Rainbow Brothers Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 33

十友控股有限公司*

* For identification purpose only

Annual Report 2009

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The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

CORPORATE INFORMATION

Board of Directors

Executive Directors
Hui Kwan Wah, Hugo *(Chairman)*
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*
Wong Sai Ming
Wong Tat Tung *(with effect from March 13, 2009)*

Non-executive Director
Chan Cheuk Ming

Independent Non-executive Directors
Cheung Wah Keung
Anthony Espina
Wong Che Keung

Executive Committee

Hui Kwan Wah, Hugo *(Chairman)*
Ng Chi Man
Wong Sai Ming
Wong Tat Tung *(with effect from March 13, 2009)*

Audit Committee

Anthony Espina *(Chairman)*
Cheung Wah Keung
Wong Che Keung
Chan Cheuk Ming

Remuneration Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Wong Che Keung
Chan Cheuk Ming

Authorised Representatives

Hui Kwan Wah, Hugo
Ng Chi Man

Company Secretary

Wu Kwok Choi, Chris

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

29/F Paul Y Centre
51 Hung To Road
Kwun Tong
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Legal Adviser

Tsang, Chan & Woo
12th Floor Grand Building
15-18 Connaught Road Central
Hong Kong

Auditor

Cheng & Cheng Limited
Certified Public Accountants
Rooms 1003-1005, Allied Kajima Building
138 Gloucester Road, Wanchai
Hong Kong

Stock Code

33 (Listed on the Main Board of The Stock Exchange of Hong Kong Limited)

Website

www.rainbowbrothers.com

The Group is principally engaged in designing, developing, merchandising and providing party and festivity products mainly to dollar store business operators. Most of the products shipped by the Group are retailed at or below US$1, or its equivalent, in North America. Since January 2009, the Group began to diversify into other businesses with major focus in China market. Since then, the Group has entered into a China property development project, set up a concept hotel in Shenzhen and entered into the financial planning services industry in Hong Kong.

As at December 31, 2009, the Group had 163 employees, most of them are located in Hong Kong.

CHAIRMAN'S LETTER

Dear Shareholders,

Year 2009 has been a year of foundation building for the future. We took the Company through the financial tsunami in late 2008 with careful financial and risk management. In 2009, we re-determined and formalized our 3-year strategic goal of becoming a multi-business conglomerate, and we went for it.

With all the ground work seeded in 2008 like setting up offices in China and recruitment of business development staff, we had a quick start in 2009 by entering into a shopping mall development venture in Liaoning and the financial services industry starting with wealth management in Hong Kong. By July, we entered into the concept hotel business in China by signing a lease and a renovation contract in Shenzhen. All these were in addition to the steady performance of our dollar item export business, the profit margins of which improved notably against falling petroleum prices and steady Renminbi throughout 2009.

By the end of 2009, the Liaoning project have completed with a handsome return. The financial services subsidiary roughly broke even for its first 9 months of operation. Overall financial achievement is within our expected levels. What is most important, however, is our significant progress towards our strategic goal of diversification, and we are doing that with good financial achievement.

The first two months of 2010 saw the acceleration of the momentum. There were excitement from all four lines of business. Customer orders so far from the dollar business jumped enough to ensure good growth for first half 2010. In Liaoning, we leveraged on the experience and success gained last year to embark on a similar second shopping mall project, which is expected to run for two years. Meanwhile, we signed up a site for our second concept hotel in Shenzhen. Target opening for this second hotel is middle of the year. In financial services, we expanded or will soon expand our scope of services to include securities advisory and brokerage and asset management by obtaining the relevant SFC licenses with conditions. In wealth management, we are also launching an aggressive recruitment program.

All in all, we are delivering what we said.

As to dividend, we also keep our promises. We said at the time of listing of a dividend policy of about 50%. Despite our diversification and investment, we have not forgotten our shareholders' wishes and have kept our annual dividend at around this level. As we continue to expand, please note that this policy might give way to other goals in future when needed.

Shareholders, we are not a "no do, no wrong" company. We work diligently with integrity in pursuit of your benefit. We do what is needed to this end. Sometimes people distrust. Some actions need more time before everyone understands. If you still remember from my last chairman's statement, an English newspaper column was shocked by, and apparently disapproved, our numerous changes right after listing, and even more so our Liaoning investment. I was very pleased that you, shareholders, have always had confidence in us, irrespective of what was said out there. Now time has past, the truth came out. I said in that chairman's statement that we were changing for better, and so we are!

Once again, I thank all your confidence in us, in good time and in bad. I wish such confidence will continue forever as it is the key to your company's success.

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 12, 2010

SUPPLEMENTAL COMMUNICATION

In previous annual or interim reports, or even in our prospectus, we have opted for voluntary disclosure of information over and above the statutory minimum. This has always been our style. Unfortunately due to time and work pressure, I have not had too many of such chances except annually in this statement.

A few of you have been really helpful by sending me media or internet coverage of our company from time to time. When media or shareholders have an incorrect understanding, it is very often poor explanation or disclosure on our part. Last year I picked the SCMP column, confirmed and elaborated on, and provided a different interpretation for, some of the facts it quoted. This year after I have written the above, a shareholder sent me the following which I want to share with you. Anything that could enhance the understanding of us by long term shareholders are tasks we are pleased to do.

When a reader cares to write about us a third time (as said in the article below), and with some research and thinking through, it is worth us taking a careful look. His struggle between trust/distrust of us at different moments and his approval/disapproval of our diversification strategy is well understood and respected, as is his respect of our integrity despite disagreement with our business choices.

RealBlog

湯財手記

這是一個想達到財務自由的小湯的手記。 小湯分爲兩個，一爲投機的湯、一個爲投資的湯， 雖然小資金有點投機性，但骨子內卻是滿佈投資理念。 免責聲明:以下的推介並不構成任何投資建議，投資涉及風險。

[股票掌故]非常老實的老闆-十友控股(33)

by greatsoup @ 2009-12-24 22:18:48

http://realblog.zkiz.com/greatsoup/6536

小弟已經第三次寫這隻股票，初時以爲他由搞十元店產品制造，本業可能不穩，又搞酒店，又搞金融，這麼多元化，導致財務有些困難，並導致未來會失敗。

http://www.hkexnews.hk/listedco/listconews/sehk/20090814/LTN20090814589_C.pdf

今年上半年業績，財政較去年有所好轉。但是公司可能對概念酒店這個東西沒詳細出公告，只是以下林奇兄的博客附上的報導也有幾字提及，可能有點敗筆。不過我始終不看好多元化。

於二零零九年年底前，我們除了經營現有的一美元產品業務外，還銳意在香港設立財富管理服務的業務、在深圳設立概念酒店業務及在遼寧展開購物商場發展項目。此後，我們計劃擴大財富管理業務環節所涉及的金融市場業務範疇，**並會物色其他可行的多元化商機。**

但是看到林奇兄這篇報紙文章，我對他有點改觀，爲免被人曰侵犯版權，我改寫一點。

http://hk.myblog.yahoo.com/lynch200705/article?mid=6432

他說他小時候在「九龍東屋邨」生活，中學就讀於拔萃男校，看見身邊同學的爸爸 和阿叔不是運輸司都是大官。放學後，別人去馬會吃飯，他就一星期兩三天做兼職。

當時他因爲窮得書也沒法讀，覺得「很沮喪」。於是，他許下宏願，「40歲前要當馬主，45歲要當上市公司主席。」，結果他提前達成願望。

其後，他先在會計師行工作，後創立這家公司，結果在2001年911期間，成功把握商機崛起，並在前年11月上市。

他說他是一位「孤獨的劍客」，雖然他的文采真是不錯，但連我也不相信他不會騙公司，但是昨天的公告，我肯定他是對公司好的，以下原文再引公告:

http://www.hkexnews.hk/listedco/listconews/sehk/20091223/LTN20091223473_C.pdf

根 據2009 年1 月9 日及1 月12 日作出的須予披露交易，本公司透過一間全資附屬子公司-Soccer Sky Limited [“ Soccer Sky”] 簽訂股東協定， 認購一間合資公司的20% 股權及提供股東貸款。合資公司主要從事一個位於中華人民共和國遼寧省內的購物商場地產開發項目。

於2009 年12 月23 日， 本公司確定我們於此合資公司之20% 股權已經已成本價出售，已經全數收回向合資公司所提供的股東貸款而且還收到一筆由合資公司發放的股息。

本公司在合資公司之20%股權是出售給另外一位合資公司的股東。此買家與Soccer Sky 均爲此合資公司之股東並且均有推薦個人董事進入合資公司擔任董事。

除以上提及事項外，根據董事所知，此買家是獨立於本集團及其關聯人士的第三方。 本公司在此項項目的投資回報共約1 千萬港元。

董事會認爲本次收到的股息金額對比本公司在中期業績公告的利潤是重大的而且本次收到股息可能會對於本公司的股價有顯著的波動。

由此可見，公司的今次令公司獲利增加1,000萬，以預計市盈率13倍數來計，市值增加1億以上，令自己賺錢之餘，大家都在帳面上增加身家，這才是財技的精妙之處。

澳門模式，只爲殺雞取卵，吃掉股民的金錢，遲早沒有人上當，導致自己的滅亡。利豐或十友模式，使到基金投資，在上市公司需財的時候較易集資，能夠維持的時間會很長。

再者，他賺錢都誠實的告訴大家，我也覺得他很可信，但是我始終不喜歡他太多元化，只要他專注本業及專注投資有穩定的收入的東西，不要投資一些需要長期投資的項目，我會看好這隻股票，但是投資酒店和金融策劃業務，這些都不一定立即產生效益，所以我還是不太看好。

至於賣方的方面，公司稱「**本公司在合資公司之20%股權是出售給另外一位合資公司的股東。此買家與Soccer Sky 均爲此合資公司之股東並且均有推薦個人董事進入合資公司擔任董事。**」

我查回今年初的公告，據稱公司持有20%股權，**「其餘8名投資者沒有一位買方持有多於27%的股權」，其後的澄清公告稱，大部分爲歐洲投資者，有一位爲中國投資者，並稱「而該董事會是由不多於10 名董事組成」**。

可以說，公司每一位股東平均都有派出一位董事，所以完全看不出誰是買方。筆者**估計**，當年是由於中國夥伴資金緊張，故找人合作投資項目，現時由於市場情況好轉，加上銀根寬鬆，故他可以向銀行借錢或取得其他融資來源，買回其餘的股權，導致十友能夠成功大賺83.33%退出。

但是一次幸運，不等於會永遠成功，請公司不要忘記不能拋棄本業，亂搞其他生意，導致自己失敗，壹殼告終。

這就是我一直給上市公司主席的忠告。

His article embarrassed me as it made me realize some omitted communication, which I’d like to add back herewith. This is the whole reason I added this section.

