意科控股

# eFORCE HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

(STOCK CODE : 943)

# 2009

ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

## DIRECTORS

**Executive Directors**
Hu Xiao *(Chairman)*
Tam Lup Wai, Franky *(Deputy Chairman)*

**Independent Non-executive Directors**
Lam Bing Kwan
Yeung King Wah
Wong Man Chung, Francis

## COMPANY SECRETARY

Chan Tsz Leung

## AUDITOR

RSM Nelson Wheeler

## PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

## PRINCIPAL REGISTRAR

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## BRANCH REGISTRAR

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3008, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

## STOCK CODE

943

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Hu Xiao ("Mr. Hu")**
*(Chairman)*
Aged 39, was appointed as Chairman and Executive Director of the Company on 3 November 2008. Mr. Hu has over 13 years of experience in the financial management and investment banking field and is actively engaged in direct investment in the People's Republic of China ("PRC"). He holds a Bachelor degree in Economics from the Southwestern University of Finance and Economics in the Sichuan Province of the PRC.

**Tam Lup Wai, Franky ("Mr. Tam")**
*(Deputy Chairman)*
Aged 61, was appointed as Executive Director and Deputy Chairman of the Company on 17 December 2001 and 11 December 2004 respectively. He was further appointed as member of the Remuneration Committee of the Company on 3 July 2007. Mr. Tam holds a BA in Applied Mathematics from the University of California at Berkeley, USA. He has diversified management experiences in the fields of property, retail and technology. He also specializes in formulating and executing business strategies for companies and has experience in the investment of technology startup. He was previously an administration director of a conglomerate comprises four listed companies in Hong Kong and directly oversaw the administration of the group and responsible in managing several subsidiaries' operations, including properties acquisition, strategic investments and hotel start-up project. Mr. Tam also served as executive director of a Hong Kong publicly listed fashion retail chain store with over 200 outlets in Hong Kong and China and was instrumental in setting up the franchise operation in the PRC before joining the Company in 2001.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lam Bing Kwan ("Mr. Lam")**
Aged 60, was appointed as an Independent Non-executive Director and member of the Audit Committee of the Company on 30 September 2004. He was further appointed as the Chairman of the Remuneration Committee on 1 August 2005. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. Mr. Lam has been in senior management positions in the banking and financial industry for more than 10 years. He is a non-executive director of Sino-i Technology Limited (formerly known as Sino-i.com Limited) and Nan Hai Corporation Limited (formerly known as South Sea Holdings Company Limited), and an independent non-executive director of Lai Fung Holdings Limited and Lai Sun Development Company Limited, all of which are companies listed on the Main board of the Hong Kong Stock Exchange (the "Stock Exchange").

**Mr. Yeung King Wah ("Mr. Yeung")**
Aged 51, was appointed as an Independent Non-executive Director, the chairman of the Audit Committee and member of the Remuneration Committee of the Company on 3 July 2007. Mr. Yeung is the founder of Yeung and Co Chartered Accountant (a firm of registered auditors based in the United Kingdom). Mr. Yeung is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and also a member of the Chartered Institute of Taxation in the UK. Mr. Yeung has had over 20 years of experience in auditing, taxation, corporate finance, treasury, financial consulting and management gained from working in Europe and the Asia Pacific. He is the director of JP & M Asia Limited, EC Venture Ltd, Azure Management Consulting Ltd, ILS (Far East) Ltd, ILS (China) Ltd, K&M Nominees Ltd and Tendpress Ltd. He is currently an independent non-executive director of China Electric Power Technology Holdings Limited (Formerly known as A & K Educational Software Holdings Limited), which is listed on the GEM board of the Stock Exchange.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wong Man Chung, Francis ("Mr. Wong")**

Aged 45, was appointed as an Independent Non-executive Director and member of the Audit Committee and Remuneration Committee of the Company on 12 November 2009. Mr. Wong is a Certified Public Accountant (Practising) and has over 21 years of experience in auditing, taxation, management and financial advisory. He is currently an Independent Non-Executive Director and either a chairman or a member of the audit/remuneration committee of China Oriental Group Company Limited, Digital China Holdings Limited and Wai Kee Holdings Limited, the shares of all of which are listed on the Main Board of the Stock Exchange. In May 2009, Mr. Wong resigned as the Independent Non-Executive Director of Lightscape Technologies Inc., a company whose shares are traded on the OTC Bulletin Board in the United States of America. He had been an Independent Non-Executive Director of Enviro Energy International Holdings Limited (formerly known as Sys Solutions Holdings Limited), a company listed on the GEM board of the Stock Exchange and an Independent Non-Executive Director and chairman of the audit committee of Yardway Group Limited whose shares are listed on the Main Board of the Stock Exchange. Mr. Wong is a director of both Union Alpha C.P.A. Limited and Union Alpha CAAP Certified Public Accountants Limited, both are professional accounting firms, and a Founding Director and member of Francis M.C. Wong Charitable Foundation Limited, a charitable institution. Previously, Mr. Wong worked for an international accounting firm for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institution of Hong Kong, an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Society of Chinese Accountants & Auditors. Mr. Wong holds a masters degree in management conferred by Guangzhou Jinan University, the PRC.

## SENIOR MANAGEMENT

**Mr. Li Shiu Tong, Andrew ("Mr. Li")**

Aged 47, is the Managing Director of Fairform Manufacturing Company Limited, a wholly-owned subsidiary of the Group. Mr. Li joined the Group on 1 February 2000 as the Deputy Chairman and Executive Director of the Company and subsequently transferred to supervise the operation of the Group's manufacturing business unit in 2002. Mr. Li is an AHKSA and FCCA in Hong Kong. He holds a Master's degree in business administration from the University of Wales, in the United Kingdom. He was the Group Chief Financial Officer of Guardforce Group and has extensive experience in financial management and asset acquisitions and management before joining the Group in 2000.

**Mr. Chan Tsz Leung ("Mr. Chan")**

Aged 43, is the Company Secretary and the Qualified Accountant of the Company. Mr. Chan is a qualified accountant and a member of CPA Australia. Mr. Chan holds a Bachelor degree in Commerce from the Murdoch University, Western Australia, Australia. Mr. Chan joined the Group in 2004 as Accountant and had working experience in Hong Kong, Singapore and the PRC.

# CHAIRMAN'S STATEMENT

On behalf of eForce Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to present the Annual Report of the Group for the financial year ended 31 December 2009.

It has been a challenging year in the global consumer products market. During the first half of 2009, demand was slack. Although sales picked up during the second half of the year mainly due to stock replenishment by customers, demand in 2009 remained weak. The Group recorded turnover of HK$112.1 million as compared to HK$163.5 million in 2008. However, gross profit margin improved to 17% from 14% in 2008 as most of the raw materials prices decreased in 2009. The implementation of various cost reduction exercises as planned had also contributed positively to the gross profit margin. As the decrease in turnover out-weighted the savings in cost, gross profit dropped to HK$19 million from HK$23 million in 2008. Overall, the Group recorded a loss of HK$10.6 million in this financial year compared to HK$23.5 million loss in 2008.

The Group's liquidity was improved after the completion of a top-up placing in October 2009. The net proceeds from the top-up placing was about HK$43.3 million and the Company had intended to apply the same as general working capital of the Group.

As there are mixed signs about recovery in the global economy, we remain cautious about assuming much strength in the recovery of the consumer products market and believe demand will remain weak in 2010. We will continue to focus on reducing operating costs, improving production efficiency and prepare to respond to both positive and negative demand fluctuations in the markets. At the same time, we will exercise due care and diligence to explore other suitable investment, merger and acquisition opportunities to diversify our operation. The Company has already entered into a framework agreement for a possible acquisition of a mine in Indonesia on 18 December 2009. Although this acquisition may or may not proceed, I believe the Company is well on track to explore new business collaborations and opportunities which can enhance long-term shareholders' value.

On behalf of the Board of Directors, I thank our management and staffs for their dedication and perseverance in a difficult year. In addition, I would like to thank all of our customers, shareholders, business associates, partners and suppliers for their continuing support.

**Hu Xiao**
*Chairman and Executive Director*
1 March 2010

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2009 amounted to HK$112.1 million, which represented a decrease of 31% as compared to last year (2008: HK$163.5 million).

The consolidated loss of the Group for the year ended 31 December 2009 amounted to HK$10.6 million. This represented a decrease of approximately HK$12.9 million or 55% as compared to the loss of HK$23.5 million in 2008. The decrease in loss noted mainly due to the following:

(i) The gross profit was decreased by HK$4 million (2009: HK$19 million and 2008: HK$23 million).

(ii) The net foreign exchange gain was decreased by HK$0.9 million (2009: HK$Nil and 2008: HK$0.9 million).

(iii) Income from scarp sales was decreased by HK$1.7 million (2009: HK$1.1 million and 2008: HK$2.8 million).

