandsoo, in regards of the profits generated after 2007, are subject to a withholding tax rate of 5% so long as HK Sijia is the beneficial owner.

10. Income Tax *(Continued)*

The income tax expenses of the Group during the year are analysed as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**45,112**	31,620
Deferred (note 26)	**2,299**	1,726
Total tax charge for the year	**47,411**	33,346

A reconciliation of the tax expense applicable to profit before tax at the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before tax	**264,657**	204,558
Tax at statutory tax rates of 25% (2009: 25%)	**66,164**	51,139
Lower tax rate for specific province or enacted by local authority	**(23,779)**	(20,888)
Expenses not deductible for tax	**384**	288
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**3,086**	1,726
Tax losses not recognised	**1,556**	1,081
Tax charge at the Group's effective rate	**47,411**	33,346

11. Dividends

	2010	2009
	RMB'000	RMB'000
Proposed final – HK10.0 cents (2009: Nil) per ordinary share	**69,870**	–

Pursuant to a resolution of the board of directors of the Company dated 15 March 2011, a final dividend of HK10.0 cents per ordinary share totalling approximately HK$82,883,000 (equivalent to approximately RMB69,870,000) for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 752,720,000 (2009: 600,000,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**217,246**	171,212

	Number of shares	
	2010 '000	2009 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	**752,720**	600,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,012**	–
Warrants	**982**	–
	757,714	600,000

13. Property, Plant and Equipment
Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improve-ments RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010							
At 1 January 2010:							
Cost	27,113	68,010	1,018	1,003	2,991	6,949	107,084
Accumulated depreciation	(4,076)	(22,212)	(435)	(241)	(916)	–	(27,880)
Net carrying amount	23,037	45,798	583	762	2,075	6,949	79,204
At 1 January 2010, net of accumulated depreciation	23,037	45,798	583	762	2,075	6,949	79,204
Additions	–	154,728	3,484	1,094	1,738	146,822	307,866
Disposals	–	(34)	–	–	(8)	–	(42)
Depreciation provided during the year	(1,370)	(7,795)	(859)	(239)	(560)	–	(10,823)
Transfers	1,025	1,855	–	–	–	(2,880)	–
At 31 December 2010, net of accumulated depreciation	22,692	194,552	3,208	1,617	3,245	150,891	376,205
At 31 December 2010:							
Cost	28,138	224,207	4,502	2,097	4,648	150,891	414,483
Accumulated depreciation	(5,446)	(29,655)	(1,294)	(480)	(1,403)	–	(38,278)
Net carrying amount	22,692	194,552	3,208	1,617	3,245	150,891	376,205

13. Property, Plant and Equipment *(Continued)*

Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improve-ments RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009							
At 1 January 2009:							
Cost	26,819	53,449	1,018	1,297	2,709	3,538	88,830
Accumulated depreciation	(2,862)	(17,169)	(96)	(554)	(768)	–	(21,449)
Net carrying amount	23,957	36,280	922	743	1,941	3,538	67,381
At 1 January 2009, net of accumulated depreciation	23,957	36,280	922	743	1,941	3,538	67,381
Additions	–	15,184	–	416	713	9,786	26,099
Disposals	–	(4,900)	–	(275)	(200)	–	(5,375)
Depreciation provided during the year	(1,214)	(6,837)	(339)	(132)	(379)	–	(8,901)
Transfers	294	6,071	–	10	–	(6,375)	–
At 31 December 2009, net of accumulated depreciation	23,037	45,798	583	762	2,075	6,949	79,204
At 31 December 2009:							
Cost	27,113	68,010	1,018	1,003	2,991	6,949	107,084
Accumulated depreciation	(4,076)	(22,212)	(435)	(241)	(916)	–	(27,880)
Net carrying amount	23,037	45,798	583	762	2,075	6,949	79,204

At 31 December 2010, certain of the Group's buildings and plant and machinery with an aggregate net carrying amount of approximately RMB19,557,000 (2009: RMB25,275,000), were pledged to secure bank loan facilities granted to the Group (note 24).