1. The Liaoning shopping mall project was intended to be a repeatable project among all the parties who are friendly partners. We do not waste time on projects/ventures unless I can reasonably dream something long term out of it for our shareholders either in the group's overall stability, profitability or share price. Unluckily, we are always cautioned against disclosing such subjective or unconfirmed view in our announcements. The whole construction takes longer time but we and/or the introducer put in various conditions which allowed this to end for us, with a handsome return, when the project has gone through the more predictable first phases. We chose to accept a smaller profit (the announced return) than otherwise would be, and cut off the more technical and unpredictable second phase. We thought this gave us swift and good use of our fund, and suits our inexperience in a new industry. Skills involved in the first phase mainly are legal, financial planning and control, negotiation, relationship building and forming a good management structure in the investee company. They are all we are good at.

2. There was no formal and separate announcement of our concept hotel business when we first entered. It was because our financial commitment did not reach the benchmark for mandatory disclosure. Our strategy on concept hotel is to lease but not to buy the premises. I realised that appreciation of land and property value often brought more profits than the operation itself in the income statement of other hotel operators, but that is not what we want to do. Whereas we are to start renovating the second hotel site, we have decided against any aggressive speed on this business unit.

3. We did not announce as much on our dollar business because it is a steady one. I apologize if we somehow painted a false picture that we are not working hard on it, not doing well, or are losing our creativity in it. It is simply that, by nature, this business should be stable, steady and have not much to announce on. We lost one major customer and a few others in 2009, and added some new ones; all these are just natural evolution. The industry is more demanding than ever, but we are up to it. In fact, that is good to us as it continuously shakes out those competitors who can offer cheap prices but nothing else. We made more overseas trips for idea generation and competitive shopping, we came up with more than 3000 designs in a year and we tightened our product development process with our customers. In most frontiers, we improved a little. As a result, we continued our role as a prominent party products creator and supplier for all renowned international party product brand names.

CHANGE OF FINANCIAL YEAR END DATE

The Group had changed the financial year end date from March 31 to December 31 in 2008. Thus, all historical comparative figures for items in consolidated statement of comprehensive income and consolidated cash flow statement are stated for the nine months ended December 31, 2008 (hereafter called "Prior Period") and all historical comparative figures for items in consolidated statement of financial position and in statement of financial position are stated at December 31, 2008.

BUSINESS REVIEW

Year 2009 was a fruitful year for our Group. We have achieved our corporate strategy of diversifying our business scope as well as delivering a net profit of HK$32.5 million that is about 3 times of Prior Period. Before year 2009, we were solely engaged in the merchandising of party and festivity products to the dollar store operators. During the year ended December 31, 2009 (hereafter called "Current Year"), the Group has made various diversifications as stated below. In January 2009, we invested HK$12.0 million to own 20% of a shopping mall development project in Liaoning, China. We have exited this project in November 2009 with more than HK$10.0 million positive return. In March 2009, we spent HK$9.0 million to acquire a wealth management financial planning services business. In June 2009, we started a project by our own to set up a concept hotel in Shenzhen, China. It has started business by now.

The above-mentioned diversifications were carefully selected among all the choices we explored. In our core business of merchandising of party and festivity products to the dollar store operators, we achieved a slightly better sales revenue despite the repercussions in the post-financial-tsunami year. During Current Year, we have made swift decisions to either tightening our credits or stopping our sales to those customers that faced financial difficulties. To the delight of the management and the shareholders, we were able to make up the shortfall in sales from those customers by creating more sales to other customers with better financial positions and better payment terms and history to us.

FINANCIAL REVIEW

For Current Year, the Group's turnover was HK$389.2 million, representing an increase of 15.9% from HK$335.7 million for Prior Period. This increase was mainly due to the figure for Prior Period was only for 9 months. Geographically, the sales to North America market still dominate the overall sales of the Group.

Gross profit during Current Year was HK$70.4 million, representing an increase of 56.8% from HK$44.9 million for Prior Period. In terms of gross profit margin, the relevant figure for Current Year was 18.1%, representing an increase of 4.7% from 13.4% for Prior Period. The great improvement in gross profit and gross profit margin was due to a stable Renminbi level and stable raw material prices in the market.

During Current Year, we have recorded other revenue of HK$15.8 million, representing an increase of 942.9% from HK$1.5 million for Prior Period. The increase in other revenue was due mainly to over HK$10.0 million dividend from an associate (investment in shopping mall development project in Liaoning, China). For operating expenses, the relevant figure for Current Year was HK$52.0 million, representing an increase of 57.1% from HK$33.1 million for Prior Period. Such increase was mainly attributable to the extra 3 months in Current Year compared to Prior Period and an increase in staff costs and rental expenses due to diversifications in concept hotel and wealth management businesses. Operating expenses as a percentage of turnover increased from 9.9% for Prior Period to 13.4% for Current Year.

Net profit for Current Year was HK$32.5 million, representing an increase of 196.3% from the HK$11.0 million for Prior Period. Net profit margin for Current Year was 8.4%, representing an increase of 5.1% from 3.3% for Prior Period. The significant improvement in net profit margins was attributable to improvement in gross profit margin and recognition of dividend from associates recorded as other revenue in Current Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2009, net current assets was HK$92.8 million (December 31, 2008: HK$67.9 million). Current ratio as at December 31, 2009 was 3.0 (December 31, 2008: 3.3). The gearing ratio, total borrowings divided by total assets at the end of each period, was 4.6% as at December 31, 2009, representing an increase of 3.9% from 0.7% as at December 31, 2008. Compared to many listed companies in Hong Kong, the Group has maintained very low gearing.

As at December 31, 2009, the Group had cash and bank balances of HK$53.9 million (December 31, 2008: HK$30.5 million). As at December 31, 2009, the Group had bank borrowings of HK$8.4 million (December 31, 2008: HK$1.0 million) which was mainly denominated in HK dollar and US dollar. As compared to the net cash position as at December 31, 2008 (HK$29.5 million), the Group had stronger net cash position as at December 31, 2009 (HK$45.5 million) due mainly to positive operating cashflow generated in 2009.

The company, and its wholly owned subsidiaries Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with banks, to secure banking facilities granted to the Group.

As at December 31, 2009, the Group had no capital commitments (December 31, 2008: HK$11.6 million). The operating lease commitment for the Group as at December 31, 2009 was around HK$11.2 million (December 31, 2008: HK$9.6 million). It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CONTINGENT LIABILITIES

The Group's contingent liabilities, if any, are set out in the notes to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2009, the Group had 163 employees. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

FINAL DIVIDEND

The Board recommended a final dividend of HK9 cents per share for the Current Year to those shareholders whose names appear on the register of members of the Company on April 12, 2010. The proposed final dividend will be payable by April 30, 2010 following the AGM's approval scheduled on April 16, 2010. The Board considered that sharing the result of this fruitful year to all shareholders by way of a generous dividend is our dividend strategy and such dividend payment is in line with our 30% to 50% dividend payout ratio set out before.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, April 12, 2010 to Friday, April 16, 2010, both days inclusive, during which period no transfer of shares will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, April 9, 2010. The dividend warrants are expected to be sent on or before Friday, April 30, 2010.

OUTLOOK

Dollar item market has performed significantly well in 2009 as the products are basic needs. We look forward to see an even stronger demand in dollar item market in 2010 and it is a test to us whether we could capture the market opportunity to the greatest extent possible. In 2010, we will maintain our strategy in refraining from various customers that encountered financial difficulties and will focus in building a bigger pie for those customers with good payment terms and history. As to gross profit margin in 2010, we believe it would be challenging enough just to maintain the performance in 2009. However, the management will try its best endeavour to achieve whatever is in the best interest to the Company and the shareholders as a whole.

Apart from our dollar item business, the Group expect to create much bigger revenue from wealth management and concept hotel businesses in 2010. The prospects for both businesses look bright at this moment. We hope that, as time goes by, these two businesses would occupy a more significant portion of the Group's total revenue and net profit that was not yet the case in year 2009. We also hope that, through diversification into different businesses and markets, the Group could still produce growth amid the highly uncertain global business environment.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Hui Kwan Wah, Hugo (許坤華), aged 49, is the Chairman and an Executive Director of the Group. Mr. Hui plays a pivotal role in the Group and is responsible for strategic planning and corporate and business development. Mr. Hui started his career with Arthur Andersen & Co. in 1984 and obtained a master degree in Business Administration from the University of Hong Kong in 1995. He held senior positions in regional finance for multinational companies. Before founding the Group in 1996, Mr. Hui was the Managing Director of a local trading and property group.

Mr. Ng Chi Man (吳志民), aged 41, is the Vice-Chairman, the Chief Executive Officer, and an Executive Director of the Group. Mr. Ng is responsible for overall management, customer management, supplier management, new sourcing and order management of the Group. Mr. Ng had been in commercial procurement business for approximately 13 years before joining the Group in 2000.