(iv) In 2009, a revaluation surplus on land and buildings of HK$11.3 million was recognized as other income. No such income in 2008.

(v) The distribution costs were decreased by HK$1.6 million (2009: HK$2.9 million and 2008: HK$4.5 million).

(vi) The administrative expenses were decreased by HK$6.4 million (2009: HK$39.4 million and 2008: HK$45.8 million).

At 31 December 2009, the Group's net assets were HK$100 million (2008: HK$61 million). The increase in net assets of HK$39 million was the net effect of the increase in issued capital of HK$26 million, the increase in share premium account of HK$17 million, the increase of property revaluation reserve of HK$6 million and the loss of HK$10.6 million incurred for the year.

## FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: HK$Nil).

## THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had cash and bank deposits of HK$107.4 million (2008: HK$80.7 million) which included a pledged bank deposits of HK$1.5 million (2008: HK$1.5 million) and a foreign currency deposits denominated in Renminbi ("RMB") amounted to HK$2.1 million (2008: HK$1.1 million).

The Group's total borrowings increased to HK$18.2 million (2008: HK$13.3 million). The Group's gearing ratio, which is expressed as a percentage of the Group's total borrowings over total assets value of HK$177 million as at 31 December 2009 (2008: HK$141 million), has increased to 10.3% (2008: 9.4%).

# MANAGEMENT DISCUSSION AND ANALYSIS

The table below shows the type, maturity, currency and interest rate profiles of the Group's total borrowings at the end of the reporting period.

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **DEBT MATURITY PROFILE** | | |
| Within one year | **18,246** | 10,835 |
| Within two to five years | **—** | 2,460 |
| | **18,246** | 13,295 |
| **INTEREST RATE PROFILE** | | |
| Unhedged floating | **11,746** | 6,795 |
| Fixed | **6,500** | 6,500 |
| | **18,246** | 13,295 |
| **NATURE OF DEBT** | | |
| Secured borrowings | **11,366** | 6,415 |
| Unsecured other loans | **6,880** | 6,880 |
| | **18,246** | 13,295 |
| **CURRENCY PROFILE** | | |
| Hong Kong Dollars | **6,880** | 6,880 |
| US Dollars | **8** | 1,998 |
| Renminbi | **11,358** | 4,417 |
| | **18,246** | 13,295 |

The secured loans are secured over the Group's buildings held for own use situated outside Hong Kong, a fixed deposits of HK$1.5 million (2008: HK$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary.

Despite that the Group sustained recurrent losses; the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES, INTEREST RATES AND RELATED HEDGES

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy, using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in HKD, RMB and USD. The Group does not hedged against foreign exchange risk associated with the USD, as the management believe that the HKD will remain pegged to the USD in the foreseeable future. The management will monitor closely to ensure measures are taken against any adverse impacts on the exchange risk associated with the appreciating RMB.

The interest rates profile of the Group's borrowings comprises a mixture of fixed and floating rates. The Group does not hedged against interest rate risk, as the management does not expect the impact of any fluctuation in interest rates to be material to the Group.

## BUSINESS REVIEW

The turnover of the Group for the financial year ended 31 December 2009 decreased to HK$112.1 million (2008: HK$163.5 million) or by HK$51.4 million. The decrease in turnover was mainly due to weak demand in the global consumer products market. Sales to North America decreased to HK$38 million (2008: HK$55 million) or by HK$17 million. Sales to Europe decreased to HK$35 million (2008: HK$52 million) or by HK$17 million.

Gross profit margin was improved to 17% from 14% in 2008. The increase was the combined effect of the decrease in raw materials prices and the implementation of various cost reduction exercises as planned in 2009. However, the decrease of turnover had out-weighted the rise in gross profit margin and gross profit was decreased to HK$19 million from HK$23 million in 2008.

Overall, the Group recorded a loss of HK$10.6 million in this financial year compared to HK$23.5 million loss in 2008. The decrease in loss was mainly the net effect of the decrease of gross profit by HK$4 million (2009: HK$19 million and 2008: HK$23 million), the decrease of net foreign exchange gain by HK$0.9 million (2009: HK$Nil and 2008: HK$0.9 million), the decrease of income from scarp sales by HK$1.7 million (2009: HK$1.1 million and 2008: HK$2.8 million), the recognition of a revaluation surplus on land and buildings of HK$11.3 million (2008: HK$Nil), the decrease of distribution costs by HK$1.6 million (2009: HK$2.9 million and 2008: HK$4.5 million) and the decrease of administrative expenses by HK$6.4 million (2009: HK$39.4 million and 2008: HK$45.8 million). Both distribution costs and administrative expenses decreased as a result of lower turnover. Excluding the recognition of the revaluation surplus on land and buildings of HK$11.3 million, the Group's loss for the year would be HK$21.9 million, a slight improvement of HK$1.6 million as compared to a loss of HK$23.5 million in 2008.

The Company had completed a top-up placing in October 2009 and issued a total of 520,000,000 ordinary shares of HK$0.05 each at the placing prices of HK$0.086 per share. The net proceeds from the top-up placing was about HK$43.3 million and the Company had intended to apply the same as general working capital of the Group.

On 27 November 2009, the Company entered into an agreement in relation to the placing of the convertible bonds for an aggregate principal amount of HK$294,000,000, details of which were set out in the announcement of the Company dated 30 November 2009. As at the date of this report, the placing has not been completed and the conditions precedent of which were still outstanding.

On 18 December 2009, the Company entered into a framework agreement for the acquisition of a mine in Indonesia, details of which were set out in the announcement of the Company dated 23 December 2009. As at the date of this report, no formal agreement in relation to the acquisition has been entered into and the acquisition may or may not proceed.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Share Option Scheme**

On 11 February 2010, the directors proposed to adopt a conditional share option scheme ("Share Option Scheme"). A maximum number of 317,792,678 shares, being 10% of the total number of shares in issues, would fall to be issued pursuant to the exercise of any options. Details of the Share Option Scheme are set out in the circular dated 11 February 2010.

## BUSINESS OUTLOOK

As the signs of recovery in the global economy are still mixed, we remain cautious about the strength of the recovery of the consumer products market and believe demand will remain weak in 2010. Nevertheless, we will prepare ourselves to respond to fluctuations, both positive and negative, in the markets. At the products level, we will collaborate with existing and potential customers to develop new products. At the operational level the management will continually focus on reducing operating costs and improving production efficient. On the other hand, we will continue to exercise due care and diligence to explore other suitable investment, merger and acquisition opportunities to diversify our operation. As mentioned in the above section, the Company had entered into a framework agreement for a possible acquisition of a mine in Indonesia on 18 December 2009. Although this acquisition may or may not proceed, we are well on track to explore new business collaborations and opportunities which can enhance long-term shareholder value.

## MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group had neither any material acquisition nor disposal in the year ended 31 December 2009.

## MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities as at 31 December 2009.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group employed 26 staffs (2008: 27) in Hong Kong and 1,035 employees (2008: 988) in Mainland China. Employee remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Group had also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the grant date. The lapse date of the options is on 9 July 2010. During the year under review, no share option has been exercised.

On 11 February 2010, the directors has proposed to adopt a new share option scheme which is subject to shareholders' approval on a special general meeting to be held on 3 March 2010. Details of the new share option scheme are set out in the Company's circular dated 11 February 2010.

# CORPORATE GOVERNANCE REPORT

## INTRODUCTION

The Group commits to maintain and ensure high standards of corporate governance and has adopted the provisions contained in the Code on Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December save for the few exceptions mentioned below. This report outlines the main corporate governance processes and practices adopted by the Group with specific reference to the provisions of the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2009.

## BOARD OF DIRECTORS

The Company is led and controlled through the Board of Directors ("Board"). Apart from its statutory responsibilities, the Board sets the Group's overall business and financial strategies as well as setting policies on various matters including major investments, key operational targets and financial control.

Five Board meeting were held during the year ended 31 December 2009. The attendance of each director was as follows:

| Name of Director | Number of attendance |
|---|---|
| **Executive Director** | |
| Mr. Hu Xiao *(Chairman)* | 4/5 |
| Mr. Tam Lup Wai, Franky *(Deputy Chairman)* | 5/5 |
| **Independent Non-executive Director** | |
| Mr. Lam Bing Kwan | 5/5 |
| Mr. Yeung King Wah | 4/5 |
| Mr. Lau Kam Ying *(Resigned on 19 August 2009)* | 1/5 |
| Mr. Wong Man Chung, Francis *(Appointed on 12 November 2009)* | 1/5 |

Under the Code A.2.1, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of chief executive officer ("CEO") but instead the duties of a CEO are performed by Mr. Tam, the Deputy Chairman of the Company in the same capacity as the CEO of the Company.

