GREENFIELD

GREENFIELD CHEMICAL HOLDINGS LIMITED

嘉 輝 化 工 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 582

GREENFIELD

ANNUAL REPORT 2010

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Jun
Ms. Zhang Ying
Mr. Li Li
Mr. Zhang Yang
Mr. Jiang Zhiqian

Independent Non-executive Directors

Mr. Fok Ho Yin, Thomas
Ms. Zheng DaYong
Mr. Ng Hoi Yue

Remuneration Committee

Mr. Fok Ho Yin, Thomas *(Chairman)*
Ms. Zheng DaYong
Mr. Ng Hoi Yue

Audit Committee

Mr. Fok Ho Yin, Thomas *(Chairman)*
Ms. Zheng DaYong
Mr. Ng Hoi Yue

COMPANY SECRETARY

Mr. Lee Sze Wai

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKER

Standard Chartered Bank

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2304, 23/F,
West Tower Shun Tak Centre,
168-200 Connaught Road Central,
Sheung Wan, Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

REGISTRAR IN HONG KONG

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

STOCK CODE

582

WEBSITE OF THE COMPANY

http://www.gch.hk

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

MR. HU JUN, aged 50, graduated from Southwest Jiaotong University in 1985. He engaged in technical work in an enterprise subordinated to the Ministry of Railways of the People's Republic of China after his graduation. He engaged in the business field in 1990 and worked as the Deputy General Manager of Beijing Huayue Electric Equipment Co., Ltd. (北京華躍電器設備公司), the Administrative Director of Beijing Huadu Cultural Entertainment Limited (北京花都文化娛樂有限公司) and the Deputy General Manager of Beijing Dongfang Wanbang Investment Consulting Co., Ltd. (北京東方萬邦投資顧問有限公司).He now works as the General Manager of Beijing Huicheng Real Estate Developing Co., Ltd. (北京慧誠房地產開發有限公司).

MS. ZHANG YING, aged 42, with a Bachelor's Degree in Financial Accounting. She worked as the Finance Supervisor of Beijing Tianan Industry and Commerce Company (北京天安實業總公司) during the period from 1989 to 1996. She works as the financial controller of Beijing Dongfang Wanbang Technology Development Limited (北京東方萬邦科技發展有限公司) since 1996 and Beijing Hanbang Guoxin International Group Co., Ltd (北京漢邦國信國際集團有限公司) since 2002. She has extensive experience in corporate finance, financial management, accounting and auditing field. She works as the Legal Representative of Beijing Huicheng Real Estate Developing Co., Ltd (北京慧誠房地產開發有限公司) since 2004.

MR. LI LI, aged 32, an undergraduate major in Computer Education and engaged in education discipline in Beijing Practical Arts Vocational School after graduation in 2000. He engaged in the business field in 2002 and worked as the Manager of the Resources Department of Beijing Hongwei Industry & Trading Group (北京市宏偉工貿集團) and Deputy General Manager of Beijing Yonglian United Technology & Trading Company Limited (北京永聯聯合科貿有限責任公司).

MR. ZHANG YANG, aged 28, Bachelor of Financial and Applied Economics at Massey University. He worked as Analyst Assistant of Money World Financial Limited in 2002 and Regional Manager of Domino's Pizza from 2007 to 2008.

MR. JIANG ZHIQIAN, aged 37, is the chairman of a retail store company in the PRC and has over 7 years' experience in the retail industry. He also has over 5 years' experience in investing in natural resources related business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. FOK HO YIN, THOMAS, aged 39, had worked in the Listing Division of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has over 15 years of experience in the field of corporate finance and, in particular, in equity financing and financial restructuring. Mr. Fok is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. He is also a Chartered Financial Analyst. Mr. Fok is currently an executive director and Chief Financial Officer of Jian ePayment Systems Limited (shares of which are listed on the growth enterprise market of the Stock Exchange, stock code: 8165) and an independent non-executive director of Rising Development Holdings Limited (shares of which are listed on the main board of the Stock Exchange, stock code: 1004).

MS. ZHENG DAYONG, aged 35, obtained a Master Degree in Business Administration from University of Northern Virginia (USA). She has over 10 years of experience in investment, manufacturing and trading. At present, Ms Zheng is managing her own investment holding company.

MR. NG HOI YUE, aged 46, is an associate member of The Institute of Chartered Accountants in England and Wales and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been practicing as a certified public accountant in Hong Kong since 1989. Mr. Ng is an independent non-executive director of See Corporation Limited (shares of which are listed on the main board of the Stock Exchange, Stock Code: 491) at present and served as an independent non-executive director of Henry Group Holdings Limited (shares of which are listed on the main board of the Stock Exchange, Stock Code: 859) until 19 February 2010 when his resignation took effect.

LETTER FROM THE BOARD

On behalf of the board of directors (the "Board") of Greenfield Chemical Holdings Limited (the "Company"), I have pleasure to report on the financial results, operations and other aspects of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

FINANCIAL RESULTS

For the year ended 31 December 2010, although the Group's consolidated turnover increased by approximately 15.04% to HK$310,524,000 (2009: HK$269,929,000), the profit attributable to owners of the Company decreased by approximately 34.01% to HK$24,950,000 (2009: HK$37,810,000). Earnings per share decreased from HK13.8 cents for last year to HK9.1 cents this year.

As at 31 December 2010, the net asset value per share attributable to owners of the Company was HK$1.60 (2009: HK$1.49).

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

Following a global downturn in late 2008 and expansionary monetary policies introduced by worldwide governments in late 2009, the economy appeared to be recovering in 2010. During the period under review, the economy of China maintained at a high growth rate. The demand for paint and coating and related products increased as compared to 2009. For the year ended 31 December 2010, the Group achieved a moderate increase of approximately 15.04% to HK$310,524,000 (2009: HK$269,929,000) in turnover.

The management maintained the implementation of tighter cost control, however, because of the increasing price in crude oil and labour cost, the gross profit increased slightly by 9.31% to HK$91,003,000 (2009: HK$83,250,000) and gross profit ratio dropped from 30.84% in 2009 to 29.31% in 2010. Combined with the effect of decreasing other income, which comprises management fee income, royalty fee income and interest income, and increasing administrative expenses, the profit attributable to owners of the Company for the year ended 31 December 2010 decreased by approximately 34.01% to HK$24,950,000 (2009: HK$37,810,000).

Financial Resources, Borrowings and Capital Structure

As at 31 December 2010, the Group had non-current assets of HK$261,552,000 (2009: HK$352,851,000) and net current assets of HK$513,356,000 (2009: HK$229,009,000). The current ratio, expressed as the ratio of the current assets over the current liabilities, was 10.75 as at 31 December 2010 (2009: 6.48). The increase in net current asset and current ratio is mainly due to settlement of long term loan receivable with the amount of HK$159,055,000 during the year.

As at 31 December 2010, the Group had trade and other payables of HK$45,429,000 (2009: HK$38,296,000) and non-current borrowing of HK$135,164,000 (2009: nil), while total liabilities were HK$187,802,000 (2009: HK$41,776,000). Total liabilities increased by HK$146,026,000 mainly because of a long term borrowing from a financial institution with initial principal amount of HK$150,000,000 obtained during the year.

LETTER FROM THE BOARD

As at 31 December 2010, the Group had bank balance and cash on hand of HK$449,975,000 (2009: HK$165,498,000). The sharp increase in bank balance, as mentioned, was mainly due to settlement of the long term loan receivable and obtainment of the long term borrowing during the year.

Capital Commitments

As at 31 December 2010, the Group had capital commitments of HK$24,691,000 (2009: HK$1,488,000), in respect of the purchase of production equipments and expansion of production lines, and HK$400,000,000 (2009: nil), in respect of the acquisition of subsidiaries.

Contingent Liability

As at 31 December 2010, the Group did not have any contingent liability.

Charge of Assets

As at 31 December 2010, the Group pledged its 51% equity interests in Rookwood Investments Limited ("Rookwood"), a non-wholly owned subsidiary of the Group and an undated deed of assignment duly executed by the Company and Rookwood pursuant to which the Company agrees to assign a loan to Rookwood of HK$31,476,308 in case of default to a financial institution to secure the term loan of HK$150,000,000. Save for disclosed above, the Group did not have any charge of assets.

Treasury Policy

As at 31 December 2010, the Group had no formal treasury policy.

Currency and interest rate structure

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Currently, the Group does not enter into any agreement to hedge against the foreign exchange risk. In view of the fluctuation of Renminbi during the year, the Group will continue monitoring the situation closely and introduce possible measures if suitable.

The Group had limited exposure to interest rate fluctuation as the interest rate of long term borrowing is fixed throughout the loan term.

Segment information

The Group assessed its sales performance based on geographical segment determined on the basis of location of customers, i.e. Hong Kong and the People's Republic of China other than Hong Kong (the "PRC").

