The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Group, Ernst & Young.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

16 April 2010

The Directors
Sijia Group Company Limited
Piper Jaffray Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Sijia Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods"), prepared on the basis of presentation set forth in note 2 of Section II, for inclusion in the initial public offering document of the Company dated 16 April 2010 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2009. On 15 December 2009, the Company acquired the entire issued share capital of China Grandsoo Holdings Limited ("China Grandsoo"), a company incorporated in the British Virgin Islands, which is the holding company of the other subsidiaries comprising the Group as set out in note 1 of Section II pursuant to a group reorganization (the "Reorganization"). Apart from the aforesaid acquisition, the Company has not commenced any business or operation since its incorporation.

The Group is principally involved in the design, development, manufacture and sale of reinforced PVC coated fabric materials and related downstream inflatable and waterproof products in the People's Republic of China (the "PRC" or "Mainland China").

The financial information set out in this report, including the consolidated income statements, comprehensive income, changes in equity and cash flows of the Group for the Relevant Periods, and the consolidated statements of financial position of the Group as at 31 December 2007, 2008 and 2009, together with the notes thereto (collectively referred to as the "Financial Information"), has been prepared based on the consolidated financial statements of the Group in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and is presented on the basis set out in note 2 of Section II which were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. In preparing this report, no adjustments were considered necessary to restate the audited consolidated financial statements of the Group.

Respective Responsibilities of Directors and Reporting Accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is 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.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Procedures Performed in Respect of the Financial Information

We have audited the consolidated financial statements of the Group for the years ended 31 December 2007, 2008 and 2009, which were prepared by the directors of the Company in accordance with HKFRSs. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the Relevant Periods, and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion in Respect of the Financial Information

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009, and of the Group's consolidated profits and cash flows for the Relevant Periods in accordance with HKFRSs.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	2007 RMB'000	2008 RMB'000	2009 RMB'000
		Year ended 31 December		
CONTINUING OPERATIONS				
REVENUE	6	148,715	299,644	570,492
Cost of sales		(102,718)	(180,480)	(311,624)
Gross profit		45,997	119,164	258,868
Other income and gains	6	348	3,308	1,979
Selling and distribution costs		(1,660)	(4,317)	(3,612)
Administrative expenses		(13,512)	(20,959)	(49,657)
Other expenses		(718)	(485)	(881)
Finance costs	8	(758)	(1,951)	(2,139)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	29,697	94,760	204,558
Income tax expense	11	(3,568)	(15,313)	(33,346)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		26,129	79,447	171,212
DISCONTINUED OPERATION				
Profit for the year from a discontinued operation	7, 13	13,255	1,730	–
PROFIT FOR THE YEAR		39,384	81,177	171,212
Attributable to:				
Owners of the Company*		36,783	61,266	171,212
Minority interests		2,601	19,911	–
		39,384	81,177	171,212
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Basic and diluted (RMB):				
– For profit for the year	12	6.13 cents	10.21 cents	28.54 cents
– For profit from continuing operations	12	4.06 cents	9.99 cents	28.54 cents
– For profit from a discontinued operation	12	2.07 cents	0.22 cents	–
*Profit attributable to owners of the Company:				
– From continuing operations		24,356	59,951	171,212
– From a discontinued operation		12,427	1,315	–
		36,783	61,266	171,212

Details of the dividends paid during the Relevant Periods are disclosed in note 14 to the Financial Information.

Consolidated Statements of Comprehensive Income

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
PROFIT FOR THE YEAR	39,384	81,177	171,212
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations	1,290	705	23
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	1,290	705	23
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	40,674	81,882	171,235
Attributable to:			
Owners of the Company	38,073	61,971	171,235
Minority interests	2,601	19,911	–
	40,674	81,882	171,235

Consolidated Statements of Financial Position

		As at 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	15	71,815	67,381	79,204
Prepaid land lease payments	16	5,597	5,499	5,401
Intangible assets	17	–	382	298
Advance payments for property, plant and equipment		144	11,385	50,213
Total non-current assets		77,556	84,647	135,116
CURRENT ASSETS				
Inventories	18	19,896	36,825	29,448
Trade and notes receivables	19	31,666	45,462	86,364
Prepayments, deposits and other receivables	20	15,170	13,997	33,945
Due from directors	33	1,281	500	–
Due from a related party	33	2,820	–	–
Cash and cash equivalents	21	30,340	87,612	184,987
		101,173	184,396	334,744
Assets of a disposal group classified as held for sale	13	16,948	–	–
Total current assets		118,121	184,396	334,744
CURRENT LIABILITIES				
Trade and bills payables	22	44,326	50,102	45,366
Other payables and accruals	23	12,647	11,011	16,763
Interest-bearing bank borrowings	24	11,317	19,500	35,500
Due to directors	33	18,850	35,887	624
Due to a related party	33	2,300	–	4,451
Tax payable		896	3,317	9,600
		90,336	119,817	112,304
Liabilities directly associated with the assets classified as held for sale	13	10,272	–	–
Total current liabilities		100,608	119,817	112,304