The Board comprises five members, two of whom are Executive Directors including the Chairman of the Board and three are Independent Non-executive Directors ("INEDs"). Two INEDs possesses recognized professional qualifications in accounting. The profiles of the Directors' qualifications and experience are set out on pages 3 to 4 of this annual report. The Company is of the view that the current Board comprises members who, as a group, provides the necessary skill and experience for the requirements of the Group's business.

The three INEDs have all confirmed in writing to the Company that they meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

During the year ended 31 December 2009, the Company has complied with all requirements set out in the Listing Rules and the Code except the following:

(i) Code Provision A.4.1 stipulates that INEDs should be appointed for a specific term, subject to re-election. All the INEDs were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company except for Mr. Wong who was appointed for an initial term of one year commenced on 12 November 2009. As all directors' appointment will be reviewed when they are due for re-election, thus, the Company is of the view that this meets the same objectives of the said code provision.

(ii) Rules 3.10(1) and 3.21 of the Listing Rules require every listed company to appoint at least three INEDs and the audit committee of the listed company to comprise at least three non-executive directors. After the resignation of Mr. Lau on 19 August 2009 and until the appointment of Mr. Wong on 12 November 2009, the Company had only two INEDs which fell below the minimum number required under the Listing Rules.

## AUDIT COMMITTEE

The Company's Audit Committee was established in December 1999 and the present members are as follows:

| **Name of Director** | **Number of attendance** |
|---|---|
| Mr. Yeung King Wah *(Chairman)* | 2/2 |
| Mr. Lam Bing Kwan | 2/2 |
| Mr. Lau Kam Ying *(Resigned on 19 August 2009)* | 1/2 |
| Mr. Wong Man Chung, Francis *(Appointed on 12 November 2009)* | 0/2 |

The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, reappointment or removal of the external auditor.

During the year ended 31 December 2009, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company's Remuneration Committee was established in August 2005 and the present members are as follows:

| Name of Director | Number of attendance |
|---|---|
| Mr. Lam Bing Kwan *(Chairman)* | 1/1 |
| Mr. Tam Lup Wai, Franky | 1/1 |
| Mr. Yeung King Wah | 1/1 |
| Mr. Lau Kam Ying *(Resigned on 19 August 2009)* | 1/1 |
| Mr. Wong Man Chung, Francis *(Appointed on 12 November 2009)* | 0/1 |

The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the Main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 12 to the financial statements.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparing of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results, and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors have selected suitable accounting policies and applied them consistently, made judgments and estimates on a going concern basis.

Despite that the Group sustained recurrent losses, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

## AUDITOR'S RESPONSIBILITIES AND REMUNERATION

The statement of RSM Nelson Wheeler regarding their report responsibilities is set out in the Independent Auditor's Report on pages 21 to 22 of this annual report. During the year ended 31 December 2009, the audit fee and taxation service fee paid to the Company's auditor, RSM Nelson Wheeler for the Group amounted to HK$630,000 and HK$7,100 respectively.

## INTERNAL CONTROLS

The Board has the overall responsibilities for the Group's internal control system and has adopted a set of internal controls, which facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with relevant laws and regulations. The system is designed to minimize risks of failure to achieve corporate objectives.

The Company had reviewed the effectiveness of the Group's certain internal control system in 2009 and had reported the results to the Audit Committee.

## COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful channel for shareholders to communicate with the Board. All shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the Company's affair.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director. Pursuant to Rule 13.39 of the Listing Rule, any votes of the shareholders at a general meeting must be taken by poll.

# REPORT OF THE DIRECTORS

The directors present their annual report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 31 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year ended 31 December 2009 are set out in note 8 on the 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 year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 31% | |
| Five largest customers in aggregate | 70% | |
| The largest supplier | | 9% |
| Five largest suppliers in aggregate | | 30% |

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 interesting in these major customers and suppliers.

## FINANCIAL STATEMENTS

The Group's results for the year ended 31 December 2009 and the state of the Group's affairs as at that date are set out in the financial statements on pages 23 to 67.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2009 are set out in note 30 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2009 are set out in note 16 to the financial statements.

# REPORT OF THE DIRECTORS

## SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries, associates and jointly controlled entity are set out in notes 31, 17 and 18 respectively to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2009 are set out in note 28 to the financial statements.

## SHARE OPTIONS, CONVERTIBLE NOTES AND WARRANTS

Details of share options, convertible notes and warrants in issued and their subsequent conversion are set out in notes 27(b) and 25 respectively to the financial statements.

## DIRECTORS

The directors during the year were:

**Executive Directors**
Mr. Hu Xiao
Mr. Tam Lup Wai, Franky

**Independent Non-executive Directors**
Mr. Lam Bing Kwan
Mr. Yeung King Wah
Mr. Lau Kam Ying *(Resigned on 19 August 2009)*
Mr. Wong Man Chung, Francis *(Appointed on 12 November 2009)*

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Wong will retire at the forthcoming annual general meeting. In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Hu and Mr. Yeung will retire by rotation at the forthcoming annual general meeting.

Except for Mr. Wong who was appointed for an initial term of one year commended on 12 November 2009, all directors including the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's Bye-law at the annual general meeting.

The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 and the Company still considers the independent non-executive directors to be independent.

## DIRECTORS' SERVICE CONTRACT

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

**Long position in issued shares and underlying shares**

| Name of director | Capacity/Nature of interests | Number of shares held | Number of underlying shares held | % of total issued shares |
|---|---|---|---|---|
| Hu Xiao ("Mr. Hu") | Interest in controlled corporation | 938,974,000 *(Note 1)* | — | 29.55% |

*Note 1:* The 938,974,000 shares are held by Early State Enterprises Limited ("Early State"), a limited liability company incorporated in the British Virgin Islands ("BVI"). Mr. Hu is interested in the entire issued capital of Early State.

Save as disclosed above, as at 31 December 2009, none of the directors nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SHARE OPTION SCHEME

At 31 December 2009, the employees of the Group had the following interests in options to subscribe for shares of the Company (closing price per share at 31 December 2009 is HK$0.215) granted for HK$1 consideration under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of the Company.

| | | | | Number of options | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantees | Grant Date | Lapse Date | Exercise price per share (Adjusted) | Outstanding at 1 January 2009 | Cancelled during the year | Acquired on exercise of options during the year | Adjusted during the year | Outstanding at 31 December 2009 |
| Directors | — | — | — | — | — | — | — | — |
| Employees | 10 July 2000 | 9 July 2010 | HK$0.392 | 1,850,000 | — | — | (710,000) | 1,140,000 |
| Others *(Note 1)* | 10 July 2000 | 9 July 2010 | HK$0.392 | 28,290,000 | — | — | 710,000 | 29,000,000 |
| | | | | 30,140,000 | — | — | — | 30,140,000 |

*Note 1:* Ex-employees of the Group who are still entitled to the options under the terms of the share option scheme.

# REPORT OF THE DIRECTORS

The Company has a share option scheme, which was adopted on 2 June 1997 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the share option scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them. The share option scheme shall be valid and effective for a period of ten years ending 1 June 2007. However, with effect from 1 September 2001, the Company no longer can grant any further options under the Scheme unless the Company changes the terms of the Scheme to comply with the requirements of Chapter 17 of the Listing Rules.

For options granted before 1 September 2001, the exercise price of options was determined by the board of directors and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable up to 10 years after the grant date. However, between 28 June 2001 and 23 August 2001, most of the holders of the options undertake with the Company that the exercise of the options shall be restricted in the following manner:

| Period | Number of Shares |
|---|---|
| 10 Jul 2001 to 31 Dec 2001 (both dates inclusive) | Not more than 10% of the outstanding options |
| 1 Jan 2002 to 28 Feb 2002 (both dates inclusive) | Not more than 10% of the outstanding options |
| 1 Mar 2002 to 30 Jun 2002 (both dates inclusive) | Not more than 15% of the outstanding options |
| 1 Jul 2002 to 30 Sept 2002 (both dates inclusive) | Not more than 15% of the outstanding options |
| 1 Oct 2002 to 31 Dec 2002 (both dates inclusive) | Not more than 15% of the outstanding options |
| 1 Jan 2003 to 31 Mar 2003 (both dates inclusive) | Not more than 15% of the outstanding options |
| 1 Apr 2003 to 31 Jul 2003 (both dates inclusive) | Not more than 20% of the outstanding options |

The total number of shares available for issue under the share option scheme at 31 December 2009 will be 30,140,000 shares, which represents the outstanding options that have been granted but not yet lapsed or exercised at 31 December 2009, and it is 0.95% of the issued share capital of the Company as at the date of the annual report.

In respect of the maximum entitlement of each participant under the scheme, no limitation in relation to the number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period of the Company's ordinary shares in issue.