Hong Kong segment recorded turnover of HK$169,913,000 (2009: HK$103,579,000) and segment results of HK$27,489,000 (2009: HK$15,871,000). The increasing turnover and segment results by approximately 64.04% and 73.20% represented an increase in global market demand, in which the international sales were made through Hong Kong distributors.

LETTER FROM THE BOARD

The PRC segment recorded turnover of HK$140,611,000 (2009: HK$166,350,000) and segment results of HK$23,589,000 (2009: HK$29,869,000). Since the competition of PRC market was remaining keen, the turnover and segment results dropped by approximately 15.47% and 21.03% respectively.

Material Acquisition and Disposal

On 22 September 2010, the Board announced that the Company entered into a sales and purchase agreement (the "S&P") with China Century Worldwide Limited ("China Century"). Under the S&P, the Company has conditionally agreed to acquire from China Century the entire share capital of Ace Winner Holdings Limited ("Ace Winner"), a limited company incorporated in the British Virgin Islands, which after reorganization, will hold 69.44% of a group of companies registered in the PRC, and principally engages in design, manufacturing and sale of light-emitting diode ("LED") and semi-conductor lighting related products (the "Acquisition"). The total consideration for the Acquisition is HK$400,000,000, which in January 2011, the Company and China Century agreed shall be satisfied as to HK$335,000,000 in cash and as to HK$65,000,000 by issuing convertible bonds with the principal amount of HK$65,000,000 at a conversion price of HK$2.1 per share. The Acquisition has been approved by shareholders at the extraordinary general meeting held on 15 March 2011 and has been completed on 17 March 2011.

Save for disclosed above, there was no material acquisition or disposal that should be notified to the shareholders for the year ended 31 December 2010.

Employee and Remuneration Policies

As at 31 December 2010, the Group had around 1,000 full-time employees which included management and administrative staff and production workers. Most of them were stationed in Mainland China while the rest were in Hong Kong. The remuneration, promotion and salary increments of employees are assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.

Outlook

Paint and coating products

In view of the escalating awareness of more stringent environmental protection and product safety laws and regulations pertaining to the Group's manufacturing facilities and products in the PRC, increasing in price of crude oil, other key raw materials and labour costs, growing market competition of paint and coating products in worldwide as well as increasing capital expenditure for replacement of aging production facilities, the management expects future results and cash flow of the paint and coating products segment will be adversely affected. As the result, the management considers to re-allocate the existing resources of the Group (including but not limited to dispose of assets of the Group) to the new business to be introduced to the Group.

Currently, the Company is actively identifying investors for disposing of the paint and coating products business such that the Company could re-allocate its resources on the new business and other businesses to be identified by the Group. The Company shall comply with the Listing Rules for such possible disposal in all time. However, as at the date of this report, the Company has no agreement, arrangement, understanding or negotiation about disposal of any Group's assets.

LETTER FROM THE BOARD

LED and semi-conductor lighting products

As mentioned above, on 22 September 2010, the Board announced that the Company entered into the S&P with China Century to acquire the entire share capital of Ace Winner, which hold 69.44% of a group of companies registered in the PRC, and principally engages in design, manufacturing and sale of LED and semi-conductor lighting related products. Details of the new LED business had been disclosed in circular dated 25 February 2011.

LED sector is considered as one of the fast growing industries in the world which is supported by worldwide governments and business sectors. Although the global financial crisis in the late 2008 hit the global economy badly, global market value of LED sector recorded year over year growth rate of approximately 4%, 8%, 12%, 6% and 5% respectively from 2005-2009, based on Photonics Industry & Technology Development Association's research. Besides, according to the research from iSuppli Corporation, driven by the soaring demand in new electronic applications such as LED-TV and general illumination, the compound annual growth rate ("CAGR") of the revenue of LED market in PRC would be approximately 15.7% from 2009-2014. Energy saving and long life LED will gradually replace traditional lighting in 3 major application areas, i.e. interior and external lighting, display devices and backlighting. Through the Acquisition, the Group can set foot in LED encapsulation business, the middle phase of LED industry, and enable the Group to capture fast growing opportunity of the LED application products market.

As a sunrise industry, the LED market in the PRC is intensive with small local market participants. However, the high capital expenditure requirements and the well functioned research and development team pose significant barriers to entry for new competitors. Nevertheless, with our strong financial position and our expertise, the Board is confident that the new LED business could become the growth driver of the Group and enhance the corporate value for the shareholders.

The management will from time to time seek for investment opportunity in difference phase of LED industry that could improve corporate synergy and broaden the market shares of the Group. Meanwhile, the management will continue to review the performance of existing businesses and seek for any investment opportunity in fast growing industry. Should any suitable business opportunity arise, the Group may change its existing business activities and redeploy any assets of the Group.

APPRECIATION

On behalf of the Board, I would like to convey its sincere gratitude to our employees for their diligence and contributions to the Group. I would also like to acknowledge the continual support of our customers, suppliers and shareholders during the year of 2010.

For and on behalf of the Board
Li Li
Executive Director

Hong Kong, 25 March 2011

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 31 and 13 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 21.

The directors do not recommend the payment of any dividend and propose that profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the year, the Group spent approximately HK$10,081,000 on property, plant and equipment and approximately HK$21,268,000 on prepaid lease payments.

Details of movements in the property, plant and equipment and prepaid lease payments of the Group during the year are set out in notes 11 and 12 respectively to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 21 to the consolidated financial statements. During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchase or sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2010 were as follows:

	2010 **HK$'000**	2009 HK$'000
Share premium	**100,853**	100,853
Contributed surplus	**119,071**	119,071
Retained profits	**49,961**	41,587
	269,885	261,511

DIRECTORS' REPORT

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 64.

DIRECTORS

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

Executive Directors:

Mr. Hu Jun	(appointed on 21 January 2010)
Ms. Zhang Ying	(appointed on 21 January 2010)
Mr. Li Li	(appointed on 21 January 2010)
Mr. Zhang Yang	(appointed on 21 January 2010)
Mr. Jiang Zhiqian	(appointed on 30 November 2010)
Mr. Lau Yau Cheung	(resigned on 21 January 2010)
Mr. Kong Muk Yin	(resigned on 21 January 2010)
Dato' Wong Peng Chong	(resigned on 21 January 2010)

Independent Non-executive Directors:

Mr. Fok Ho Yin, Thomas	(appointed on 11 June 2010)
Ms. Zheng DaYong	(appointed on 1 September 2010)
Mr. Ng Hoi Yue	(appointed on 26 November 2010)
Mr. Lau Siu Ki, Kevin	(resigned on 11 June 2010)
Mr. Wu Wing Kit	(resigned on 1 September 2010)
Dr. Chui Hong Sheung	(resigned on 1 September 2010)

In accordance with Article 99 of the Company's Articles of Association, Mr. Jiang Zhiqian, Mr. Fok Ho Yin, Thomas, Ms. Zheng DaYong and Mr. Ng Hoi Yue are to hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Hu Jun retires by rotation and, being eligible, offers himself for re-election.

The non-executive directors have no set term of office but are subject to retirement by rotation and are eligible for re-election, in accordance with the Company's Articles of Association.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2010, there were no any interests of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its holding companies, its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries or fellow 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' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Name	Capacity	Number of Shares held	Percentage of issued Share capital of the Company
Hong Han Limited ("Hong Han")	Beneficial Owner	140,000,000	51.31%
Mr. Wan Zhongbo ("Mr. Wan")	Held by controlled corporation *(Note 1)*	140,000,000	51.31%
Ms. Liu Jia ("Ms. Liu")	Held by controlled corporation *(Note 1)*	140,000,000	51.31%
True Focus Limited	Beneficial owner and held by controlled corporation *(Note 2)*	18,010,000	6.60%
Besford International Limited	Held by controlled corporation *(Note 3)*	18,010,000	6.60%
COL Capital Limited	Held by controlled corporation *(Note 3)*	18,010,000	6.60%
Vigor Online Offshore Limited	Held by controlled corporation *(Note 4)*	18,010,000	6.60%
China Spirit Limited	Held by controlled corporation *(Note 4)*	18,010,000	6.60%
Ms. Chong Sok Un	Held by controlled corporation *(Note 4)*	18,010,000	6.60%

Notes:

1. Hong Han is wholly and beneficially owned by each of Mr. Wan and Ms. Liu as to 50%. Mr. Wan and Ms. Liu are therefore deemed to be interested in the Shares held by Hong Han Limited.

2. True Focus Limited owns 13,510,000 Shares. Pacific Orchid Investments Limited, a wholly-owned subsidiary of True Focus Limited, owns 4,500,000 Shares. True Focus Limited is therefore deemed to be interested in 18,010,000 Shares.

3. True Focus Limited is wholly-owned by Besford International Limited. Besford International Limited is a wholly owned subsidiary of COL Capital Limited. Besford International Limited and COL Capital Limited are therefore deemed to be interested in 18,010,000 Shares.