		As at 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NET CURRENT ASSETS		17,513	64,579	222,440
TOTAL ASSETS LESS CURRENT LIABILITIES		95,069	149,226	357,556
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	*24*	4,375	3,875	3,375
Deferred tax liabilities	*25*	–	1,455	3,181
Total non-current liabilities		4,375	5,330	6,556
Net assets		90,694	143,896	351,000
EQUITY				
Equity attributable to owners of the Company				
Issued capital	*26*	88	88	88
Reserves	*27*	90,606	143,808	350,912
Total equity		90,694	143,896	351,000

Consolidated Statements of Changes in Equity

	Attributable to owners of the Company								
	Issued share capital RMB'000	Capital surplus/ share premium* (note 27) RMB'000	Statutory surplus reserve* (note 27) RMB'000	Translation of foreign operations* (note 27) RMB'000	Capital reserve* (note 27) RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	88	–	3,552	703	(1)	35,306	39,648	13,230	52,878
Exchange realignment	–	–	–	1,290	–	–	1,290	–	1,290
Profit for the year	–	–	–	–	–	36,783	36,783	2,601	39,384
Total comprehensive income for the year	–	–	–	1,290	–	36,783	38,073	2,601	40,674
Acquisition of minority interests (i)	–	–	–	–	12,973	–	12,973	(15,831)	(2,858)
Appropriation to statutory surplus reserve	–	–	3,959	–	–	(3,959)	–	–	–
At 31 December 2007 and 1 January 2008	88	–	7,511	1,993	12,972	68,130	90,694	–	90,694
Exchange realignment	–	–	–	705	–	–	705	–	705
Profit for the year	–	–	–	–	–	61,266	61,266	19,911	81,177
Total comprehensive income for the year	–	–	–	705	–	61,266	61,971	19,911	81,882
Dividends paid	–	–	–	–	–	(29,080)	(29,080)	–	(29,080)
Acquisition of minority interests (ii)	–	–	–	–	14,873	–	14,873	(32,523)	(17,650)
Disposal of minority interests (iii)	–	4,366	–	–	795	–	5,161	12,612	17,773
Disposal of subsidiaries	–	–	–	–	277	–	277	–	277
Appropriation to statutory surplus reserve	–	–	6,419	–	–	(6,419)	–	–	–
At 31 December 2008 and 1 January 2009	88	4,366	13,930	2,698	28,917	93,897	143,896	–	143,896
Exchange realignment	–	–	–	23	–	–	23	–	23
Profit for the year	–	–	–	–	–	171,212	171,212	–	171,212
Total comprehensive income for the year	–	–	–	23	–	171,212	171,235	–	171,235
Arising from the Reorganization	–	35,792	–	–	77	–	35,869	–	35,869
Appropriation to statutory surplus reserve	–	–	17,815	–	–	(17,815)	–	–	–
At 31 December 2009	88	40,158	31,745	2,721	28,994	247,294	351,000	–	351,000

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

(ii) *On 20 November 2008, Xiamen Grandsoo acquired 24% interest in Fujian Sijia from Xiamen Kailai Trading Co., Ltd ("Kailai Trading"), Fuzhou Jutai Trading Co., Ltd. ("Jutai Trading"), Fuzhou Sanfang Trading Co., Ltd. ("Sanfang Trading") and Sanming YueHui Investment Co., Ltd. ("YueHui Investment") at total consideration of RMB17,650,000.*

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

The registered capital of Fujian Sijia was increased from HK$40,000,000 to HK$50,000,000 and the additional HK$10,000,000 registered capital was issued at an amount of RMB15,000,000 to Kailai Trading, Jutai Trading, Sanfang Trading and YueHui Investment on 23 January 2008, 30 January 2008 and 23 February 2008, respectively.