Mr. Wong Sai Ming (黃世明), aged 47, is an Executive Director of the Group. Mr. Wong joined the Group after selling his business to the Group in 2005. Mr. Wong has a wide network of business contacts and working relationships in the party products industry. He is now in charge of developing new businesses for the Group in China.

Mr. Wong Tat Tung (黃達東), aged 40, is an Executive Director of the Group with effect from March 13, 2009. Mr. Wong had held several senior management positions before joining our Company. During the last three years, Mr. Wong had been the independent non-executive director of Neptune Group Limited, a company listed in the Stock Exchange from August 2008 to November 2009 and a director of a subsidiary of CASH Financial Services Group Limited, a company listed in the Stock Exchange from July 2003 to January 2009. Mr. Wong has more than 15 years' experience in the wealth management industry. Mr. Wong obtained a MBA qualification in 1996 from a reputable university in the United States of America.

At present, Mr. Wong serves as a councilor of Sham Shui Po District Council for the Hong Kong Special Administrative Region. Mr. Wong is also a Vice Chairman of Yan Oi Tong, a charitable organisation in Hong Kong, and a committee member of the city of Jiangmen Chinese People's Political Consultative Conference in Guangdong Province. Besides, Mr. Wong is an Honorary Citizen of Ararat Rural City, Australia. Furthermore, Mr. Wong is currently an Honorary Advisor of Registered Financial Planner Institution in the United States of America.

NON-EXECUTIVE DIRECTOR

Mr. Chan Cheuk Ming (陳卓明), aged 52, is a Non-Executive Director of the Group. He has more than 28 years' research and development, logistic and operation management experience in commercial electronic products in various multinational corporations and local enterprises. Mr. Chan graduated from Loughborough University of Technology in United Kingdom with a bachelor degree in Electronic and Electrical Engineering in 1980, and obtained a Master of Science degree in Engineering in 1988 as well as a master degree in Business Administration in 1992, both from the University of Hong Kong. In 1998, Mr. Chan received a Diploma in Accounting for Managers from the Chinese University of Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Wah Keung (張華強), aged 48, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Cheung has over 18 years of experience in management of trading and manufacturing of consumer electronic products. Mr. Cheung graduated from the Chinese University of Hong Kong with a bachelor degree in Business Administration in 1994 and obtained a degree of Master of Corporate Governance from The Hong Kong Polytechnic University in 2009. Mr. Cheung is currently the Chairman and an Executive Director as well as the controlling shareholder of Shinhint Acoustic Link Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code : 2728).

Mr. Anthony Espina, aged 61, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Espina has over 30 years of experience in the accounting and finance industry. He is the Managing Director of Goldride Securities Limited and was the Chairman of the Hong Kong Stockbrokers Association Limited. Mr. Espina was a partner of Arthur Andersen & Co. from 1982 to 1986 and Deloitte Touche Tohmatsu from 1986 to 1990. He was also the president of the Hong Kong Computer Society from 1978 to 1979. He graduated from the University of Southern Queensland with a bachelor degree in business and is the Associate Member of CPA Australia, is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Hong Kong Institute of Directors. From May 2001 to May 2005, Mr. Espina was a non-executive director of International Financial Network Holdings Ltd., a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Wong Che Keung (黃熾強), aged 45, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Wong has over 20 years of experience in the securities industry including in the Enforcement Division of Securities and Futures Commission of Hong Kong for 7 years. He is a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Wong obtained his bachelor degree in Economics from the University of Hong Kong in 1987 and his master degree in Business Administration from the Chinese University of Hong Kong in 1995. Mr. Wong currently is the Chief Operating Officer and Company Secretary of Shenyin Wanguo (H.K.) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code : 218).

SENIOR MANAGEMENT

Mr. Ho Ka Ping (何嘉平), aged 46, is a division General Manager of the Group and is responsible for overseeing the trading activities of the Group especially for markets outside of the United States. He joined the Group after selling his business to the Group in 2006. Mr. Ho has been in the party and novelty products trading industry for approximately 25 years, of which more than 20 years were in party products exporting and customer relationship, especially in Europe, North America and South America.

Mr. Cheng Hon Yan (鄭漢仁), aged 42, was appointed as Director of China Business Development on April 15, 2008. Mr. Cheng is responsible for developing new business in China. Mr. Cheng has 16 years of sales & marketing experience in the consumer products industry in China with multi-national companies. Mr. Cheng graduated from Heriot-Watt University with a master degree in Business Administration in 1993.

Mr. Wu Kwok Choi, Chris (胡國才), aged 36, joined the Group on April 21, 2008 as Finance Director and was appointed as the Company Secretary and the Qualified Accountant of the Company with effect from May 14, 2008. Mr. Wu is responsible for overall finance & accounting matters. Mr. Wu has around 15 years of finance & accounting experience in the Greater China region. Mr. Wu graduated from the Hong Kong University of Science & Technology with a bachelor degree in Business Administration in 1995. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Furthermore, Mr. Wu is a member of the Hong Kong Institute of Directors.

Mr. Chan Wing Yan, Howard (陳永昕), aged 36, is an Assistant General Manager of Rainbow Brothers Limited and is jointly responsible for business development and overall administration of Rainbow Brothers Limited. He is responsible for the operation coordination between the sales function and production and manages customer relationships. He joined the Group in June 2005. Mr. Chan graduated from the University of British Columbia in Canada in 1998 with a bachelor degree of science.

Mr. Li Chung Fai (李松輝), aged 38, is an Assistant General Manager of the Rainbow Brothers Limited and is jointly responsible for business development and overall administration of Rainbow Brothers Limited. Mr. Li joined the Group in May 2006, and has over 10 years of experience in the trading industry. Prior to joining the Group, Mr. Li worked for several multinational trading groups. Mr. Li graduated from Lingnan College in Hong Kong with a bachelor degree in Business Administration in 1997 and obtained a professional diploma in Logistics Management from the Hong Kong Management Association in 2000. In 2004, Mr. Li obtained a master degree in Business Administration from the University of Bradford.

DIRECTORS' REPORT

We are pleased to present the Directors' Report of the Group for the year ended December 31, 2009 (the "Current Year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Group are set out in the "Company Profile" section of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the Current Year are set out in the consolidated comprehensive income statement.

The Directors have recommended the payment of a final dividend of HK9 cents per share for the Current Year to those shareholders whose names appear on the register of members of the Company on April 12, 2010.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2009 are set out in the notes to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Current Year are set out in the notes to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Current Year are set out in the notes to the consolidated financial statements. There were no movements in either the Company's authorized or issued share capital during the Current Year.

DIRECTORS

The Directors up to the date of this report were:

Executive Directors
Hui Kwan Wah, Hugo *(Chairman)*
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*
Wong Sai Ming
Wong Tat Tung *(with effect from March 13, 2009)*

Non-executive Director
Chan Cheuk Ming

Independent Non-executive Directors
Cheung Wah Keung
Anthony Espina
Wong Che Keung

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent.

Each of the Independent Non-executive Directors and the Non-executive Director was appointed for an initial fixed term of three years commencing from November 19, 2007 and is subject to retirement by rotation at the Annual General Meeting.

All Executive Directors have service contracts with fixed terms. Mr. Hui Kwan Wah, Hugo, Mr. Ng Chi Man and Mr. Wong Sai Ming each had entered into a service contract with the Group for an initial fixed term of contract for three years commencing from November 19, 2007. Mr. Wong Tat Tung had entered into a service contract with the Group for an initial fixed term of contract from March 13, 2009 to December 31, 2011. Each Executive Director is entitled to a basic salary based on his experience, involvement in and contribution to the Group, qualification and by reference to the market rate. Under the relevant service contracts, annual increase of the basic salary of each of Mr. Hui and Mr. Ng shall not exceed 10% of the salary under review. Total discretionary bonuses for all Executive Directors shall not exceed 15% of the Group's net profit for any financial year.

Saved as aforementioned, none of the Executive Directors has any service contract with any member of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

As at December 31, 2009, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Appendix 10 of Listing Rules, were as follows:

Name	Nature of Interests	Number of shares	Percentage of the issued share capital of the Company
Mr. Hui Kwan Wah, Hugo	Interest of a controlled corporation *(Note)*	144,100,000 (long position)	72.05%
Mr. Ng Chi Man	Interest of a controlled corporation *(Note)*	144,100,000 (long position)	72.05%
Mr. Wong Sai Ming	Beneficial Owner	466,000 (long position)	0.23%

Note: 144,100,000 shares were held by Direct Value Limited, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man.

Save as disclosed above, as at December 31, 2009, as far as the Directors are aware, none of the Directors and Chief Executive Officer had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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.

As at December 31, 2009, the Company had no outstanding debenture.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2009, other than the interests of the Directors and Chief Executive Officer as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Direct Value Limited ("Direct Value") *(note 1)*	Beneficial Owner	144,100,000 (long position)	72.05%
Ms. Cheng Yin Lee, Francie *(note 2)*	Interest of spouse	144,100,000 (long position)	72.05%
Ms. Lee Lai Lai *(note 3)*	Interest of spouse	144,100,000 (long position)	72.05%

Notes:

1 144,100,000 ordinary shares were held by Direct Value, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man. Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man are deemed to be interested in 144,100,000 ordinary shares held by Direct Value Limited by virtue of SFO. These shares have been included in the interest disclosure of Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man as set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and the Associated Corporations" above.

2 Ms. Cheng Yin Lee, Francie is the spouse of Mr. Hui Kwan Wah, Hugo. By virtue of the SFO, Ms. Cheng Yin Lee, Francie is also deemed, as spouse, to be interested in all the shares in which Mr. Hui Kwan Wah, Hugo is deemed to be interested.