4. COL Capital Limited is beneficially owned by Vigor Online Offshore Limited as to approximately 64.33%. Vigor Online Offshore Limited is a wholly-owned subsidiary of China Spirit Limited, a company wholly and beneficially owned by Ms. Chong Sok Un. Vigor Online Offshore Limited, China Spirit Limited and Ms. Chong Sok Un are therefore deemed to be interested in 18,010,000 Shares.

DIRECTORS' REPORT

All the interests stated above represent long positions. Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2010.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTION

On 18th February, 2010, Guangzhou Springfield Chemical Company Limited ("Springfield"), a non-wholly owned subsidiary, entered into a sale and purchase agreement (the "Springfield S&P") with Zengcheng City Fuheyuan Farm Limited 增城市福和園農莊有限公司 ("City Fuheyuan"), a company incorporated in the PRC and indirectly owned by Mr. Yuen Shu Wah ("Mr. Yuen"). Pursuant to the Springfield S&P, Springfield has agreed to purchase and City Fuheyuan has agreed to sell a property situated in the PRC for a consideration of RMB18,000,000 (approximately HK$21,268,000). Mr. Yuen is a former director of the Company and existing director of certain non-wholly owned subsidiaries of the Company. This transaction constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Details of the transactions were disclosed in the announcement of the Company on 18th February, 2010.

As at the date of the Springfield S&P, the Company has received a written approval of the Acquisition from Hong Han, a controlling shareholder of the Company holding approximately 51.31% in nominal value of the issued shares of the Company giving the right to attend and vote at the general meeting of the Company. Hong Han has given irrevocable and unconditional approval of the Acquisition and the transactions contemplated. The Company has obtained a waiver from the requirement to hold a general meeting of the Company to approve the Acquisition from the Stock Exchange pursuant to Rule 14A.43 of the Listing Rules. Accordingly, the Acquisition has been duly approved and passed by the Shareholders and a general meeting of the Company to approve the Acquisition is no longer required under the Listing Rules. The transaction has been completed in June 2010.

Save for disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listings Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 3.27% and 12.64% of the Group's sales was attributable to the Group's largest and five largest customers, respectively.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for approximately 5.69% and 15.50%, respectively.

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

DIRECTORS' REPORT

RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 28 to the consolidated financial statements.

EMOLUMENT POLICY

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

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 11 June 2010 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group. Pursuant to Share Option Scheme, the Board may invite any eligible person including any director and employee of the Group to take up options to subscribe for shares of the Company. The Share Option Scheme shall be valid and effective for a period of ten years. No share options were outstanding nor granted during the year ended 31 December 2010.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$4,060,000.

AUDITOR

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

On behalf of the Board
Li Li
Executive Director

Hong Kong, 25 March 2011

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") is committed to upholding a high standard of corporate governance practices and business ethics in the belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with increasingly stringent regulatory requirements (both locally and internationally), and to fulfill its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") came into effect on 1 January 2005. The CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CG Code except for the area of non-compliance that had been disclosed later in this report.

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 of the Listing Rules for securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2010.

THE BOARD

The Board is charged with overseeing the business and affairs of the Group that aims to enhancing the Company's value for stakeholders. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders. Roles of the Board include reviewing and guiding corporate strategies and policies, monitoring financial and operating performance and setting appropriate risk management policies.

The primary role of the Board is to oversee how management serves the interests of shareholders and other stakeholders. To do this, the Board has adopted corporate governance principles aimed at ensuring that the Board is independent and fully informed on the key strategic issues facing the Company. As at the date of this report, the Board comprises five executive directors and three independent non-executive directors.

The Board members have no financial, business, family or other material relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended best practice under the CG Code for the Board to have at least one-third in number of its members comprising independent non-executive directors. At least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The brief biographical details of the Directors are set out in page 3, which demonstrates a diversity of skills, expertise, experience and qualifications. The Company has received from the three independent non-executive directors annual confirmations of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such directors to be independent.

CORPORATE GOVERNANCE REPORT

The Board has appointed Board Committees to oversee different areas of the Company's affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

Board of Directors	Audit Committee	Remuneration Committee
Executive Directors:		
Mr. Hu Jun (appointed on 21 January 2010)	—	—
Ms. Zhang Ying (appointed on 21 January 2010)	—	—
Mr. Li Li (appointed on 21 January 2010)	—	—
Mr. Zhang Yang (appointed on 21 January 2010)		
Mr. Jiang Zhiqian (appointed on 30 November 2010)	—	—
Mr. Lau Yau Cheung (resigned on 21 January 2010)	—	—
Mr. Kong Muk Yin (resigned on 21 January 2010)	—	—
Dato' Wong Peng Chong (resigned on 21 January 2010)	—	—
Independent Non-executive Directors:		
Mr. Fok Ho Yin, Thomas (appointed on 11 June 2010)	✓	✓
Ms. Zheng DaYong (appointed on 1 September 2010)	✓	✓
Mr. Ng Hoi Yue (appointed on 26 November 2010)	✓	✓
Mr. Lau Siu Ki, Kevin (resigned on 11 June 2010)	✓	✓
Mr. Wu Wing Kit (resigned on 1 September 2010)	✓	✓
Dr. Chui Hong Sheung (resigned on 1 September 2010)	✓	✓

Regular board meetings are scheduled in advance to facilitate fullest possible attendance. The company secretary assists the executive directors in setting the agenda of board meetings and each director is invited to present any businesses that he wishes to discuss or propose at such meetings. Board papers are circulated to all Directors within reasonable time before the board meetings to ensure timely access to relevant information. Directors may choose to take independent professional advice if necessary. Draft and final versions of minutes are circulated to all Directors for comments. The Company held 9 Board meetings in 2010. Attendances of the Board meetings are as follows:

CORPORATE GOVERNANCE REPORT

Name of Directors	Number of Board meetings attended
Mr. Hu Jun	9/9
Ms. Zhang Ying	9/9
Mr. Li Li	9/9
Mr. Zhang Yang	9/9
Mr. Jiang Zhiqian	4/4
Mr. Lau Yau Cheung (resigned on 21 January 2010)	0/0
Mr. Kong Muk Yin (resigned on 21 January 2010)	0/0
Dato' Wong Peng Chong (resigned on 21 January 2010)	0/0
Mr. Fok Ho Yin, Thomas	2/7
Ms. Zheng DaYong	1/6
Mr. Ng Hoi Yue	0/4
Mr. Lau Siu Ki, Kevin (resigned on 11 June 2010)	2/2
Mr. Wu Wing Kit (resigned on 1 September 2010)	2/3
Dr. Chui Hong Sheung (resigned on 1 September 2010)	3/3

REMUNERATION COMMITTEE

As at the date of the report, the Remuneration Committee comprises three independent non-executive directors: Mr. Fok Ho Yin, Thomas (Committee Chairman), Ms. Zheng DaYong and Mr. Ng Hoi Yue.

The written terms of reference stipulating the authority and duties of the Remuneration Committee were adopted on 15 September 2005 which conform to the provisions of the CG Code.

The Remuneration Committee's major roles are to make recommendations to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages to all executive directors and senior management as well as review and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year, one meeting was held by the Remuneration Committee and attended by all members to review and discuss the Company's policy and structure of remuneration of the Directors.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

As at the date of the report, the Audit Committee comprises three independent non-executive directors: Mr. Fok Ho Yin, Thomas (Committee Chairman), Ms. Zheng DaYong and Mr. Ng Hoi Yue.

The written terms of reference stipulating the authority and duties of the Audit Committee were adopted in 2002 and subsequently amended in 2005 to conform to the provisions of the CG Code.

The Audit Committee reviews and supervises the Group's financial reporting and internal control systems. It has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters.

During the year, 3 meetings were held by the Audit Committee and attended by all members to review and discuss the financial reporting matters, including the review of the interim and annual financial statements.

CODE OF ETHICS AND SECURITIES TRANSACTIONS ("CODE OF ETHICS")

The Company adopted the Code of Ethics on 21 December 2005 as written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in the securities of the Company.

DEVIATION FROM CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the CG Code except for the following deviation:

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

The Company does not fully comply with code provision. The existing non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting. The Board does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long-term interests of the Shareholders.

NON-COMPLIANCE WITH REQUIREMENTS REGARDING INDEPENDENT NON-EXECUTIVE DIRECTOR AND MEMBER OF AUDIT COMMITTEE

Rule 3.10 (1) and 3.21 of the Listing Rules require that the Board and the Audit Committee should include at least three independent non-executive directors and members respectively.

The total number of independent non-executive directors and members of the Audit Committee fell below the minimum requirement as set under the Listing Rules after two former directors, Mr. Wu Wing Kit and Dr. Chui Hong Sheung, resigned on 1 September 2010. On 26 November 2010, Mr. Ng Hoi Yue was appointed as an independent non-executive director and a member of Audit Committee. Subsequent to Mr. Ng Hoi Yue's appointment, there are three independent non-executive directors and three Audit Committee members respectively, and the Company has fully complied with the Listing Rules.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE GROUP'S FINANCIAL REPORTING

The Directors are responsible for the preparation of financial statements of the Group which give a true and fair view, and are prepared in accordance with the relevant statutory requirements and applicable accounting standards in force, and are published in a timely manner. The Directors are responsible for selecting and applying on a consistent basis suitable accounting policies and ensuring timely adoption of Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards.