* *These reserve accounts comprise the consolidated reserves of RMB22,476,000, RMB49,911,000 and RMB103,618,000 in the consolidated statements of financial position as at 31 December 2007, 2008 and 2009, respectively.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2007	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:				
From continuing operations		29,697	94,760	204,558
From a discontinued operation	*13*	15,442	1,983	–
Adjustments for:				
Finance costs	*8*	758	1,951	2,139
Bank interest income	*6*	(224)	(463)	(614)
Foreign exchange differences, net	*7*	599	376	34
Gain on disposal of subsidiaries	*6*	–	(2,158)	–
Depreciation	*7*	6,420	7,004	8,901
Loss on disposal of items of property, plant and equipment	*7*	–	–	839
Amortization of prepaid land lease payments	*7*	102	98	98
Amortization of intangible assets	*7*	–	46	84
		52,794	103,597	216,039
Decrease/(increase) in inventories		13,126	(10,613)	7,377
Increase in trade and notes receivables		(16,279)	(13,640)	(40,902)
Increase in prepayments, deposits and other receivables		(3,592)	(1,888)	(19,948)
(Increase)/decrease in amounts due from directors		(1,281)	781	500
Increase in an amount due from a related party		(320)	–	–
Increase/(decrease) in trade and bills payables		5,048	(3,036)	(4,736)
(Decrease)/increase in other payables and accruals		(18,980)	1,729	5,752
Increase in amounts due to directors		1,381	27,844	529
Increase/(decrease) in an amount due to a related party		2,300	(2,300)	4,451
Cash generated from operations		34,197	102,474	169,062
Tax paid		(5,010)	(11,963)	(25,337)
Interest paid	*8*	(758)	(1,951)	(2,139)
Net cash flows from operating activities		28,429	88,560	141,586

	Notes	2007 RMB'000	2008 RMB'000	2009 RMB'000
		Year ended 31 December		
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	*15*	(16,438)	(15,325)	(64,927)
Additions to prepaid land lease payments	*16*	(606)	–	–
Additions to intangible assets	*17*	–	(428)	–
Proceeds from disposal of items of property, plant and equipment		–	2,146	4,536
Acquisition of minority interests		(2,858)	(17,650)	–
Disposal of subsidiaries	*28*	–	(45)	–
Interest received	*6*	224	463	614
Net cash flows used in investing activities		(19,678)	(30,839)	(59,777)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans		16,382	28,740	43,000
Repayment of bank loans		(10,002)	(21,057)	(27,500)
Capital contributed by minority shareholders		–	15,000	–
Proceeds from capital contribution		–	–	77
Dividend paid		–	(29,080)	–
Net cash flows from/(used in) financing activities		6,380	(6,397)	15,577
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,131	51,324	97,386
Cash and cash equivalents at beginning of year		22,132	36,664	87,612
Effect of foreign exchange rate changes, net		(599)	(376)	(11)
CASH AND CASH EQUIVALENTS AT END OF YEAR		36,664	87,612	184,987
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents	*21*	30,340	87,612	184,987
Cash and cash equivalents attributable to a discontinued operation	*13*	6,324	–	–
		36,664	87,612	184,987

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE REORGANISATION

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

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

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the section headed "Corporate Reorganization" in Appendix V "Statutory and General Information" of the Prospectus and the following events occurred:

(1) On 10 September 2009, Hopeland International was established as a limited liability company under the laws of the British Virgin Islands and was authorized to issue up to 50,000 shares of US$1.00 each. At its establishment, Hopeland International was wholly owned by Mr. Lin.

(2) On 7 October 2009, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands and was authorized to issue up to 380,000,000 shares of HK$0.001 each. At its establishment, the Company was wholly owned by Hopeland International.

(3) On 7 September 2009, China Grandsoo Holdings Company Limited ("China Grandsoo") (中國浩源控股有限公司) was incorporated as a limited liability company under the laws of the British Virgin Islands and was authorized to issue up to 50,000 shares of US$1.00 each. At its establishment, China Grandsoo is wholly owned by Mr. Lin. On 10 September 2009, Mr. Lin transferred all his interests in China Grandsoo to Hopeland International.

(4) On 21 October 2009, Mr. Lin transferred the entire interest in the share capital of Hong Kong Sijia to China Grandsoo for a consideration of US$2.00. Upon the completion of the said transfer, Hong Kong Sijia became a wholly-owned subsidiary of China Grandsoo.

(5) On 15 December 2009, Hopeland International and the Company, entered into a share purchase agreement, pursuant to which the entire interest in the share capital of China Grandsoo was transferred from Hopeland International to the Company. In consideration of the said transfer, the Company allotted and issued 99,990,000 shares with a par value of HK$0.001 each, credited as fully paid, to Hopeland International. Upon the completion of the said transfer, China Grandsoo became a wholly-owned subsidiary of the Company.

