

# 中國海島



中國海景控股有限公司  
Sino Haijing Holdings Limited

(Stock Code: 1106)

*Annual Report 2012*

*This report, in both English and Chinese versions, is available on the Company's website at <http://www.sinohaijing.com> (the "Company Website").*

*Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to this report posted on the Company Website will promptly upon request be sent this report in printed form free of charge.*

*Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.*

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# 中國海業

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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Chao Pang Fei (*Chairman*)  
Mr. Wang Yi  
Ms. Hui Hongyan

## NON-EXECUTIVE DIRECTOR

Mr. Lan Yu Ping

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Ka Wing  
Mr. Sin Ka Man  
Ms. Chen Hongfang

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2412, 24/F  
Wing On Centre  
111 Connaught Road Central  
Hong Kong

## COMPANY SECRETARY

Ms. Choi Yuen Wa (*FCCA, CPA, MBA*)

## AUTHORISED REPRESENTATIVES

Mr. Chao Pang Fei  
Ms. Choi Yuen Wa (*FCCA, CPA, MBA*)

## AUDIT COMMITTEE

Mr. Ho Ka Wing (*Chairman*)  
Mr. Sin Ka Man  
Ms. Chen Hongfang

## REMUNERATION COMMITTEE

Mr. Ho Ka Wing (*Chairman*)  
Mr. Sin Ka Man  
Ms. Chen Hongfang  
Mr. Chao Pang Fei  
Ms. Hui Hongyan

## NOMINATION COMMITTEE

Mr. Chao Pang Fei (*Chairman*)  
(appointed as chairman on 23 March 2012)  
Mr. Hui Hongyan (appointed on 23 March 2012)  
Mr. Ho Ka Wing (appointed on 23 March 2012)  
Mr. Sin Ka Man (appointed on 23 March 2012)  
Ms. Chen Hongfang (appointed on 23 March 2012)

## LEGAL ADVISERS

*As to Hong Kong Law*  
Loong & Yeung

*As to Cayman Islands Law*  
Conyers Dill & Pearman, Cayman

## AUDITOR

Mazars CPA Limited  
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Bank Of East Asia  
HSBC  
Bank of China (Hefei)  
Bank of Communications (Hefei)  
China Merchants Bank (Qingdao)

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited  
26/F Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## STOCK CODE

1106

## COMPANY'S WEBSITE

<http://www.sinohaijing.com>



## Directors and Senior Management

Biographical details of directors of the Company and the senior management of the Group are set out below:

### DIRECTORS

#### EXECUTIVE DIRECTORS

**Mr. Chao Pang Fei**, aged 52, is the chairman and the chief executive officer of the Group and is responsible for the formulation of corporate strategy and the steering of the overall development of the Group. Mr. Chao has over 17 years of experience in expanding and promoting the EPS packaging industry in the PRC. Mr. Chao joined the Group in September 2005. Mr. Chao is the sole director and sole shareholder of Haijing Holdings Limited, which is a controlling shareholder (as defined under the Listing Rules) of the Company.

**Mr. Wang Yi**, aged 51, is the general manager of Hefei Haijing Packing Materials Company Limited, a subsidiary of the Group. He is responsible for overseeing the operation of Hefei Haijing Packing Materials Company Limited. Mr. Wang graduated from Shanghai Light Industry College. Mr. Wang has over 25 years of experience in the EPS production and technical management. Mr. Wang joined the Group in January 2008.

**Ms. Hui Hongyan**, aged 48, is responsible for the financial management of the Group's subsidiaries in the PRC. Ms. Hui graduated from the University of Shenzhen majoring in accountancy. Ms. Hui had over 18 years of experience in different management positions in finance department of various companies in the PRC. Ms. Hui joined the Group in September 2005.

#### NON-EXECUTIVE DIRECTOR

**Mr. Lan Yu Ping**, aged 49, holds a bachelor degree and master degree in economics from Zhongshan University in the PRC and a master degree in business studies from Massey University in New Zealand. Since 1988, Mr. Lan worked for several financial institutions and investment companies in the PRC and currently he is the professor in the International Finance College of the Beijing Normal University (Zhuhai Campus). Mr. Lan has over 17 years of experience in finance and investment fields.

# Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ho Ka Wing**, aged 41, has over 15 years of management experience. Mr. Ho received a bachelor degree of business from the Monash University in Australia in 1997 and a master of degree of business administration from the University of Surrey in the United Kingdom in 2000.

**Mr. Sin Ka Man**, aged 45, has over 21 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and a certified practising accountant of the CPA Australia. Mr. Sin holds a bachelor degree in Social Sciences from the University of Hong Kong, a master degree in finance from the University of Strathclyde, the United Kingdom and a master degree in accounting from Curtin University of Technology, Australia.

**Ms. Chen Hongfang**, aged 50, graduated from Guangdong Provincial Party College. Ms. Chen has over 11 years of administration and human resources management experience.

## SENIOR MANAGEMENT

**Ms. Choi Yuen Wa, Frieda**, aged 45, is the financial controller and company secretary of the Group. Ms. Choi joined the Group in August 2005 and is responsible for the financial management, accounting and company secretarial matters of the Group. Ms. Choi holds a master degree in business administration from the University of Surrey in the United Kingdom. Ms. Choi is a fellow member of the Association of Chartered Certified Accountants and is an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining to the Group, Ms. Choi had worked in the finance department of two public listed companies in Hong Kong. She has over 19 years of professional experience in the field of auditing, accounting and financial management.

**Mr. Yao Weiyong**, aged 34, is the general manager of Qingdao Haijing Packing Materials Company Limited, a subsidiary of the Group, and is responsible for overseeing the operation of Qingdao Haijing Packing Materials Company Limited. Mr. Yao graduated from the faculty of computer of Hefei Industrial University. Mr. Yao has over 11 years of experience in the EPS production and technical management.

# Directors' Business Review

The board of directors (the "Board") of Sino Haijing Holdings Limited (the "Company") herein presents the audited annual results of the Company and its subsidiaries (together, the "Group") for the financial year ended 31 December 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### *TURNOVER*

For the year under review, the Group recorded a total turnover of approximately HK\$517.84 million, representing a decrease of 0.43% as compared to approximately HK\$520.07 million for the corresponding year in 2011.

#### *GROSS PROFIT*

Gross profit was approximately HK\$64.20 million for the year 2012, representing a decrease of approximately 10.85% as compared to approximately HK\$72.02 million for the corresponding year in 2011. The overall profit margin decreased from 13.85% for 2011 to 12.40%. The decrease in profit margin was due to the continuous rise in the costs of fuel, electricity and labour cost which were difficult to shift all the increasing costs to the customers in the current circumstances.

#### *OTHER OPERATING INCOME*

Other operating income was approximately HK\$7.61 million for the year 2012, representing a decrease of approximately 8.42% as compared with approximately HK\$8.31 million for the corresponding year in 2011. The decrease in other operating income was mainly due to the decrease in exchange gain from the pledged RMB fixed deposit held by the Company.

#### *FINANCE COSTS*

Finance costs for the year 2012 were approximately HK\$10.07 million, representing an increase of approximately 8.24% as compared to approximately HK\$9.31 million for the corresponding year in 2011. The increase of finance costs was due to increase in bank and other borrowings.

#### *LOSS FOR THE YEAR*

For the year under review, loss attributable to equity holders of the Company was approximately HK\$25.13 million representing an increase of approximately 27.98% as compared to approximately of HK\$19.64 million for the corresponding year in 2011. Impairment loss on goodwill included in administrative and other operating expenses was approximately HK\$24.25 million representing a decrease of approximately 15.57% as compared with approximately HK\$28.72 million for the corresponding year in 2011.

# Directors' Business Review

## **BUSINESS REVIEW**

The Group mainly focuses on the production and sale of expanded polystyrene ("EPS") and paper honeycomb packaging products for household electrical appliances in the PRC. The Group commits to provide excellent integrated packaging solutions to its customers, including design, development, testing and production of cushion packaging products. During the year of 2012, the Group was exposed to a tough operating environment due to the overall decline in economic growth and the continuous downturn of the property market in the PRC, resulting in significantly reduced demand for household electrical appliances and brought unprecedented challenges to the Group. Whereas the continuous rise of fuel, electricity, labour cost and accessory materials increased the operating costs of the Group squeezed the profit margins of the Group.

The economic prospects of the PRC is impacted by the sluggish US economy and the sovereign debt crisis in Europe as well as high inflation and the market demand for the household electrical appliances will not be expected to rebound strongly in the near future. Whereas in the past few years, subsidy policies of "Rural Area Subsidized Electrical Appliances Purchase Policy" and "Energy Efficient Product Subsidy Policy" utilized the market demand for the household electrical appliances in advance.

The household electrical appliances industry is now facing the problem of overcapacity whereas the EPS packaging industry is also facing the problem of overcapacity and the fierce competition within the industry.

However, the Group's operating results have been stabilized in the second half of 2012 after the effective implementation of the Group's revenue and expenditure measures. Excluding the impact of impairment loss on goodwill, the net loss of the Group in first half of 2012 was approximately HK\$7.44 million as compared with the net profit of the Group in second half of 2012 was approximately HK\$6.55 million, the operating results have been significantly improved.

## **BUSINESS OUTLOOK**

Looking forward, the Group will focus on upgrading the production technology, strengthen the internal management and develop new customers.





## Directors' Business Review

### ENHANCE PRODUCTION TECHNOLOGY

The Group will enhance its production technology management, improve its production processes, including to improve mould design and management, streamline the production processes, reduce the consumption of water and electricity, reduce scrap products, improve the product quality and to enhance the overall production efficiency.

The Group requires utilizing massive steam in the daily production processes and to improve the mould design can effectively reduce the consumption of steam. The Group will focus on improving mould design, thereby enhancing production efficiency and cost savings.

### STRENGTHEN INTERNAL MANAGEMENT

The Group will continue to strengthen its internal management, establish a sound internal control system to enable the Group's continuous, stable and healthy development.

The Group will continuously simplify and improve procedures and processes to make operations more streamlined. The Group will convene regular internal meetings to facilitate communication among the Group's subsidiaries in order to promote market information and exchange production technology so that all departments complement each other in their respective merits and enhance overall efficiency.

The Group will also continue to keep its inventory at reasonably low level in order to enhance profitability.

### BUSINESS DEVELOPMENT

The Group will consolidate the existing customers and develop the new customers positively. In 2012, the Group has started to produce the plastic hollow plate products. The plastic hollow plate products are the accessory materials of the EPS cushion packaging products which are mainly used in the packaging of large household electrical appliances such as washing machine and refrigerators. The Group has produced the plastic hollow plate products in order to reduce the demand from the suppliers and reduce the production cost.

The Group has also started to produce turnover boxes made by plastic hollow plates which are used in the production of automotive. The Group has diversified new business other than household electrical appliances packaging industry.

# Directors' Business Review

## **MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE POSSIBLE ACQUISITION ("MOU")**

On 5 February 2013, the Group entered into a non-legally binding MOU in relation to the possible acquisition. The Group may acquire a business which is engaged in energy saving management. Amid the significant reduction in the demand for the household electrical appliances and the fierce competition amongst the packaging products market in the PRC, the Group considers that the possible acquisition will offer a good opportunity for the Group to diversify its business and seek new revenue avenues.

The possible acquisition, if it materialises, may constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules. Further announcement(s) in respect of the possible acquisition will be made by the Company as and when appropriate in accordance with the Listing Rules.