3 Ms. Lee Lai Lai is the spouse of Mr. Ng Chi Man. By virtue of the SFO, Ms. Lee Lai Lai is also deemed, as spouse, to be interested in all the shares in which Mr. Ng Chi Man is deemed to be interested.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed herein, at no time during the Current Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding company, any of its subsidiaries or any of its fellow subsidiaries was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

EMPLOYEES AND REMUNERATION POLICIES

The remuneration policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees. The emoluments of the Directors are decided by the Remuneration Committee with regard to the Group's operating results, individual performance and comparable market statistics. None of the Directors or any of their associates, and executive is involved in deciding his own remuneration. As at December 31, 2009, the Group had 163 employees (December 31, 2008: 75 employees). The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical care, provident funds, bonuses and other incentives.

SHARE OPTION SCHEME

The Company adopted a share option scheme on October 30, 2007, but has not granted any share options.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2009, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report of this annual report.

PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the Current Year, the percentages of purchases attributable to the Group's largest supplier and 5 largest suppliers combined were 11.0% and 26.5%, respectively (December 31, 2008: 15.6% and 30.2%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 52.4% and 69.0%, respectively (December 31, 2008: 34.2% and 68.9%). None of the Directors, their associates or any substantial shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had an interest in any of the five largest suppliers or customers of the Group.

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTIONS

Referring to the note to the consolidated financial statements under "Related Party Transactions", all continuing connected transactions were disclosed for the Current Year. The continuing connected transactions were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Non-Executive Directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been entered into:

a) in the ordinary and usual course of business of the Group; and

b) on normal commercial terms; and

c) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

AUDITOR

The consolidated financial statements of the Group for the Current Year have been audited by Cheng & Cheng Limited ("C&C"). C&C was appointed on August 29, 2009 as the auditor of the Company and hold office until the conclusion of the forthcoming AGM. C&C retires and, being eligible, offers itself for reappointment. C&C was first appointed as our auditor for the annual report December 2008 on November 19, 2008. For the annual report 2008, the Company had engaged CCIF CPA Limited as our auditor. A resolution for reappointment of C&C as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 12, 2010

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance and has put in place self regulatory corporate practices to protect the interests of its shareholders and the enhancement of shareholder's value. We are committed to providing high-quality products and services to the satisfaction of our customers; to maintaining high standards of business ethics and achieving these goals while, at the same time, providing satisfactory and sustainable returns to shareholders.

The board had, from January 1, 2009 to December 31, 2009, adopted and complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules regarding directors' securities since its listing on November 19, 2007. Having made specific enquiries to all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code for the Current Year.

THE BOARD

The Board is responsible for the formulation of business policies and strategies in relation to the business operation of the Group, for nomination and appointment of directors, and to ensure the availability of resources as well as to the effectiveness of its system of internal control. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board sub-committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times. From January 1, 2009 to December 31, 2009, five Board meetings were held and the attendance of each director is set out as follows:

Directors	**Number of Attendance**
Executive Directors	
Hui Kwan Wah, Hugo *(Chairman)*	5/5
Ng Chi Man	5/5
Wong Sai Ming	5/5
Wong Tat Tung	5/5
Non-executive Director	
Chan Cheuk Ming	5/5
Independent Non-executive Directors	
Cheung Wah Keung	4/5
Anthony Espina	5/5
Wong Che Keung	5/5

Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual and the division of responsibilities between Chairman and Chief Executive Officer should be established and set out in writing. The Company has complied with this code provision.

Chairman and Chief Executive Officer are two separate persons. Mr. Hui Kwan Wah, Hugo, is the Chairman and Mr. Ng Chi Man is the Chief Executive Officer of the Company. The division of responsibilities was established and set out in writing as follows:

The Chairman focuses on the Group's business and strategic matters by ensuring that all Directors are properly briefed on issues arising at Board meetings. The Chairman also ensures that the Board is operated effectively. In addition, the Chairman will lead the Board to establish good corporate governance practices and procedures for the Group.

The Chief Executive Officer is responsible for ensuring the strategies and policies of the Group as approved by the Board are effectively implemented to achieve the goals of the Group.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors are persons with academic and professional qualifications as stated in Directors and Senior Management section. They support the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has provided an annual confirmation of independence to the Company and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

BOARD SUB-COMMITTEES

A. EXECUTIVE COMMITTEE

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. To assist the Chief Executive Officer in running the operations on a daily basis, the Board had set up a sub-committee, namely Executive Committee on July 15, 2008. The Executive Committee meets at least six times a year. The terms of reference of the Executive Committee are available on the Company's website at www.rainbowbrothers.com.

For the year ended December 31, 2009, the Executive Committee had held six meetings. The attendance of each member of Executive Committee is set out as follows:

Directors	**Number of Attendance**
Executive Directors	
Hui Kwan Wah, Hugo *(Chairman)*	6/6
Ng Chi Man	6/6
Wong Sai Ming	6/6
Wong Tat Tung	5/6

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine policy and structure for Directors and senior management's remuneration and to develop a formal and transparent remuneration policy.

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Wah Keung, Mr. Anthony Espina, Mr. Wong Che Keung and one Non-executive Director, namely Mr. Chan Cheuk Ming. Mr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee meets at least two times a year. The terms of reference of Remuneration Committee are available on the Company's website at www.rainbowbrothers.com.

From January 1, 2009 to December 31, 2009, three Remuneration Committee meetings were held. The attendance of each member of Remuneration Committee is set out as follows:

Directors	Number of Attendance
Independent Non-executive Directors	
Cheung Wah Keung *(Chairman)*	3/3
Anthony Espina	3/3
Wong Che Keung	3/3
Non-executive Director	
Chan Cheuk Ming	3/3

During these meetings, the Remuneration Committee reviewed the remuneration packages for all Directors and senior management, the employee's salary increment proposal and relevant reports.

C. AUDIT COMMITTEE

The Audit Committee was established on October 30, 2007. The Audit Committee is mainly responsible for corporate governance, financial reporting and corporate control.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Anthony Espina, Mr. Cheung Wah Keung, Mr. Wong Che Keung and one Non-executive Director, namely Mr. Chan Cheuk Ming. Mr. Anthony Espina is the Chairman of the Audit Committee.

The Audit Committee meets at least four times a year. The terms of reference of Audit Committee are available on the Company's website at www.rainbowbrothers.com.

From January 1, 2009 to December 31, 2009, the Audit Committee held four meetings. The attendance of each member of Audit Committee is set out as follows:

Directors	Number of Attendance
Independent Non-executive Directors	
Anthony Espina *(Chairman)*	4/4
Cheung Wah Keung	3/4
Wong Che Keung	4/4
Non-executive Director	
Chan Cheuk Ming	4/4

For the Current Year, the work performed by the Audit Committee included:

- reviewing the annual report which comprised the audited consolidated financial statements for the Current Year; and
- reviewing the final result announcement; and
- reviewing the significant accounting issues raised by the management; and
- reviewing the Company's compliance with regulatory and statutory requirements; and
- reviewing the Group's risk management process.

The Audit Committee of the Company has reviewed the Group's financial results for the Current Year.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group for the Current Year and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The statement of the external auditor of the Company, Cheng & Cheng Limited, with regard to its reporting responsibilities on the Group's consolidated financial statements, is set out in the Independent Auditor's Report included in this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Group not to continue as a going concern.

AUDITOR'S REMUNERATION

For the Current Year, the fees paid/payable to the Company's auditor in respect of audit and non-audit services provided by the Company's auditor to the Group were as follows:

	HK$'000
Audit services	575
Non-audit services	–
	575

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

Pursuant to Article 130 of the Articles of Association of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall, subject to re-election, retire from office by rotation in every Annual General Meeting. Every Director shall be subject to retirement by rotation at least once every 3 years. Accordingly, Mr. Ng Chi Man, an Executive Director, Mr. Wong Sai Ming, an Executive Director, Mr. Anothony Espina, an Independent Non-executive Director and Mr. Wong Che Keung, an Independent Non-executive Director, shall retire from office at Annual General Meeting and shall offer themselves for re-election.

The Non-executive Director and the Independent Non-executive Directors were first appointed for a fixed term of three years commencing from November 19, 2007 and are subject to re-election in compliance with CG Code A.4.1.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls is independently conducted by the management on an on-going basis.

The Board confirms that it has reviewed the effectiveness of the internal control system of the Company and its subsidiaries for the Current Year and that the Board considers such system to be sound and effective. The review covered all material controls, including financial, operational, compliance control and risk management functions.

On behalf of the Board

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 12, 2010

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭 鄭 會 計 師 事 務 所 有 限 公 司

Rooms 1003-1005,
Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF RAINBOW BROTHERS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Rainbow Brothers Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 28 to 83 which comprise the consolidated and Company statements of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2009 and of the Group's profit and cash flows for the year ended December 31, 2009 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.