On 11 February 2010, the directors has proposed to adopt a new share option scheme which is subject to shareholders' approval on a special general meeting to be held on 3 March 2010. Details of the new share option scheme are set out in the Company's circular dated 11 February 2010.

## DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 12 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long positions of substantial shareholders in the shares and underlying shares

| Name of Shareholder | Capacity/Nature of Interest | Number of shares held | Number of underlying shares held | % of total issued shares |
|---|---|---|---|---|
| Early State Enterprises Limited ("Early State") | Beneficial Owner | 938,974,000 *(Note 1)* | — | 29.55% |

*Note 1:* The 938,974,000 shares are held by Early State. Mr. Hu is interested in the entire issued capital of Early State. For the avoidance of doubt, the same interests have been disclosed by Mr. Hu under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above.

Save as disclosed above, as at 31 December 2009, the Company according to the records required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short positions in the shares or underlying shares of the Company.

## DIRECTORS' INTERESTS IN CONTRACT

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2009.

## DISTRIBUTABLE RESERVES

At 31 December 2009, the Company had no reserves available for distribution to shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account, with a balance of HK$1,510,456,000 at 31 December 2009, may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares.

## PRE-EMPTIVE RIGHTS

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

## CONNECTED TRANSACTIONS

There were no material transactions that need to be disclosed as connected transactions in accordance with the requirement of the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

## LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Particulars of loans from banks and other financial institutions of the Group as at 31 December 2009 are set out in note 24 to the financial statements.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 68 of this annual report.

## PENSION SCHEME

The Group operates a mandatory provident fund scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organized by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the consolidated statement of comprehensive income for the year ended 31 December 2009, are set out in note 27 to the financial statements.

## NON-COMPLIANCE WITH THE LISTING RULES 3.10(1) AND 3.21

Rules 3.10(1) and 3.21 of the Listing Rules require every listed company to appoint at least three INEDs and the audit committee of the listed company to comprise at least three non-executive directors. After the resignation of Mr. Lau on 19 August 2009 and until the appointment of Mr. Wong on 12 November 2009, the Company had only two INEDs which fell below the minimum number required under the Listing Rules.

# REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE

Save as disclosed above, the Company complied with all requirements set out in the Code except for Code Provision A.4.1 which stipulates that INEDs should be appointed for a specific term, subject to re-election. During the year, all the INEDs were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company except for Mr. Wong who was appointed for an initial term of one year commenced on 12 November 2009. The details of the Company's corporate governance practices and its deviation from the Code have been disclosed in the "Corporate Governance Report" from pages 10 to 13 of this annual report.

## AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee was established on 28 December 1999 with written terms of reference. As at the date of this annual report, the Audit Committee comprising three independent non-executive directors, namely Mr. Yeung King Wah, Mr. Lam Bing Kwan and Mr. Wong Man Chung, Francis. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of the annual report, there was a sufficient public float of the Company.

## AUDITOR

The financial statements of the Company for the year under review have been audited by RSM Nelson Wheeler, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By Order of the Board
**Hu Xiao**
*Chairman and Executive Director*
Hong Kong, 1 March 2010

# INDEPENDENT AUDITOR'S REPORT

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

**To the Shareholders of**
**eFORCE HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of eForce Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 67, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's results 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.

**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong, 1 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

| | Note | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|---|
| **Turnover** | *6* | **112,132** | 163,474 |
| Cost of sales | | **(92,838)** | (140,078) |
| **Gross profit** | | **19,294** | 23,396 |
| Other income | *7* | **13,483** | 5,074 |
| Distribution costs | | **(2,873)** | (4,467) |
| Administrative expenses | | **(39,405)** | (45,754) |
| **Loss from operations** | | **(9,501)** | (21,751) |
| Finance costs | *9* | **(1,056)** | (1,139) |
| Share of loss of a jointly controlled entity | | **—** | (40) |
| **Loss before tax** | | **(10,557)** | (22,930) |
| Income tax expense | *10* | **(3)** | (545) |
| **Loss for the year** | *11* | **(10,560)** | (23,475) |
| **Other comprehensive income after tax:** | | | |
| Exchange differences on translating foreign operations | | **17** | (231) |
| Gains on property revaluation | | **6,082** | — |
| **Other comprehensive income for the year, net of tax** | *14* | **6,099** | (231) |
| **Total comprehensive income for the year** | | **(4,461)** | (23,706) |
| | | ***HK cents*** | *HK cents* |
| **Loss per share** | *15* | | |
| Basic | | **(0.38)** | (0.88) |
| Diluted | | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2009*

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 38,825 | 22,923 |
| Investments in associates | 17 | — | — |
| Investment in a jointly controlled entity | 18 | (40) | (40) |
| Other non-current assets | 19 | — | — |
| | | 38,785 | 22,883 |
| **Current assets** | | | |
| Inventories | 20 | 12,171 | 14,707 |
| Trade and other receivables | 21 | 18,777 | 22,709 |
| Pledged bank deposits | 22 | 1,500 | 1,533 |
| Bank and cash balances | 22 | 105,892 | 79,212 |
| | | 138,340 | 118,161 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | (54,317) | (62,107) |
| Borrowings | 24 | (11,746) | (4,335) |
| Unsecured other loans | 25 | (6,500) | (6,500) |
| Current tax liabilities | | (4,448) | (4,448) |
| | | (77,011) | (77,390) |
| **Net current assets** | | 61,329 | 40,771 |
| **Total assets less current liabilities** | | 100,114 | 63,654 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | — | (2,460) |
| **NET ASSETS** | | 100,114 | 61,194 |
| **Capital and reserves** | | | |
| Share capital | 28 | 158,896 | 132,896 |
| Reserves | 30 | (58,782) | (71,702) |
| **TOTAL EQUITY** | | 100,114 | 61,194 |

Approved by the Board of Directors on 1 March 2010.

| **Hu Xiao**<br>*Director* | **Tam Lup Wai, Franky**<br>*Director* |
|---|---|

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2009*

| | Share capital *HK$'000* | Share premium account *HK$'000* | Foreign currency translation reserve *HK$'000* | Warrant reserve *HK$'000* | Property revaluation reserve *HK$'000* | Accumulated losses *HK$'000* | Total equity *HK$'000* |
|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 132,896 | 1,493,075 | (4,997) | 24,226 | — | (1,560,300) | 84,900 |
| Total comprehensive income for the year and changes in equity for the year | — | — | (231) | — | — | (23,475) | (23,706) |
| At 31 December 2008 | 132,896 | 1,493,075 | (5,228) | 24,226 | — | (1,583,775) | 61,194 |
| At 1 January 2009 | 132,896 | 1,493,075 | (5,228) | 24,226 | — | (1,583,775) | 61,194 |
| Total comprehensive income for the year | — | — | 17 | — | 6,082 | (10,560) | (4,461) |
| Issue of shares on placement *(notes 28 & 30(b))* | 26,000 | 17,381 | — | — | — | — | 43,381 |
| Changes in equity for the year | 26,000 | 17,381 | 17 | — | 6,082 | (10,560) | 38,920 |
| At 31 December 2009 | 158,896 | 1,510,456 | (5,211) | 24,226 | 6,082 | (1,594,335) | 100,114 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2009*

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(10,557)** | (22,930) |
| Adjustments for: | | |
| Depreciation | **4,579** | 5,320 |
| Revaluation surplus on land and buildings | **(11,326)** | — |
| Interest income | **(260)** | (781) |
| Reversal of allowance for inventories | **—** | (943) |
| Net gain on disposals of property, plant and equipment | **(25)** | (1) |
| Written off of property, plant and equipment | **4** | 2 |
| Finance costs | **1,056** | 1,139 |
| Bad debts written off | **—** | 717 |
| Share of loss of a jointly controlled entity | **—** | 40 |
| Operating loss before working capital changes | **(16,529)** | (17,437) |
| Decrease in inventories | **2,536** | 4,951 |
| Decrease/(increase) in trade debtors and bills receivables | **5,712** | (6,782) |
| (Increase)/decrease in other debtors, deposits and prepayments | **(1,675)** | 1,000 |
| Increase in amount due from a jointly controlled entity | **(105)** | — |
| (Decrease)/increase in trade creditors and bills payables | **(7,478)** | 3,421 |
| Decrease in other creditors and accrued charges | **(634)** | (1,813) |
| Decrease in amount due to a former substantial shareholder | **—** | (1,729) |
| Increase/(decrease) in amounts due to directors | **23** | (301) |
| Cash used in operations | **(18,150)** | (18,690) |
| Income taxes paid | **(3)** | (615) |
| **Net cash used in operating activities** | **(18,153)** | (19,305) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | **(3,378)** | (3,775) |
| Proceeds from sale of property, plant and equipment | **337** | 1,275 |
| Decrease/(increase) in pledged bank deposits | **33** | (33) |
| Interest received | **260** | 781 |
| **Net cash used in investing activities** | **(2,748)** | (1,752) |

# CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

*For the year ended 31 December 2009*

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| New borrowings | 55,246 | 54,772 |
| Repayment of borrowings | (50,295) | (56,570) |
| Proceeds from issue of shares | 43,381 | — |
| Interest paid | (757) | (838) |
| Net cash generated from/(used in) financing activities | 47,575 | (2,636) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | 26,674 | (23,693) |
| Effect of foreign exchange rate changes | 6 | (1,298) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | 79,212 | 104,203 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 105,892 | 79,212 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | 105,892 | 79,212 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2009*

## 1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the financial statements.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

### (a) Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

### (b) Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 8 to the financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related accumulated foreign currency translation reserve.

Intergroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (b) Business combination and goodwill

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Business combination and goodwill *(Continued)*

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (u) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

### (c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Associates *(Continued)*

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the associate and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Joint venture *(Continued)*

The gain or loss on the disposal of a jointly controlled entity represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the jointly controlled entity and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (e) Foreign currency translation

#### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities 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 Hong Kong dollars, which is the Company's functional and presentation currency.

#### *(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Foreign currency translation *(Continued)*

#### *(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (f) Property, plant and equipment

Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Property, plant and equipment *(Continued)*

Revaluation increases of land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

| | |
|---|---|
| Land and buildings | 30 years |
| Leasehold improvements | Over the unexpired term of the lease |
| Plant and machinery | 5 years |
| Furniture, fixtures, office equipment and motor vehicles | 3 to 5 years |
| Moulds and tools | 5 years |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### (g) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### (h) Research and development expenditure

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

### (k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

### (m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (o) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials and moulds are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Employee benefits

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Subsidiaries incorporated in the People's Republic of China ("PRC") participate in the retirement schemes operated by the local authorities for the Group's employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred.

#### *(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (r) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Borrowing costs *(Continued)*

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

### (s) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

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

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

### (u) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or 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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Impairment of assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (w) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, which are dealt with below.

### *(a) Split of land and building elements*

The Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

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

### Key sources of estimation uncertainty

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

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

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

***(b) Income taxes***

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

***(c) Fair values of land and buildings***

The Group appointed an independent professional valuer to assess the fair values of the land and buildings. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

***(d) Impairment loss for bad and doubtful debts***

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

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

**Key sources of estimation uncertainty** *(Continued)*

***(e) Allowance for slow-moving inventories***

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Foreign currency risk**

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2009, if the HKD had weakened 1 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$93,000 (2008: HK$125,000) lower, arising mainly as a result of the net foreign exchange gain on receivables, payables and borrowings denominated in the USD. If the HKD had strengthened 1 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been approximately HK$93,000 (2008: HK$125,000) higher, arising mainly as a result of the net foreign exchange loss on receivables, payables and borrowings denominated in the USD.

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Credit risk

The carrying amount of the cash and bank balances and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

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

The Group has significant concentration of credit risk to its trade receivables as one of the Group's largest customer contributed over 12% of the turnover for the year and shared over 35% of the trade and bills receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables and there is no recent history of default for the customer.

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

| | Less than 1 year *HK$'000* | Between 1 and 2 years *HK$'000* | Between 2 and 5 years *HK$'000* | Over 5 years *HK$'000* |
|---|---|---|---|---|
| **At 31 December 2009** | | | | |
| Borrowings | 11,909 | — | — | — |
| Unsecured other loans | 6,760 | — | — | — |
| Trade and other payables | 54,317 | — | — | — |
| **At 31 December 2008** | | | | |
| Borrowings | 5,295 | 2,362 | 584 | — |
| Unsecured other loans | 6,760 | — | — | — |
| Trade and other payables | 62,107 | — | — | — |

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and borrowings and unsecured other loans.

Unsecured other loans of HK$6,500,000 (2008: HK$6,500,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risks. Other bank deposits and borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2009, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been HK$51,000 (2008: HK$66,000) higher, arising as a result of lower interest income from bank deposits. If interest rates had been 50 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been HK$255,000 (2008: HK$331,000) lower, arising as a result of higher interest income from bank deposits.

### (e) Categories of financial instruments at 31 December 2009

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets:** | | |
| Loans and receivables (including cash and cash equivalents) | **126,169** | 103,454 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | **72,563** | 75,402 |

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 6. TURNOVER

The Group's turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognised in turnover during the year represents manufacture and sale of healthcare and household products.

## 7. OTHER INCOME

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Income from moulds sales, net | **220** | 256 |
| Income from scrap sales | **1,060** | 2,830 |
| Interest income | **260** | 781 |
| Net foreign exchange gains | **—** | 903 |
| Net gain on disposals of property, plant and equipment | **25** | 1 |
| Rental income | **20** | 21 |
| Revaluation surplus on land and buildings | **11,326** | — |
| Others | **572** | 282 |
| | **13,483** | 5,074 |

## 8. SEGMENT INFORMATION

The Group is wholly engaged in the manufacture and sales of healthcare and household products. Accordingly, there is only one single reportable segment of the Group.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements.

**Geographical information**

The Group's business is managed on a worldwide basis, but participates in four principal economic environments.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | **Revenue** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| North America | **38,178** | 55,273 | **—** | — |
| Europe | **35,203** | 52,256 | **—** | — |
| The People's Republic of China (the "PRC") | **22,584** | 15,568 | **37,607** | 21,643 |
| Hong Kong and others | **16,167** | 40,377 | **1,178** | 1,240 |
| Consolidated total | **112,132** | 163,474 | **38,785** | 22,883 |

In presenting the geographical information, revenue is based on the locations of the customers.

## 8. SEGMENT INFORMATION *(Continued)*

**Revenue from major customers**

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Customer a | 34,441 | 43,621 |
| Customer b | 20,839 | 28,810 |
| Customer c | 12,898 | — |

## 9. FINANCE COSTS

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Interest on bank loans | 757 | 840 |
| Interest on other loans wholly repayable within five years | 299 | 299 |
| | 1,056 | 1,139 |

## 10. INCOME TAX EXPENSE

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Current tax — PRC Enterprise Income Tax | | |
| Provision for the year | 3 | 40 |
| Under-provision in prior years | — | 505 |
| | 3 | 545 |

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the PRC, the subsidiaries in the PRC are exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise income tax for the following three years. One of the subsidiaries in the PRC was in its fifth profit-making year for the financial year ended 31 December 2009 and was therefore entitled to a 50% relief from PRC enterprise income tax for the financial year ended 31 December 2009. However, no provision was made for the financial year ended 31 December 2009 as the subsidiary incurred tax loss in the year. The tax rate applicable to the subsidiary in the PRC, after the 50% relief, was 12.5%.

## 10. INCOME TAX EXPENSE *(Continued)*

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Loss before tax | (10,557) | (22,930) |
| Tax at the domestic income tax rate of 16.5% (2008:16.5%) | (1,742) | (3,783) |
| Tax effect of income that is not taxable | (1,907) | (116) |
| Tax effect of expenses that are not deductible | 2,537 | 4,036 |
| Tax effect of temporary differences not recognised | 22 | 134 |
| Tax effect of tax losses not recognised | 1,003 | 139 |
| Under-provision in prior years | — | 505 |
| Effect of different tax rates of subsidiaries | 90 | (370) |
| Income tax expense | 3 | 545 |

## 11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Depreciation | 4,579 | 5,320 |
| Operating lease charges in respect of land and buildings | 4,556 | 4,942 |
| Research and development costs * | 2,609 | 2,632 |
| Auditor's remuneration | | |
| Current | 590 | 580 |
| Under-provision in prior years | 40 | — |
| | 630 | 580 |
| Cost of inventories sold# | 92,838 | 140,078 |
| Bad debts written off | — | 717 |
| Reversal of allowance for inventories (included in cost of inventories sold) | — | (943) |
| Written off of property, plant and equipment | 4 | 2 |
| Staff costs including directors' remuneration | | |
| Salaries, bonus and allowances | 36,304 | 43,524 |
| Retirement benefit scheme contributions | 301 | 371 |
| | 36,605 | 43,895 |

* Research and development costs include staff costs of approximately HK$1,996,000 (2008: HK$2,367,000) which are included in the amount disclosed separately above.

# Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK$20,369,000 (2008: HK$27,231,000), which are included in the amounts disclosed separately above.