The Board understands the importance of presenting a clear and comprehensive assessment of the Group's overall performance, financial positions as well as prospects in a timely manner; and the Board is pleased to report that, so far, the annual and interim results of the Group are announced within the three months and two months limit respectively after the end of the relevant periods.

INTERNAL CONTROL

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Group at all times. The system of internal control aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought. Management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in area of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security. The Audit Committee reviews internal control issues identified by external auditor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. The Audit Committee in turn reports any material issues to the Board.

EXTERNAL AUDITOR

The Report of the Auditor of the Company, Deloitte Touche Tohmatsu, in respect of the audit of the Group's financial statements for the year is set out on pages 19 to 20 of the annual report. The Board takes steps in ensuring continuing auditors' objectivity and independence.

During the year under review, the remuneration paid or payable to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$
Audit services	660,000
Non-audit services	1,020,000
	1,680,000

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF GREENFIELD CHEMICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Greenfield Chemical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 63, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determined necessary to enable the presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**310,524**	269,929
Cost of sales		**(219,521)**	(186,679)
Gross profit		**91,003**	83,250
Other income		**21,114**	32,358
Distribution and selling expenses		**(27,742)**	(23,715)
Administrative expenses		**(60,897)**	(56,452)
Other expense	15	**(5,534)**	—
Share of profits of associates		**54,065**	42,051
Finance cost — wholly repayable within five years		**(164)**	—
Profit before taxation	7	**71,845**	77,492
Taxation	8	**(8,259)**	(9,068)
Profit for the year		**63,586**	68,424
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**9,978**	295
Total comprehensive income for the year		**73,564**	68,719
Profit for the year attributable to:			
Owners of the Company		**24,950**	37,810
Non-controlling interests		**38,636**	30,614
		63,586	68,424
Total comprehensive income attributable to:			
Owners of the Company		**29,937**	37,956
Non-controlling interests		**43,627**	30,763
		73,564	68,719
Earnings per share, basic	10	**HK9.1 cents**	HK13.8 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**76,501**	74,163
Prepaid lease payments	12	**34,740**	13,567
Interests in associates	13	**150,138**	105,893
Available-for-sale investments	14	**10**	10
Loans receivable	15	**—**	159,055
Deferred tax assets	16	**163**	163
		261,552	352,851
CURRENT ASSETS			
Prepaid lease payments	12	**842**	340
Inventories	17	**30,214**	21,572
Trade and other receivables	18	**84,869**	82,923
Tax recoverable		**94**	452
Bank balances and cash	19	**449,975**	165,498
		565,994	270,785
CURRENT LIABILITIES			
Trade and other payables	20	**45,429**	38,296
Tax payable		**7,209**	3,480
		52,638	41,776
NET CURRENT ASSETS		**513,356**	229,009
TOTAL ASSETS LESS CURRENT LIABILITIES		**774,908**	581,860
CAPITAL AND RESERVES			
Share capital	21	**27,286**	27,286
Reserves		**408,621**	378,684
Equity attributable to owners of the Company		**435,907**	405,970
Non-controlling interests		**203,837**	175,890
Total equity		**639,744**	581,860
NON-CURRENT LIABILITY			
Other borrowing — secured	22	**135,164**	—
		774,908	581,860

The consolidated financial statements on pages 21 to 63 were approved and authorised for issue by the Board of Directors on 25 March 2011 and are signed on its behalf by:

LI LI	**ZHANG YANG**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Special reserve** HK$'000 (note a)	**Translation reserve** HK$'000	**Non-distributable reserve** HK$'000 (note b)	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2009	30,000	121,293	32,000	13,607	5,769	188,499	391,168	145,127	536,295
Exchange differences arising from translation of foreign operations	—	—	—	146	—	—	146	149	295
Profit for the year	—	—	—	—	—	37,810	37,810	30,614	68,424
Total comprehensive income for the year	—	—	—	146	—	37,810	37,956	30,763	68,719
Shares repurchased and cancelled	(2,714)	(20,440)	—	—	—	—	(23,154)	—	(23,154)
Transfer	—	—	—	—	358	(358)	—	—	—
At 31 December 2009	27,286	100,853	32,000	13,753	6,127	225,951	405,970	175,890	581,860
Exchange differences arising from translation of foreign operations	—	—	—	4,987	—	—	4,987	4,991	9,978
Profit for the year	—	—	—	—	—	24,950	24,950	38,636	63,586
Total comprehensive income for the year	—	—	—	4,987	—	24,950	29,937	43,627	73,564
Dividend paid to minority shareholders of a subsidiary	—	—	—	—	—	—	—	(15,680)	(15,680)
Transfer	—	—	—	—	244	(244)	—	—	—
At 31 December 2010	27,286	100,853	32,000	18,740	6,371	250,657	435,907	203,837	639,744

Notes:

(a) The special reserve of the Group represents the nominal values of 32,000,000 non-voting class A shares of HK$1 each issued by a subsidiary of the Company to its then shareholders prior to a group reorganisation in 2002.

(b) The non-distributable reserve of the Group mainly represents statutory reserve requirement that the foreign investment enterprises appropriated 10% of the profit after taxation of the subsidiaries of the Company registered in the People's Republic of China other than Hong Kong (the "PRC") to the non-distributable reserve under the PRC laws and regulations until the transferred amount equals to 50% of the registered capital of these PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**71,845**	77,492
Adjustments for:		
Impairment losses on trade receivables	**508**	1,083
Write off of interest receivable	**5,534**	—
Finance cost	**164**	—
Amortisation of prepaid lease payments	**621**	340
Depreciation of property, plant and equipment	**9,779**	10,790
(Gain) loss on disposal of property, plant and equipment	**(27)**	253
Interest income	**(236)**	(16,830)
Share of profits of associates	**(54,065)**	(42,051)
Operating cash flows before movements in working capital	**34,123**	31,077
(Increase) decrease in inventories	**(8,642)**	8,173
(Increase) decrease in trade and other receivables	**(7,988)**	4,744
Increase in trade and other payables	**7,133**	8,857
Cash generated from operations	**24,626**	52,851
Income tax paid	**(4,172)**	(5,529)
NET CASH FROM OPERATING ACTIVITIES	**20,454**	47,322
INVESTING ACTIVITIES		
Repayment of loans receivable	**159,055**	—
Purchase of property, plant and equipment	**(10,081)**	(3,460)
Addition of prepaid lease payment	**(21,268)**	—
Repayment from an associate	**—**	10,000
Dividend received from associates	**13,500**	13,500
Interest received	**236**	12,676
Proceeds from disposal of property, plant and equipment	**344**	1,599
NET CASH FROM INVESTING ACTIVITIES	**141,786**	34,315
FINANCING ACTIVITIES		
Other borrowing raised	**150,000**	—
Prepaid loan interest (note 22)	**(15,000)**	—
Payment on repurchase of shares	**—**	(23,154)
Dividend paid to minority shareholders of a subsidiary	**(15,680)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**119,320**	(23,154)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**281,560**	58,483
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**165,498**	106,945
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,917**	70
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**449,975**	165,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate holding company and ultimate holding company is Hong Han Limited, a company incorporated in the British Virgin Islands ("BVI"). Hong Han Limited is wholly and beneficially owned by Mr. Wan Zhongbo and Ms. Liu Jia as to 50% each. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 31 and 13, respectively.

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is also the functional currency of the Company.

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

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

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners
HK — INT 5	Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause

The application of these new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) — INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
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 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and the application of HKFRS 9 may not have a significant impact on the amounts reported in respect of the Groups' financial assets and financial liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the impairment loss, if any. An impairment loss is recognised in the profit or loss immediately.

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

Effective interest method

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, the Group's loans and receivables (including loans receivable, trade and other receivables, dividend receivable from an associate and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of the reporting period (see accounting policy on impairment of financial assets below).

Convertible instruments

Convertible instruments held by the Group, which are the hybrid instruments that contain both the loans receivable and conversion option component, are classified separately into respective items on initial recognition. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

If the derivative component that is required to be separated cannot be reliably measured because it will be settled by an unquoted equity instrument whose fair value cannot be reliably measured, the combined instrument is measured at fair value. However, if the derivative component of the convertible bonds is sufficiently significant to preclude it from obtaining a reliable estimate of fair value of the combined instrument, the combined instrument is measured at cost less impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

For available-for-sale equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities (including trade and other payables and other borrowing) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

Inventories

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

Revenue recognition

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

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

Management fee income is recognised when services are provided.

Royalty fee income is derived from agreements signed with counterparties which manufacture products using the proprietary know how of the Group. Royalty fee income is recognised when the counterparties make the related sale.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

Payments to the defined contribution retirement benefits plan, including Occupational Retirement Scheme (the "ORSO Scheme"), the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme, are charged as expenses when employees have rendered service entitling them to the contributions.