At 31 December 2009, the Company has direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	**Place and date of incorporation/ registration and operations**	**Nominal value of issued ordinary share/ registered paid-up capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
China Grandsoo *(i)*	British Virgin Islands 7 September 2009	US$50,000	100	Investment holding
Hong Kong Sijia *(ii)*	Hong Kong 15 April 2002	HK$10,000	100	Investment holding
Fujian Sijia Industrial Material Co., Ltd. ("Fujian Sijia") *(iii)*	People's Republic of China 25 September 2002	HK$65,000,000	100	Manufacturing and selling of laminated and coated tarpaulin, fabric materials used for outdoor products and safety garments
Xiamen Grandsoo Industry & Trade Co., Ltd. ("Xiamen Grandsoo") *(iv)*	People's Republic of China 26 May 2006	HK$40,000,000	100	Manufacturing of TPU, TPR thermoplastic elastomers laminated materials, PET package materials PVC and TPU tarpaulin and related inflatable products

(i) No statutory audited financial statements have been prepared since its date of incorporation as it is not subject to any statutory audit requirements in its jurisdiction of incorporation.

(ii) No statutory audited financial statements have been prepared since its date of incorporation.

(iii) The statutory audited financial statements for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with the PRC accounting principles and regulations were audited by Fujian Tian Yuan Certified Public Accountants registered in the PRC.

(iv) The statutory audited financial statements for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with the PRC accounting principles and regulations were audited by Xiamen Yihuaxin Certified Public Accountants registered in the PRC.

During the Relevant Periods, the Company disposed of its direct or indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of these subsidiaries are set out below:

Name	Place and date of registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Fujian Si Tai Di Plastic Co., Ltd. (formerly known as Fujian Fang Ya Plastic Co., Ltd.) ("Fujian Si Tai Di") *(v)*	People's Republic of China 5 December 2000	HK$10,000,000	100	Manufacturing of rain clothes, garments, tents, luggage and other plastic products
Smile in Rain (Fuzhou) Water-proof Garments Co., Ltd. (formerly known as Fujian Fang Ya Garments Co., Ltd.) ("Smile in Rain") *(vi)*	People's Republic of China 24 January 2000	HK$10,000,000	100	Manufacturing of rain clothes, nylon garments and other textile products

(v) The statutory audited financial statements for the year ended 31 December 2007 prepared in accordance with the PRC accounting principles and regulations were audited by Fujian Galaxy Certified Public Accountants Co., Ltd. registered in the PRC.

(vi) The statutory audited financial statements for the year ended 31 December 2007 prepared in accordance with the PRC accounting principles and regulations were audited by Fujian Haixia Certified Public Accountants Ltd. registered in the PRC.

2. BASIS OF PRESENTATION

Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group on 15 December 2009. Since Mr. Lin controlled the Group before and after the Reorganization, the Reorganization is accounted for as reorganization under common control in a manner similar to the pooling of interests. As a result, the Financial Information is prepared under the basis as if the Reorganization had been completed at the beginning of the Relevant Periods.

The Financial Information which is based on the audited consolidated financial statements of the companies now comprising the Group includes the consolidated income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows and statements of financial position of the companies now comprising the Group, as if the current group structure had been in existence throughout the years, or since their respective dates of incorporation, whichever is a shorter period. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

3.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. The Financial Information has been prepared under the historical cost convention. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 3.3. The accounting policies set out in note 3.3 have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendments to HKFRS 1 *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Amendments Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included *in Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and Amendments to HKFRS 5 may result in changes in accounting policies, the other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporates the financial statements of the consolidating entities or businesses which underwent the Reorganization under common control as if they had been consolidated from the date when the consolidating entities or businesses first came under the control of the controlling party.

The net assets of the consolidating entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or the excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of the Reorganization under common control. The consolidated income statements and statements of comprehensive income include the results of each of the consolidating entities or businesses from the earliest date presented or since the date when the consolidating entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganization under common control.

All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Intangible assets (other than goodwill)

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

Software

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

Patents

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

Research and development costs

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

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

Leases

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurements

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

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

The Group's financial assets include cash and bank balances, trade and notes receivables, deposits and other receivables, and amounts due from directors and a related party.

Subsequent measurement

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

Loans and receivables

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

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

Revenue recognition

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

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

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

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

Retirement benefits

The Group's subsidiaries which operate in Mainland China participate in defined contribution retirement benefit schemes organized by the local government authorities in the PRC. These subsidiaries are required to make contributions to the retirement benefit schemes which are based on a certain percentage of the total salary of these employees and have no further obligation for post-retirement benefits. The contributions are charged to the income statement of the Group as they become payable in accordance with the rules of the schemes.