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

**For the year ended 31 December 2009**

| | Fees | Basic salaries, allowances and benefits in kind | Discretionary bonus | Share-based payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Name of director** | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Hu Xiao | — | — | — | — | — | — |
| Mr. Tam Lup Wai, Franky | — | 1,339 | — | — | 12 | 1,351 |
| *Independent non-executive directors* | | | | | | |
| Mr. Lam Bing Kwan | 60 | — | — | — | — | 60 |
| Mr. Yeung King Wah | 120 | — | — | — | — | 120 |
| Mr. Wong Man Chung, Francis *(note (a))* | 16 | — | — | — | — | 16 |
| Mr. Lau Kam Ying *(note (b))* | 76 | — | — | — | — | 76 |
| | 272 | 1,339 | — | — | 12 | 1,623 |

**For the year ended 31 December 2008**

| | Fees | Basic salaries, allowances and benefits in kind | Discretionary bonus | Share-based payments | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Name of director** | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Hu Xiao *(note (c))* | — | — | — | — | — | — |
| Mr. Leung Chung Shan *(note (d))* | — | 2,975 | — | — | 12 | 2,987 |
| Mr. Tam Lup Wai, Franky | — | 1,339 | — | — | 12 | 1,351 |
| *Independent non-executive directors* | | | | | | |
| Mr. Lam Bing Kwan | 60 | — | — | — | — | 60 |
| Mr. Yeung King Wah | 120 | — | — | — | — | 120 |
| Mr. Lau Kam Ying | 120 | — | — | — | — | 120 |
| | 300 | 4,314 | — | — | 24 | 4,638 |

*Notes:*
(a) Appointed on 12 November 2009
(b) Resigned on 19 August 2009
(c) Appointed on 3 November 2008
(d) Resigned on 3 November 2008

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

During the year, no share options were granted to the directors.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2008: HK$Nil).

The five highest paid individuals in the Group during the year included one (2008: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2008: three) individuals are set out below:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Basic salaries and allowances | **4,257** | 2,986 |
| Retirement benefit scheme contributions | **71** | 83 |
| | **4,328** | 3,069 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2009** | 2008 |
| HK$Nil to HK$1,000,000 | **2** | 1 |
| HK$1,000,001 to HK$2,000,000 | **2** | 2 |
| | **4** | 3 |

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2009 (2008: HK$Nil).

## 14. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income for the year

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Amount Before tax | Tax | Amount After tax | Amount Before tax | Tax | Amount After tax |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Exchange differences on translating foreign operations | 17 | — | 17 | (231) | — | (231) |
| Gains on property revaluation | 6,082 | — | 6,082 | — | — | — |
| Other comprehensive income | 6,099 | — | 6,099 | (231) | — | (231) |

## 15. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$10,560,000 (2008: HK$23,475,000) and the weighted average number of ordinary shares of 2,747,680,214 (2008: 2,657,926,789) in issue during the year.

### (b) Diluted loss per share

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary share during the two years ended 31 December 2009.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Moulds and tools HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2008 | 20,179 | 1,863 | 22,565 | 16,065 | 28,734 | 89,406 |
| Additions | — | — | 142 | 1,454 | 2,179 | 3,775 |
| Disposals | — | — | — | (241) | (1,399) | (1,640) |
| Written off | — | — | (717) | (78) | — | (795) |
| Exchange differences | 1,242 | — | 1,577 | 450 | 1,001 | 4,270 |
| At 31 December 2008 and at 1 January 2009 | 21,421 | 1,863 | 23,567 | 17,650 | 30,515 | 95,016 |
| Additions | — | — | 834 | 1,491 | 1,053 | 3,378 |
| Surplus on revaluation | 11,008 | — | — | — | — | 11,008 |
| Disposals | — | — | (1,134) | (59) | (300) | (1,493) |
| Written off | — | — | (425) | (245) | (324) | (994) |
| Exchange differences | 9 | — | 12 | 4 | 8 | 33 |
| At 31 December 2009 | 32,438 | 1,863 | 22,854 | 18,841 | 30,952 | 106,948 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2008 | 4,105 | 1,863 | 19,825 | 13,577 | 25,747 | 65,117 |
| Charge for the year | 1,020 | — | 1,218 | 1,143 | 1,939 | 5,320 |
| Disposals | — | — | — | (238) | (128) | (366) |
| Written off | — | — | (716) | (77) | — | (793) |
| Exchange differences | 252 | — | 1,439 | 316 | 808 | 2,815 |
| At 31 December 2008 and at 1 January 2009 | 5,377 | 1,863 | 21,766 | 14,721 | 28,366 | 72,093 |
| Charge for the year | 1,021 | — | 928 | 1,328 | 1,302 | 4,579 |
| Write back on revaluation | (6,400) | — | — | — | — | (6,400) |
| Disposals | — | — | (1,134) | (47) | — | (1,181) |
| Written off | — | — | (425) | (242) | (323) | (990) |
| Exchange differences | 2 | — | 11 | 3 | 6 | 22 |
| At 31 December 2009 | — | 1,863 | 21,146 | 15,763 | 29,351 | 68,123 |
| **Carrying amount** | | | | | | |
| At 31 December 2009 | 32,438 | — | 1,708 | 3,078 | 1,601 | 38,825 |
| At 31 December 2008 | 16,044 | — | 1,801 | 2,929 | 2,149 | 22,923 |

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

The analysis of the cost or valuation at 31 December 2009 of the above assets is as follows:

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Moulds and tools HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At cost | — | 1,863 | 22,854 | 18,841 | 30,952 | 74,510 |
| At valuation 2009 | 32,438 | — | — | — | — | 32,438 |
| | 32,438 | 1,863 | 22,854 | 18,841 | 30,952 | 106,948 |

The analysis of the cost or valuation at 31 December 2008 of the above assets is as follows:

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures, office equipment and motor vehicles HK$'000 | Moulds and tools HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At cost | — | 1,863 | 23,567 | 17,650 | 30,515 | 73,595 |
| At valuation 2003 | 21,421 | — | — | — | — | 21,421 |
| | 21,421 | 1,863 | 23,567 | 17,650 | 30,515 | 95,016 |

(a) All land and buildings of the Group are outside Hong Kong under medium-term leases.

(b) The Group's land and buildings held for own use were revalued at 31 December 2009 on an open market value basis by Ascent Partners Transaction Service Limited, an independent firm of professional valuers.

Had the land and buildings held for own use been carried at historical cost less accumulated depreciation and impairment loss as at 31 December 2009 their carrying value would have been approximately HK$22,890,000 (2008: HK$23,983,000).

(c) At 31 December 2009, all buildings of the Group were pledged to secure certain loan facilities granted to the Group (note 24).

## 17. INVESTMENTS IN ASSOCIATES

| | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|
| Unlisted investments: | | |
| Share of net assets | — | — |

## 17. INVESTMENTS IN ASSOCIATES *(Continued)*

Details of the Group's associates at 31 December 2009 are as follows:

| Name | Place of incorporation/ registration | Issued and paid up capital | Percentage of ownership interest/ voting power/ profit sharing | Principal activities |
|---|---|---|---|---|
| Dynasty L.L.C. | United States of America | 140,000 ordinary shares of US$1 each | 50% | Dormant |
| Esterham Enterprise Inc. | British Virgin Islands ("BVI") | 2 ordinary shares of US$1 each | 50% | Dormant |

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

| | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|
| At 31 December | | |
| Total assets | — | — |
| Total liabilities | — | — |
| Net assets | — | — |
| Group's share of associates' net assets | — | — |
| Year ended 31 December | | |
| Total revenue | — | — |
| Total loss for the year | — | — |
| Group's share of associates' results for the year | — | — |

The Group's share of net assets and results for the year is insignificant since the associates are dormant for many years.

## 18. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|
| Unlisted investment: | | |
| Share of net liabilities | **(40)** | (40) |

## 18. INVESTMENT IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Details of the jointly controlled entity at 31 December 2009 are as follows:

| Name | Place of incorporation/ registration | Issued and fully paid up capital | Percentage of ownership interest/ voting power/ profit sharing | Principal activities |
|---|---|---|---|---|
| Kato Fairform Strategic Holdings Limited | Hong Kong | 10 ordinary shares of HK$1 each | 40% | Investment holding |

The following amounts are the Group's share of the jointly controlled entity that are accounted for by the equity method of accounting.

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| At 31 December | | |
| Current assets | 2 | 2 |
| Current liabilities | (42) | (42) |
| Net liabilities | (40) | (40) |
| Year ended 31 December | | |
| Turnover | — | — |
| Expenses | — | (40) |

## 19. OTHER NON-CURRENT ASSETS

It represented a quality guarantee deposit amounted to HK$44,933,000 paid to China Infohighway Communications Co., Ltd. ("IHW") pursuant to Cooperation Agreement and Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW on 19 December 2001. Under the Agreements the Group agreed to provide certain equipment and facilities as necessary for IHW's network infrastructure for a facility fee. In the event that the Group failed to provide the required equipment and facilities, IHW could make use of the deposit to purchase the required equipment and facilities. The deposit was unsecured, non-interest bearing and is repayable upon the expiry of the Agreements on 21 July 2019.