Leasing

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

The Group as lessee

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange difference will be reclassified from equity to profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs not attributable to acquisition, construction or production of a qualifying asset are recognised in profit or loss in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND MANAGEMENT JUDGEMENT

In the process of applying the Group's accounting policies, management has made the following estimates and judgement that have significant effect on the amounts recognised in the consolidated financial statements:

Taxation

During the year ended 31 December 2006, the Hong Kong Inland Revenue Department (the "IRD") issued additional assessments in aggregate of approximately HK$11,001,000 relating to certain previous years of assessment, details of which are set out in note 8. Income tax expense of HK$10,000,000 was recognised against the payment for tax reserve certificates in that year, and the remaining amount of HK$1,001,000 was included in tax recoverable as at 31 December 2009 and 2010. As the ultimate outcome of the additional assessments remain undetermined, the tax amount that would otherwise become payable or recoverable may change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of discount and sales related taxes, during the year.

The Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and solvents. The directors of the Company, being the Group's chief operating decision maker, make the decision on allocation of resources and assessment of performance based on geographical segments determined on the basis of location of customers, as follow:

2010

	Hong Kong HK$'000	The PRC HK$'000	Consolidated HK$'000
REVENUE			
External sales	169,913	140,611	310,524
RESULTS			
Segment results	27,489	23,589	51,078
Interest income			236
Unallocated corporate income			9,382
Unallocated corporate expenses			(37,218)
Other expense			(5,534)
Share of profits of associates			54,065
Finance cost			(164)
Profit before taxation			71,845
TOTAL ASSETS			
Segment assets — trade receivables	28,610	46,447	75,057
Other assets			752,489
			827,546

OTHER INFORMATION

	Hong Kong HK$'000	The PRC HK$'000	Consolidated HK$'000
Impairment losses on trade receivables recognised	84	424	508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

2009

	Hong Kong HK$'000	The PRC HK$'000	Consolidated HK$'000
REVENUE			
External sales	103,579	166,350	269,929
RESULTS			
Segment results	15,871	29,869	45,740
Interest income			16,830
Unallocated corporate income			8,526
Unallocated corporate expenses			(35,655)
Share of profits of associates			42,051
Profit before taxation			77,492
TOTAL ASSETS			
Segment assets — trade receivables	21,962	48,436	70,398
Other assets			553,238
			623,636

OTHER INFORMATION

	Hong Kong HK$'000	**The PRC HK$'000**	**Consolidated HK$'000**
Impairment losses on trade receivables recognised	178	905	1,083

Notes:

(i) Segment results represent the profit or loss earned by each segment without allocation of interest income, management fee income, central administration cost, depreciation and amortisation charges, other expense, share of profits of associates and finance cost. This is the measure reported to the directors of the Company for the purpose of resource allocation and performance assessments.

(ii) Other than trade receivables, all assets are not allocated to operating segments. Inventories could be sold to common customers of the operating segments, which cannot be allocated to respective segments on a reasonable basis. All liabilities are not allocated to operating segments, as the Group's trade payables represented payables to common suppliers of the operating segments, which cannot be allocated to respective segments on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

	Revenue from major products	
	2010	2009
	HK$'000	HK$'000
Liquid coatings	**191,849**	170,401
Powder coatings	**50,975**	37,900
Solvents	**67,700**	61,628
	310,524	269,929

Information about major customers

During the years ended 31 December 2010 and 2009, none of the customers contributed over 10% of total sales of the Group.

Geographical information

The Group's operations are located in Hong Kong and the PRC. The Group's information about its non-current assets (other than deferred tax assets, financial instruments and interests in associates) by geographical location of the assets are detailed below:

	2010	2009
	HK$'000	HK$'000
Hong Kong	**6,294**	7,027
The PRC	**104,947**	80,703
	111,241	87,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The emoluments paid or payable to directors were as follows:

	Wong Peng Chong HK$'000 (Note i)	Kong Muk Yin HK$'000 (Note i)	Lau Yau Cheung HK$'000 (Note ii)	Hu Jun HK$'000 (Note iii)	Zhang Ying HK$'000 (Note iii)	Li Li HK$'000 (Note iii)	Zhang Yang HK$'000 (Note iii)	Fok Ho Yin, Thomas HK$'000 (Note iv)	Zheng DaYong HK$'000 (Note v)	Ng Hoi Yue HK$'000 (Note vi)	Jiang Zhiqian HK$'000 (Note vii)	Lau Siu Ki, Kevin HK$'000 (Note viii)	Wu Wing Kit HK$'000 (Note ix)	Chui Hong Sheung HK$'000 (Note ix)	Total HK$'000
2010															
Fees	–	–	–	–	–	–	–	–	–	–	–	100	100	100	300
Other emoluments															
Salaries and other benefits	–	–	158	–	–	–	–	–	–	–	–	–	–	–	158
Retirement benefit scheme contribution	–	–	1	–	–	–	–	–	–	–	–	–	–	–	1
Total emoluments	–	–	159	–	–	–	–	–	–	–	–	100	100	100	459

	Wong Peng Chong HK$'000 (Note i)	Kong Muk Yin HK$'000 (Note i)	Lau Yau Cheung HK$'000 (Note ii)	Tsui Robert Che Kwong HK$'000 (Note x)	Chung Tze Hien HK$'000 (Note xi)	Ng Seng Nam HK$'000 (Note xi)	Lau Siu Ki, Kevin HK$'000 (Note viii)	Wu Wing Kit HK$'000 (Note ix)	Chui Hong Sheung HK$'000 (Note ix)	Total HK$'000
2009										
Fees	–	–	–	–	–	–	100	100	100	300
Other emoluments										
Salaries and other benefits	–	–	1,302	353	–	–	–	–	–	1,655
Retirement benefit scheme contribution	–	–	12	12	–	–	–	–	–	24
Total emoluments	–	–	1,314	365	–	–	100	100	100	1,979

Notes:

(i) Appointed on 13 October 2009 and resigned on 21 January 2010
(ii) Resigned on 21 January 2010
(iii) Appointed on 21 January 2010
(iv) Appointed on 11 June 2010
(v) Appointed on 1 September 2010
(vi) Appointed on 26 November 2010
(vii) Appointed on 30 November 2010
(viii) Resigned on 11 June 2010
(ix) Resigned on 1 September 2010
(x) Resigned on 25 November 2009
(xi) Resigned on 5 November 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31 December 2009, the five individuals with the highest emoluments in the Group included a director of the Company and whose emolument was included above. The emoluments of the five (2009: remaining four) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	**13,495**	7,715
Retirement benefit scheme contribution	**338**	270
	13,833	7,985

Their emoluments were within the following bands:

	2010 Number of employees	2009 Number of employees
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**—**	1
HK$3,500,001 to HK$4,000,000	**1**	—
HK$4,500,001 to HK$5,000,000	**—**	1
HK$7,000,001 to HK$7,500,000	**1**	—

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

No directors waived any emoluments for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

7. PROFIT BEFORE TAXATION

	2010 HK$'000	2009 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 6)		
Fees	**300**	300
Other emoluments	**159**	1,679
Other employee benefits expense	**83,272**	76,657
Total employee benefits expense	**83,731**	78,636
Exchange loss, net	**806**	14
Impairment loss on trade receivables	**508**	1,083
Amortisation of prepaid lease payments	**621**	340
Auditor's remuneration	**660**	660
Cost of inventories recognised as an expense	**219,521**	186,679
Depreciation of property, plant and equipment	**9,779**	10,790
(Gain) loss on disposal of property, plant and equipment	**(27)**	253
Operating lease rentals in respect of rented premises	**949**	1,159
Share of taxation of associates (included in share of profits of associates)	**16,575**	7,081
Write off on interest receivable on loans receivable included in other expense (note 15)	**5,534**	—
and after crediting the below items, which are included in other income:		
Management fee income (note 24)	**9,099**	6,709
Royalty fee income (note 24)	**7,366**	5,997
Interest income earned from:		
Advance to an associate (note 24)	**—**	572
Bank deposits	**236**	352
Loans receivable	**—**	15,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. TAXATION

	2010	2009
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	**4,166**	4,844
Overprovision in prior year	**(2)**	(595)
	4,164	4,249
PRC Enterprise Income Tax:		
Current year	**4,095**	4,720
Underprovision in prior year	**—**	99
	4,095	4,819
	8,259	9,068

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year.

The newly promulgated Enterprise Income Tax Law ("Tax Law") of the PRC is effective on 1 January 2008. The implementation of the Tax Law has impact on two of the Company's PRC subsidiaries, which previously enjoyed the preferential tax policies in the form of a reduced tax rate. These two subsidiaries will have five years of time when the Tax Law takes effect to transition progressively to the legally prescribed tax rate of 25%. PRC Income Tax of these two subsidiaries were calculated at 22% and 25% (2009: 20% and 22%) on the respective assessable profit for the year. For other PRC subsidiaries, the applicable tax rate is 25% for both years.