At 31 December 2010, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net carrying amount of approximately RMB2,279,000 (2009: RMB14,431,000), had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

14. Prepaid Land Lease Payments

	Group 2010 RMB'000	2009 RMB'000
Carrying amount at beginning of year	**5,497**	5,595
Recognised during the year	**(96)**	(98)
Carrying amount at end of year	**5,401**	5,497
Current portion included in prepayments, deposits and other receivables	**(96)**	(96)
Non-current portion	**5,305**	5,401

The Group's leasehold lands are held under long term leases and are situated in the PRC.

At 31 December 2010, certain of the Group's leasehold lands with an aggregate carrying amount of approximately RMB4,378,000 (2009: RMB4,475,000) were pledged to secure bank loan facilities granted to the Group (note 24).

15. Intangible Assets

	Software RMB'000	Group Patent RMB'000	Total RMB'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation	**260**	**38**	**298**
Additions	**5,231**	**–**	**5,231**
Amortisation provided during the year	**(461)**	**(10)**	**(471)**
At 31 December 2010	**5,030**	**28**	**5,058**
At 31 December 2010:			
Cost	**5,609**	**50**	**5,659**
Accumulated amortisation	**(579)**	**(22)**	**(601)**
Net carrying amount	**5,030**	**28**	**5,058**
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	334	48	382
Amortisation provided during the year	(74)	(10)	(84)
At 31 December 2009	260	38	298
At 31 December 2009:			
Cost	378	50	428
Accumulated amortisation	(118)	(12)	(130)
Net carrying amount	260	38	298

16. Available-For-Sale Investment

	Group	
	2010 RMB'000	2009 RMB'000
Unlisted equity investment	**4,140**	–

At 31 December 2010, the unlisted equity investment with a carrying amount of RMB4,140,000 (2009: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose it of in the near future.

17. Investments in Subsidiaries

	Company 2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**351,000**	351,000

The amount due from a subsidiary included in the Company's current assets of approximately RMB569,988,000 (2009: Nil) is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place and date of registered and operations	Nominal value of issued ordinary/ registration share capital	Percentage of equity directly attributable to the Company	Principal activities
China Grandsoo Holdings Company Limited ("China Grandsoo")	British Virgin Islands 7 September 2009	US$3	100%	Investment holding
HK Sijia	Hong Kong 15 April 2002	HK$10,000	100%	Investment holding
Fujian Sijia	The PRC 25 September 2002	HK$350,000,000	100%	Manufacturing and selling materials and end products
Xiamen Grandsoo	The PRC 26 May 2006	HK$300,000,000	100%	Manufacturing and selling end products
Fujian Hausa	The PRC 28 July 2010	RMB10,000,000	100%	Exporting products and trade agent
Hubei Sijia	The PRC 30 July 2010	HK$1,150,000	100%	Manufacturing and selling special functional composites
Sichuan Jiajie	The PRC 20 August 2010	RMB1,000,000	100%	Environmental protection products production and sales, and others
Sijia Shanghai	The PRC 22 November 2010	HK$34,850,000	100%	Manufacturing and selling special functional composites

18. Inventories

	Group 2010 RMB'000	2009 RMB'000
Raw materials	**29,027**	13,244
Work in progress	**2,280**	3,665
Finished goods	**24,063**	12,539
	55,370	29,448

19. Trade Receivables

	Group 2010 RMB'000	2009 RMB'000
Trade receivables	**147,118**	86,364

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to four months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	Group 2010 RMB'000	2009 RMB'000
1 to 30 days	**83,594**	44,124
31 to 60 days	**40,040**	36,709
61 to 90 days	**13,219**	5,445
91 to 360 days	**10,265**	86
Over 360 days	**–**	–
	147,118	86,364

19. Trade Receivables *(Continued)*

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**144,745**	85,132
Less than 30 days past due	**1,343**	1,018
31 to 60 days past due	**863**	214
61 to 90 days past due	**58**	–
91 to 360 days past due	**109**	–
Over 360 days	**–**	–
	147,118	86,364

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

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

20. Prepayments, Deposits and Other Receivables

	Group	
	2010	2009
	RMB'000	RMB'000
Other receivables	**2,544**	4,671
Prepaid sales tax and government surcharges	**2,611**	–
Prepayments	**29,446**	29,013
Prepaid expense	**2,619**	261
	37,220	33,945

	Company	
	2010	2009
	RMB'000	RMB'000
Prepayments	**138**	–

None of the above assets is either past due or impaired.