## **NEW PRODUCTION PLANT IN QINGDAO**

The construction of the new production plant in Qingdao will be completed in May 2013 and the operation of the new production plant will be commenced in July 2013. The operation of new production plant in Qingdao will increase the production capacity of the Group and should further enhance the service to the customers located in Qingdao City.

## **TEAM BUILDING**

The Group has adhered to the "people-oriented" enterprise conviction and strongly believes that only having outstanding human resources can enhance the overall competitiveness and cohesive spirit of the Group. The Group has adopted a share option scheme and offered a refined incentive bonus program to its staff. The Group provides ongoing staff training, offers fair and equitable promotional opportunities to its staff and provides a platform to its staff for their career advancement so as to enhance the quality of management and operations skills of the staff, nurture and reserve the key human resources for future development of the Group.

The construction of Block 2 dormitory in Hefei was completed in July 2012. The construction of dormitory can provide a better living environment for the employees in Hefei, improve their sense of belonging and stability. The construction of Block 1 dormitory was commenced in July 2012 and will be completed in May 2013.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2012, the Group's current assets amounted to approximately HK\$401.02 million (2011: HK\$457.52 million) of which approximately HK\$21.12 million (2011: HK\$34.42 million) were bank balances and cash. The Group's current liabilities amounted to approximately HK\$294.37 million (2011: HK\$306.86 million) which mainly comprised its trade and other payables and interest-bearing bank and other borrowings.



## Directors' Business Review

As at 31 December 2012, the Group's interest-bearing bank and other borrowings of approximately HK\$195.37 million had variable interest rates and were repayable within one year, which were secured by the Group's buildings, lease premium for land, trade and other receivables and pledged bank deposits (2011: approximately HK\$180.90 million).

Taken into consideration of its current financial resources, the Group shall have adequate capital for its continual operation and development.

### GEARING RATIO

As at 31 December 2012, the total tangible assets of the Group were approximately HK\$599.05 million whereas the total liabilities were approximately HK\$297.10 million. The gearing ratio (total liabilities divided by total tangible assets) was approximately 49.60%.

### EMPLOYEES

As at 31 December 2012, the Group had a total of around 482 (2011: 1,148) staff. The Group remunerates its employees based on their performance, experience and industry practices.

### CAPITAL STRUCTURE

As at 31 December 2012, the Group's net assets were financed by internal resources and bank and other borrowings.

### SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2012.

### CAPITAL COMMITMENT

The group's capital commitment outstanding at the year end and contracted but not provided for in the financial statements is HK\$21.90 million (2011: HK\$37.80 million).

### PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2012, the Group pledged assets with aggregate carrying value of HK\$161.64 million (2011: HK\$183.07 million) to secure banking and other facilities and other borrowings.

### CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities.

# Directors' Business Review

## HEDGING

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

## APPRECIATION

The Board would like to thank all customers, shareholders, business associates and professional advisers for their continuous support and extend its appreciation to all fellow directors and employees for their invaluable efforts and hard work, dedication and commitment to the Group during the year.

For and on behalf of the Board

**Chao Pang Fei**

*Chairman*

Hong Kong, 25 March 2013

# Corporate Governance Report

## CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in Revised Code Provision D.3.1. During the year ended 31 December 2012, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the revised code, namely Corporate Governance Code (the "Revised Code"), became effective on 1 April 2012.

The Board periodically reviews the corporate governance practices of the Company to ensure its continuous compliance with the Former Code and the Revised Code. The Company has complied with applicable code provisions of each of the Former Code and the Revised Code for the year ended 31 December 2012, except for certain deviations which are summarized below:

### FORMER CODE PROVISION AND REVISED CODE PROVISION A.2.1 TO A.2.9

Both the Former Code Provision and Revised Code Provision A.2.1 stipulate that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Revised Code Provision A.2.2 to A.2.9 further stipulate the roles and responsibilities of the chairman.

Mr. Chao Pang Fei is the chairman and chief executive officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and departments heads, the Board considers that vesting the roles of both chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

### FORMER CODE PROVISION AND REVISED CODE PROVISION A.4.1

Both the Former Code Provision and Revised Code Provision A.4.1 stipulate that non-executive directors should be appointed for a specific term, subject to re-election. Non-Executive Director and Independent Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

# Corporate Governance Report

## **REVISED CODE PROVISION A.6.7**

Revised Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

For the annual general meeting held on 28 May 2012, only the chairman, one executive director and one independent non-executive director attended the meeting. The rest of the board of directors could not attend the meeting due to their busy business schedules or other engagements. The Company will endeavour to arrange the future general meeting with the presence of the non-executive director and independent non-executive directors so as to fulfill the requirement of Revised Code Provision A.6.7.

## **DIRECTORS AND OFFICERS INSURANCE**

Appropriate insurance covers on directors' and officers' liabilities have been in force to protect the directors and officers of the Group from their risk exposure arising from the business of the Group.

## **DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT**

Revised Code Provision A.6.5 of the Revised Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The Directors are committed to comply with the Revised Code which came into effect on 1 April 2012 regarding directors' training. The Directors, namely Mr. Chao Pang Fei, Mr. Wang Yi, Ms. Hui Hongyan, Mr. Lan Yu Ping, Mr. Ho Ka Wing and Ms. Chen Hongfang have participated in a workshop on the Listing Rules organized by the company secretary of the Company during the year ended 31 December 2012. Mr. Sin Ka Man has provided a record of relevant training he received for the year ended 31 December 2012 to the Company.

# Corporate Governance Report

## THE BOARD

### RESPONSIBILITIES

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions (in particular those which may involve conflict of interests), appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

All directors have full and timely access to all relevant information as well as the advice and services of the professional advisers, as and when required, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

### COMPOSITION

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board of the Company as at the date of this report comprises the following directors:

#### **EXECUTIVE DIRECTORS:**

Mr. Chao Pang Fei (*Chairman*)

Mr. Wang Yi

Ms. Hui Hongyan

Mr. Deng Chuangping (Resigned on 26 March 2012)

# Corporate Governance Report

## ***NON-EXECUTIVE DIRECTOR:***

Mr. Lan Yu Ping

## ***INDEPENDENT NON-EXECUTIVE DIRECTORS:***

Mr. Ho Ka Wing

Mr. Sin Ka Man

Ms. Chen Hongfang

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules.

None of the members of the Board is related to one another.

In accordance with the Company's articles of association, all directors for the time being shall retire from office and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Detailed information of the directors standing for re-election will be included in the Company's circular to be dispatched together with the notice of the forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

## **BOARD AND BOARD COMMITTEES MEETINGS**

### ***NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE***

Regular Board meetings should be held at least four times a year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2012, 5 Board meetings (4 of which were regular Board meetings), 3 Audit Committee meetings were held, 1 Remuneration Committee meeting and 1 Nomination Committee meeting.



# Corporate Governance Report

The individual attendance record of each director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee, during the year ended 31 December 2012 is set out below:

Name of Directors	Attendance/Number of Meetings held during the tenure of directorship			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
- Mr. Chao Pang Fei	4/5	N/A	1/1	1/1
- Mr. Wang Yi	2/5	N/A	N/A	N/A
- Ms. Hui Hongyan	5/5	N/A	1/1	1/1
- Mr. Deng Chuangping (Resigned on 26 March 2012)	N/A	N/A	N/A	N/A
Non-Executive Director				
- Mr. Lan Yu Ping	5/5	N/A	N/A	N/A
Independent Non-Executive Directors				
- Mr. Ho Ka Wing	5/5	3/3	1/1	1/1
- Mr. Sin Ka Man	5/5	3/3	1/1	1/1
- Ms. Chen Hongfang	5/5	3/3	1/1	1/1

## PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

In general, at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or Audit Committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given an opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to the senior executives whenever necessary. With the support of the senior executives, the Chairman is responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

# Corporate Governance Report

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are kept by the secretary of the meetings and opened for inspection by the directors.

The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## **BOARD COMMITTEES**

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expenses.

## **AUDIT COMMITTEE**

The Company had established an Audit Committee in compliance with the Listing Rules. In accordance with Rule 3.10 of the Listing Rules, the Company has already appointed three independent non executive Directors and at least one of them has accounting expertise to assist the management in formulating development strategies of the Group, and to ensure that the preparation of the financial reports and other mandatory reports by the Board are in strict adherence to appropriate standards in order to protect the interests of the Shareholders and the Company. The Company has received confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules, and believes that, for the year ended 31 December 2012 up to the date of this annual report, they were independent to the Company in accordance with the relevant requirements of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting and internal control procedures of the Group.

The Audit Committee comprises Mr. Ho Ka Wing, Mr. Sin Ka Man and Ms. Chen Hongfang who are Independent Non-Executive Directors of the Company. Mr. Ho Ka Wing is the chairman of the Audit Committee.

During the year, the Audit Committee held three meetings to review and comment on the Company's 2011 annual report, 2012 half-yearly report as well as the Company's internal control procedures.

# Corporate Governance Report

The Group's annual results for the year ended 31 December 2012 were reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## REMUNERATION COMMITTEE

The Company had established the Remuneration Committee in compliance of the Listing Rules. In compliance with the amendments to the Listing Rules and the Revised Code which has been effective on 1 April 2012, the written terms of reference of the Remuneration Committee adopted by the Company pursuant to the Board's resolution passed on 23 March 2012. The primary duties of the Remuneration Committee mainly include: (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them.

The Remuneration Committee consists of three independent non-executive Directors, namely, Mr. Ho Ka Wing and Mr. Sin Ka Man and Ms Chen Hongfang and two executive Directors, namely, Mr. Chao Pang Fei and Ms. Hui Hongyan. Mr. Ho Ka Wing is the chairman of the Remuneration Committee.

The written terms of reference of the Remuneration Committee are available on the Company's website.

Remuneration Committee shall meet at least once every year for reviewing the remuneration policies.

The Remuneration Committee had held one meeting for the year ended 31 December 2012.

For the year ended 31 December 2012, the Remuneration Committee reviewed the existing remuneration policies of the Company.

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band	Number of persons
HK\$1,000,000 or below	2

Further particulars regarding Directors', chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Notes 9 and 10 to the consolidated financial statements.

# Corporate Governance Report

## **NOMINATION COMMITTEE**

The Company established the Nomination Committee pursuant to a resolution of the Directors passed on 23 March 2012. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, and to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of three independent non-executive Directors, namely, Mr. Ho Ka Wing and Mr. Sin Ka Man and Ms Chen Hongfang and two executive Directors, namely, Mr. Chao Pang Fei and Ms. Hui Hongyan. Mr. Chao Pang Fei is the chairman of the Nomination Committee.

In compliance with the amendments to the Listing Rules and the Revised Code, which has been effective on 1 April 2012, the written terms of reference of the Nomination Committee adopted by the Company pursuant to the Board's resolution passed on 23 March 2012. The written terms of reference of the Nomination Committee are on the Company's website.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors and other related matters.

The Nomination Committee had held one meeting for the year ended 31 December 2012.

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

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code for Directors' securities transactions. Specific enquiry has been made by the Company and all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

## **RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports required under the Listing Rules and other regulatory requirements.

The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The statement of the external auditor of the Company about its reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 30 to 31.