In previous years, the Inland Revenue Department issued additional assessment in aggregate of approximately HK$11,001,000 to an indirect wholly-owned subsidiary of the Company disallowing its offshore claims in respect of its production activities for years of assessment 2002/03, 2003/04, 2004/05 and 2005/06. The Group had purchased tax reserve certificates totalling HK$11,001,000 and an amount of HK$10,000,000 was recognised as income tax expense against such tax reserve certificates in previous years and the remaining amount of tax reserve certificates of HK$1,001,000 (2009: HK$1,001,000) was included in tax recoverable as at the end of the reporting period. In the opinion of the directors of the Company, the ultimate outcome of the additional assessment remains undetermined and the Group will continue to defend vigorously against the additional assessment.

Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed retained profits earned by the Company's PRC subsidiaries starting from 1 January 2008 under the Tax Law that requires withholding tax to be paid upon the distribution of such profits to the shareholders as, in the opinion of the directors, the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

8. TAXATION (Continued)

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	**71,845**	77,492
Less: Share of profits of associates	**(54,065)**	(42,051)
	17,780	35,441
Taxation at Hong Kong Profits Tax rate of 16.5% (2009: 16.5%)	**2,934**	5,848
Tax effect of expenses not deductible for tax purpose	**1,298**	1,419
Tax effect of income not taxable for tax purpose	**(39)**	(1,017)
Tax effect of tax losses not recognised	**1,815**	1,851
Effect of different tax rates of subsidiaries operating in the PRC	**2,253**	1,463
Overprovision in respect of prior year	**(2)**	(496)
Taxation charge for the year	**8,259**	9,068

Details of deferred taxation are set out in note 16.

9. DIVIDEND

No final dividend for the year ended 31 December 2010 (2009: nil) has been proposed by the directors.

10. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$24,950,000 (2009: HK$37,810,000) and on the weighted average number of ordinary shares of 272,860,000 (2009: 273,793,483) in issue during the year.

No diluted earnings per share is presented as the Group did not have any potential ordinary shares in issue at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2009	64,275	17,682	29,654	11,382	32,267	613	155,873
Exchange adjustments	89	26	41	14	49	2	221
Additions	—	49	322	811	272	2,006	3,460
Transfer	—	—	—	—	399	(399)	—
Disposals	(23)	(18)	(1,408)	(2,908)	(1,220)	—	(5,577)
At 31 December 2009	64,341	17,739	28,609	9,299	31,767	2,222	153,977
Exchange adjustments	1,946	534	941	294	1,066	230	5,011
Additions	—	204	2,060	1,734	299	5,784	10,081
Transfer	—	—	—	—	13	(13)	—
Disposals	(6)	(2)	(298)	(822)	(143)	(30)	(1,301)
At 31 December 2010	66,281	18,475	31,312	10,505	33,002	8,193	167,768
DEPRECIATION							
At 1 January 2009	17,254	12,893	19,149	6,193	17,152	—	72,641
Exchange adjustments	28	18	27	7	28	—	108
Provided for the year	3,061	1,074	2,947	1,440	2,268	—	10,790
Eliminated on disposals	(7)	(16)	(754)	(2,303)	(645)	—	(3,725)
At 31 December 2009	20,336	13,969	21,369	5,337	18,803	—	79,814
Exchange adjustments	724	446	676	163	649	—	2,658
Provided for the year	2,718	1,256	2,322	1,298	2,185	—	9,779
Eliminated on disposals	(1)	(2)	(265)	(618)	(98)	—	(984)
At 31 December 2010	23,777	15,669	24,102	6,180	21,539	—	91,267
CARRYING AMOUNTS							
At 31 December 2010	42,504	2,806	7,210	4,325	11,463	8,193	76,501
At 31 December 2009	44,005	3,770	7,240	3,962	12,964	2,222	74,163

The Group's owner-occupied leasehold land located in Hong Kong is included in the above land and buildings as the allocation between the land and buildings elements cannot be made reliably.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, and after taking into account their estimated residual values, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease and 50 years
Leasehold improvements	4.5% — 20%
Furniture, fixtures and office equipment	18% — 20%
Motor vehicles	18% — 25%
Plant, machinery and equipment	4% — 18%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying values of land and buildings shown above comprise:

	2010 HK$'000	2009 HK$'000
Medium-term leases in Hong Kong	**5,376**	5,537
Medium-term leases in the PRC	**37,128**	38,468
	42,504	44,005

12. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights in the PRC held under medium-term lease, and are analysed for reporting purposes as follows:

	2010 HK$'000	2009 HK$'000
Non-current asset	**34,740**	13,567
Current asset	**842**	340
	35,582	13,907

13. INTERESTS IN ASSOCIATES

	2010 HK$'000	2009 HK$'000
Unlisted investments, at cost	**178**	178
Share of post-acquisition translation reserve	**11,229**	7,549
Share of post-acquisition profits, net of dividends received	**138,731**	98,166
	150,138	105,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

13. INTERESTS IN ASSOCIATES (Continued)

Details of the Group's associates, which are held by a non-wholly owned subsidiary of the Company, at 31 December 2010 and 2009 are as follows:

Name of associate	Place of incorporation/ operations	Proportion of nominal value of issued ordinary shares held by the Group	Principal activity
Chemfield Trading Company Limited	Hong Kong	49%	Inactive
CMW Holding Limited	Hong Kong	45%	Investment holding

Name of subsidiaries of CMW Holding Limited	Place of incorporation or establishment/ operations	Proportion of nominal value of issued ordinary shares/ registered capital held by CMW Holding Limited	Principal activities
廣州卡秀堡萬輝塗料有限公司 CMW Coatings (Guangzhou) Limited	PRC	100%	Manufacturing and trading in paints and related products
無錫卡秀堡萬輝塗料有限公司 CMW Coatings (Wuxi) Limited	PRC	100%	Manufacturing and trading in paints and related products
CMW Coatings (Hong Kong) Limited	Hong Kong	100%	Trading in paints and related products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

13. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	2010	2009
	HK$'000	HK$'000
Total assets	**445,405**	325,521
Total liabilities	**(111,764)**	(90,203)
Net assets	**333,641**	235,318
Group's share of net assets of associates	**150,138**	105,893
Revenue	**657,458**	477,109
Profit for the year	**120,145**	93,446
Group's share of profits of associates for the year	**54,065**	42,051

14. AVAILABLE-FOR-SALE INVESTMENTS

	2010 & 2009
	HK$'000
Unlisted equity securities, at cost	10

The above unlisted investments represent investments in unlisted equity securities issued by a private entity incorporated in Hong Kong. The Group holds 5% equity interest of this private entity. They do not have a quoted market price in an active market and are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. LOANS RECEIVABLE

On 5 November 2007, Smart Million Limited ("Smart Million"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement") with independent third parties (the "Vendors") for the acquisition of the entire issued share capital of Winfame Investment Limited ("Winfame"), which held 99.9999875% of the issued share capital of New Gold International Limited ("New Gold") which in turn held the entire equity interest in 呼倫貝爾東明礦業有限責任公司 (referred to as "Dong Ming Mining"), a wholly-owned foreign enterprise established in the PRC and engaged in coal mining. An initial refundable deposit of HK$100,000,000 was paid to the Vendors in November 2007. Such deposit was secured by the pledge of the entire issued share capital of Winfame and Winfame's equity interest in New Gold (collectively referred to as the "Shares"). The deposit was restructured as part of the loans receivable (the "First Loan") upon termination of the Agreement during the year ended 31 December 2008.

In May 2008, Smart Million advanced a loan principal of HK$30,000,000 (the "Second Loan") to Winfame to finance the purchase of plant and machinery in connection with the operation of the coal mines by Dong Ming Mining. The Second Loan was secured by the second mortgage of the Shares, bore interest at 1% per month and was repayable on demand.

In June 2008, Smart Million entered into a supplemental agreement (the "Supplemental Agreement") with the Vendors and other parties to amend, inter alia, certain representations and warranties by the Vendors and the guarantor with respect to the audited profit after tax of Dong Ming Mining for the two years ending 31 December 2010.

On 27 November 2008, Smart Million entered into a deed of termination (the "Deed of Termination") with, inter alia, the Vendors, New Gold and Winfame to terminate the Agreement and the Supplemental Agreement and to consolidate and restructure the First Loan, the Second Loan and a further loan to New Gold of HK$25,000,000 plus respective accrued interest of HK$4,055,000 (collectively refer to as the "Indebtedness") for a term of two years (extendable for a further period of one year) from the date of the Deed of Termination to 27 November 2010. The Indebtedness bore interest at 10% per annum and the interest was payable by end of each quarter. At 31 December 2009, the amount of the Indebtedness was HK$159,055,000 and the Indebtedness was secured by the Shares and all assets, property, undertaking, rights and revenues of New Gold were charged to the Group under a fixed and floating charge. The Indebtedness was also under personal guarantee provided by a shareholder of Winfame.