21. Cash and Cash Equivalents

	Note	Group 2010 RMB'000	Group 2009 RMB'000
Cash and bank balances		**255,785**	173,958
Time deposits		**100,181**	11,029
		355,966	184,987
Less: Pledged time deposits for bills payable	22(a)	**(22,109)**	(11,029)
Cash and cash equivalents		**333,857**	173,958

	Company 2010 RMB'000	Company 2009 RMB'000
Cash and bank equivalents	**23,128**	–

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were RMB54,828,000 (2009: RMB184,407,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between three and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. Trade and Bills Payables

	Note	Group 2010 RMB'000	Group 2009 RMB'000
Trade payables		**16,079**	13,930
Bills payable	(a)	**64,239**	31,436
		80,318	45,366

Note:

(a) At 31 December 2010, bills payable of approximately RMB64,239,000 (2009: RMB31,436,000) were secured by time deposits amounting to approximately RMB22,109,000 (2009: RMB11,029,000) as set out in note 21.

22. Trade and Bills Payables *(Continued)*

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date of trade payables and bills payable, respectively, is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within 1 month	**23,321**	19,061
1 to 2 months	**16,143**	8,949
2 to 3 months	**17,476**	5,821
3 to 6 months	**21,106**	11,535
6 to 12 months	**2,160**	–
12 to 24 months	**112**	–
	80,318	45,366

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

23. Other Payables and Accruals

	Group	
	2010	2009
	RMB'000	RMB'000
Other payables	**2,004**	5,851
Advances from customers	**6,265**	2,593
Taxes other than CIT	**–**	6,750
Payroll payable	**3,752**	1,444
Accrued liabilities	**971**	125
	12,992	16,763

	Company	
	2010	2009
	RMB'000	RMB'000
Other payables	**46**	–
Payroll payable	**15**	–
	61	–

Other payables are non-interest-bearing and have an average term of three months.

24. Interest-bearing Bank Borrowings

	Effective interest rate (%)	Maturity	2010 RMB'000	2009 RMB'000
Current				
Bank loans – secured*	5.84	2011	**15,000**	–
Bank loans – secured*	5.05–6.37	2010	**–**	35,000
Current portion of long term bank loans – secured*	7.83		**–**	500
			15,000	35,500
Non-current				
Bank loans – secured *	7.83	29 September 2017	**–**	3,375
			15,000	38,875
Repayable:				
Within one year or on demand			**15,000**	35,500
In the second year			**–**	500
In the third to fifth years, inclusive			**–**	1,500
Beyond five years			**–**	1,375
			15,000	38,875

Notes:

* The Group's bank borrowings are secured by:

(i) mortgages over the Group's buildings and plant and machinery situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of approximately RMB19,557,000 (2009: RMB25,275,000) (note 13); and

(ii) mortgages over the Group's leasehold lands situated in Mainland China, which has an aggregate carrying value at the end of the reporting period of approximately RMB4,378,000 (2009: RMB4,475,000) (note 14).

25. Deferred Income

	Group 2010 RMB'000	2009 RMB'000
At 1 January	**–**	–
Government grants recognised as deferred income	**3,600**	–
Released during the year	**(30)**	–
At 31 December	**3,570**	–
Current	**360**	–
Non-current	**3,210**	–
	3,570	–

Government grants received are for the technical development of machinery and equipment. The government grants received are accounted for as deferred income and are released to profit or loss over the expected useful lives of the underlying items of machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

26. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Group Withholding tax on subsidiaries' distributable profits RMB'000
At 1 January 2009	1,455
Deferred tax charged to the consolidated income statement during the year (note 10)	1,726
At 31 December 2009 and 1 January 2010	3,181
Deferred tax charged to the consolidated income statement during the year (note 10)	3,086
At 31 December 2010	6,267