Cheng & Cheng Limited
Certified Public Accountants

Y.Y. Li, Alice
Practising Certificate Number P03373
Hong Kong
March 12, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

	Note	**12 Months ended December 31, 2009**	9 Months ended December 31, 2008
		HK$'000	*HK$'000*
Turnover	*3*	**389,186**	335,739
Cost of sales		**(318,747)**	(290,830)
Gross profit		**70,439**	44,909
Other revenue and other net income	*4*	**15,789**	1,514
Operating expenses		**(52,010)**	(33,103)
Profit from operations		**34,218**	13,320
Finance costs	*5*	**(570)**	(634)
Profit before taxation	*6*	**33,648**	12,686
Income tax	*7*	**(1,113)**	(1,705)
Profit for the year/period		**32,535**	10,981
Other comprehensive income:			
Exchange differences on translating foreign operations		**107**	–
Total comprehensive income for the year/period		**32,642**	10,981
Profit attributable to equity shareholders of the Company	*8*	**32,535**	10,981
Total comprehensive income attributable to Equity shareholders of the company		**32,642**	10,981
Dividends	*9*	**18,000**	5,000
Earnings per share	*10*		
– Basic		**HK16 cents**	HK5 cents
– Diluted		**N/A**	N/A

The notes on pages 33 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	Note	**As at December 31, 2009**	As at December 31, 2008
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	*13*	**7,161**	10,386
Goodwill	*14*	**35,375**	26,375
Deferred taxation	*24(b)*	**1,559**	–
		44,095	36,761
Current assets			
Inventories	*15*	**16,879**	13,101
Trade receivables	*16*	**35,950**	35,302
Prepayments, deposits and other receivables	*17*	**32,073**	18,604
Tax recoverable	*24(a)*	**–**	70
Cash and cash equivalents	*18*	**53,928**	30,546
		138,830	97,623
Total Assets		**182,925**	134,384
Capital and reserves			
Share capital	*19*	**20,000**	20,000
Reserves	*20*	**116,907**	84,265
		136,907	104,265
Non-current liabilities			
Deferred taxation	*24(b)*	**–**	445
Current liabilities			
Trade and bills payable	*21*	**15,248**	14,497
Accruals and other payables	*22*	**21,054**	14,177
Bank borrowings-secured	*23*	**8,425**	1,000
Tax payable	*24(a)*	**1,291**	–
		46,018	29,674
Total Equity and Liabilities		**182,925**	134,384
Net current assets		**92,812**	67,949
Total assets less current liabilities		**136,907**	104,710

Approved and authorised for issue by the board of directors on March 12, 2010

On behalf of the board

Hui Kwan Wah, Hugo – *Director* **Ng Chi Man** – *Director*

The notes on pages 33 to 83 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	Note	As at December 31, 2009 HK$'000	As at December 31, 2008 HK$'000
Non-current assets			
Investment in subsidiaries	*25*	**46,971**	46,971
Current assets			
Prepayments, deposits and other receivables	*17*	**23**	226
Amounts due from subsidiaries	*26*	**132,165**	103,974
Cash and cash equivalents	*18*	**50**	55
		132,238	104,255
Total Assets		**179,209**	151,226
Capital and reserves			
Share capital	*19*	**20,000**	20,000
Reserves	*20*	**157,113**	127,431
		177,113	147,431
Current liabilities			
Accruals and other payables	*22*	**1**	3,795
Amount due to a subsidiary	*26*	**2,095**	–
		2,096	3,795
Total Equity and Liabilities		**179,209**	151,226
Net current assets		**130,142**	100,460
Total assets less current liabilities		**177,113**	147,431

Approved and authorised for issue by the board of directors on March 12, 2010

On behalf of the board

Hui Kwan Wah, Hugo – *Director* **Ng Chi Man** – *Director*

The notes on pages 33 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2009

	Note	Share capital	Share premium	Translation reserve	Capital reserve	Retained profits	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At April 1, 2008		20,000	53,768	–	(15,000)	52,516	111,284
Dividend paid	*9*	–	–	–	–	(18,000)	(18,000)
Total comprehensive income for the period		–	–	–	–	10,981	10,981
At December 31, 2008 and January 1, 2009		20,000	53,768	–	(15,000)	45,497	104,265
Total comprehensive income for the year		–	–	107	–	32,535	32,642
At December 31, 2009		20,000	53,768	107	(15,000)	78,032	136,907

The notes on pages 33 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2009

	Note	12 months ended December 31, 2009	9 months ended December 31, 2008
		HK$'000	HK$'000
Operating activities			
Profit before taxation		**33,648**	12,686
Adjustments for:			
Interest income		**(50)**	(25)
Interest expenses		**570**	634
Depreciation		**6,646**	3,864
Dividend income		**(12,000)**	–
Impairment loss on trade receivables		**365**	482
Increase in translation reserve		**107**	–
Gain on disposal of property, plant and equipment		**–**	(1)
Impairment loss/(Reversal of an impairment loss) on inventories		**2,000**	(72)
Operating profit before changes in working capital		**31,286**	17,568
(Increase)/decrease in inventories		**(5,778)**	978
(Increase)/decrease in trade receivables		**(1,013)**	14,953
Increase in prepayments, deposits and other receivables		**(13,469)**	(3,772)
Increase in trade and bills payable		**751**	2,330
Increase in accruals and other payables		**6,877**	6,709
Cash generated from operations		**18,654**	38,766
Hong Kong Profits Tax paid		**(1,756)**	(1,459)
Net cash generated from operating activities		**16,898**	37,307
Investing activities			
Purchase of property, plant and equipment		**(3,421)**	(3,510)
Sales proceeds of property, plant and equipment		**–**	1
Interest received		**50**	25
Dividend income		**12,000**	–
Acquisition of a subsidiary		**(9,000)**	–
Acquisition of an associate		**(12,000)**	–
Disposal of an associate		**12,000**	–
Net cash used in investing activities		**(371)**	(3,484)
Financing activities			
Interest paid		**(570)**	(634)
Repayment of bank borrowings		**–**	(21,512)
Increase in bank borrowings		**7,425**	–
Dividend paid		**–**	(18,000)
Net cash generated from/(used in) financing activities		**6,855**	(40,146)
Net increase/(decrease) in cash and cash equivalents		**23,382**	(6,323)
Cash and cash equivalents at beginning of year/period		**30,546**	36,869
Cash and cash equivalents at end of year/period	*18*	**53,928**	30,546

The notes on pages 33 to 83 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

General information

Rainbow Brothers Holdings Limited (the "Company") was incorporated and domiciled in the Cayman Islands under Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability on March 20, 2007. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the group structure in preparation for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group on October 30, 2007. Details of the Reorganisation are set out in the section headed "Corporate Reorganisation" in Appendix V to the prospectus dated November 6, 2007, issued by the Company (the "Prospectus"). The Company's shares were listed on the Stock Exchange on November 19, 2007.

The Company is an investment holding company. The Group is principally engaged in designing, developing, merchandising and providing party and festivity products mainly to dollar store business operators. Most of the products shipped by the Group are retailed at or below US$1, or its equivalent. Since January 2009, the Group began to diversify into other businesses with major focus in China market. Since then, the Group has entered into a China property development project, set up a concept hotel in Shenzhen and entered into the financial planning services industry in Hong Kong.

The address of its principal place of business in Hong Kong is 29/F Paul Y Centre, 51 Hung To Road, Kwun Tong, Hong Kong and the Company has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 4, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) and 2(d) provide information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with HKFRSs and under the historical cost convention except where stated otherwise in the accounting polices set out below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 34.

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2009

The HKICPA has issued on a new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective or available for early adoption for the current period of the Group's consolidated financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2009 *(Continued)*

HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

The adoption of the above new/revised HKFRSs had no material effect on the reported results and financial position of the Group for both current and prior accounting periods, except for certain change as a result of adopting HKAS 1 (Revised 2007), as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the adoption of HKAS 1 (Revised 2007) is as follows:

As a result of the adoption of HKAS 1 (Revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recongnised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

d) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2009

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [1]
Amendments to HKAS 32	Classification of Rights Issues [4]
Amendment to HKAS 39	Eligible Hedged Items [1]
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions [3]
Amendment to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirements [6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2009 *(Continued)*

HKFRS 3 (Revised)	Business Combinations [1]
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners [1]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments [5]
HKAS 24 (Revised)	Related Party Disclosures [6]
HKFRS 9	Financial Instruments [7]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

e) Business Combinations under Common Control Combinations

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the combined financial information incorporates the consolidated financial statements items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No account is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Business Combinations under Common Control Combinations *(Continued)*

The comparative amounts in the combined financial information are presented as if the entities or business had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

f) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position an investment in a subsidiary is stated at cost less any impairment losses (see note 2(j)) unless the investment is classified as held for sale.

g) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 2(j)).

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvement	the shorter of lease-term or 4 – 5 years
Plant and machinery	2 – 5 years
Furniture, fixtures and equipment	4 – 5 years
Moulds	5 years
Motor vehicles	3 – 5 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

i) Leased Assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of Assets

(i) Impairment of other receivables

Investments in other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial re-organisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– for trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of Assets *(Continued)*

(i) Impairment of other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investment in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale) (see note 2 (f)); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

j) **Impairment of Assets** *(Continued)*

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss in reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

k) **Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Inventories *(Continued)*

Net realizable value is the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

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

l) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 2(j)).

m) Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that the 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 for the purpose of the consolidated cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Employee Benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Income Tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Financial Guarantees Issued, Provisions and Contingent Liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(r)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortization where appropriate, and the amount that would be determined in accordance with note 2(r)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(r)(iii).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Financial Guarantees Issued, Provisions and Contingent Liabilities *(Continued)*

iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

s) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

iii) Commission income

Commission income for broking business is recorded as income on a trade date basis.

iv) Other income not stated above is recognised whenever received or receivable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Translation of foreign currencies

i) Functional and presentation currency

Items included in the consolidated 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 dollar, which is the Group's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

v) Related Parties

For the purpose of these consolidated financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) Segment Reporting

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

3. TURNOVER

Turnover represents net amounts received and receivable for goods sold, less sales returns and discounts and commission income. The amount of each significant category of revenue recognised in turnover during the year/period is as follows:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Sales of goods	**376,508**	335,739
Commission income	**12,678**	–
	389,186	335,739

4. OTHER REVENUE AND OTHER NET INCOME

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Other revenue		
Bank interest income	**50**	25
Total interest income on financial assets not at fair value through profit or loss	**50**	25
Dividend income	**12,000**	–
Sundry income	**1,617**	171
	13,667	196
Other net income		
Net gain on disposal of property, plant and equipment	**–**	1
Net exchange gain	**2,122**	1,317
	2,122	1,318
	15,789	1,514

5. FINANCE COSTS

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Interest expense on bank borrowings and bank overdrafts wholly repayable within five years	**570**	634
Total interest expense on financial liabilities not at fair value through profit or loss	**570**	634

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Auditor's remuneration	**575**	500
Cost of inventories *(note 15(b))*	**309,687**	290,758
Depreciation *(note 13)*	**6,646**	3,864
Impairment loss on trade receivables *(note 16(b))*	**365**	482
Impairment loss on inventories	**2,000**	–
Gain on disposal of property, plant and equipment	**–**	(1)
Staff costs:		
– Salaries, wages and other benefits (including directors' emoluments)	**28,565**	19,381
– Contributions to defined contribution retirement plans	**788**	608
Operating lease charges on rented premises	**9,224**	3,806

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) The amount of taxation charged to the consolidated statement of comprehensive income represents:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year/period	**3,117**	1,822
Over-provision in respect of prior years	**–**	(25)
Deferred tax		
Decrease in tax rate	**–**	(31)
Reversal of temporary differences	**(2,004)**	(61)
	1,113	1,705

i) No provision for profits tax in the Cayman Islands and British Virgin Islands has been made as the Company and its subsidiaries which incorporated and domiciled in these countries, are not subject to profits tax in their respective jurisdictions (December 31, 2008: Nil).

ii) Hong Kong Profits Tax has been provided for at the rate of 16.5% (December 31, 2008: 16.5%) on the estimated assessable profits for the year/period.