Borrowing costs

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

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

The functional currency of certain entities in the Group is currency other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the translation of foreign operations.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Estimation uncertainty

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

Impairment of non-financial assets

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

Income tax

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

Impairment of trade and other receivables

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

Useful lives and residual values of property, plant and equipment

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

5. OPERATING SEGMENT INFORMATION

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

Geographical information

Year ended 31 December 2007

	PRC	**Non-PRC**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers:			
Sales to external customers	192,520	56,676	249,196
Attributable to a discontinued operation	(46,335)	(54,146)	(100,481)
Revenue from continuing operations	146,185	2,530	148,715
Non-current assets	77,556	–	77,556

Year ended 31 December 2008

	PRC	**Non-PRC**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers:			
Sales to external customers	299,106	22,123	321,229
Attributable to a discontinued operation	(9,263)	(12,322)	(21,585)
Revenue from continuing operations	289,843	9,801	299,644
Non-current assets	84,647	–	84,647

Year ended 31 December 2009

	PRC	Non-PRC	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers:			
Sales to external customers	557,874	12,618	570,492
Attributable to a discontinued operation	–	–	–
Revenue from continuing operations	557,874	12,618	570,492
Non-current assets	135,116	–	135,116

The information of revenue from continuing operations is based on the location of the customers.

All of the non-current assets of the Group were located in the PRC during the Relevant Periods.

Information about a major customer

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue.

6. REVENUE, OTHER INCOME AND GAINS

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

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

		Year ended 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Sale of goods from continuing operations		148,715	299,644	570,492
Sale of goods from a discontinued operation	*13*	100,481	21,585	–
		249,196	321,229	570,492
Other income and gains				
Bank interest income		224	463	614
Government subsidies		124	682	1,202
Gain on disposal of subsidiaries	*28*	–	2,158	–
Others		–	5	163
		348	3,308	1,979

7. PROFIT BEFORE TAX

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

		Year ended 31 December		
		2007	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold		102,718	180,480	311,624
Depreciation	*15*	6,420	7,004	8,901
Amortization of prepaid land lease payments	*16*	102	98	98
Amortization of intangible assets	*17*	–	46	84
Research and development costs		7,256	13,125	34,030
Operating lease expenses*		1,580	275	331
Loss on disposal of items of property, plant and equipment		–	–	839
Auditors' remuneration		8	8	8
Employee benefit expense (including directors' remuneration): *	*9*			
Wages and salaries		15,056	7,462	10,739
Pension scheme contribution		1,363	557	559
Staff welfare expenses		1,097	665	950
		17,516	8,684	12,248
Foreign exchange differences, net		599	376	34
Bank interest income*		(224)	(463)	(614)
Gain on disposal of subsidiaries	*28*	–	(2,158)	–

* The disclosures presented include those amounts charged/(credited) in respect of the discontinued operation.

8. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans wholly repayable within five years	661	1,596	1,893
Interest on other loans	97	355	246
	758	1,951	2,139

9. DIRECTORS' REMUNERATION

Details of directors' remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Other emoluments:			
Salaries, allowances and benefits in kind	238	275	382
Pension scheme contributions	3	3	6
	241	278	388

Executive directors

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2007			
Executive directors:			
Lin Shengxiong	96	1	97
Lin Hongting	18	–	18
Cai Zhiguo	72	1	73
Zhang Hongwang	52	1	53
	238	3	241
Year ended 31 December 2008			
Executive directors:			
Lin Shengxiong	114	1	115
Lin Hongting	18	–	18
Zhang Hongwang	94	1	95
Huang Wanneng	49	1	50
	275	3	278
Year ended 31 December 2009			
Executive directors:			
Lin Shengxiong	148	2	150
Lin Hongting	24	–	24
Zhang Hongwang	120	2	122
Huang Wanneng	90	2	92
	382	6	388

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included three directors as at the end of each reporting period. Their remuneration details are set out in note 9 above. Details of the remuneration of the remaining highest paid employees for each of the Relevant Periods are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	98	121	265
Pension scheme contributions	2	2	5
	100	123	270

The remuneration of the highest paid, non-director employee fell within the range of nil to RMB250,000.

11. INCOME TAX

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

The income tax expenses of the Group for the Relevant Periods are analyzed as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China			
Charge for the year	3,568	13,858	31,620
Deferred *(note 25)*	–	1,455	1,726
Total tax charge for the year	3,568	15,313	33,346

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is subject to corporate income tax ("CIT") at the rate of 17.5% for the year ended 31 December 2007 and 16.5% for the years ended 31 December 2008 and 2009 on the estimated assessable profits arising in Hong Kong during the Relevant Periods. No provision of income tax has been made as Hong Kong Sijia had no taxable income during the Relevant Periods.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Fujian Sijia, Xiamen Grandsoo, Fujian Si Tai Di and Smile in Rain have been subject to CIT at the rate of 25% since 2008.