26. Deferred Tax *(Continued)*

Deferred tax assets

	Group		
	Unrealised profit attributable to intra-group transactions RMB'000	**Deferred income** RMB'000	**Total** RMB'000
At 31 December 2009 and 1 January 2010	–	–	–
Deferred tax credited to the consolidated income statement during the year (note 10)	251	536	787
At 31 December 2010	251	536	787

Deferred tax assets have not been recognised in respect of the losses of Hong Kong Sijia, Xiamen Grandsoo, Hubei Sijia and Sichuan Jiajie, as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2010 **RMB'000**	2009 RMB'000
Tax losses	**13,294**	5,996

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% so long as beneficial owner. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its subsidiaries established in Mainland China since 1 January 2008 to the extent of the earnings expected to be distributed as of 31 December 2010, no matter whether such earnings have been declared or not by the subsidiaries at the reporting date.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. Share Capital

	Notes	Number of shares '000	RMB'000
Authorised			
Ordinary shares of HK$0.001 each:			
Upon incorporation	(i)	380,000	335
At 31 December 2009 and 1 January 2010		380,000	335
Increase in authorised share capital	(ii)	1,620,000	1,425
At 31 December 2010		2,000,000	1,760
Issued and fully paid:			
Upon incorporation	(i)	10	–
For the acquisition of the entire issued share capital of China Grandsoo, issuing and allotting ordinary shares of HK$0.001 each, credited as fully paid	(iii)	99,990	88
At 31 December 2009 and 1 January 2010		100,000	88
Capitalisation issue	(iv)	500,000	439
New issue of shares	(v)	228,831	201
At 31 December 2010		828,831	728

Notes:

(i) On 7 October 2009, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands and was authorised to issue up to 380,000,000 shares of HK$0.001 each. On the same date, one subscriber share with a par value of HK$0.001 was transferred to Hopeland International and 9,999 shares with a par value of HK$0.001 were further allotted and issued to Hopeland International.

(ii) Pursuant to the written resolutions of all the shareholders passed on 15 January 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$2,000,000 by the creation of additional 1,620,000,000 shares.

(iii) Pursuant to a resolution passed on 15 December 2009, the Company allotted and issued 99,990,000 shares with a par value of HK$0.001, credited as fully paid, to Hopeland International in consideration of Hopeland International transferring the entire issued share capital of China Grandsoo to the Company as part of the Reorganisation.

(iv) Pursuant to a resolution passed on 8 April 2010, a total of 500,000,000 new ordinary shares of HK$0.001 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$500,000 (equivalent to approximately RMB439,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.

27. Share Capital *(Continued)*

Notes: *(continued)*

(v) In connection with the Company's initial public offering, 200,000,000 ordinary shares of HK$0.001 each were issued at a price of HK$3.28 on 28 April 2010 for a total cash consideration, before related issue expenses, of HK$656,000,000 (equivalent to approximately RMB576,558,000).

On 26 May 2010, 28,831,000 ordinary shares of HK0.001 each were allotted and issued upon the exercise of the over-allotment option at a price of HK$3.28 for a total cash consideration, before related issue expenses, of HK$94,566,000 (equivalent to approximately RMB82,773,000).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

Issuance of unlisted warrants

On 17 November 2010, 35,000,000 unlisted warrants of HK$0.01 each for cash had been issued. The total proceeds and net proceeds from the placing of warrants after deducting all related expenses, were approximately HK$350,000 (equivalent to approximately RMB300,000) and approximately HK$188,000 (equivalent to approximately RMB161,000), respectively. The Company has utilised the net proceeds as general working capital. During the year, no warrant was exercised.