# Corporate Governance Report

## COMPANY SECRETARY

The company secretary of the Company, Ms. Choi Yuen Wa, appointed on 30 August 2005, is responsible for facilitating the process of Board meetings, as well as communications among Board members, with Shareholders and the management of the Company. Ms. Choi's biography is set out in the "Directors and Senior Management" section of this annual report. During the year ended 31 December 2012, Ms. Choi undertook not less than 15 hours of professional training to update her skills and knowledge in compliance with Rule 3.29 of the Listing Rules.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the remuneration payable to the auditor of the Company amounted to approximately HK\$570,000, all of which was related to audit services.

## INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

## SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll were included in the circular to shareholders in relation to the holding of 2012 annual general meeting and explained during the proceedings of the meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Company attended the 2012 annual general meeting to answer questions at the meeting.

Separate resolutions were proposed at 2012 annual general meeting on each substantial issue, including the election of individual directors.

The Company's auditors also attended the 2012 annual general meeting.

# Report of the Directors

The directors present herewith their annual report and the audited consolidated financial statements of Sino Haijing Holdings Limited (“the Company”) and its subsidiaries (together with the Company, “the Group”) for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group’s subsidiaries are set out in note 18 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	37%	
Five largest customers in aggregate	81%	
The largest supplier		28%
Five largest suppliers in aggregate		53%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

## SEGMENT REPORTING

Details of segment reporting are set out in note 6 to the consolidated financial statements.

## FINANCIAL STATEMENTS AND DIVIDENDS

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

The state of affairs of the Group and the Company as at 31 December 2012 are set out in the consolidated statement of financial position on pages 33 to 34 and the statement of financial position on page 35, respectively.

The directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2012.



# Report of the Directors

## FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2012 and of the assets and liabilities as at 31 December 2008, 2009, 2010, 2011 and 2012 are set out on page 93.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Movements in share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

## RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 36.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

### EXECUTIVE DIRECTORS

Mr. Chao Pang Fei (*Chairman*)

Mr. Wang Yi

Ms. Hui Hongyan

Mr. Deng Chuangping (Resigned on 26 March 2012)

### NON-EXECUTIVE DIRECTOR

Mr. Lan Yu Ping

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Ka Wing

Mr. Sin Ka Man

Ms. Chen Hongfang

# Report of the Directors

In accordance with Article 86(3) of the Company's articles of association, all directors for the time being shall retire from office and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr. Chao Pang Fei, Ms. Hui Hongyan and Mr. Lan Yu Ping have entered into a service contract with the Company for an initial term of one year commencing from 13 September 2005 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors has confirmed his/her independence to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2012 and the Company considers the independent non-executive directors to be independent.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

No other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



# Report of the Directors

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests or short positions of the Directors and the Chief Executive of the Company 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, Chapter 571 under the Laws of Hong Kong (the "SFO"), as recorded in the register kept by the Company pursuant to Section 352 of the SFO or 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 the Directors of Listed issuers (the "Model Code") contained in the Listing Rules were as follows:

#### LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Director	Personal interests	Corporate interest	Number of underlying shares held under equity derivatives	Total	Approximate % of issued share capital
Mr. Chao Pang Fei ("Mr. Chao")	39,670,000	690,396,020 (Note 1)	–	730,066,020	60.10
Mr. Wang Yi	–	–	8,000,000 (Note 2)	8,000,000	0.66
Ms Hui Hongyan	–	–	4,672,000 (Note 2)	4,672,000	0.38

#### Notes:

1. These shares are legally owned by Haijing Holdings Limited ("Haijing Holdings"), a company incorporated in the British Virgin Islands ("BVI") with limited liability and is wholly owned by Mr. Chao. By virtue of his 100% shareholding interest in Haijing Holdings, Mr. Chao is taken to be interested in all the shares of the Company held by Haijing Holdings pursuant to Part XV of the SFO.
2. These interests represented the interest in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section below headed "Share Option Scheme".

# Report of the Directors

## SHARE OPTIONS GRANTED TO DIRECTORS

On 6 November 2009, the Company granted share options to certain Directors under the share option scheme (the "Share Option Scheme") that was adopted on 6 June 2003. Details of the share options movement as at 31 December 2012 are set out in the heading "Share Option Scheme" under Report of Directors.

Save as disclosed above, as at 31 December 2012, none of the Directors or the Chief Executive of the Company nor their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of SFO, to be entered in the register referred to therein; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS OF SUBSTANTIAL SHAREHOLDER

### PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, so far as is known to the Directors of the Company, the following, not being a Director or the Chief Executive of the Company, have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of SFO:

#### LONG POSITIONS IN THE SHARES

Name of	Nature of interests	Number of share	Approximate percentage of the issued share capital of the Company %
Haijing Holdings	Beneficial owner	690,396,020	56.84
Ms. Sam Mei Wa	Interest of spouse	730,066,020 (Note)	60.10

Note: Ms. Sam Mei Wa is the spouse of Mr. Chao Pang Fei, hence Ms. Sam is taken to be interested in all the Shares held or deemed to be held by Mr. Chao pursuant to the SFO.

# Report of the Directors

## SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include any employees, directors, substantial shareholders or any of their respective associates of the Company and/or any of its subsidiaries or associated companies.

The following table discloses the movement of the Company's share options during the year ended 31 December 2012.

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Balance as at 1/1/2012	Exercised during the year	Lapsed upon resignation at 31/12/2012	Balance as at 31/12/2012
<b>Category 1</b>							
<b>Directors</b>							
Wang Yi	6/11/2009	6/11/2011-5/11/2013	0.105	8,000,000	-	-	8,000,000
Hui Hongyan	6/11/2009	6/11/2011-5/11/2013	0.105	4,672,000	-	-	4,672,000
Deng Chuangping	6/11/2009	6/11/2011-5/11/2013	0.105	5,760,000	-	(5,760,000)	-
				<u>18,432,000</u>	<u>-</u>	<u>(5,760,000)</u>	<u>12,672,000</u>
<b>Category 2</b>							
<b>Senior Management</b>							
Choi Yuen Wa	6/11/2009	6/11/2011-5/11/2013	0.105	3,872,000	-	-	3,872,000
Yao Weiyong	6/11/2009	6/11/2011-5/11/2013	0.105	2,300,000	-	-	2,300,000
				<u>6,172,000</u>	<u>-</u>	<u>-</u>	<u>6,172,000</u>
<b>Category 3</b>							
Employees	6/11/2009	6/11/2011-5/11/2013	0.105	19,826,000	(5,008,000)	(1,850,000)	12,968,000
				<u>44,430,000</u>	<u>(5,008,000)</u>	<u>(7,610,000)</u>	<u>31,812,000</u>

Other than disclosed above, the Senior Management did not hold any share interests of the Company as at 31 December 2012.

# Report of the Directors

The closing price of the Company's share on 5 November 2009, the date immediately before the date of grant of the share options (6 November 2009), was HK\$0.10 per share (adjusted after share subdivision in 2010 and 2011). Details of the Share Option Scheme are set out in Note 28 to the consolidated financial statements.

## COMPETING INTERESTS

As at 31 December 2012, none of the Directors or management shareholders (as defined in Listing Rules) of the Company or their respective associates had interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Company.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## CONTINUING CONNECTED TRANSACTION

### PRODUCT SALES TRANSACTION

On 27 August 2012, the Group entered into a product sales agreement with Huizhou Jinghua Packing Materials Company Limited ("Huizhou Jinghua") pursuant to which the Group has agreed to sell the mould products to Huizhou Jinghua for a term up to 31 December 2014 ("Product Sales Transaction"). Huizhou Jinghua is wholly owned by Mr. Chao Pang Fei, the ultimately controlling shareholder of the Company. The Product Sales Transaction constitutes a continuing connected transaction for the Company.

Optimising its production resources, the Group has been consolidating its operation and manufacturing facilities. The Company considers that certain production resources may be applied more efficiently and effectively by utilising them to carry out Product Sales Transaction to Huizhou Jinghua at prices agreeable to the Group, generating additional income for the Group.

On 27 August 2012, the Company set the annual caps for the Product Sales Transaction for the three years ending 31 December 2014 at RMB1.5 million for 2012, RMB3.5 million for 2013 and RMB4.0 million for 2014.

## Report of the Directors

The annual caps were determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors:

- (1) internal target turnover of the Group for purpose of estimating the annual caps with reference to the negotiation with Huizhou Jinghua; and
- (2) a buffer of 5%.

Pursuant to rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to report on the continuing connected transactions of the Group and the auditors have confirmed that the transactions:

1. have received the approval from the Board;
2. were in accordance with the pricing policies of the Group where the transactions involve provision of goods and services by the Group;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the caps disclosed in the relevant announcements.

The auditor has reported its factual findings to the Board. The independent non-executive directors of the Company have reviewed the transactions and the findings and confirmed that the transactions are:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

# Report of the Directors

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## **AUDITOR**

The financial statements for the year ended 31 December 2012 have been audited by Mazars CPA Limited, who retires and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the board

**Chao Pang Fei**

*Chairman*

Hong Kong, 25 March 2013

# Independent Auditor's Report



**MAZARS CPA LIMITED**  
**瑪澤**會計師事務所有限公司  
42nd Floor, Central Plaza,  
18 Harbour Road, Wan Chai, Hong Kong  
香港灣仔港灣道18號中環廣場42樓  
Tel電話: (852) 2909 5555  
Fax傳真: (852) 2810 0032  
Email電郵: info@mazars.com.hk  
Website網址: www.mazars.cn

**To the shareholders of**  
**Sino Haijing Holdings Limited**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Sino Haijing Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 32 to 92, which comprise the consolidated and the Company's statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 determine is necessary to enable the preparation of 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, 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.

# Independent Auditor's Report



**MAZARS CPA LIMITED**  
**瑪澤會計師事務所有限公司**  
42nd Floor, Central Plaza,  
18 Harbour Road, Wan Chai, Hong Kong  
香港灣仔港灣道18號中環廣場42樓  
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Website網址: www.mazars.cn

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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Mazars CPA Limited**

*Certified Public Accountants*  
Hong Kong, 25 March 2013

**Eunice Y M Kwok**

*Practising Certificate number: P04604*



# Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<b>Turnover</b>	5	<b>517,842</b>	520,067
Cost of sales		<u>(453,639)</u>	<u>(448,046)</u>
<b>Gross profit</b>		<b>64,203</b>	72,021
Other revenue and other income	7	<b>7,612</b>	8,312
Administrative and other operating expenses		<u>(83,724)</u>	<u>(85,305)</u>
<b>Loss from operations</b>		<b>(11,909)</b>	(4,972)
Finance costs	8	<u>(10,072)</u>	<u>(9,305)</u>
<b>Loss before tax</b>	8	<b>(21,981)</b>	(14,277)
Income tax expense	11	<u>(3,182)</u>	<u>(4,826)</u>
Loss for the year		<u>(25,163)</u>	<u>(19,103)</u>
<b>Other comprehensive income:</b>			
Exchange differences arising on translation of foreign operations		<u>2,903</u>	<u>14,285</u>
<b>Total comprehensive loss for the year</b>		<u><b>(22,260)</b></u>	<u><b>(4,818)</b></u>
<b>Loss attributable to:</b>			
Equity holders of the Company	12	<u>(25,131)</u>	(19,636)
Non-controlling interests		<u>(32)</u>	<u>533</u>
		<u><b>(25,163)</b></u>	<u><b>(19,103)</b></u>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Company		<u>(22,367)</u>	(6,061)
Non-controlling interests		<u>107</u>	<u>1,243</u>
		<u><b>(22,260)</b></u>	<u><b>(4,818)</b></u>
<b>Loss per share</b>	14		
– Basic		<u><b>(HK2.07 cents)</b></u>	<u><b>(HK1.62 cents)</b></u>
– Diluted		<u><b>(HK2.07 cents)</b></u>	<u><b>(HK1.62 cents)</b></u>