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

b) Reconciliation between actual tax expense and notional tax on profit before taxation at the applicable tax rates:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Profit before taxation	**33,648**	12,686
Notional tax on profit before taxation, calculated at the applicable tax rate 16.5% (December 31, 2008: 16.5%)	**5,552**	2,093
Effect of different tax rate in other country	**(425)**	–
Tax effect of income not subject to taxation	**(4,123)**	(488)
Tax effect of expenses not deductible for taxation purposes	**658**	280
Tax effect of deductible temporary differences	**(361)**	(176)
Tax losses not recognised	**84**	74
Over-provision in prior years	**–**	(25)
Effect of decrease in tax rate	**–**	(31)
Tax effect of unrecognised temporary difference	**–**	(21)
Tax effect of origination and reversal of temporary difference	**(272)**	–
Tax effect of prior year's tax losses utilised in this year/period	**–**	(1)
Actual tax expense	**1,113**	1,705

8. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company is dealt with in the consolidated financial statements of the Company to the extent of HK$29,682,000 (December 31, 2008: HK$59,796,000).

9. DIVIDENDS

	Note	12 Months ended December 31, 2009	9 Months ended December 31, 2008
		HK$'000	*HK$'000*
Interim dividend declared and paid	*20*	–	5,000
Final dividend proposed after the end of the reporting period	*20*	**18,000**	–
		18,000	5,000
Final dividend paid in respect of the previous financial year		–	13,000

The Board recommended a final dividend of HK9 cents per share for the Current Year to those Shareholders whose names appear on the register of members of the Company on April 12, 2010. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year ended December 31, 2009.

10. EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year/period.

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Profit attributable to equity shareholders of the Company	**32,535**	10,981

	As at December 31, 2009	As at December 31, 2008
	'000 shares	*'000 shares*
Weighted average number of ordinary shares	**200,000**	200,000

Total ordinary shares outstanding at December 31, 2009 was 200,000,000 shares.

10. EARNINGS PER SHARE *(Continued)*

b) Diluted earnings per share

Diluted earnings per share is not presented as the Company did not have any dilutive potential ordinary shares throughout the year ended December 31, 2009 and nine months period ended December 31, 2008.

11. RETIREMENT BENEFITS COSTS

The Group has implemented a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from December 1, 2000. The Group contributed according to the minimum requirements of the MPF Ordinance and the contributions are charged to the consolidated statement of comprehensive income.

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY

a) Directors' remuneration disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows:

	For the year ended December 31, 2009				
	Fees	**Basic salaries, allowance and other benefits**	**Discretionary bonus**	**Contributions to retirement scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(Chairman)*	–	2,200	–	12	2,212
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*	–	2,200	–	12	2,212
Wong Sai Ming	–	1,300	–	12	1,312
Wong Tat Tung *(Appointed with effect from March 13, 2009)*	–	961	220	10	1,191
Non-executive Director					
Chan Cheuk Ming	60	–	–	–	60
Independent Non-executive Directors					
Cheung Wah Keung	150	–	–	–	150
Anthony Espina	150	–	–	–	150
Wong Che Keung	150	–	–	–	150
	510	6,661	220	46	7,437

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

a) Directors' remuneration disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows: *(Continued)*

	For the nine months period ended December 31, 2008				
	Fees	Basic salaries, allowance and other benefits	Discretionary bonus	Contributions to retirement scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(Chairman)*	–	1,650	–	9	1,659
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*	–	1,650	–	9	1,659
Wong Sai Ming	–	1,000	–	9	1,009
Wong Kwok Ting *(Resigned with effect from April 30, 2008)*	–	45	–	–	45
Non-executive Director					
Chan Cheuk Ming	45	–	–	–	45
Independent Non-executive Directors					
Cheung Wah Keung	113	–	–	–	113
Anthony Espina	113	–	–	–	113
Wong Che Keung	113	–	–	–	113
	384	4,345	–	27	4,756

No director waived any emoluments during the year (Nine months ended December 31, 2008: Nil). No inducement payment or compensation for loss of office was paid or payable to any director for the year ended December 31, 2009 and nine months ended December 31, 2008.

As at December 31, 2009, no share option has been granted and held by the directors under the Company's share option scheme (December 31, 2008: Nil). Details of the share option scheme are disclosed in note 19(b).

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

b) Individuals with highest emoluments

Of the five individuals with the highest paid in the Group, four (2008: three) were directors of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining one (2008: two) individual(s) were as follows:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Salaries and other benefits	**953**	1,421
Contributions to defined contribution retirement plans	**12**	18
	965	1,439

Their emoluments were all within the band of up to HK$1,000,000. During the year/period, no inducement payment or compensation for loss of office was paid to the five highest paid individuals.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Moulds	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At April 1, 2008	2,689	17,242	3,106	929	1,255	25,221
Additions	1,529	614	1,281	86	–	3,510
Disposals	–	–	(2)	–	–	(2)
At December 31, 2008 and January 1, 2009	4,218	17,856	4,385	1,015	1,255	28,729
Additions	1,090	229	1,926	176	–	3,421
At December 31, 2009	5,308	18,085	6,311	1,191	1,255	32,150

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Moulds	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation						
At April 1, 2008	1,433	9,426	1,903	495	1,224	14,481
Charge for the period	578	2,563	552	147	24	3,864
Written back on disposal	–	–	(2)	–	–	(2)
At December 31, 2008 and January 1, 2009	2,011	11,989	2,453	642	1,248	18,343
Charge for the year	1,250	4,039	1,089	261	7	6,646
At December 31, 2009	3,261	16,028	3,542	903	1,255	24,989
Net book value						
At December 31, 2009	2,047	2,057	2,769	288	–	7,161
At December 31, 2008	2,207	5,867	1,932	373	7	10,386

14. GOODWILL

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
At beginning of the year/period	**26,375**	26,375
Acquisition of a subsidiary	**9,000**	–
At end of the year/period	**35,375**	26,375

All goodwill arose as a result of acquisition of businesses.

14. GOODWILL *(Continued)*

Impairment tests for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGU"). The carrying amount of goodwill as at the end of the reporting period is allocated as follows:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Party products manufacturing and trading business	**26,375**	26,375
Wealth management financial planning services business	**9,000**	–
	35,375	26,375

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are assumed to remain constant. The estimated growth rates used are comparable to the growth rate for the industry.

Key assumptions for party products manufacturing and trading businesses used for value-in-use calculations:

	As at December 31, 2009	As at December 31, 2008
Gross margin	**16%**	10%
Growth rate	**5%**	2%
Discount rate	**16%**	17%

14. GOODWILL *(Continued)*

Impairment tests for cash-generating units containing goodwill *(Continued)*

Key assumptions for wealth management financial planning services business used for value-in-use calculations:

	As at December 31, 2009
Gross margin	**45%**
Growth rate	**100% for the first year and 20% for the next 3 years**
Discount rate	**19%**

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments. The carrying amount of the unit approximates to its recoverable amount. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount. Based on the impairment tests performed, no impairment loss is recognised for the year (December 31, 2008: Nil).

15. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Raw materials	**5,844**	7,351
Work-in-progress	**7,039**	2,604
Finished goods	**3,996**	3,146
	16,879	13,101

15. INVENTORIES *(Continued)*

b) The analysis of the amount of inventories recognised as an expense is as follows:

	Note	**As at December 31, 2009**	As at December 31, 2008
		HK$'000	*HK$'000*
Carrying amount of inventories sold		**307,687**	290,830
Impairment loss/(Reversal of an impairment loss) on inventories		**2,000**	(72)
	6	**309,687**	290,758

16. TRADE RECEIVABLES

Customers are usually offered a credit period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy are set out in note 33(a)(i).

a) An ageing analysis of trade receivables is as follows:

	Note	**As at December 31, 2009**	As at December 31, 2008
		HK$'000	*HK$'000*
Within 30 days		**26,899**	22,622
31 to 60 days		**4,214**	5,780
61 to 90 days		**2,812**	2,805
Over 90 days		**2,390**	4,577
		36,315	35,784
Less: Provision for impairment	*6*	**(365)**	(482)
		35,950	35,302

Trade receivables included HK$2,025,000 (December 31, 2008: HK$4,095,000) which were past due at December 31, 2009. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

16. TRADE RECEIVABLES *(Continued)*

b) Impairment loss on trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(j)).