28. Share Option Scheme

The Company operates 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's operations. Eligible participants of the Scheme include executive directors, non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Scheme became effective on 8 April 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commenced on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

28. Share Option Scheme *(Continued)*

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2010	–	–
Granted during the year	3.44	50,000
At 31 December 2010	3.44	50,000

No share options were exercised during the year.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010

Number of options '000	**Exercise price** HK$ per share*	**Exercise period**
14,000	3.3	22-07-10 to 21-07-15
36,000	3.5	30-09-10 to 29-09-15
50,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was approximately HK$15,120,000 (equivalent to approximately RMB13,101,000) (2009: Nil) of which the Group recognised a share option expense of HK$15,120,000 (equivalent to approximately RMB13,101,000) (2009: Nil) during the year.

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant by the Company at HK$15,120,000 using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

28. Share Option Scheme *(Continued)*

The following table lists the inputs to the model used for share options granted:

	Share options granted on 22 July 2010	Share options granted on 30 September 2010
Expected volatility (%)	25.12	24.95
Risk-free interest rate (%)	0.37	1.17
Expected life of options (year)	2.5	5.0
Expected dividend yield (%)	4.31	4.65

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. Expected volatility was determined with reference to the volatility of share price for other listed companies in the same industry. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 50,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 50,000,000 additional ordinary shares of the Company and additional share capital of HK$50,000 and share premium of HK$172,200,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 50,000,000 share options outstanding under the Scheme, which represented approximately 6.03% of the Company's shares in issue as at that date.

29. Reserves

(a) Group

	2010 RMB'000	2009 RMB'000
Capital surplus/share premium	**594,987**	40,158
Statutory surplus reserve	**57,092**	31,745
Share option reverse	**13,101**	–
Capital reserve	**28,994**	28,994
Warrant reserve	**161**	–
Exchange fluctuation reserve	**(7,140)**	2,721
Retained profits	**439,193**	247,294
	1,126,388	350,912

Capital surplus/share premium

On 23 January 2008, 30 January 2008 and 23 February 2008, HK$10,000,000 registered capital of Fujian Sijia was issued at an amount of RMB15,000,000 to Xiamen Kailai Trading Co., Ltd. ("Kailai Trading"), Fuzhou Jutai Trading Co., Ltd. ("Jutai Trading"), Fuzhou Sanfang Trading Co., Ltd. ("Sanfang Trading") and Sanming YueHui Investment Co., Ltd. ("YueHui Investment")

On 21 October 2009, Mr. Lin transferred a shareholder's loan in the principal amount of HK$40,762,714 due and owing by HK Sijia to China Grandsoo.

Pursuant to a resolution passed on 8 April 2010, a total of 500,000,000 new ordinary shares of HK$0.001 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$500,000 (equivalent to approximately RMB439,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.

In connection with the Company's initial public offering, 200,000,000 ordinary shares of HK$0.001 each were issued at a price of HK$3.28 on 28 April 2010 for a total cash consideration, before related issue expenses, of HK$656,000,000 (equivalent to approximately RMB576,558,000).

On 26 May 2010, 28,831,000 ordinary shares of HK0.001 each were allotted and issued upon the exercise of the over-allotment option at a price of HK$3.28 for a total cash consideration, before related issue expenses, of HK$94,566,000 (equivalent to approximately RMB82,773,000).

29. Reserves *(Continued)*

(a) Group *(Continued)*

Statutory surplus reserve

In accordance with the PRC Company Law, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

Xiamen Grandsoo, Fujian Sijia, Sijia Shanghai, Hubei Sijia, Sichuan Jiajie, Fujian Hausa were established in the PRC and therefore are subject to the above mandated restrictions on distributable profits.

Share option reserve

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to certain directors and senior employees as set out in note 28.

Capital reserve

On 5 March 2007, Xiamen Grandsoo acquired an additional 23% interest in Fujian Sijia from Xiamen Ming Lian Da Trading Co., Ltd. at a consideration of HK$2,300,000. On 8 September 2007, Hong Kong Sijia acquired an additional 47.65% interest in Smile in Rain (Fuzhou) Waterproof Garments Co., Ltd. from Mr. Lam Saiwing at a consideration of RMB405,000.

On 20 November 2008, Xiamen Grandsoo acquired an additional 24% interest in Fujian Sijia from Kailai Trading, Jutai Trading, Sanfang Trading and YueHui Investment at a total consideration of RMB17,650,000.