# Consolidated Statement of Financial Position

Year ended 31 December 2012

	<i>Note</i>	31 December 2012 <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	15	152,334	126,039
Lease premium for land	16	25,560	25,934
Deposits for acquisition of land and property, plant and equipment		20,138	–
Goodwill	17	20,057	44,127
		<u>218,089</u>	<u>196,100</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	19	5,871	5,576
Inventories	20	25,289	20,624
Lease premium for land	16	582	576
Trade and other receivables	21	268,697	318,958
Tax recoverable		–	963
Pledged bank deposits	22	79,458	76,406
Bank balances and cash		21,120	34,418
		<u>401,017</u>	<u>457,521</u>
<b>Current liabilities</b>			
Trade and other payables	23	98,811	125,967
Bank and other borrowings	24	195,368	180,896
Current tax payable		190	–
		<u>294,369</u>	<u>306,863</u>
<b>Net current assets</b>		<u>106,648</u>	<u>150,658</u>
<b>Total assets less current liabilities</b>		<u>324,737</u>	<u>346,758</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	25	2,733	2,776
<b>NET ASSETS</b>		<u><u>322,004</u></u>	<u><u>343,982</u></u>

# Consolidated Statement of Financial Position

Year ended 31 December 2012

	Note	31 December 2012 HK\$'000	31 December 2011 HK\$'000
<b>Capital and reserves</b>			
Share capital	26	30,367	30,242
Reserves	27	<u>276,862</u>	<u>298,867</u>
<b>Equity attributable to equity holders of the Company</b>		<b>307,229</b>	<b>329,109</b>
<b>Non-controlling interests</b>		<u>14,775</u>	<u>14,873</u>
<b>TOTAL EQUITY</b>		<b><u>322,004</u></b>	<b><u>343,982</u></b>

Approved and authorised for issue by the Board of Directors on 25 March 2013

**Chao Pang Fei**  
*Director*

**Hui Hongyan**  
*Director*

# Statement of Financial Position

At 31 December 2012

	<i>Note</i>	<b>31 December 2012 HK\$'000</b>	31 December 2011 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	18	<u>246,855</u>	<u>246,643</u>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	19	17	19
Other receivables	21	686	1,099
Pledged bank deposits	22	79,458	76,406
Bank balances and cash		<u>392</u>	<u>151</u>
		<u>80,553</u>	<u>77,675</u>
<b>CURRENT LIABILITIES</b>			
Other payables	23	467	486
Bank borrowings	24	<u>64,500</u>	<u>60,000</u>
		<u>64,967</u>	<u>60,486</u>
<b>NET CURRENT ASSETS</b>		<u>15,586</u>	<u>17,189</u>
<b>NET ASSETS</b>		<u><u>262,441</u></u>	<u><u>263,832</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	26	30,367	30,242
Reserves	27	<u>232,074</u>	<u>233,590</u>
<b>TOTAL EQUITY</b>		<u><u>262,441</u></u>	<u><u>263,832</u></u>

Approved and authorised for issue by the Board of Directors on 25 March 2013

Chao Pang Fei  
Director

Hui Hongyan  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$000	Capital reserve HK\$'000	Share options reserve HK\$'000	Warrants reserve HK\$'000	Statutory surplus reserves HK\$'000	Translation reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2011	30,242	231,640	117	1,015	-	12,856	22,267	36,148	334,285	16,369	350,654
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,985)	(2,985)
Additional capital injection by non-controlling interests	-	-	-	-	-	-	-	-	-	246	246
Transfer	-	-	-	-	-	2,837	-	(2,837)	-	-	-
Loss for the year	-	-	-	-	-	-	-	(19,636)	(19,636)	533	(19,103)
<b>Other comprehensive income for the year</b>											
Exchange difference arising from translation of foreign operations	-	-	-	-	-	-	13,575	-	13,575	710	14,285
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	-	13,575	(19,636)	(6,061)	1,243	(4,818)
<b>Transactions with equity holders of the Company recognised directly in equity</b>											
Equity settled share-based transactions	-	-	-	631	-	-	-	-	631	-	631
Placing of unlisted warrants, net of expenses	-	-	-	-	254	-	-	-	254	-	254
At 31 December 2011 and 1 January 2012	30,242	231,640	117	1,646	254	15,693	35,842	13,675	329,109	14,873	343,982
Transfer	-	-	-	-	-	1,430	-	(1,430)	-	-	-
Loss for the year	-	-	-	-	-	-	-	(25,131)	(25,131)	(32)	(25,163)
<b>Other comprehensive income for the year</b>											
Exchange difference arising from translation of foreign operations	-	-	-	-	-	-	2,764	-	2,764	139	2,903
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	-	2,764	(25,131)	(22,367)	107	(22,260)
<b>Transactions with equity holders of the Company recognised directly in equity</b>											
Cancellation of share options	-	-	-	(282)	-	-	-	282	-	-	-
Exercise of share options	125	586	-	(185)	-	-	-	-	526	-	526
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(39)	(39)	(205)	(244)
Expiry of warrants	-	-	-	-	(254)	-	-	254	-	-	-
At 31 December 2012	<u>30,367</u>	<u>232,226</u>	<u>117</u>	<u>1,179</u>	<u>-</u>	<u>17,123</u>	<u>38,606</u>	<u>(12,389)</u>	<u>307,229</u>	<u>14,775</u>	<u>322,004</u>

# Consolidated Statement of Cash Flows

Year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Loss before tax	(21,981)	(14,277)
Exchange difference	1,093	2,273
Interest expenses	10,072	9,305
Depreciation of property, plant and equipment	20,986	21,265
Amortisation of lease premium for land	619	607
Impairment loss on goodwill	24,248	28,720
Impairment loss on property, plant and equipment	946	–
Interest income	(2,190)	(1,343)
Net loss on disposal of property, plant and equipment	1,211	961
Loss on disposal of financial assets at fair value through profit or loss	191	30
Reversal of allowance in trade receivable	–	(84)
Fair value change of financial assets at fair value through profit or loss	(847)	455
Equity-settled share-based payments	–	631
Changes in working capital:		
Financial assets at fair value through profit or loss	415	(6,023)
Inventories	(4,465)	(3,056)
Trade and other receivables	43,246	(77,997)
Trade and other payables	(28,371)	5,797
<b>Cash generated from (used in) operations</b>	<b>45,173</b>	<b>(32,736)</b>
Interest received	2,190	1,343
Income tax paid	(2,100)	(8,021)
<b>Net cash generated from (used in) operating activities</b>	<b>45,263</b>	<b>(39,414)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(50,444)	(25,390)
Proceeds from disposal of property, plant and equipment	2,481	1,510
Increase in pledged bank deposits	(3,052)	(76,406)
Deposits for acquisition of land and property, plant and equipment	(10,050)	–
Acquisition of non-controlling interest in a subsidiary	(244)	–
<b>Net cash used in investing activities</b>	<b>(61,309)</b>	<b>(100,286)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from placing of unlisted warrants	–	254
Proceeds from shares issued upon exercise of share options	526	–
Capital injection by non-controlling interests	–	246
Dividend paid to non-controlling interests	–	(2,985)
New bank and other borrowings raised	194,032	187,717
Repayment of bank and other borrowings	(182,067)	(98,525)
Interest paid	(10,072)	(9,305)
<b>Net cash from financing activities</b>	<b>2,419</b>	<b>77,402</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(13,627)</b>	<b>(62,298)</b>
Effect on exchange rate changes	329	793
<b>Cash and cash equivalents at beginning of reporting period</b>	<b>34,418</b>	<b>95,923</b>
<b>Cash and cash equivalents at end of reporting period, represented by bank balances and cash</b>	<b>21,120</b>	<b>34,418</b>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 1. GENERAL INFORMATION

Sino Haijing Holdings Limited is a limited liability company incorporated in the Cayman Islands on 8 July 2002 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are detailed in note 18 to the consolidated financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES

### a) BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 consolidated financial statements, except for the adoption of the following new/revised HKFRS effective from the current year that is relevant to the Group. A summary of the principal accounting policies adopted by the Group is set out below.

#### ***Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets***

The Amendments enhance the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The Group has transferred its financial assets during the year and disclosed the information in relation to those assets and the assumed liabilities in note 30 to the consolidated financial statements. The Group is not required to provide the disclosure required by the Amendments for the period begins before the date of initial application, that is, 1 January 2012 in accordance with the transitional provisions set out in the amendments.

Other than as specified above, the adoption of the above amendments does not have a significant effect on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### b) BASIS OF MEASUREMENT

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies.

### c) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity holders of the Company. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, is measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis.

#### ***Allocation of total comprehensive income***

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income is allocated to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### c) BASIS OF CONSOLIDATION *(Continued)*

#### *Changes in ownership interest*

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary is accounted for as a financial asset, associate, jointly controlled entity or others as appropriate from the date when control is lost.

### d) SUBSIDIARIES

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### e) GOODWILL

Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary.

Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

In respect of a subsidiary, any excess of the acquisition amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as a bargain purchase.

### f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction-in-progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings and leasehold improvements	5 to 20 years
Plant and machinery	5 to 10 years
Furniture and equipment	5 to 10 years
Motor vehicles	5 to 10 years
Moulds	5 years

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### f) PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 year in which the item is derecognised.

### g) CONSTRUCTION-IN-PROGRESS

Construction-in-progress is stated at cost less accumulated impairment losses. Cost comprises all costs directly attributable to the construction. Construction-in-progress is transferred to property, plant and equipment and depreciation commences when construction is completed and the asset is ready for intended use.

### h) LEASE PREMIUM FOR LAND

Lease premium for land is up-front payment to acquire fixed term interests in lessee-occupied land that are classified as operating leases. The premium is stated at cost less accumulated amortisation and impairment losses and is amortised over the period of the lease on a straight-line basis to profit or loss.

### i) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the financial asset and has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) FINANCIAL INSTRUMENTS *(Continued)*

#### *i. Classification and measurement*

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are direct attributable to the acquisition or issue of the financial assets or financial liabilities.

#### *ii. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss. The net gain or loss recognised does not include any dividend or interest earned on these investments which is recognised and separately presented in the profit or loss.

Financial assets are classified as held for trading if they are (i) acquired or incurred principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) FINANCIAL INSTRUMENTS *(Continued)*

#### iii. *Loans and receivables*

Loans and receivables including cash, bank balances and deposits and trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

#### iv. *Impairment of financial assets*

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

#### v. *Financial liabilities*

The Group's financial liabilities include trade and other payables, bank loans and other borrowings. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### j) REVENUE RECOGNITION

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

Sale of packaging materials is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

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

### k) CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

### l) FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### l) FOREIGN CURRENCY TRANSLATION *(Continued)*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period; and
- Income and expenses for each statement of comprehensive income are translated at average exchange rates.

All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

### m) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### n) IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and lease premium for land have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

### o) BORROWING COSTS

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### p) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### q) GOVERNMENT GRANTS

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

### r) LEASES

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.