However, owing to the difficulty and complexity in securing a telecommunications service-operating permit in the PRC, the Group had decided to suspend the cooperation projects. The directors had negotiated a refund of the deposit with IHW but had been unable to reach an agreement.

As the recoverability of the deposit was uncertain, the directors considered that it is prudent to make full allowance of impairment of HK$44,933,000 against the deposit since the year ended 31 December 2003.

## 20. INVENTORIES

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Raw materials | 7,792 | 8,952 |
| Work in progress | 2,345 | 4,897 |
| Finished goods | 2,034 | 858 |
| | 12,171 | 14,707 |

## 21. TRADE AND OTHER RECEIVABLES

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade debtors and bills receivables *(notes (a), (b) & (c))* | 13,824 | 19,536 |
| Other debtors, deposits and prepayments | 4,827 | 3,152 |
| Amounts due from associates *(note (d))* | 21 | 21 |
| Amount due from a jointly controlled entity *(note (d))* | 105 | — |
| | 18,777 | 22,709 |

*Notes:*

(a) The ageing analysis of the trade debtors and bills receivables, based on the invoice date, and net of allowance, is as follows:

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | 7,376 | 11,656 |
| 31 to 90 days | 6,044 | 7,665 |
| 91 to 180 days | 204 | — |
| 181 to 365 days | 1 | 1 |
| Over 365 days | 199 | 214 |
| | 13,824 | 19,536 |

Trade debts are normally due within from 30 to 45 days from the date of billing.

As at 31 December 2009, trade debtors and bills receivables of HK$2,170,000 (2008: HK$6,282,000) are assigned to a bank to secure banking facilities (note 24).

## 21. TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes: (continued)*

(b) The carrying amounts of the Group's trade debtors and bills receivables are denominated in the following currencies:

| | HKD<br>*HK$'000* | USD<br>*HK$'000* | RMB<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **2009** | **14** | **12,797** | **1,013** | **13,824** |
| 2008 | — | 18,003 | 1,533 | 19,536 |

(c) Trade debtors and bills receivables were past due but not impaired

As of 31 December 2009, trade debtors and bills receivables of HK$5,160,000 (2008: HK$7,880,000) were past due but not impaired. The ageing analysis of these trade debtors and bills receivables is as follows:

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| Up to 3 months | **4,756** | 7,665 |
| 3 to 6 months | **204** | 1 |
| More than 6 months | **200** | 214 |
| | **5,160** | 7,880 |

Receivables that were past due but not impaired relate to customers having 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.

(d) Amounts due from associates and a jointly controlled entity are unsecured, interest-free and have no fixed repayment terms.

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

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 24 to the financial statements. The deposits are in HKD and at an average interest rate of 0.01% (2008: 3.1%) per annum and therefore are subject to fair value interest rate risk.

As at 31 December 2009, the bank and cash balances of the Group denominated in RMB amounted to HK$2,078,000 (2008: HK$1,062,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 23. TRADE AND OTHER PAYABLES

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade creditors and bills payables *(notes (a) & (b))* | **22,838** | 30,316 |
| Other creditors and accrued charges | **31,274** | 31,609 |
| Amounts due to directors *(note (c))* | **205** | 182 |
| | **54,317** | 62,107 |

*Notes:*

(a) The ageing analysis of the trade creditors and bills payables, based on the date of receipt of goods, is as follows:

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | **9,487** | 7,903 |
| 31 to 90 days | **9,285** | 13,756 |
| 91 to 180 days | **1,915** | 6,554 |
| Over 180 days | **2,151** | 2,103 |
| | **22,838** | 30,316 |

(b) The carrying amounts of the Group's trade creditors and bills payables are denominated in the following currencies:

| | HKD | USD | RMB | EURO | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2009** | **10,149** | **413** | **12,276** | **—** | **22,838** |
| 2008 | 14,783 | 1,579 | 13,898 | 56 | 30,316 |

(c) Amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

## 24. BORROWINGS

| | **2009** | 2008 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Loans from financial institutions | | |
| — unsecured *(note (a))* | **380** | 380 |
| — secured *(notes (b) & (d))* | **11,358** | 4,417 |
| | **11,738** | 4,797 |
| Secured bank loan *(notes (c) & (d))* | **8** | 1,998 |
| | **11,746** | 6,795 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | **11,746** | 4,335 |
| In the second year | **—** | 1,958 |
| In the third to fifth years, inclusive | **—** | 502 |
| | **11,746** | 6,795 |
| *Less:* Amount due for settlement within 12 months (shown under current liabilities) | **(11,746)** | (4,335) |
| Amount due for settlement after 12 months | **—** | 2,460 |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | **HKD** | **USD** | **RMB** | **Total** |
|---|---|---|---|---|
| | ***HK\$'000*** | ***HK\$'000*** | ***HK\$'000*** | ***HK\$'000*** |
| **2009** | **380** | **8** | **11,358** | **11,746** |
| 2008 | 380 | 1,998 | 4,417 | 6,795 |

*Notes:*

(a) The unsecured loan is interest bearing at 3% per annum over the prevailing prime lending rate offered by The Hongkong and Shanghai Banking Corporation Limited and exposes the Group to cash flow interest rate risk.

(b) Secured loans are arranged at floating interest rate with an average rate of 7.02% (2008: 8.21%) per annum and expose the Group to cash flow interest rate risk.

(c) Secured bank loan is arranged at interest rate of 1% (2008: 1%) per annum over the standard bills rate quoted by the bank and exposes the Group to cash flow interest rate risk.

(d) The secured loans are secured over the Group's buildings held for own use situated outside Hong Kong with a carrying amount of approximately HK\$25 million (2008: HK\$16 million), fixed deposits approximately HK\$1.5 million (2008: HK\$1.5 million), the Company's guarantee and certain trade receivables of a subsidiary.

(e) At 31 December 2009, the Group had available HK\$23.3 million (2008: HK\$8.7 million) undrawn borrowing facilities.

## 25. UNSECURED OTHER LOANS

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK$2.5 million were subsequently converted during 2000.

Prior to maturity, holders of the remaining Notes of HK$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes had lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK$8.6 million are due for repayment. As at the date of authorisation for issue of these financial statements, the Notes holders have not yet requested the Company to repay the loans.

## 26. DEFERRED TAX

At the end of the reporting period the Group has unused tax losses of approximately HK$137 million (2008: HK$136 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

## 27. RETIREMENT BENEFIT SCHEMES

### (a) Employee retirement benefits

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5%-10% and employees are required to make 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 except for certain senior staff. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans ("Plans") organised by local authorities for the Group's employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

## 27. RETIREMENT BENEFIT SCHEMES *(Continued)*

### (b) Equity compensation benefits

The Company has a share option scheme which was adopted on 2 June 1997 whereby the directors of the Company are authorised to invite employees of the Group, including the directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest after one year from the date of grant and are then exercisable within a period of ten years thereafter. Each option gives the holder the right to subscribe for one share. With effect from 1 September 2001, the Company needs to revise the terms of the existing scheme to comply with the requirements of Chapter 17 of the Listing Rules if the Company wishes to continue to grant options under the existing scheme.

Movements in share options are as follows:

| | Number | |
|---|---|---|
| | **2009** | 2008 |
| At 1 January | **30,140,000** | 30,140,000 |
| Exercised | **—** | — |
| At 31 December — options vested | **30,140,000** | 30,140,000 |

The outstanding share options at 31 December 2008 and 2009 were granted on 10 July 2000 and are exercisable for a period commencing from 10 July 2001 to 9 July 2010 at an exercise price of HK$0.392 per share.

## 28. SHARE CAPITAL

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 6,000,000,000 ordinary shares of HK$0.05 each | **300,000** | 300,000 |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| | | ***HK$'000*** | | *HK$'000* |
| Issued and fully paid: | | | | |
| At 1 January | **2,657,926,789** | **132,896** | 2,657,926,789 | 132,896 |
| Issue of shares on placement *(note)* | **520,000,000** | **26,000** | — | — |
| At 31 December | **3,177,926,789** | **158,896** | 2,657,926,789 | 132,896 |

## 28. SHARE CAPITAL *(Continued)*

*Note:* On 19 October 2009, the Company and Get Nice Securities Limited entered into a placing agreement in respect of the placement of 520,000,000 ordinary shares of HK$0.05 each to independent investors at a price of HK$0.086 per share. The placement was completed on 30 October 2009 and the premium on the issue of shares, amounting to approximately HK$17,381,000, net of share issue expenses, was credited to the Company's share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. As at 31 December 2009, the Group did not have any net debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained earnings and other reserves).