On 17 December 2007, Xiamen Grandsoo transferred its 5% interest in Fujian Sijia to YueHui Investment without loss of control at a consideration of HK$3,000,000 and the disposal was completed on 1 January 2008.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of the Company, China Grandsoo and Hong Kong Sijia.

29. Reserves *(Continued)*

(b) Company

	Share premium RMB'000	Share option reserve RMB'000 (note 28)	Warrant reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividends RMB'000 (note 11)	Total RMB'000
At 1 January 2009	–	–	–	–	–	–	–
Statuary surplus reserve	350,912	–	–	–	–	–	350,912
At 31 December 2009 and 1 January 2010	350,912	–	–	–	–	–	350,912
Loss for the year	–	–	–	–	(25,232)	–	(25,232)
Exchange realignment	–	–	–	(20,176)	–	–	(20,176)
Total comprehensive income for the year	–	–	–	(20,176)	(25,232)	–	(45,408)
Issue of shares	659,130	–	–	–	–	–	659,130
Share issue expenses	(33,992)	–	–	–	–	–	(33,992)
Capitalisation of share premium	(439)	–	–	–	–	–	(439)
Issue of warrants	–	–	300	–	–	–	300
Warrants issue expenses	–	–	(139)	–	–	–	(139)
Equity-settled share option arrangements	–	13,101	–	–	–	–	13,101
Proposed final 2010 dividends	(69,870)	–	–	–	–	69,870	–
At 31 December 2010	905,741	13,101	161	(20,176)	(25,232)	69,870	943,465

30. Contingent Liabilities

As at 31 December 2010, the Group had no significant contingent liabilities.

31. Pledge of Assets

Details of the Group's interest-bearing bank borrowings and bills payable which are secured by the assets of the Group are included in notes 13, 14, 21, 22 and 24 to these financial statements.

32. Operating Lease Arrangements

As lessee

The Group leases certain of its office properties and staff accommodations under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within one year	**1,679**	224
In the second to fifth years, inclusive	**2,645**	61
	4,324	285

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**119,649**	50,000

34. Related Party Transactions

(a) The Group had no material transactions with related parties during the reporting period.

(b) Outstanding balances with a related party:

	Group 2010 RMB'000	2009 RMB'000
Due to a related party:		
Xiamen Daxiang Protective Sheet Co., Ltd.	**(80)**	(4,451)

The above balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

(c) Outstanding balances with a director:

	Group 2010 RMB'000	2009 RMB'000
Due to a director:		
Lin Hongting	**–**	(624)

The balance with a director was non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The balance included net cash advances made between the Group and the director and various payments made by the Group on behalf of the Director.

(d) Compensation of key management personnel of the Group:

	Group 2010 RMB'000	2009 RMB'000
Short term employee benefits	**3,331**	969
Pension scheme contributions	**44**	22
Equity-settled share option expense	**13,101**	–
Total compensation paid to key management personnel	**16,476**	991

Further details of directors' remuneration are included in note 8 to these financial statements.

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2010

Financial assets	Group Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade receivables (note 19)	**147,118**	**–**	**147,118**
Available-for-sale investment (note 16)	**–**	**4,140**	**4,140**
Financial assets included in prepayments, deposits and other receivables (note 20)	**2,544**	**–**	**2,544**
Pledged deposits (note 21)	**22,109**	**–**	**22,109**
Cash and cash equivalents (note 21)	**333,857**	**–**	**333,857**
	505,628	**4,140**	**509,768**

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade and bills payables (note 22)	**80,318**
Financial liabilities included in other payables and accruals (note 23)	**6,727**
Interest-bearing bank and other borrowings (note 24)	**15,000**
Due to a related party	**80**
	102,125

35. Financial Instruments by Category *(Continued)*

2009

Financial assets	Group Loans and receivables RMB'000
Trade receivables (note 19)	86,364
Financial assets included in prepayments, deposits and other receivables (note 20)	4,671
Pledged deposits (note 21)	11,029
Cash and cash equivalents (note 21)	173,958
	276,022