Fujian Sijia was registered as a foreign-invested enterprise on 25 September 2002. Engaged in manufacturing activities located at the Coastal Special Economic Zone in the PRC, Fujian Sijia is subject to a preferential corporate income tax rate of 24%. Fujian Sijia was subject to CIT at a rate of 25% for the years ended 31 December 2008 and 2009. Pursuant to the approval of the tax bureau, Fujian Sijia is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Fujian Sijia was 2004. Therefore, Fujian Sijia was subject to CIT at a reduced rate of 12% for the year ended 31 December 2007 and of 12.5% for the year ended 31 December 2008. Pursuant to the approval of the tax bureau, Fujian Sijia being a high-tech enterprise was levied at the reduced tax rate of 15% for the year ended 31 December 2009.

Xiamen Grandsoo was registered as a foreign-invested enterprise on 26 May 2006 and subject to CIT at a rate of 15% for the year ended 31 December 2007, 18% for the year ended 31 December 2008 and 20% for the year ended 31 December 2009. Pursuant to the approval of the tax bureau, Xiamen Grandsoo is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New Corporate Income Tax Law, a company is still able to enjoy the above mentioned tax holiday within a five-year transitional period from 1 January 2008. The company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy tax holiday at that time. Since Xiamen Grandsoo was under accumulative loss position and has not yet started to enjoy tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it makes profit in 2008. Therefore, Xiamen Grandsoo was exempted from CIT for the years ended 31 December 2007, 2008 and 2009.

Fujian Si Tai Di was registered as a foreign-invested enterprise on 5 December 2000 and subject to CIT at a rate of 24% for the year ended 31 December 2007 and 25% for the years ended 31 December 2008 and 2009.

Smile in Rain was registered as a foreign-invested enterprise on 24 January 2000 and subject to CIT at a rate of 24% for the year ended 31 December 2007 and 25% for the years ended 31 December 2008 and 2009.

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

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

	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax including profit from the discontinued operation	45,139	96,743	204,558
Tax at statutory tax rates of 33% for 2007 and 25% for 2008 and 2009 in Mainland China	14,896	24,186	51,139
Lower tax rate for specific province or enacted by local authority	(10,101)	(12,358)	(20,888)
Income not subject to tax	(12)	(210)	–
Expenses not deductible for tax	75	372	288
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	–	3,497	1,726
Tax losses not recognized	897	79	1,081
Tax charge at the Group's effective rate	5,755	15,566	33,346
Represented by:			
Tax charge attributable to the discontinued operation *(note 13)*	2,187	253	–
Tax charge attributable to continuing operations reported in the consolidated income statements	3,568	15,313	33,346
	5,755	15,566	33,346

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the Relevant Periods is based on the profit attributable to owners of the Company for each of the Relevant Periods and on the assumption that 600,000,000 shares of HK$0.001 each, representing the number of shares of the Company immediately after the Capitalization Issue as described in the paragraph headed "Statutory and General Information – Further Information about The Company – Written resolutions of all the Shareholders passed on 8 April 2010" as attached as Appendix V to the Prospectus but excluding any shares to be issued pursuant to the public offering, had been in issue throughout the Relevant Periods.

There were no potential dilutive ordinary shares in existence during the Relevant Periods.

13. DISCONTINUED OPERATION

On 21 December 2006, the Group decided to cease Fujian Sijia's raincoat and general protective clothing business although it was profit-making because it planned to focus its resources on other businesses with higher profit margin. The plan to sell its raincoat and general protective clothing business took more than a year to be finalized and implemented as the Group needs to finalize the disposal plans, negotiate with buyer and complete all required legal procedures before the completion of the disposal. On 31 May 2008, Smile in Rain (which by then was under the ownership and management of Bestide International Holding Limited ("Bestide Int'l") as disclosed in note 28) acquired Fujian Sijia's raincoat and general protective clothing business for a consideration of RMB2,146,000 with reference to its relevant net asset value immediately before the disposal. The purchase consideration was settled by Mr. Cai Zhiguo, the controlling shareholder of Bestide Int'l, in cash on the same date. As at 31 December 2007, final negotiations for the sale were in progress and the related assets for the raincoat and general protective clothing business were classified as a disposal group held for sale.

The results of the raincoat and general protective clothing business are presented below:

	Year ended 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
Revenue	100,481	21,585
Cost of sales	(83,123)	(19,160)
Expenses	(1,916)	(442)
Profit before tax from the discontinued operation	15,442	1,983
Income tax related to pre-tax profit	(2,187)	(253)
Profit for the year from the discontinued operation	13,255	1,730

The major classes of assets and liabilities related to the raincoat and general protective clothing business classified as held for sale are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Property, plant and equipment	2,430	–	–
Trade receivables	156	–	–
Inventories	8,038	–	–
Cash and cash equivalents	6,324	–	–
Assets classified as held for sale	16,948	–	–
Liabilities			
Trade and bills payables	(8,812)	–	–
Other payables and accruals	(1,187)	–	–
Tax payable	(273)	–	–
Liabilities directly associated with the assets classified as held for sale	(10,272)	–	–
Net assets directly associated with the disposal group	6,676	–	–

The total assets and liabilities of the disposed raincoat and general protective clothing business as at the date of disposal of 31 May 2008 amounted to RMB4,020,000 and RMB1,874,000, respectively.