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### s) EMPLOYEE BENEFITS

#### *i. Short-term employee benefits*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *ii. Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the state-managed retirement benefit schemes in jurisdictions other than Hong Kong, which are calculated on certain percentages of the applicable payroll costs, are charged as expense when employees have rendered services entitling them to the contributions.

### t) SHARE-BASED PAYMENT TRANSACTIONS

#### *Equity-settled transactions*

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using Black-Scholes option pricing model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the vesting conditions are to be fulfilled, ending on the date on which the relevant employees become fully entitled to the award. During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity. The share-based payments are recognised in the share option reserve until either (i) the options are exercised or (ii) the options expire or forfeited, at which time the related payments are (i) transferred to the share premium account or (ii) released directly to retained profits.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### u) TAXATION

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### v) RELATED PARTIES

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of the parent of the Group.
  
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### w) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they have similar economic characteristics and share a majority of these criteria.

### x) WARRANTS

The issue of warrants will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments. When the warrants are subscribed, the fair value of the consideration received is recognised in a reserve within equity.

The fair value of the warrant is recognised in a reserve within equity until either the warrant is exercised (when it is transferred to the share premium account) or the warrant expires (when it is released directly to retained profits).

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 3. FUTURE CHANGES IN HKFRS

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRS that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 1 (Revised)	<i>Presentation of items of other comprehensive income</i> <sup>[1]</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>[2]</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>[2]</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>[2]</sup>
HKFRS 10	<i>Consolidated financial statements</i> <sup>[2]</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>[2]</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>[2]</sup>
HKFRS 13	<i>Fair value measurement</i> <sup>[2]</sup>
Amendments to HKFRS 10, HKFRS 11, HKFRS 12	<i>Consolidated financial statements, Joint Arrangements, Disclosure of Interests in Other Entities – Transition Guidance</i> <sup>[2]</sup>
Amendments to HKFRS 1	<i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>[2]</sup>
HK(IFRIC) – Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>[2]</sup>
Amendments to HKFRSs	<i>Annual Improvements Project – 2009-2011 Cycle</i> <sup>[2]</sup>
Amendments to HKFRS 7	<i>Disclosure – Offsetting Financial Assets and Financial Liabilities</i> <sup>[2]</sup>
Amendments to HKAS 32	<i>Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>[3]</sup>
Amendments to HKAS 27 (2011), HKFRS 10, HKFRS 12	<i>Investment Entities – Amendments to Separate Financial Statements, Consolidated Financial Statements, Disclosure of Interests in Other Entities</i> <sup>[3]</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>[4]</sup>
Amendments to HKFRS 7 and HKFRS 9	<i>Mandatory Effective Date of HKFRS 9, Financial Instruments, and Transition Disclosure</i> <sup>[4]</sup>

<sup>[1]</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>[2]</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>[3]</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>[4]</sup> Effective for annual periods beginning on or after 1 January 2015

The directors do not anticipate that the adoption of these new HKFRS in future periods will have any material impact on the results of the Group.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

#### a) *Impairment of receivables*

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the trade and other receivables, where applicable, at the end of each reporting period. The estimates are based on the ageing of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial conditions of the debtors were to deteriorate, additional impairment allowance may be required.

#### b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. If the carrying amount of the cash-generating unit exceeds its recoverable amount, additional impairment allowance may be required.

#### c) *Estimated net realisable value of inventories*

The Group's management writes down slow moving or obsolete inventories based on assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is below cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

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

### KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

#### d) *Useful lives of property, plant and equipment*

The management determines the estimated useful lives of the Group's property, plant and equipment based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of usage and maintenance, which could affect the related depreciation charges included in profit or loss.

## 5. TURNOVER

Turnover represents the sale of packaging materials, which is net of value-added tax and other sales taxes, and is stated after deduction of all goods returns and trade discounts.

## 6. SEGMENT REPORTING

### a) SEGMENT REVENUE, RESULTS, ASSETS AND LIABILITIES

The Group is principally engaged in the manufacture and sale of packaging materials in the People's Republic of China ("PRC"). The Group's chief operating decision maker, the executive directors, regularly review the consolidated financial information to assess the performance and make resource allocation decisions. Accordingly, there is only one operating segment for the Group and no segmental revenue, results, assets and liabilities are presented.

### b) GEOGRAPHICAL INFORMATION

The geographical location of customers is based on the location at which the goods are delivered. Substantially, all of the Group's revenue from external customers and non-current assets are located in the PRC. Therefore, no analysis on revenue from external customers and non-current assets by location is presented.



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 6. SEGMENT REPORTING *(Continued)*

### c) INFORMATION ABOUT MAJOR CUSTOMERS

Revenues from external customers contributing 10% or more of the total revenue from the Group's sole operating segment of sale of packaging materials in the PRC is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Customer A	194,104	182,390
Customer B	72,696	88,740
Customer C	71,579	–
	<u>338,379</u>	<u>271,130</u>

## 7. OTHER REVENUE AND OTHER INCOME

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<b>Other revenue</b>		
Interest income	<u>2,190</u>	<u>1,343</u>
<b>Other income</b>		
Government grants	414	2,687
Sale of raw materials and scrap products	1,127	888
Sale of steam	805	704
Dividend income from held-for-trading equity securities	178	–
Fair value change of financial assets at fair value through profit or loss	847	–
Compensation received from suppliers	844	390
Gain (loss) on disposal of property, plant and equipment	112	(961)
Net exchange gain	768	3,254
Sundry income	<u>327</u>	<u>7</u>
	<u>5,422</u>	<u>6,969</u>
	<u>7,612</u>	<u>8,312</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 8. LOSS BEFORE TAX

This is stated after charging (crediting):

	2012 HK\$'000	2011 HK\$'000
<b>a) Finance costs:</b>		
Interest on bank and other borrowings wholly repayable within five years	<u>10,072</u>	<u>9,305</u>
<b>b) Staff costs (Directors' emoluments included):</b>		
Salaries, wages and other benefits	44,364	39,150
Equity settled share-based payment expenses	–	631
Contribution to defined contribution retirement plans	<u>3,085</u>	<u>2,433</u>
	<u>47,449</u>	<u>42,214</u>
<b>c) Other items:</b>		
Amortisation of lease premium for land	619	607
Auditor's remuneration	570	570
Cost of inventories (Note)	453,639	448,046
Depreciation of property, plant and equipment	20,986	21,265
Fair value change of financial assets at fair value through profit or loss	–	455
Impairment loss on goodwill included in administrative and other operating expenses	24,248	28,720
Impairment loss on property, plant and equipment included in administrative and other operating expenses	946	–
Loss on disposal of financial assets at fair value through profit or loss	191	30
Loss on disposal of property, plant and equipment	1,323	–
Operating lease charges on rented premises	6,272	5,785
Reversal of allowance for trade receivables	<u>–</u>	<u>(84)</u>

Note: Cost of inventories includes HK\$55,746,000 (2011: HK\$50,257,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2011: eight) directors were as follows:

Name of director	Fees HK\$'000	Other emoluments			Total HK\$'000
		Salaries, allowances and other benefits HK\$'000	Retirement scheme contributions HK\$'000	Share-based payments HK\$'000	
<i>Executive Directors</i>					
Chao Pang Fei ("Mr. Chao")	-	360	14	-	374
Wang Yi	-	336	10	-	346
Hui Hongyan	-	256	9	-	265
Deng Chuangping (resigned on 26 March 2012)	-	43	-	-	43
<i>Non-executive director</i>					
Lan Yu Ping	96	-	-	-	96
<i>Independent Non-executive Directors</i>					
Ho Ka Wing	96	-	-	-	96
Sin Ka Man	96	-	-	-	96
Chen Hongfang	96	-	-	-	96
<b>Total for 2012</b>	<b>384</b>	<b>995</b>	<b>33</b>	<b>-</b>	<b>1,412</b>
<i>Executive Directors</i>					
Chao Pang Fei ("Mr. Chao")	-	360	12	-	372
Wang Yi	-	351	10	126	487
Hui Hongyan	-	261	9	73	343
Deng Chuangping	-	225	-	90	315
<i>Non-executive director</i>					
Lan Yu Ping	96	-	-	-	96
<i>Independent Non-executive Directors</i>					
Ho Ka Wing	96	-	-	-	96
Sin Ka Man	96	-	-	-	96
Chen Hongfang	96	-	-	-	96
<b>Total for 2011</b>	<b>384</b>	<b>1,197</b>	<b>31</b>	<b>289</b>	<b>1,901</b>

The executive directors of the Company are regarded as the key management personnel of the Group for disclosure purposes.

No emolument was paid by the Group to any directors as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2012 and 2011.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, three (2011: four) directors are included in the five highest paid individuals of the Group. The emoluments of the remaining two (2011: one) highest paid individuals, who are the employee of the Group, are as follows:

	2012 HK\$'000	2011 HK\$'000
Basic salaries, allowances and other benefits in kind	961	1,058
Share-based payments	–	61
Retirement benefits scheme contributions	27	12
	<u>988</u>	<u>1,131</u>

## 11. TAXATION

Hong Kong Profits Tax has not been provided as the Group had no estimated assessable profits for both current and prior year. The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

	2012 HK\$'000	2011 HK\$'000
<b>Current tax</b>		
PRC enterprise income tax ("PRC EIT")		
– Current year	2,683	4,623
– Underprovision in prior year	568	270
<b>Deferred tax (Note 25(a))</b>	<u>(69)</u>	<u>(67)</u>
<b>Tax expense for the year</b>	<u>3,182</u>	<u>4,826</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 11. TAXATION (Continued)

### RECONCILIATION OF TAX EXPENSE

	2012 HK\$'000	2011 HK\$'000
Loss before tax	<u>(21,981)</u>	<u>(14,277)</u>
Tax at weighted average rate of 24% (2011: 27%) applicable to the jurisdictions concerned	(5,306)	(3,857)
Non-deductible expenses	6,251	7,854
Non-taxable income	(282)	(241)
Effect on tax incentives/holiday	(135)	(271)
Unrecognised temporary differences	19	194
Unrecognised tax losses	2,087	877
Under-provision of PRC EIT in prior year	568	270
Others	<u>(20)</u>	<u>–</u>
Tax expense for the year	<u><u>3,182</u></u>	<u><u>4,826</u></u>

## 12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK\$1,917,000 (2011: HK\$1,269,000) which has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the years ended 31 December 2012 and 2011.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company is based on the following data:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Loss attributable to equity holders of the Company	<u>(25,131)</u>	<u>(19,636)</u>
	2012 Number of shares '000	2011 Number of shares '000
Issued ordinary shares at 1 January	1,209,680	604,840
Effect of shares subdivision	–	604,840
Effect of share options exercised	<u>3,575</u>	–
Weighted average number of ordinary shares for basic loss per share	<u>1,213,255</u>	<u>1,209,680</u>
<b>Loss per share:</b>		
– Basic	<u>(HK2.07 cents)</u>	<u>(HK1.62 cents)</u>
– Diluted	<u>(HK2.07 cents)</u>	<u>(HK1.62 cents)</u>

Diluted loss per share is the same as the basic loss per share for the years ended 31 December 2012 and 2011 because the effect of potential ordinary shares is anti-dilutive.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 15. PROPERTY, PLANT AND EQUIPMENT