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade and bills payables (note 22)	45,366
Financial liabilities included in other payables and accruals (note 23)	7,420
Interest-bearing bank and other borrowings (note 24)	38,875
Due to a director	624
Due to a related party	4,451
	96,736

Financial assets	**Company** **2010** **Loans and receivables** **RMB'000**	2009 Loans and receivables RMB'000
Investments in subsidiaries (note 17)	**351,000**	351,000
Due from subsidiaries (note 17)	**569,988**	–
Cash and cash equivalents (note 21)	**23,128**	–
	944,116	351,000

35. Financial Instruments by Category *(Continued)*

	Company	
	2010	2009
Financial liabilities	**Financial liabilities at amortised cost RMB'000**	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals (note 23)	**61**	–
	61	–

36. Fair Values of Financial Instruments

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

All these interest-bearing bank borrowings were obtained at fixed interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 24 above.

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 31 December 2010 were at fixed interest rates.

37. Financial Risk Management Objectives and Policies *(Continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 1.7% (2009: 1.4%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 100% of cost for the reporting periods were denominated in the units' functional currency. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar, Hong Kong dollar and Euro dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2010		
If RMB weakens against the United States dollar	5	(184)
If RMB strengthens against the United States dollar	(5)	184
If RMB weakens against the Hong Kong dollar	5	14,335
If RMB strengthens against the Hong Kong dollar	(5)	(14,335)
If RMB weakens against the Euro dollar	5	1,035
If RMB strengthens against the Euro dollar	(5)	(1,035)
2009		
If RMB weakens against the United States dollar	5	9
If RMB strengthens against the United States dollar	(5)	(9)
If RMB weakens against the Hong Kong dollar	5	190
If RMB strengthens against the Hong Kong dollar	(5)	(190)
If RMB weakens against the Euro dollar	5	–
If RMB strengthens against the Euro dollar	(5)	–

37. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager and the Chairman.

The credit risk of the Group's other financial assets, which comprise cash and short term deposits, amounts due from directors and related parties and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and prepayments, deposits and other receivables are disclosed in note 19 and note 20, respectively, to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, was as follows:

Group

	31 December 2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	**4,569**	**55,471**	**20,278**	**–**	**–**	**80,318**
Other payables and accruals	**6,277**	**450**	**–**	**–**	**–**	**6,727**
Interest-bearing bank borrowings	**–**	**–**	**15,000**	**–**	**–**	**15,000**
Due to a related party	**80**	**–**	**–**	**–**	**–**	**80**
	10,926	**55,921**	**35,278**	**–**	**–**	**102,125**

37. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

Group

	31 December 2009					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	3,236	34,958	7,172	–	–	45,366
Other payables and accruals	7,420	–	–	–	–	7,420
Interest-bearing bank borrowings	–	1,525	33,975	2,000	1,375	38,875
Due to a director	624	–	–	–	–	624
Due to a related party	4,451	–	–	–	–	4,451
	15,731	36,483	41,147	2,000	1,375	96,736

Company

	31 December 2010					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Other payables and accruals	**15**	**46**	**–**	**–**	**–**	**61**
	15	**46**	**–**	**–**	**–**	**61**

37. Financial Risk Management Objectives and Policies *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, amounts due to directors and a related party, trade and bills payables, other payables and accruals, less cash and cash equivalents and excludes the Group's discontinued operations. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Trade and bills payables	**80,318**	45,366
Other payables and accruals	**12,992**	16,763
Interest-bearing bank borrowings	**15,000**	38,875
Due to a director	**–**	624
Due to a related party	**80**	4,451
Less: Cash and cash equivalents	**(333,857)**	(173,958)
Net assets	**(225,467)**	(67,879)
Equity attributable to owners of the parent	**1,196,986**	351,000
Capital and net debt	**971,519**	283,121
Gearing ratio	**(23%)**	(24%)

38. Event After the Reporting Period

On 15 March 2011, the board of directors of the Company proposed a final dividend of HK10 cents per ordinary share totalling approximately HK$82,883,000 (equivalent to approximately RMB69,870,000) for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 11).

39. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

40. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 15 March 2011.