The net cash flows incurred by the raincoat and general protective clothing business are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities	19,979	(3,121)	–
Investing activities	(19,654)	(3,203)	–
Net cash inflow/(outflow)	325	(6,324)	–

The following information is provided on the financial assets and financial liabilities of the discontinued operation as at the reporting date:

The aged analysis of the discontinued operation's trade receivables based on the invoice date was as follows:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
1 to 30 days	156	–	–

The above trade receivables were neither past due nor impaired and related to customers for whom there was no recent history of default.

The maturity profile of the discontinued operation's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

Year ended 31 December 2007

	On demand	**Less than 3 months**	**3 to 12 months**	**Over 12 months**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	(2,721)	(5,945)	(146)	(8,812)
Other payables and accruals	(1,187)	–	–	–	(1,187)
	(1,187)	(2,721)	(5,945)	(146)	(9,999)

14. DIVIDENDS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Dividends	–	29,080	–

The dividends of 2008 were approved by the shareholders on 31 December 2008.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007						
At 1 January 2007:						
Cost	16,191	46,033	884	1,846	7,165	72,119
Accumulated depreciation	(784)	(9,498)	(220)	(252)	–	(10,754)
Assets included in a discontinued operation *(note 13)*	–	2,645	–	–	–	2,645
Net carrying amount	15,407	39,180	664	1,594	7,165	64,010
At 1 January 2007, net of accumulated depreciation	15,407	39,180	664	1,594	7,165	64,010
Additions	–	727	62	1,731	14,135	16,655
Assets included in a discontinued operation *(note 13)*	–	(2,430)	–	–	–	(2,430)
Depreciation provided during the year	(871)	(4,986)	(162)	(401)	–	(6,420)
Transfers	10,628	7,893	–	–	(18,521)	–
At 31 December 2007, net of accumulated depreciation	25,164	40,384	564	2,924	2,779	71,815
At 31 December 2007:						
Cost	26,819	54,211	946	3,577	2,779	88,332
Accumulated depreciation	(1,655)	(13,827)	(382)	(653)	–	(16,517)
Net carrying amount	25,164	40,384	564	2,924	2,779	71,815

	Buildings	Plant and machinery	Leasehold improve-ment	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008							
At 1 January 2008:							
Cost	26,819	54,211	–	946	3,577	2,779	88,332
Accumulated depreciation	(1,655)	(13,827)	–	(382)	(653)	–	(16,517)
Assets included in a discontinued operation *(note 13)*	–	2,430	–	–	–	–	2,430
Net carrying amount	25,164	42,814	–	564	2,924	2,779	74,245
At 1 January 2008, net of accumulated depreciation	25,164	42,814	–	564	2,924	2,779	74,245
Additions	–	1,402	1,018	439	466	759	4,084
Disposal	–	(1,184)	–	(48)	(914)	–	(2,146)
Disposal of subsidiaries *(note 28)*	–	(1,783)	–	(15)	–	–	(1,798)
Depreciation provided during the year	(1,207)	(4,969)	(96)	(197)	(535)	–	(7,004)
At 31 December 2008, net of accumulated depreciation	23,957	36,280	922	743	1,941	3,538	67,381
At 31 December 2008:							
Cost	26,819	53,449	1,018	1,297	2,709	3,538	88,830
Accumulated depreciation	(2,862)	(17,169)	(96)	(554)	(768)	–	(21,449)
Net carrying amount	23,957	36,280	922	743	1,941	3,538	67,381

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

As at 31 December 2007, 2008 and 2009, certain of the Group's buildings and plant and machinery with aggregate net book values of RMB25,286,000, RMB16,594,000 and RMB25,275,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 24).

At 31 December 2007, 2008 and 2009, certificates of ownership in respect of certain buildings of the Group in the PRC with aggregate net book values of RMB15,623,000, RMB14,883,000 and RMB14,431,000, respectively, had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

16. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of year	5,189	5,693	5,595
Additions	606	–	–
Recognized during the year	(102)	(98)	(98)
Carrying amount at end of year	5,693	5,595	5,497
Current portion included in prepayments, deposits and other receivables	(96)	(96)	(96)
Non-current portion	5,597	5,499	5,401

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

As at 31 December 2007, 2008 and 2009, certain of the Group's leasehold land with aggregate carrying values of nil, nil and RMB4,475,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 24).