### GROUP

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
<b>Cost</b>								
At 1 January 2012	45,103	731	76,451	11,740	9,648	55,536	3,206	202,415
Exchange realignment	478	5	1,071	143	102	684	279	2,762
Additions	735	-	7,180	423	809	12,045	29,252	50,444
Transfer	1,147	-	3,958	82	-	-	(5,187)	-
Disposals	(588)	-	(2,342)	(256)	(1,977)	(2,499)	-	(7,662)
<b>At 31 December 2012</b>	<b>46,875</b>	<b>736</b>	<b>86,318</b>	<b>12,132</b>	<b>8,582</b>	<b>65,766</b>	<b>27,550</b>	<b>247,959</b>
<b>Accumulated depreciation and impairment</b>								
At 1 January 2012	5,962	301	33,354	5,082	4,247	27,430	-	76,376
Exchange realignment	108	2	626	87	64	400	-	1,287
Charge for the year	2,147	25	6,086	1,256	1,506	9,966	-	20,986
Written back on disposals	(35)	-	(846)	(213)	(1,284)	(1,592)	-	(3,970)
Impairment (note)	-	45	892	9	-	-	-	946
<b>At 31 December 2012</b>	<b>8,182</b>	<b>373</b>	<b>40,112</b>	<b>6,221</b>	<b>4,533</b>	<b>36,204</b>	<b>-</b>	<b>95,625</b>
<b>Net book value</b>								
At 31 December 2012	<b>38,693</b>	<b>363</b>	<b>46,206</b>	<b>5,911</b>	<b>4,049</b>	<b>29,562</b>	<b>27,550</b>	<b>152,334</b>
<b>Cost</b>								
At 1 January 2011	31,065	706	67,281	8,662	7,800	43,466	11,420	170,400
Exchange realignment	1,834	25	4,373	582	488	2,449	352	10,103
Additions	893	-	6,787	2,255	1,559	10,680	3,216	25,390
Transfer	11,311	-	155	316	-	-	(11,782)	-
Disposals	-	-	(2,145)	(75)	(199)	(1,059)	-	(3,478)
<b>At 31 December 2011</b>	<b>45,103</b>	<b>731</b>	<b>76,451</b>	<b>11,740</b>	<b>9,648</b>	<b>55,536</b>	<b>3,206</b>	<b>202,415</b>
<b>Accumulated depreciation and impairment</b>								
At 1 January 2011	3,708	245	23,815	3,108	2,566	18,126	-	51,568
Exchange realignment	350	4	2,403	307	246	1,240	-	4,550
Charge for the year	1,904	52	7,713	1,729	1,583	8,284	-	21,265
Written back on disposals	-	-	(577)	(62)	(148)	(220)	-	(1,007)
<b>At 31 December 2011</b>	<b>5,962</b>	<b>301</b>	<b>33,354</b>	<b>5,082</b>	<b>4,247</b>	<b>27,430</b>	<b>-</b>	<b>76,376</b>
<b>Net book value</b>								
At 31 December 2011	<b>39,141</b>	<b>430</b>	<b>43,097</b>	<b>6,658</b>	<b>5,401</b>	<b>28,106</b>	<b>3,206</b>	<b>126,039</b>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's buildings are located outside Hong Kong and held under medium-term leases.

*Note:* The directors have reviewed the carrying value of property, plant and equipment which have been idled for a prolonged period of time and determined that the recoverable amount from the use or sale of certain of these assets has significantly declined below their carrying amount. Accordingly, the carrying value of these assets has been reduced by HK\$946,000 to reflect this impairment loss. The recoverable amount of these assets is determined by reference to the market price.

## 16. LEASE PREMIUM FOR LAND

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Carrying amount</b>		
At beginning of reporting period	26,510	25,925
Exchange realignment	251	1,192
Amortisation	<u>(619)</u>	<u>(607)</u>
At end of reporting period	<u><u>26,142</u></u>	<u><u>26,510</u></u>
Outside Hong Kong, held under:		
Medium-term lease	<u><u>26,142</u></u>	<u><u>26,510</u></u>
<b>Analysed for reporting purposes as:</b>		
Current asset	582	576
Non-current asset	<u>25,560</u>	<u>25,934</u>
	<u><u>26,142</u></u>	<u><u>26,510</u></u>



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 17. GOODWILL

	Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<b>Reconciliation of carrying amount:</b>		
At beginning of reporting period	44,127	70,186
Exchange realignment	178	2,661
Impairment loss	<u>(24,248)</u>	<u>(28,720)</u>
<b>At end of reporting period</b>	<b><u>20,057</u></b>	<b><u>44,127</u></b>
Cost	73,025	72,847
Accumulated impairment losses	<u>(52,968)</u>	<u>(28,720)</u>
	<b><u>20,057</u></b>	<b><u>44,127</u></b>

The carrying amounts of goodwill net of any impairment loss as at 31 December 2012 are attributable to the Group's cash-generating unit ("CGU") of manufacturing and sale of paper honeycomb and expandable polystyrene ("EPS") packaging materials.

The recoverable amount of goodwill has been determined on the basis of a value in use calculation. Its recoverable amount is based on certain key assumptions. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a period of 3 years, and a discount rate of 13.72% (2011: 14.69%). The discount rate used is pre-tax and reflect specific rates relating to the relevant segment. The cash flows beyond the period of 3 years are extrapolated using zero growth rate (2011: Zero growth rate). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period are also based on the expected sale of packaging materials during the budget period. Expected cash inflows/outflows, which include the sale of packaging materials have been determined based on past performance and management's expectations for the market development.

The recoverable amount of the CGU is less than its carrying amount. Accordingly, the goodwill was impaired by HK\$24,248,000 (2011: HK\$28,720,000) during the year. The impairment loss recognised has been included in the "administrative and other operating expenses" in the consolidated statement of comprehensive income.

The directors consider the major factors contributing to the impairment of goodwill are the overall decline in economic growth and continuous downturn of the property market in the PRC resulting in significantly reduced demand for household electrical appliances and the continuous rise of operating costs.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 18. INTERESTS IN SUBSIDIARIES

	Company	
	2012 HK\$'000	2011 HK\$'000
Unlisted shares, at cost	11	11
Due from subsidiaries	248,081	247,869
	248,092	247,880
Less: Impairment loss	(1,237)	(1,237)
	<u>246,855</u>	<u>246,643</u>

The amounts due from subsidiaries included in the Company's non-current assets are unsecured, interest free and not expected to be realised in the next twelve months from the end of the reporting period. None of the subsidiaries had issued any debt securities at the end of the reporting period.

Details of the Company's subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Loyal Pacific International Limited	Hong Kong	Hong Kong	10,000 ordinary shares of HK\$1	100%	100%	-	Inactive
Great Prospect Enterprises Limited	BVI	Hong Kong	100 ordinary shares of US\$1	100%	100%	-	Investment holding
Topgoal Investment Development Limited	Hong Kong	Hong Kong	1 ordinary share of HK\$1	100%	-	100%	Investment holding
合肥啟騰紙製品有限公司	PRC	PRC	RMB14,000,000	100%	-	100%	Manufacturing of packaging materials
Wisdom Sun International Limited	BVI	Hong Kong	100 ordinary shares of US\$1	100%	-	100%	Investment holding
Wise Star Group Holdings Limited	Hong Kong	Hong Kong	1 ordinary share of HK\$1	100%	-	100%	Investment holding

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Proportion of ownership interest				Principal activities
			Issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	
Honor Glory International Investment Limited	Hong Kong	Hong Kong	1 ordinary share of HK\$1	100%	-	100%	Investment holding
青島海景包裝製品有限公司	PRC	PRC	RMB20,000,000	100%	-	100%	Manufacturing of EPS packaging products
青島新海景包裝製品有限公司	PRC	PRC	RMB10,000,000	100%	-	100%	Manufacturing of EPS packaging products
合肥海景包裝製品有限公司	PRC	PRC	(2011: RMB15,000,000) RMB55,000,000	100%	-	100%	Manufacturing of EPS packaging products
青島海景模具製品有限公司	PRC	PRC	RMB1,000,000	100%	-	100%	Manufacturing of moulds products
青島海鴻環保包裝科技有限公司	PRC	PRC	RMB3,000,000	100%	-	100%	Manufacturing of packaging materials
大連海景包裝製品有限公司	PRC	PRC	RMB1,000,000	100%	-	100%	Manufacturing of EPS packaging products
海景包裝設計開發(惠州)有限公司	PRC	PRC	RMB1,000,000	100%	-	100%	In the process of deregistration (2011: Inactive)
Dragon Vault International Limited	BVI	Hong Kong	100 ordinary shares of US\$1	100%	-	100%	Investment holding
Yearfull International Investment Limited	Hong Kong	Hong Kong	1 ordinary share of HK\$1	100%	-	100%	Investment holding
合肥榮豐包裝製品有限公司 (formerly合肥美菱榮豐包裝製品有限公司)	PRC	PRC	RMB30,000,000	65%	-	65%	Manufacturing of EPS packaging products
濟南海景包裝有限公司	PRC	PRC	RMB500,000	100% (2011: 60%)	-	100% (2011: 60%)	Provision of integrated packaging solutions and production of cushion packaging products for the export of automobiles and related components

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Held-for-trading equity securities (at market value)				
Listed in Hong Kong	17	19	17	19
Listed outside Hong Kong	<u>5,854</u>	<u>5,557</u>	<u>-</u>	<u>-</u>
	<u><u>5,871</u></u>	<u><u>5,576</u></u>	<u><u>17</u></u>	<u><u>19</u></u>

## 20. INVENTORIES

	Group	
	2012 HK\$'000	2011 HK\$'000
Raw materials and consumables	12,007	10,243
Work-in-progress	489	896
Finished goods	<u>12,793</u>	<u>9,485</u>
	<u><u>25,289</u></u>	<u><u>20,624</u></u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade receivables	174,644	169,156	–	–
Less: Allowance for trade receivables (Note 21(b))	(89)	(88)	–	–
	174,555	169,068	–	–
Note receivables	87,804	133,932	–	–
Other receivables	3,471	3,121	686	1,099
Prepayments and deposits	2,867	12,837	–	–
	<u>268,697</u>	<u>318,958</u>	<u>686</u>	<u>1,099</u>

- a) The normal credit period granted to the customers of the Group is 90 to 120 days (2011: 90 to 120 days). The ageing analysis of the trade receivables at the end of the reporting period is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Within 3 months	166,676	150,028
Over 3 months but within 6 months	5,655	17,232
Over 6 months but within 1 year	1,487	1,797
Over 1 year	826	99
	<u>174,644</u>	<u>169,156</u>
Less: Allowance for trade receivables	(89)	(88)
	<u>174,555</u>	<u>169,068</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 21. TRADE AND OTHER RECEIVABLES (Continued)

- b) Allowance for trade receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in allowance for trade receivables during the year is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
At beginning of reporting period	88	167
Exchange realignment	1	5
Decrease in allowance	—	(84)
At end of reporting period	<u>89</u>	<u>88</u>

- c) The ageing analysis of trade receivables by past due date that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Neither past due nor impaired	<u>166,419</u>	<u>149,165</u>
Less than 3 months past due	5,912	17,443
3 months to 1 year past due	1,487	2,449
Over 1 year past due	<u>737</u>	<u>11</u>
Past due but not impaired	<u>8,136</u>	<u>19,903</u>
	<u>174,555</u>	<u>169,068</u>

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

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

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 22. PLEDGED BANK DEPOSITS

At the end of the reporting period, the Company had pledged bank deposits, which carried interest at prevailing market rate, amounting to HK\$79,458,000 (2011: HK\$76,406,000) to banks for securing a revolving loan facility granted to the Company.