As part of the conditions to safeguard the recovery by Smart Million of the Indebtedness under the Deed of Termination, Winfame granted to Smart Million a right to convert the Indebtedness into 25% equity interest of New Gold in satisfaction in full of the Indebtedness at Smart Million's sole and absolute discretion at any time within the two-year period during the continuance of the Deed of Termination. The Indebtedness including this conversion right was stated at cost less impairment at 31 December 2009 because the range of reasonable fair value estimates of the conversion right was so significant that the directors of the Company were of opinion that the fair value of the conversion right could not be reliably measured and the conversion right component of the Indebtedness was sufficiently significant to preclude them from obtaining a reliable estimate of the fair value of the entire instrument (i.e. the Indebtedness including the conversion right).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. LOANS RECEIVABLE (Continued)

At 31 December 2009, a total amount of the Indebtedness of HK$159,055,000 and interest receivable of HK$5,534,000 (see Note 18) was due from New Gold. In April, July and September 2010, the Group received repayments from New Gold, amounting to an aggregate of HK$159,055,000. On 17 September 2010, New Gold and the Company mutually agreed that the interest for the year was waived by the Group. As a result, the interest receivable of HK$5,534,000 was written off as an expense in the consolidated statement of comprehensive income during the year ended 31 December 2010.

The directors considered that the early settlement of the indebtedness could improve the Group's cash position for future acquisition business.

16. DEFERRED TAXATION

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

	Difference between tax allowance and depreciation	Allowance for trade receivables	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2009	(9)	123	114
Charge for the year	55	1	56
Effect of change in tax rate	1	(8)	(7)
At 31 December 2009 and 2010	47	116	163

For the purpose of statement of financial position presentation, the above deferred tax assets and liabilities have been offset.

At 31 December 2010, the Group had unused tax losses of approximately HK$31,285,000 (2009: HK$20,285,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams.

The Tax Law imposes withholding tax upon the distribution of profits earned by the Company's PRC subsidiaries on or after 1 January 2009 to their non-PRC shareholders. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Company's PRC subsidiaries amounting to approximately HK$24,390,000 (2009: HK$14,537,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2010

17. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	**22,184**	14,755
Work in progress	**4,133**	3,615
Finished goods	**3,897**	3,202
	30,214	21,572

18. TRADE AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables from third parties	**67,815**	64,441
Trade receivables from associates	**7,242**	5,957
Interest receivable on loans receivable	**—**	5,534
Amount due from a company owned by former director of the Company	**—**	2,399
Other receivables	**9,812**	4,592
	84,869	82,923

The Group allows credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting periods:

	Trade receivables from third parties		Trade receivable from associates	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
0 — 30 days	**34,731**	21,313	**7,242**	4,885
31 — 60 days	**16,456**	19,690	**—**	1,072
61 — 90 days	**10,380**	12,940	**—**	—
Over 90 days	**6,248**	10,498	**—**	—
	67,815	64,441	**7,242**	5,957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good track records with the Group.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$19,512,000 (2009: HK$16,053,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2010 **HK$'000**	2009 HK$'000
61 — 90 days	**10,182**	11,184
91 — 120 days	**9,330**	4,869
	19,512	16,053

No interest is charged on the trade receivables. Trade receivables between 60 days and 360 days have been provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$3,275,000 (2009: HK$3,855,000) that are considered irrecoverable by management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the ageing of these receivables. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts is as follows:

	2010 **HK$'000**	2009 HK$'000
Balance at the beginning of the year	**3,855**	4,555
Impairment losses recognised	**508**	1,083
Amounts written off as uncollectible	**(1,088)**	(1,783)
Balance at the end of the year	**3,275**	3,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The bank balances carry interest at prevailing market rate of 0.16% (2009: 0.21%) per annum.

20. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payables to third parties	**21,136**	19,824
Trade payable to an associate	**921**	658
Accrued staff cost and other payables	**23,372**	17,814
	45,429	38,296

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods:

	Trade payables to third parties		**Trade payable to an associate**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
0 — 30 days	**19,247**	18,353	**921**	658
31 — 60 days	**1,412**	1,177	**—**	—
61 — 90 days	**105**	244	**—**	—
Over 90 days	**372**	50	**—**	—
	21,136	19,824	**921**	658

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

21. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each:		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2009	300,000,000	30,000
Shares repurchased and cancelled	(27,140,000)	(2,714)
At 31 December 2009 and 2010	272,860,000	27,286

During the year ended 31 December 2009, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK$0.1 each	Price per shares Highest	Price per shares Lowest	Aggregate consideration paid
January 2009	27,140,000	0.85	0.84	23,154,000

The above shares were cancelled upon repurchase.

22. OTHER BORROWING — SECURED

On 23 December 2010, the Company entered into a loan agreement with a financial institution and obtained a term loan amounting to HK$150,000,000. The loan bears interest at 10% per annum, and is secured by pledge of shares and an undated deed of assignment of a loan, details of which are set out in note 23. Pursuant to the loan agreement, the Company prepaid loan interest of HK$15,000,000 to the lender on or before 31 December 2010 and the remaining interest, together with the principal will be repayable on 30 June 2012 but the lender could demand early repayment of the principal amount and accrued interest in full or any part thereof, at any time on or after 1 March 2012.

The other borrowing is carried at amortised cost with effective interest of 10.21% as at 31 December 2010.

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For the year ended 31 December 2010

23. PLEDGE OF ASSETS

As at 31 December 2010, the Group pledged its 51% equity interests in Rookwood Investments Limited ("Rookwood"), a non-wholly owned subsidiary of the Group, and an undated deed of assignment duly executed by the Company and Rockwood pursuant to which the Company agrees to assign a loan to Rookwood of HK$31,476,308 in case of default to a financial institution to secure the term loan with principal amount of HK$150,000,000.

24. RELATED PARTY TRANSACTIONS

During the year, other than as disclosed in notes 18 and 20, the Group had the following transactions with its related parties:

Relationship	Nature of transactions	2010 HK$'000	2009 HK$'000
Associates	Sales of goods by the Group	**35,753**	28,415
	Management fee income earned by the Group	**9,099**	6,709
	Purchase of goods by the Group	**6,025**	7,291
	Royalty fee income earned by the Group	**7,366**	5,997
	Interest income earned by the Group	**—**	572
	Dividend received by the Group	**13,500**	9,000
Related company (note)	Purchase of a property	**21,268**	—

Note: An entity owned by a former director of the Company, who is an existing director of certain non-wholly owned subsidiaries of the Company.

In addition, the remuneration of directors and other members of key management during the year, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	**13,952**	9,207
Post-employment benefits	**340**	285
	14,292	9,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Details of the statement of financial position of the Company as at the end of the reporting period are as follows:

	Notes	**2010** **HK$'000**	2009 HK$'000
Assets and liabilities			
Investments in subsidiaries		**60,766**	60,766
Amounts due from subsidiaries	(a)	**37,594**	187,805
Deposits and prepayments		**1,465**	121
Bank balances		**341,112**	42,242
		440,937	290,934
Amount due to subsidiaries		**(6,314)**	(77)
Accruals		**(2,288)**	(2,060)
Other borrowing		**(135,164)**	—
		297,171	288,797
Capital and reserves			
Share capital		**27,286**	27,286
Reserves	(b)	**269,885**	261,511
		297,171	288,797

Notes:

(a) The amounts are unsecured, interest-free and expected to realise in the next twelve months from the end of the reporting period.

(b) Details of changes in reserves of the Company are as follows:

	Share premium HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2009	121,293	119,071	48,192	288,556
Loss for the year	—	—	(6,605)	(6,605)
Shares repurchased and cancelled	(20,440)	—	—	(20,440)
At 31 December 2009	100,853	119,071	41,587	261,511
Profit for the year	—	—	8,374	8,374
At 31 December 2010	100,853	119,071	49,961	269,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

26. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure in respect of acquisition of subsidiaries contracted but not provided in the consolidated financial statements (note)	**400,000**	—
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the consolidated financial statements	**24,691**	1,488

Note: On 21 September 2010, the Company entered into a sales and purchase agreement (the "S&P") with China Century Worldwide Limited ("China Century"). Under the S&P, the Company has conditionally agreed to acquire from China Century the entire share capital of Ace Winner Holdings Limited ("Ace Winner"), a limited company incorporated in the BVI, which after reorganisation, will hold 69.44% of a group of companies registered in the PRC, and principally engaged in design, manufacturing and sale of light-emitting diode and semi-conductor lighting related product (the "Acquisition"). The total consideration for the Acquisition is HK$400,000,000, which in January 2011, the Company and China Century agreed shall be satisfied as to HK$335,000,000 in cash and as to HK$65,000,000 by issuing convertible bonds with the principal amount of HK$65,000,000 at a conversion price of HK$2.1 per share.