It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

## 29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Investments in subsidiaries | **191,351** | 191,351 |
| Due from subsidiaries | **1,468,091** | 1,454,728 |
| Impairment loss on investments and amounts due from subsidiaries | **(1,658,991)** | (1,645,995) |
| Due from a jointly controlled entity | **103** | — |
| Other current assets | **101,653** | 74,438 |
| Due to subsidiaries | **(26,890)** | (26,890) |
| Other current liabilities | **(11,707)** | (11,483) |
| NET ASSETS | **63,610** | 36,149 |
| Share capital | **158,896** | 132,896 |
| Reserves | **(95,286)** | (96,747) |
| TOTAL EQUITY | **63,610** | 36,149 |

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

### (b) Company

| | Share premium account | Contributed surplus | Warrant reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2008 | 1,493,075 | 9,354 | 24,226 | (1,573,620) | (46,965) |
| Loss for the year | — | — | — | (49,782) | (49,782) |
| At 31 December 2008 | 1,493,075 | 9,354 | 24,226 | (1,623,402) | (96,747) |
| At 1 January 2009 | 1,493,075 | 9,354 | 24,226 | (1,623,402) | (96,747) |
| Issue of shares on placement | 17,381 | — | — | — | 17,381 |
| Loss for the year | — | — | — | (15,920) | (15,920) |
| At 31 December 2009 | 1,510,456 | 9,354 | 24,226 | (1,639,322) | (95,286) |

### (c) Nature and purpose of reserves

#### *(i) Share premium account*

Under the Bye-laws of the Company, the share premium is not distributable but may be applied in paying up unissued shares of the Company to be issued to shareholders of the Company as fully paid bonus shares.

#### *(ii) Contributed surplus*

The contributed surplus of the Company arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 1997 and represented the excess of the then consolidated net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

## 30. RESERVES *(Continued)*

### (c) Nature and purpose of reserves *(Continued)*

#### *(ii) Contributed surplus (Continued)*

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

— it is, or would after the payment be, unable to pay its liabilities as they become due; or

— the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

#### *(iii) Warrant reserve*

The warrant reserve represents the proceeds received from the issue of 370,000,000 warrants at a placing price of HK$0.07 per warrant on 27 November 2003, net of warrant issue expenses. The trading of the warrants on the Stock Exchange had ceased after 2 December 2004 and the listing of the warrants on the Stock Exchange was withdrawn from 4 December 2004. The subscription rights attaching to the warrants had expired on 7 December 2004. The Company had 365,880,000 outstanding warrants not exercised.

#### *(iv) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

#### *(v) Property revaluation reserve*

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 3(f) to the financial statements.

The property revaluation reserve of the Group in respect of land and buildings is distributable to the extent of HK$6,082,000 (2008: HK$ Nil).

## 31. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2009 are as follows:

| Name | Place of incorporation/ registration and operation | Issued and paid up capital | Percentage of ownership interest/voting power/ profit sharing | | Principal activities |
|---|---|---|---|---|---|
| | | | *Direct* | *Indirect* | |
| Dongguan Fairform Creative Company Limited *(note (a))** | The PRC | Registered capital HK$8,000,000 | — | 100% | Manufacturing and trading of healthcare and household products |
| Dongguan Weihang Electrical Product Company Limited *(note (b))* | The PRC | Registered capital US$9,000,000 | — | 100% | Manufacturing and trading of healthcare and household products |
| eForce Management Limited | Hong Kong | 2 ordinary shares of HK$1 each | 100% | — | Provision of management services |
| eForce Project Services Limited | BVI | 1 share of US$1 | 100% | — | Provision of management consultancy services |
| Fairform Group Limited | BVI | 15,700,200 shares of US$1 each | 100% | — | Investment holding |
| Fairform Manufacturing Company Limited | Hong Kong | 138,750,000 ordinary shares of HK$1 each and 250,000 non-voting deferred shares of HK$1 each | — | 100% | Manufacturing and trading of healthcare and household products |
| Gainford International Inc. | BVI | 50 shares of US$1 each | — | 100% | Investment holding |

## 31. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operation | Issued and paid up capital | Percentage of ownership interest/voting power/ profit sharing *Direct* | *Indirect* | Principal activities |
|---|---|---|---|---|---|
| Oasis Global Limited | BVI | 10 shares of US$1 each | — | 100% | Trademark holding |
| Qesco International (H.K.) Limited | Hong Kong | 1,000,000 ordinary shares of HK$1 each | — | 100% | Trademark holding |

*Notes:*

(a) Dongguan Fairform Creative Company Limited is a wholly foreign owned enterprise with an operating period of 12 years expiring on 8 September 2017.

(b) Dongguan Weihang Electrical Product Company Limited is a wholly foreign owned enterprise with an operating period of 30 years expiring on 10 April 2024.

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

* *For identification purpose only*

## 32. CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities (2008: Nil).

## 33. COMMITMENTS

At 31 December 2009, the Group has the following capital commitments outstanding and not provided for in the financial statements:

| | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|
| Contracted but not provided for: | | |
| Quality guarantee deposit | **17,500** | 17,500 |
| Interest-free loan to a jointly controlled entity | **4,000** | 4,000 |
| | **21,500** | 21,500 |

## 34. RELATED PARTY TRANSACTIONS

Apart from those related party transactions and balances disclosed elsewhere in the financial statements, the Group had no other transactions with its related parties during the year.

## 35. LEASE COMMITMENTS

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **957** | 2,003 |
| In the second to fifth years inclusive | **876** | 907 |
| After five years | **7,970** | 8,562 |
| | **9,803** | 11,472 |

(a) The Group leases a number of properties under operating leases. The leases run for an initial period from 1 to 50 years, with an option to renew the lease and renegotiate the terms at the expiry date or dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

(b) Tenancy agreement in respect of office premises in Hong Kong was entered into by Tees Corporation ("Tees"), a former substantial shareholder of the Group, whom acts as the capacity of nominee for the Group. The Group has agreed to assume all the rights and obligations of the tenancy agreement and to indemnify Tees against any claims and losses arising from the tenancy agreement.

## 36. EVENTS AFTER THE REPORTING PERIOD

(a) On 27 November 2009, the Company and the placing agent, Cheong Lee Securities Limited, entered into the placing agreement in relation to placing of convertible bonds ("Placing Agreement"). Pursuant to the Placing Agreement, the Company will issue the zero coupon convertible redeemable bonds ("Convertible Bonds") up to an aggregate principal amount of HK$294 million. Based on the conversion price of HK$0.098 per conversion share, a maximum number of 3,000,000,000 conversion shares (with an aggregate nominal value of HK$150 million) would fall to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full. Further details of Convertible Bonds are set out in the announcement of the Company dated 30 November 2009. Up to the date of this report, no Convertible Bonds has yet been allotted and issued.

## 36. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) On 18 December 2009, the Company and the Vendor, Fastport Investments Holdings Limited, entered into a framework agreement (the "Framework Agreement") in relation to a proposed acquisition of the entire issued share capital of a target company (the "Proposed Acquisition"), being an indirect shareholder of a mining company. The mining company is the owner of a mining license in respect of a mining area located in Central Kalimantan, Indonesia. Upon the completion of reorganisation, the target company will become the ultimate beneficial owner of 99.9% of the equity interest in the mining company. Further details of the Framework Agreement are set out in the announcement of the Company dated 23 December 2009. Up to the date of this report, no sales and purchases agreement has been signed between the Company and the Vendor relation to the Proposed Acquisition.

(c) On 11 February 2010, the directors proposed to adopt a conditional share option scheme ("Share Option Scheme"). A maximum number of 317,792,678 shares, being 10% of the total number of shares in issues, would fall to be issued pursuant to the exercise of any options. Details of the Share Option Scheme are set out in the Circular dated 11 February 2010.

## 37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 1 March 2010.

# FIVE YEAR FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Turnover | **112,132** | 163,474 | 159,657 | 174,277 | 168,307 |
| Operating loss after finance costs | **(10,557)** | (22,890) | (5,141) | (11,980) | (25,312) |
| Share of loss of an associate | **—** | — | — | — | (1,911) |
| Share of loss of a jointly controlled entity | **—** | (40) | — | — | — |
| Loss before taxation | **(10,557)** | (22,930) | (5,141) | (11,980) | (27,223) |
| Taxation | **(3)** | (545) | (358) | — | — |
| Loss for the year | **(10,560)** | (23,475) | (5,499) | (11,980) | (27,223) |
| Loss attributable to equity holders of the Company | **(10,560)** | (23,475) | (5,499) | (11,980) | (27,223) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets and liabilities** | | | | | |
| Total assets | **177,125** | 141,044 | 166,351 | 71,147 | 74,298 |
| Total liabilities | **(77,011)** | (79,850) | (81,451) | (97,213) | (105,693) |
| Net assets/(liabilities) | **100,114** | 61,194 | 84,900 | (26,066) | (31,395) |
| Equity attributable to equity holders of the Company | **100,114** | 61,194 | 84,900 | (26,066) | (31,395) |