## 23. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade payables	55,145	63,300	–	–
Notes payables	32,828	51,009	–	–
Other payables	10,838	11,658	467	486
	<u>98,811</u>	<u>125,967</u>	<u>467</u>	<u>486</u>

a) The ageing analysis of trade payables at the end of the reporting period is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Within 3 months	48,410	56,905
Over 3 months but within 6 months	4,216	4,786
Over 6 months but within 1 year	628	583
Over 1 year	1,891	1,026
	<u>55,145</u>	<u>63,300</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 24. BANK AND OTHER BORROWINGS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current				
Bank borrowings – secured	167,815	152,206	64,500	60,000
Other borrowings – secured	27,553	28,690	–	–
	<u>195,368</u>	<u>180,896</u>	<u>64,500</u>	<u>60,000</u>

At 31 December 2012 and 2011, all of the bank and other borrowings of the Group and the Company were repayable within one year.

The Group's secured other borrowings are interest-bearing at fixed or variable interest rates. The ranges of effective interest rates on the Group's borrowings are as follows:

	Group		Company	
	2012	2011	2012	2011
Effective interest rates per annum				
Bank borrowings – secured	2.28% to 8.53%	1.69% to 8.53%	2.28%	1.69%
Other borrowings – secured	<u>5.88% to 6.16%</u>	<u>6.41% to 6.71%</u>	<u>N/A</u>	<u>N/A</u>

Bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
RMB	130,868	120,896	–	–
Hong Kong dollars	<u>64,500</u>	<u>60,000</u>	<u>64,500</u>	<u>60,000</u>
	<u>195,368</u>	<u>180,896</u>	<u>64,500</u>	<u>60,000</u>



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 24. BANK AND OTHER BORROWINGS (Continued)

The bank and other borrowings were secured by:

- (a) the Group's buildings with a carrying value of approximately HK\$19,700,000 (2011: HK\$39,141,000);
- (b) certain of the Group's lease premium for land with a carrying value of approximately HK\$19,127,000 (2011: HK\$26,510,000);
- (c) certain of the Group's trade and other receivables with a carrying value of approximately HK\$43,352,000 (2011: HK\$41,009,000);
- (d) personal guarantee of Mr. Chao and corporate guarantees of independent third parties; and
- (e) pledged bank deposits carried interest at prevailing market rate of HK\$79,458,000 (2011: HK\$76,406,000).

## 25. DEFERRED TAX LIABILITIES

- a) Deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustment on lease premium for land HK\$'000
At 1 January 2011	2,718
Credit to profit or loss	(67)
Exchange realignment	<u>125</u>
At 31 December 2011 and 1 January 2012	2,776
Credit to profit or loss	(69)
Exchange realignment	<u>26</u>
<b>At 31 December 2012</b>	<b><u><u>2,733</u></u></b>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 25. DEFERRED TAX LIABILITIES *(Continued)*

### a) *(Continued)*

In March 2007, the National People's Congress enacted a new Enterprise Income Tax Law, which became effective on 1 January 2008 (the "New PRC EIT Law"). Pursuant to the New PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors by the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008. Deferred tax liabilities are provided to the extent that such earnings are expected to be distributed in the foreseeable future. At the end of the reporting period, the estimated withholding tax effects on the distribution of retained earnings of the subsidiaries established in Mainland China were approximately HK\$2,253,000 (2011: HK\$2,143,000). The directors of the Company are of the opinion that no dividends would be distributed by its subsidiaries established in Mainland China in the foreseeable future and therefore no deferred tax liabilities are provided.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 25. DEFERRED TAX LIABILITIES (Continued)

### b) Deferred tax assets not recognised

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group had unrecognised deferred tax assets in respect of the tax losses. As it is not probable that future taxable profits will be available against which the unused tax losses of the Group can be utilised, deferred tax assets have not been recognised. The expiry dates of unrecognised tax losses are as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Tax losses without expiry date	3,593	2,522
Tax losses expiring on 31 December 2017	5,691	–
Tax losses expiring on 31 December 2016	1,400	1,358
Tax losses expiring on 31 December 2015	296	293
Tax losses expiring on 31 December 2014	1,071	1,061
Tax losses expiring on 31 December 2013	854	846
	<u>12,905</u>	<u>6,080</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 26. SHARE CAPITAL

	Group and Company			
	2012		2011	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.025 each	<u>4,000,000,000</u>	<u>100,000</u>	<u>4,000,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>				
At beginning of the reporting period	1,209,680,620	30,242	604,840,310	30,242
Shares subdivision	-	-	604,840,310	-
Exercise of share options (Note (b))	<u>5,008,000</u>	<u>125</u>	-	-
At end of the reporting period	<u>1,214,688,620</u>	<u>30,367</u>	<u>1,209,680,620</u>	<u>30,242</u>

- (a) On 8 July 2011, the Company entered into a placing agreement with the placing agent to place 192,000,000 warrants at a placing price of HK\$0.002 per warrant. The warrants entitle the holders of warrants to subscribe for the shares of the Company at a subscription price of HK\$0.35 per warrant share for a period of 12 months from the date of issue of the warrants. On 21 July 2011, the Company completed the placing of the warrants to not less than six independent places. No warrants were exercised since the completion date and up to the expiry date on 20 July 2012.
- (b) During the year ended 31 December 2012, 5,008,000 (2011: Nil) ordinary shares were issued at exercise price of HK\$0.105 per share in total amount of HK\$526,000 (2011: Nil) as a result of exercise of share options of the Company.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 27. RESERVES

### GROUP

	Share premium HK\$'000 (Note (a))	Capital reserve HK\$'000 (Note (b))	Share options reserve HK\$'000 (Note (c))	Warrants reserve HK\$'000 (Note (g))	Statutory surplus reserve HK\$'000 (Note (d))	Translation reserve HK\$'000 (Note (e))	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2011	231,640	117	1,015	-	12,856	22,267	36,148	304,043
Transfer	-	-	-	-	2,837	-	(2,837)	-
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	13,575	(19,636)	(6,061)
<b>Transactions with equity holders of the Company recognised directly in equity</b>								
Equity settled share-based transactions	-	-	631	-	-	-	-	631
Placing of unlisted warrants, net of expenses	-	-	-	254	-	-	-	254
At 31 December 2011 and 1 January 2012	231,640	117	1,646	254	15,693	35,842	13,675	298,867
Transfer	-	-	-	-	1,430	-	(1,430)	-
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	2,764	(25,131)	(22,367)
<b>Transactions with equity holders of the Company recognised directly in equity</b>								
Cancellation of share options	-	-	(282)	-	-	-	282	-
Exercise of share options	586	-	(185)	-	-	-	-	401
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	-	(39)	(39)
Expiry of warrants	-	-	-	(254)	-	-	254	-
At 31 December 2012	<u>232,226</u>	<u>117</u>	<u>1,179</u>	<u>-</u>	<u>17,123</u>	<u>38,606</u>	<u>(12,389)</u>	<u>276,862</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 27. RESERVES (Continued)

### COMPANY

	Share premium HK\$'000 (Note (a))	Share options reserve HK\$'000 (Note (c))	Warrants reserve HK\$'000 (Note (g))	Contributed surplus HK\$'000 (Note (f))	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2011	231,640	1,015	–	117	1,202	233,974
Loss for the year	–	–	–	–	(1,269)	(1,269)
<b>Transactions with equity holders of the Company recognised directly in equity</b>						
Equity settled share-based transactions	–	631	–	–	–	631
Placing of unlisted warrants, net of expenses (note (g))	–	–	254	–	–	254
At 31 December 2011 and 1 January 2012	231,640	1,646	254	117	(67)	233,590
Loss for the year	–	–	–	–	(1,917)	(1,917)
<b>Transactions with equity holders of the Company recognised directly in equity</b>						
Cancellation of share options	–	(282)	–	–	282	–
Exercise of share options	586	(185)	–	–	–	401
Expiry of warrants (note (g))	–	–	(254)	–	254	–
At 31 December 2012	<u>232,226</u>	<u>1,179</u>	<u>–</u>	<u>117</u>	<u>(1,448)</u>	<u>232,074</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 27. RESERVES *(Continued)*

### (a) SHARE PREMIUM

Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

### (b) CAPITAL RESERVE

Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the Company's reorganisation in 2003.

### (c) SHARE OPTIONS RESERVE

Share options reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and directors of the Company.

### (d) STATUTORY SURPLUS RESERVE

According to the articles of association of the PRC subsidiaries, they are required to transfer at least 10% of their net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of their registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

### (e) TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 27. RESERVES *(Continued)*

### (f) CONTRIBUTED SURPLUS

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Company's reorganisation in 2003. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

### (g) WARRANTS RESERVE

Warrants reserve represents the proceeds received from the placing of unlisted warrants of the Company. The reserve was transferred to retained profits upon expiry of the warrants during the year.

### (h) DISTRIBUTABLE RESERVES

The Company's reserves as at 31 December 2012 available for distribution to the equity holders are HK\$230,895,000 (2011: HK\$231,690,000).

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 6 June 2003, the Company adopted a share option scheme (the "Share Option Scheme") to enable the Company to grant options to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The Share Option Scheme shall continue in force for the period commencing from 6 June 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares of Company in accordance with the terms of the Share Option Scheme.



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme shall not, when aggregate with any shares subject to any other schemes, exceed such number of shares representing 10% of the issued shares as at the date of approval of the Share Option Scheme, which shall be equivalent to 24,218,965 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Share Option Scheme. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit must not exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

Under the Share Option Scheme, the Company granted options to subscribe for 6,336,000 shares to its directors and 17,864,000 shares to its employees on 6 November 2009. Options granted must be taken up within 14 days of the date of grant, upon payment of HK\$1 by each of the grantees. The first 50% of the options vest after the date of grant and are then exercisable within a period of four years and the remaining 50% of options vest after two years from the date of grant and are then exercisable within a period of two years.

Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) Movements in share options:

	Number of options	
	2012	2011
At beginning of reporting period	44,430,000	23,739,000
Effect of share subdivision	–	23,077,000
Exercised during the year	(5,008,000)	–
Forfeited during the year	(7,610,000)	(2,386,000)
At end of reporting period	<u>31,812,000</u>	<u>44,430,000</u>
Options vested at end of reporting period	<u>31,812,000</u>	<u>44,430,000</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) Terms of unexpired and unexercised share options at the end of the reporting period:

Date of grant	Exercise period	Exercise price HK\$	Number of options			
			Fully vested		Not yet vested	
			2012	2011	2012	2011
6 November 2009	6 November 2011 – 5 November 2013	0.105 (2011: 0.105)	<u>31,812,000</u>	<u>44,430,000</u>	<u>-</u>	<u>-</u>

(c) Details of the movement of share options granted during the years ended 31 December 2012 and 2011 to subscribe for the shares of the Company are as follows:

For the year ended 31 December 2012

	At 1 January 2012	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2012
<b>Directors</b>				
– Mr. Wang Yi	8,000,000	–	–	8,000,000
– Mr. Hui Hongyan	4,672,000	–	–	4,672,000
– Mr. Deng Chuangping (resigned on 26 March 2012)	5,760,000	–	(5,760,000)	–
<b>Employees</b>	<u>25,998,000</u>	<u>(5,008,000)</u>	<u>(1,850,000)</u>	<u>19,140,000</u>
	<u>44,430,000</u>	<u>(5,008,000)</u>	<u>(7,610,000)</u>	<u>31,812,000</u>
No. of exercisable options at end of reporting period				<u>31,812,000</u>
Weighted average exercise price	<u>HK\$0.105</u>	<u>HK\$0.105</u>	<u>HK\$0.105</u>	<u>HK\$0.105</u>
Weighted average share price at date of exercise				<u>HK\$0.13</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) *(Continued)*

For the year ended 31 December 2011

	At 1 January 2011	Effect of share subdivision	Cancelled/ Lapsed during the year	At 31 December 2011
<b>Directors</b>				
– Mr. Wang Yi	4,000,000	4,000,000	–	8,000,000
– Mr. Hui Hongyan	2,336,000	2,336,000	–	4,672,000
– Mr. Deng Chuangping	2,880,000	2,880,000	–	5,760,000
<b>Employees</b>	<u>14,523,000</u>	<u>13,861,000</u>	<u>(2,386,000)</u>	<u>25,998,000</u>
	<u>23,739,000</u>	<u>23,077,000</u>	<u>(2,386,000)</u>	<u>44,430,000</u>
No. of exercisable options at end of reporting period				<u>44,430,000</u>
Weighted average exercise price				<u>HK\$0.105</u>
Weighted average share price at date of exercise				<u>HK\$0.39</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### (d) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the Black-Scholes option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes option pricing model.

6 November 2009

Fair value of share options at grant date	HK\$0.1345
Inputs into the Black-Scholes option pricing model:	
Share price at grant date (Adjusted)	HK\$0.095
Exercise price (Adjusted)	HK\$0.105
Expected volatility	71.40%
Option life	1.5 to 2.5 years
Risk-free interest rate	0.5%
Expected dividends	<u><u>–</u></u>

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option granted.

- (e) In January 2013, 31,612,000 ordinary shares were issued at exercise price of HK\$0.105 per share in total amount of HK\$3,319,000 as a result of exercise of share options of the Company.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 29. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF") for all qualifying employees in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF, subject to a cap of monthly relevant income of HK\$25,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

## 30. TRANSFER OF FINANCIAL ASSETS

At the end of the reporting period, the transferred financial assets of the Group measured at amortised cost that were not qualified for derecognition in their entirety were as follows:

	2012 HK\$'000
Carrying amount of transferred assets	
– Notes receivable discounted to banks with recourse	<u>25,575</u>
Carrying amount of associated liabilities	<u>25,575</u>

The Group transferred the contractual rights to receive cash flows from notes receivable to certain banks by discounting them for cash on a full recourse basis. Therefore, the directors of the Company consider the Group retained substantially all of the risk and rewards of ownership of the notes receivable and continued to recognise the notes receivable in the consolidated statement of financial position. Associated liabilities have been recognised and included in bank and other borrowings.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 31. RELATED PARTY TRANSACTIONS

The related party transactions in respect of items listed below constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. Particulars of the continuing connected transactions are detailed in the Report of the Directors.

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Sale of goods	<u>44</u>	<u>–</u>

## 32. OPERATING LEASE COMMITMENTS – AS LESSEE

The Group leases certain of its office premises under operating lease arrangements. The leases run for an initial period of one year (2011: one to four years), with an option to renew the lease when all terms are renegotiated. The terms of the lease require the lessee to pay security deposits.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within one year	1,160	4,265
In the second to fifth years inclusive	<u>–</u>	<u>5,694</u>
	<u>1,160</u>	<u>9,959</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 33. CAPITAL COMMITMENTS

The Group's authorised capital commitments outstanding at the end of the reporting period and not provided for in the financial statements are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Contracted but not provided for		
Construction of dormitory	1,042	12,245
Construction of production facilities	14,034	15,769
Purchase of property, plant and equipment	6,819	9,788
	<u>21,895</u>	<u>37,802</u>

## 34. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

As at 31 December 2012, the directors regard Haijing Holdings Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

The directors regard Mr. Chao through his direct shareholding in Haijing Holdings Limited as being the ultimate controlling party.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include pledged deposits, bank balances, borrowings, financial assets at fair value through profit or loss, trade and other receivables and trade and other payables. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and equity price risk. The policies on how management mitigates these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### a) CREDIT RISK

- i) As at 31 December 2012, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.
- ii) In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

The Group's exposure to credit risk of trade and other receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk as 29% (2011: 18%) and 50% (2011: 39%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

- iii) The credit risk on liquid funds and notes receivable is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21 to the consolidated financial statements.

- iv) At the end of the reporting period, the Company had a concentration of credit risk of the amounts due from subsidiaries of which 92.7% (2011: 93.3%) was due from a subsidiary.



# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### b) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank and other borrowings as a significant source of funding. At 31 December 2012, the Group has HK\$90,402,000 available un-utilised banking facilities (2011: HK\$88,914,000).

The following liquidity tables set out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of the reporting period) and the earliest date the Group and the Company are required to pay:

#### Group

	2012			2011		
	Within 1 year or on demand HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000	Within 1 year or on demand HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Bank and other borrowings	198,276	198,276	195,368	184,579	184,579	180,896
Trade and other payables	98,811	98,811	98,811	125,967	125,967	125,967
	<u>297,087</u>	<u>297,087</u>	<u>294,179</u>	<u>310,546</u>	<u>310,546</u>	<u>306,863</u>

#### Company

	2012			2011		
	Within 1 year or on demand HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000	Within 1 year or on demand HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Bank borrowings	64,540	64,540	64,500	60,113	60,113	60,000
Other payables	467	467	467	486	486	486
	<u>65,007</u>	<u>65,007</u>	<u>64,967</u>	<u>60,599</u>	<u>60,599</u>	<u>60,486</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### c) INTEREST RATE RISK

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank and other borrowings. Details of interest rates of the Group's and the Company's bank and other borrowings at the end of the reporting period are set out in note 24 to the consolidated financial statements. The Group closely monitors interest rate level and outlook as well as potential impact on the Group's result and financial position arising from volatility of interest rates.

The bank and other borrowings of the Group of HK\$95,050,000 (2011: HK\$100,465,000) which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate borrowings, with all other variables held constant, would increase/decrease the Group's loss after tax and decrease/increase retained profits by approximately HK\$1,003,000 (2011: HK\$804,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for variable rate interest-bearing non-derivative financial instruments in existence at that date. In respect of the exposure to cash flow interest rate risk, the analysis is prepared assuming the interest-bearing financial instruments outstanding at the end of the reporting period were outstanding for the whole year for which the impact of interest rate changes are annualised. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual date of the reporting period. The analysis is performed on the same basis for 2011.

### d) CURRENCY RISK

The Group has transactional currency exposure. Such exposure arises from trading transactions denominated in a currency other than the functional currency of an operating unit to which they relate. The Group has no significant foreign currency risk in its PRC operations as the carrying amounts of financial assets and liabilities are denominated in RMB.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### e) EQUITY PRICE RISK

The Group's investments in held-for-trading equity securities are measured at fair value at the end of each reporting period with reference to the market price. Therefore, the Group is exposed to equity price risk and management monitors the price movements and takes appropriate actions when required.

The sensitivity analysis below has been determined assuming that a change in the corresponding equity prices had occurred at the end of the reporting period and had been applied to the equity securities in existence at that date with all other variables hold constant. A change of 20% (2011: 20%) in stock price was applied at the end of the respective reporting period. The analysis is performed on the same basis for 2011.

#### Group

	2012		2011	
	20% increase in stock price HK\$'000	20% decrease in stock price HK\$'000	20% increase in stock price HK\$'000	20% decrease in stock price HK\$'000
Increase (Decrease) in profit or loss and retained earnings	<u>1,174</u>	<u>(1,174)</u>	<u>1,115</u>	<u>(1,115)</u>

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## f) FAIR VALUE DISCLOSURES

The following presents the carrying value of financial instruments measured at fair value at 31 December 2012 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	Group							
	2012				2011			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets measured at fair value								
Financial assets at fair value through profit or loss	<u>5,871</u>	<u>-</u>	<u>-</u>	<u>5,871</u>	<u>5,576</u>	<u>-</u>	<u>-</u>	<u>5,576</u>

During the years ended 31 December 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

# Notes to the Consolidated Financial Statements

Year ended 31 December 2012

## 36. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011.

## 37. EVENTS AFTER THE REPORTING PERIOD

In February 2013, the Group has entered into a non-legally binding memorandum of understanding ("MOU") with an independent third party in relation to a possible acquisition of a business which is engaged in energy saving management. The consideration for the possible consideration shall be subject to further negotiation between the parties concerned. Under the MOU, both the Group and the potential vendor will proceed to the negotiation for a legally-binding formal agreement on or before 31 July 2013, or such later date as both parties may agree.

# Five Year Financial Summary

Year ended 31 December 2012

	Year ended 31 December				
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>RESULTS</b>					
Turnover	<u>517,842</u>	<u>520,067</u>	<u>514,262</u>	<u>374,581</u>	<u>313,097</u>
(Loss) Profit before tax	<u>(21,981)</u>	<u>(14,277)</u>	<u>43,484</u>	<u>21,931</u>	<u>44,106</u>
Income tax expense	<u>(3,182)</u>	<u>(4,826)</u>	<u>(10,594)</u>	<u>(5,955)</u>	<u>(7,781)</u>
(Loss) Profit for the year	<u>(25,163)</u>	<u>(19,103)</u>	<u>32,890</u>	<u>15,976</u>	<u>36,325</u>
Attributable to:					
Equity holders of the Company	<u>(25,131)</u>	<u>(19,636)</u>	<u>30,828</u>	<u>14,602</u>	<u>34,793</u>
Non-controlling interests	<u>(32)</u>	<u>533</u>	<u>2,062</u>	<u>1,374</u>	<u>1,532</u>
	<u>(25,163)</u>	<u>(19,103)</u>	<u>32,890</u>	<u>15,976</u>	<u>36,325</u>

	At 31 December				
	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	<u>619,106</u>	<u>653,621</u>	<u>557,885</u>	<u>424,954</u>	<u>407,430</u>
Total liabilities	<u>(297,102)</u>	<u>(309,639)</u>	<u>(207,231)</u>	<u>(183,174)</u>	<u>(183,205)</u>
	<u>322,004</u>	<u>343,982</u>	<u>350,654</u>	<u>241,780</u>	<u>224,225</u>
Attributable to:					
Equity holders of the Company	<u>307,229</u>	<u>329,109</u>	<u>334,285</u>	<u>226,287</u>	<u>210,106</u>
Non-controlling interests	<u>14,775</u>	<u>14,873</u>	<u>16,369</u>	<u>15,493</u>	<u>14,119</u>
	<u>322,004</u>	<u>343,982</u>	<u>350,654</u>	<u>241,780</u>	<u>224,225</u>

## Major Properties Held by the Group

Year ended 31 December 2012

	Location	Existing use	Term of lease	Percentage of interest
1.	Factory Complex at the junction of Furong Road and Yuping Road, Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC	Industrial	Medium	100%
2.	Factory Complex at Ziyun Road, Taohua Industrial Base Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC	Industrial	Medium	100%
3.	Factory Complex at Wolong Road, Taohua Industrial Base Hefei Economic and Technological Development Zone, Hefei City, Anhui Province, the PRC	Industrial	Medium	65%