27. OPERATING LEASE COMMITMENTS

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

	2010 HK$'000	2009 HK$'000
Within one year	**102**	418
In the second to fifth year inclusive	**85**	—
	187	418

Leases are negotiated and monthly rentals are fixed for term of two years (2009: two years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

28. RETIREMENT BENEFITS SCHEMES

The Group participates in defined contribution schemes which are registered under the ORSO Scheme and the MPF Scheme established under the MPF Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group and the employees contribute 5% of relevant payroll costs to the scheme. The maximum monthly contribution by the Group is limited to HK$1,000 per employee while an employee can contribute more than HK$1,000 per month if the employee is willing to do so.

The ORSO Scheme is funded by monthly contributions by the Group at 7% of the employee's basic salary.

There are no forfeited contributions for both years which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable in future years.

Employees in the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 10% of the employee payroll to such scheme to fund the retirement benefits of the employees.

The pension scheme contributions for the directors and employees, which have been dealt with in the consolidated statement of comprehensive income for the year, is HK$4,106,000 (2009: HK$4,075,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contribution for both years.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged except that an other borrowing has been obtained by the Group, as set out in note 22.

The capital structure of the Group consists of debt balance and equity balance. Debt balance consists of other borrowing and equity balance consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an on-going annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchase as well as the issue of new debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**529,370**	403,932
Available-for-sale investments	**10**	10
Financial liabilities		
Amortised cost	**161,439**	23,133

(b) Financial risk management objectives and policies

The Group's major financial instruments include loans receivable, advance to an associate, trade and other receivables, bank balances, trade and other payables and other borrowing. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

(i) Market risk

Currency risk

Several subsidiaries of the Company have foreign currency transactions, which expose the Group to foreign currency risk.

At the end of the reporting period, the carrying amounts of the relevant group entities' foreign currency denominated monetary liabilities are as follows:

	2010 HK$'000	2009 HK$'000
United States dollars ("USD")	**740**	—
Euro	**237**	—

Sensitivity analysis

As HK$ is pegged with USD and the carrying amount of the Euro denominated liabilities is insignificant, the Group's currency risk in relation to foreign denominated monetary liabilities is expected to be minimal. Therefore, no sensitivity analysis is prepared at the end of the reporting period.

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30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loans receivable and other borrowing carrying fixed-rate interest. The Group is also exposed to cash flow interest rate risk in relation to the Group's bank balances carrying variable-rate interest.

The Group is exposed to variable interest rate for its bank balance. The directors do not expect there will be a significant interest rate adjustment in bank deposits, hence no sensitivity analysis is prepared at the end of the reporting period.

(ii) Credit risk

As at 31 December 2010, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to manage its credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Credit sales of products are only made to customers with good repayment history. In addition, the Group reviews the recoverable amount of individual debt on an on-going basis to ensure that adequate impairment losses are made for irrecoverable amounts. Impairment loss of HK$508,000 (2009: HK$1,083,000) in respect of the trade receivables was recognised by the Group for the year.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with good reputation.

As at 31 December 2010, the Group had concentration of credit risk on its trade receivables as approximately 10% (2009: 8%) of trade receivables is due from associates. As at 31 December 2009, the Group had concentration of credit risk on its loans receivable of HK$159,055,000 and interest receivable of HK$5,534,000, which was due from a single counterparty, Winfame. During the year ended 31 December 2010, HK$159,055,000 was received and interest receivable of HK$5,534,000 was written off. Details are set out in note 15 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

30. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigates the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3-6 months	1-2 years	Total undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010							
Non-derivative financial liabilities							
Trade and other payables	—	23,793	2,312	170	—	26,275	26,275
Other borrowing	10.21	—	—	—	152,500	152,500	135,164
		23,793	2,312	170	152,500	178,775	161,439
2009							
Non-derivative financial liabilities							
Trade and other payables	—	4,953	17,115	1,065	—	23,133	23,133

(c) Fair value

The fair values of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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31. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued share capital/paid up registered capital	Attributable equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2010	2009	2010	2009	
Rookwood	BVI/ Hong Kong	US$10,000 Ordinary shares	51%	51%	—	—	Investment holding
Upflow Limited	Hong Kong	HK$1 Ordinary share	100%	100%	—	—	Provision of management services
Smart Million Limited	BVI/ Hong Kong	US$1 Ordinary share	100%	100%	—	—	Investment holding
Pine Fame Limited	Hong Kong	HK$1 Ordinary share	100%	—	—	—	Investment holding
Manfield Coatings Company Limited	Hong Kong	HK$1,000 Ordinary shares HK$32,000,000 Non-voting class A shares (note i)	—	—	51%	51%	Investment holding and trading in paints and related products
Manfield Chemical Limited	Hong Kong	HK$10,000 Ordinary shares	—	—	51%	51%	Investment holding
Springfield Chemical Company Limited	Hong Kong	HK$1 Ordinary shares	—	—	51%	51%	Investment holding
深圳松輝化工有限公司 Shenzhen Pinefield Chemical Enterprises Co, Ltd	PRC (note ii)	US$5,500,000 Paid-up registered capital	—	—	51%	51%	Manufacture of paints and trading in petrochemical and related products

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31. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued share capital/paid up registered capital	Attributable equity interest held by the Company Directly 2010	Directly 2009	Indirectly 2010	Indirectly 2009	Principal activities
廣州市彩輝化工有限公司 Champion Chemical (Guangzhou) Company Limited	PRC (note ii)	HK$3,000,000 Paid-up registered capital	–	–	51%	51%	Manufacture of paints and trading in petrochemical and related products
常州萬輝化工有限公司 Manfield Chemical (Changzhou) Limited	PRC (note ii)	HK$42,003,816 Paid-up registered capital	–	–	41% (note iii)	41%	Manufacture of paints and trading in petrochemical and related products
常州萬輝運輸有限公司 Changzhou Manfield Transportation Limited	PRC (note ii)	RMB1,500,000 Paid-up registered capital	–	–	51%	51%	Provision of transportation services
廣州源輝化工有限公司 Springfield Chemical (Guangzhou) Co. Ltd.	PRC (note ii)	HK$13,614,000 Paid-up registered capital	–	–	51%	51%	Properties holding
連雲港栢譽信息咨詢服務有限公司	PRC (note ii)	HK$773,887 Paid-up registered capital	–	–	100%	–	Not yet commence business

Notes:

(i) The non-voting class A shares practically carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.

(ii) The companies are registered in the form of wholly foreign owned enterprises.

(iii) 80% equity interest of the company is indirectly held by Rookwood.

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

32. EVENT AFTER THE REPORTING PERIOD

On 15 March 2011, the Acquisition (as defined in note 26) has been approved by shareholders at the extraordinary general meeting. On 17 March 2011, the Company paid cash of HK$335,000,000 and issued convertible bonds with principal amount of HK$65,000,000 to China Century and the Acquisition was completed on the same date. The Company is in the process of ascertaining the fair value of the net assets of the subsidiaries acquired in the Acquisition that include monetary and non-monetary assets and liabilities and the fair value of the convertible bonds issued as part of the consideration for the Acquisition, but is not yet in a position to disclose the finalised consolidated financial information of Ace Winner completed on 17 March 2011 as at the date these consolidated financial statements were authorised for issue. According to the Accountants' Reports of China Opto Investment Limited and Jiangsu Wenrun Optoelectronic Co., Ltd. set out in Appendices IIA and IIB of the circular dated 25 February 2011 issued by the Company in connection with the Acquisition (the "Circular"), the aggregate carrying amount of the identifiable assets less liabilities were RMB164,277,000 (equivalent to approximately HK$179,249,000) as at 31 October 2010. For details of the Acquisition, please refer to the Circular.

FINANCIAL SUMMARY

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	279,133	317,066	335,697	269,929	**310,524**
Profit from operations	24,559	12,952	221	35,441	**17,780**
Interest expense	(2)	—	—	—	**—**
Share of profits of associates	17,451	16,612	18,009	42,051	**54,065**
Loss on partial disposal of subsidiary	—	(2,991)	—	—	**—**
Profit before taxation	42,008	26,573	18,230	77,492	**71,845**
Taxation	(13,042)	(3,347)	(3,326)	(9,068)	**(8,259)**
Profit for the year	28,966	23,226	14,904	68,424	**63,586**
Attributable to:					
Owners of the Company	28,966	24,535	4,376	37,810	**24,950**
Non-controlling interests	—	(1,309)	10,528	30,614	**38,636**
	28,966	23,226	14,904	68,424	**63,586**

	At 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	309,484	590,179	565,734	623,636	**827,546**
Total liabilities	(40,874)	(56,438)	(29,439)	(41,776)	**(187,802)**
Shareholders' funds	268,610	533,741	536,295	581,860	**639,744**
Equity attributable to:					
Owners of the Company	268,610	400,227	391,168	405,970	**435,908**
Non-controlling interests	—	133,514	145,127	175,890	**203,836**
	268,610	533,741	536,295	581,860	**639,744**