Movements in the allowance for doubtful debts:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
At beginning of the year/period	**482**	–
Impairment loss recognised	**365**	482
Uncollectible amount written off	**(482)**	–
At end of the year/period	**365**	482

For the year ended December 31, 2009, trade receivables of the Group amounting to HK$365,000 (December 31, 2008: HK$482,000) were individually determined to be impaired.

c) Trade receivables denominated in other currency

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency, which is Hong Kong dollar:

	As at December 31, 2009	As at December 31, 2008
	US$'000	*US$'000*
	2,535	2,899

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	As at December 31, 2009	As at December 31, 2008	**As at December 31, 2009**	As at December 31, 2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade deposits and other receivables	**14,708**	14,184	**–**	–
Prepayments	**14,034**	2,189	**23**	226
Rental, utility and sundry deposits	**2,683**	1,513	**–**	–
Staff advances	**648**	718	**–**	–
	32,073	18,604	**23**	226

The carrying amounts of prepayments, deposits and other receivables at the end of the reporting period approximated their fair values. As at December 31, 2009 and December 31, 2008, none of the prepayments, deposits and other receivables were impaired. All of the prepayment, deposits and other receivables are expected to be recovered, capitalised as fixed assets or recognised as expenses within one year.

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	As at December 31, 2009	As at December 31, 2008	**As at December 31, 2009**	As at December 31, 2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**53,928**	27,081	**50**	55
Time deposits	**–**	3,465	**–**	–
Cash and cash equivalents	**53,928**	30,546	**50**	55

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2009 and December 31, 2008 were HK$53,928,000 and HK$30,546,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates. The carrying amounts at the end of the reporting period approximated their fair values.

18. CASH AND CASH EQUIVALENTS *(Continued)*

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	The Group	
	As at December 31, 2009	As at December 31, 2008
	'000	*'000*
	US$3,526	US$2,271
	RMB2,807	RMB180

19. SHARE CAPITAL

	The Group and the Company	
	Number of shares	**Amount**
	'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
As at December 31, 2009 and December 31, 2008	1,000,000	100,000
Issued and fully paid:		
As at December 31, 2009 and December 31, 2008	200,000	20,000

a) The Company was incorporated in the Cayman Islands on March 20, 2007. Details of the changes in par value, total number of authorised share capital and fully paid-up share capital can be found in the Company's Prospectus and previous annual reports.

b) The Company has a share option scheme, under which the Company may grant options to any employees or directors to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company, from time to time, excluding shares issued on exercise of share options. No options have been granted since the adoption of the share option scheme.

20. RESERVES

The Group

	Note	Share premium	Translation reserve	Capital reserve	Retained profits	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At March 31, 2008 and April 1, 2008		53,768	–	(15,000)	52,516	91,284
Final dividend recognised in respect of the previous financial year	9	–	–	–	(13,000)	(13,000)
Interim dividend paid	9	–	–	–	(5,000)	(5,000)
Total comprehensive income for the period		–	–	–	10,981	10,981
At December 31, 2008 and January 1, 2009		53,768	–	(15,000)	45,497	84,265
Total comprehensive income for the year		–	107	–	32,535	32,642
At December 31, 2009		53,768	107	(15,000)	78,032	116,907

The Company

	Share premium	Contributed surplus	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At March 31, 2008 and April 1, 2008	53,768	31,971	(104)	85,635
Final dividend recognised in respect of the previous financial year	–	–	(13,000)	(13,000)
Interim dividend paid	–	–	(5,000)	(5,000)
Total comprehensive income for the period	–	–	59,796	59,796
At December 31, 2008 and January 1, 2009	53,768	31,971	41,692	127,431
Total comprehensive income for the year	–	–	29,682	29,682
At December 31, 2009	53,768	31,971	71,374	157,113

20. RESERVES *(Continued)*

i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation.

iii) Capital reserve

Capital reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the share capital of Silver Pattern Limited acquired through the share swap pursuant to the Reorganisation.

iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Silver Pattern Limited determined on the basis of the consolidated net assets of Silver Pattern Limited at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

v) Distributability of reserves

At December 31, 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK$125,142,000 (December 31, 2008: HK$95,460,000). After the end of the reporting period, the Board recommended a final dividend of HK9 cents per ordinary share amounting to HK$18,000,000. This has not been recognised as a liability at the end of the reporting period.

21. TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable is as follows:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
0 to 30 days	**9,785**	10,439
31 to 60 days	**2,413**	3,226
61 to 90 days	**1,376**	624
Over 90 days	**1,674**	208
	15,248	14,497

21. TRADE AND BILLS PAYABLE *(Continued)*

The trade and bills payable are non-interest bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payable at the end of the reporting period approximated their fair values.

Included in trade and bills payable are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	As at December 31, 2009	As at December 31, 2008
	'000	*'000*
	US$637	US$541
	RMB7,145	RMB3,909

22. ACCRUALS AND OTHER PAYABLES

	The Group		**The Company**	
	As at December 31, 2009	As at December 31, 2008	**As at December 31, 2009**	As at December 31, 2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest payables	**31**	4	**–**	–
Accrued salaries and bonuses	**2,979**	1,048	**–**	–
Trade deposits received	**5,873**	3,727	**–**	–
Accrued expenses	**12,171**	9,398	**1**	3,795
	21,054	14,177	**1**	3,795

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values. All of the accruals and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

23. BANK BORROWINGS – SECURED

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Short-term loans	**8,425**	1,000

23. BANK BORROWINGS – SECURED *(Continued)*

The bank borrowings are repayable within one year. The carrying amounts at the end of the reporting period approximated their fair values. Bank borrowings of the Group consisted of fixed-rate borrowings and floating-rate borrowings. Fixed-rate borrowings bore interest at effective interest rate ranging from 2.0% to 4.0% (December 31, 2008: 1.9% to 4.0%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate. Floating-rate borrowings bore interest at effective interest rate ranging from 1.5% to 4.5% per annum (December 31, 2008: 1.5% to 4.5%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate.

The Company, and its wholly-owned subsidiaries, Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with Banks, to secure banking facilities granted to the Group.

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

a) Tax (payable)/recoverable in the consolidated statement of financial position represents:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
At beginning of the year/period	**70**	408
Provision for Hong Kong Profits tax	**(3,117)**	(1,822)
Over-provision in prior years written back	**–**	25
Hong Kong Profits tax paid	**1,756**	1,459
At end of the year/period	**(1,291)**	70

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

b) Deferred tax liabilities/(assets) recognised:

The component of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year/period are as follows:

	Depreciation allowance in excess of the related depreciation	Unused tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At April 1, 2008	537	–	537
Credited to profit or loss	(92)	–	(92)
At December 31, 2008 and January 1, 2009	445	–	445
Credited to profit or loss	(272)	(1,732)	(2,004)
At December 31, 2009	173	(1,732)	(1,559)

25. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries represents investments in unlisted shares at cost.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

25. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Silver Pattern Limited	British Virgin Islands	US$1	100%	Investment holdings
Rainbow Brothers Limited	Hong Kong	HK$200,000	100%	General trading
Silver Lining Limited	Hong Kong	HK$1	100%	General trading and production of party products
Cheerful Arts Limited	Hong Kong	HK$1	100%	Investment holdings
呼嚕棧酒店管理（深圳）有限公司#	The People's Republic of China	US$2,000,000	100%	Hotel management and general trading
Hotel Zzz Franchise Limited	British Virgin Islands	US$1	100%	Franchise holdings
Soccer Sky Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Services Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Planning Limited	Hong Kong	HK$100	100%	Inactive
Channel 8 Wealth Management Limited	Hong Kong	HK$10,000,000	100%	Provision of wealth management financial planning service
Channel 8 Securities Limited	Hong Kong	US$1	100%	Inactive

The Group's effective interest in Silver Pattern Limited is held directly by the Company. Effective interest in all other subsidiaries is held by subsidiary.

\# This subsidiary is registered as a wholly-owned foreign enterprise under the PRC law, the company name has been changed from "十友海外貿易（深圳）有限公司" during the year.

26. AMOUNTS DUE FROM SUBSIDIARIES

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

27. ACQUISITION OF A SUBSIDIARY

On March 10, 2009, the Company, through a wholly-owned subsidiary, entered into the sales and purchase agreement with Mr. Wong Tat Tung with a consideration of HK$9,000,000 to acquire a 100% equity interest in a financial planning services company. On the same day, the Board resolved to appoint Mr. Wong Tat Tung as an executive director with effect from March 13, 2009.

27. ACQUISITION OF A SUBSIDIARY *(Continued)*

The fair value of the net assets acquired in the transaction, and goodwill on acquisition, are as follows:

	HK$'000
The fair value of the net assets acquired	–
Goodwill arising on acquisition *(Note 14)*	9,000
	9,000
Satisfied by	
Cash consideration	9,000

Goodwill arose in the business combination because the cost of the combination included amount in relation to the benefits of revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a financial planning services company is as follows:

	HK$'000
Cash consideration	(9,000)
Net outflow of cash and cash equivalents in respect of acquisition of a financial planning services company	9,000

28. INTEREST IN AN ASSOCIATE

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Acquisition of an associate	**12,000**	–
Disposal of an associate	**(12,000)**	–
	–	–

The Group, through a wholly-owned subsidiary, has entered into a shareholders agreement to acquire 20% equity interest in an investment holding company registered in the BVI and which, in turn, effectively holds a shopping mall property development project in Liaoning, China. The Company had sold its effective equity interest in this associate during the year.

29. SEGMENT REPORTING

The Group is principally engaged in creating and providing party and festivity products to dollar store business operators. The directors consider there is only one business segment significant enough for disclosure. Other business segments, including the wealth management financial planning services business and hotel operation business were still at their setting up stages as at December 31, 2009 and contributed less than 10% of the Group's sales and total assets for the year ended 31 December 2009.

30. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the consolidated statement of comprehensive income:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Purchase of a subsidiary from Mr. Wong Tat Tung *(Note (i))*	**9,000**	–
Commission income generated from a director and his close family member *(Note (ii))*	**530**	–
Rental expenses paid to close family members of a director *(Note (iii))*	**–**	42

Note:

i) This transaction was regarded as a Discloseable and Connected Transaction under the relevant chapters of 14 and 14A of the Listing Rules. Further pursuant to Rule 14A.32 of the Listing Rules, this transaction was exempted from independent shareholders' approval. On March 10, 2009, the Company made such announcement with the key details as follows:

The Group entered into a sales and purchase agreement with Mr. Wong Tat Tung with a consideration of HK$9.0 million to acquire 100% equity interest in a financial planning services company wholly-owned by Mr. Wong. On the same day, Mr. Wong was appointed as an executive director with effect from March 13, 2009.

ii) This transaction was regarded as a continuing connected transaction.

iii) This transaction was regarded as a continuing connected transaction and was stopped before December 31, 2008.

30. RELATED PARTY TRANSACTIONS *(Continued)*

b) Compensation of key management of the Group:

	12 Months ended December 31, 2009	9 Months ended December 31, 2008
	HK$'000	*HK$'000*
Salaries, allowance and other benefits	**10,900**	7,596
Contributions to defined contribution retirement plans	**106**	72
	11,006	7,668

Note: Further details of post-employment benefits and directors' and employees' emoluments are included in note 12 to the consolidated financial statements. Total remuneration is included in "staff costs" (see note 6).

31. COMMITMENTS

a) Capital Commitments

As at December 31, 2009, the Group had the following capital commitments:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Contracted but not provided for	**–**	11,550

31. COMMITMENTS *(Continued)*

b) Operating Lease Commitments

The Group leases office premises under operating lease arrangements. At the end of each reporting period, the Group had future aggregate minimum lease payment under non-cancellable operating leases arrangements as follows:

	As at December 31, 2009	As at December 31, 2008
	HK$'000	*HK$'000*
Within one year	**7,976**	3,259
In the second to fifth year, inclusive	**3,259**	6,324
	11,235	9,583

32. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

At December 31, 2009, no financial guarantees were made by the Group to any non-Group companies. For more details of financial guarantees provided by the Group, please refer to note 23. As at December 31, 2009, the board of directors was not aware of any possible material contingent liabilities.

At December 31, 2009, the loan drawn down by the Group amounted to approximately HK$8.4 million (December 31, 2008: HK$1.0 million).

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial risk factors

The Group's major financial instruments include, cash and cash equivalents, trade and other receivables, trade and bills payable, other payables and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The Group does not hold or issue derivate financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

i) Credit risk

Credit risk arises from the possibility that the counterparty to transaction is unwilling or unable to fulfill its obligation thereby incurring financial loss to the Group.

– Trade and other receivables

As at December 31, 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

In respect of trade and other receivables, in order to minimise risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of customers' financial position and condition are performed on all customers periodically. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are usually due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collaterals from customers.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At December 31, 2009, the Group has a certain concentration of credit risk as approximately equals to 52.4% (December 31, 2008: 24.5%) and 69.0% (December 31, 2008: 54.6%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

– Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

i) Credit risk (Continued)

– Financial guarantee

This is no financial guarantee outstanding as at December 31, 2009. Therefore, no credit risk in respect thereof existed. Details of financial guarantee are disclosed in note 32.

ii) Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due.

The Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	December 31, 2009			December 31, 2008		
	Within 1 year or on demand	**Total contractual undiscounted cash flow**	**Carrying amount**	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank borrowings and overdrafts	**8,425**	**8,425**	**8,425**	1,006	1,006	1,000
Trade and bills payable	**15,248**	**15,248**	**15,248**	14,497	14,497	14,497
Accruals and other payables	**21,054**	**21,054**	**21,054**	14,177	14,177	14,177
	44,727	**44,727**	**44,727**	29,680	29,680	29,674

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iii) Fair value and cash flow interest rate risk

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on ongoing basis and will consider hedging the interest rate should the need arise.

1) Exposure to fair value and cash flow interest rate risk
The Group's fair value interest rate risk relates primarily to short-term bank borrowings carrying at fixed interest rates and cash flow interest rate risk in relation to short-term bank borrowings and bank deposits carrying at floating interest rates. The directors consider the Group's exposure of the bank borrowings to fair value interest rate risk is not significant as bank borrowings are within short maturity period. Details of the interest rate are disclosed in note 23.

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from floating volatility. The Group also monitors interest rate exposure by borrowing at fixed rate, instead of floating rate.

2) Sensitivity analysis
All of the bank borrowings of the Group which are fixed rate instruments are insensitive in any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss. At December 31, 2009, it is estimated that a general increase/decrease 100 basis points in interest rates for variable rate borrowings and bank deposits, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$450,000 (December 31, 2008: HK$255,000). Other components of equity would not be affected (December 31, 2008: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next financial period. The analysis is performed on the same basis for December 31, 2008.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iv) *Currency risk*

Presently, there is no hedging policy with respect to the Group's foreign exchange exposure. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of operation to which they relate.

1) Exposure to currency risk
The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency which is Hong Kong dollar of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollar and Renminbi.

	December 31, 2009	
	US$'000	***RMB'000***
Cash and cash equivalents	**3,526**	**2,807**
Trade and other receivables	**3,112**	**14,079**
Trade and other payables	**(637)**	**(10,133)**
Overall exposure arising from Recognised assets and liabilities	**6,001**	**6,753**

	December 31, 2008	
	US$'000	*RMB'000*
Cash and cash equivalents	2,271	180
Trade and other receivables	3,697	3,372
Trade and other payables	(700)	(7,422)
Overall exposure arising from Recognised assets and liabilities	5,268	(3,870)

Management closely monitors currency risk position to ensure that the net exposure is kept at an acceptable level.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Financial risk factors *(Continued)*

iv) Currency risk (Continued)

2) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	December 31, 2009		December 31, 2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		HK$'000		*HK$'000*
Renminbi	**5%**	**338**	5%	(183)
	(5%)	**(338)**	(5%)	183

Other components of consolidated equity would not be affected (December 31, 2008: Nil) by the changes in foreign exchange rates.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for non–derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entitles profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for December 31, 2008.

v) Fair values

The fair values of cash and cash equivalents, bank deposits, trade and other receivables, trade and bills payable and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of bank borrowings and overdrafts approximated its fair value.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

b) Capital risk management

The primary objective of the Group's capital risk management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year/period.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank borrowings and overdrafts less cash and cash equivalents. Total equity represents equity attributable to the equity shareholders of the Group. As at December 31, 2009 and December 31, 2008, both the Group and the Company had no net debt. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

c) Estimation of fair values

The fair values of interest-bearing bank borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year, as discussed below.

i) Impairment of property, plant and equipment

The recoverable amount of an asset is the greater of its net selling price 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based on periodic evaluation of the recoverability of the trade and other receivables. The estimates are based on the ageing of the trade and other receivables and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

iii) Estimated impairment of goodwill

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

iv) Estimated net realisable value of inventories

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

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

35. EVENTS AFTER REPORTING PERIOD

a) Investment of 12.4% to 14.4% equity interest in a joint venture company

On February 8, 2010, the Company, through a wholly-owned subsidiary, has entered into an agreement to acquire approximately 12.4% to 14.4% equity interest in a joint venture company for a consideration of HK$23.0 million and subject to a further financing obligation of HK$3.8 million. The joint venture company has been formed to conduct its sole business of developing and sale of a shopping mall property in Liaoning Province, China. As at the end of the reporting period, no capital was injected to the joint venture company.

b) Investment in a hotel project in Shenzhen, China

After the reporting period, the company has set up its second concept hotel in China. On February 9, 2010, the Company, through a wholly-owned subsidiary, has entered into a sales and purchase agreement to acquire the construction work of a commercial location in Shenzhen China with a consideration of approximately HK$4.7 million and take up the rights and obligations from the existing tenant to the landlord which committed a 5-year fixed tenor to the landlord of a total rent of approximately HK$7.6 million.

c) A very substantial acquisition

On February 9, 2010, the Company requested the Stock Exchange a suspension of trading in the shares of the Company pending the release of a very substantial acquisition ("VSA") announcement as defined under Chapter 14 of the Listing Rules. Since then, the Company has submitted several revised draft announcements to the Stock Exchange for clearance. Once it were cleared by the Stock Exchange, we would inform the details of this VSA transaction to the public by way of an announcement.

36. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The directors consider Direct Value Limited, a company incorporated in British Virgin Islands, to be the ultimate holding company. The directors regard Mr. Hui Kwan Wah, Hugo, through his direct shareholding in Direct Value Limited, as being the ultimate controlling party.

37. COMPARATIVE FIGURES

As a result of the change in financial year end date, the comparative figures of audited consolidated financial statements cover the period of nine months from April 1, 2008 to December 31, 2008, which is different from the twelve months current period in the consolidated statements of comprehensive income, consolidated statement of change in equity, consolidated cash flows statement and related notes.

FINANCIAL SUMMARY

The financial results and the assets and liabilities of the Group for the last five years/periods are summarized as follows:

Results	**12 months ended December 31, 2009**	9 Months ended December 31, 2008	12 Months ended March 31, 2008	12 Months ended March 31, 2007	12 Months ended March 31, 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**389,186**	335,739	371,558	314,837	210,496
Profit before taxation	**33,648**	12,686	29,229	42,464	27,940
Income tax	**(1,113)**	(1,705)	(3,689)	(5,191)	(4,942)
Profit for the year/period	**32,535**	10,981	25,540	37,273	22,998
Attributable to:					
Equity shareholders of the Company	**32,535**	10,981	25,540	37,273	22,998

	As at December 31, 2009	As at December 31, 2008	As at March 31, 2008	As at March 31, 2007	As at March 31, 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**182,925**	134,384	153,968	107,228	71,733
Total liabilities	**(46,018)**	(30,119)	(42,684)	(50,252)	(52,030)
Total equity	**136,907**	104,265	111,284	56,976	19,703