As at 31 December 2007, 2008 and 2009, certificates of ownership in respect of certain leasehold lands in the PRC with aggregate net book values of RMB1,024,000, RMB1,024,000 and RMB1,024,000, respectively, had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.

17. INTANGIBLE ASSETS

	Software	Patent	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2008			
Cost and accumulated amortization at 1 January 2007, 31 December 2007 and 1 January 2008	–	–	–
Additions	378	50	428
Amortization provided during the year	(44)	(2)	(46)
At 31 December 2008	334	48	382
At 31 December 2008:			
Cost	378	50	428
Accumulated amortization	(44)	(2)	(46)
Net carrying amount	334	48	382
31 December 2009			
Cost at 1 January 2009, net of accumulated amortization	334	48	382
Amortization provided during the year	(74)	(10)	(84)
At 31 December 2009	260	38	298
At 31 December 2009:			
Cost	378	50	428
Accumulated amortization	(118)	(12)	(130)
Net carrying amount	260	38	298

18. INVENTORIES

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	8,952	19,540	13,244
Work in progress	2,360	12,957	3,665
Finished goods	8,584	4,328	12,539
	19,896	36,825	29,448

19. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	30,266	45,462	86,364
Notes receivable	1,400	–	–
	31,666	45,462	86,364

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

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
1 to 30 days	16,816	25,127	44,124
31 to 60 days	8,144	11,263	36,709
61 to 90 days	4,185	1,583	5,445
91 to 360 days	1,906	7,455	86
Over 360 days	615	34	–
	31,666	45,462	86,364

The trade receivables included in the disposal group (note 13) of RMB156,000 were aged within 30 days as at 31 December 2007.

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	16,791	25,360	85,132
Less than 30 days past due	8,279	11,601	1,018
31 to 60 days past due	4,185	1,262	214
61 to 90 days past due	1,894	3,533	–
91 to 360 days past due	517	3,672	–
Over 360 days	–	34	–
	31,666	45,462	86,364

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

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	8,019	10,308	4,671
Prepayments	6,868	3,544	29,013
Prepaid expense	283	145	261
	15,170	13,997	33,945

21. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	30,340	87,612	184,987

At 31 December 2007, 2008 and 2009, the Group's cash and bank balances denominated in RMB were RMB30,210,000, RMB87,601,000 and RMB184,407,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

22. TRADE AND BILLS PAYABLES

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	10,907	10,457	13,930
Bills payable	33,419	39,645	31,436
	44,326	50,102	45,366

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	16,225	14,515	19,061
1 to 2 months	11,292	13,579	8,949
2 to 3 months	1,655	7,213	5,821
3 to 6 months	14,842	14,761	11,535
6 to 12 months	290	19	–
12 to 24 months	22	15	–
	44,326	50,102	45,366

The trade and bills payables included in the disposal group (note 13) of RMB2,721,000 were aged within three months as at 31 December 2007 and the remaining balance of RMB6,091,000 was aged over three months.

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

23. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	6,732	610	5,851
Advances from customers	4,546	7,581	2,593
Taxes other than CIT	694	1,833	6,750
Payroll payable	482	982	1,444
Accrued liabilities	193	5	125
	12,647	11,011	16,763

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

24. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	As at 31 December		
			2007	2008	2009
	(%)		*RMB'000*	*RMB'000*	*RMB'000*
Current					
Bank loans – secured *	6.696-8.964	Within 1 year	11,317	19,000	–
Bank loans – secured *	5.045-6.372	Within 1 year	–	–	35,000
Current portion of long term bank loans – secured *	7.83		–	500	500
			11,317	19,500	35,500
Non-current					
Bank loans – secured *	7.83	2017.9.29	4,375	3,875	3,375
			15,692	23,375	38,875
Repayable:					
Within one year or on demand			11,317	19,500	35,500
In the second year			500	500	500
In the third to fifth years, inclusive			1,500	1,500	1,500
Beyond five years			2,375	1,875	1,375
			15,692	23,375	38,875

Notes:

* The Group's bank borrowings are secured by:

(i) mortgages over the Group's buildings and plant and machinery situated in the PRC with aggregate net book values of RMB25,286,000, RMB16,594,000 and RMB25,275,000 as at 31 December 2007, 2008 and 2009, respectively (note 15);

(ii) mortgages over the Group's leasehold lands situated in the PRC with an aggregate carrying value of nil, nil and RMB4,475,000 as at 31 December 2007, 2008 and 2009, respectively (note 16); and

(iii) guarantees by a third party, Fujian Shunfan Financing and Guarantee Co., Ltd. ("Shun Fan") of RMB45,000,000 and RMB45,000,000 as at 31 December 2007 and 2008, respectively. Fujian Shunfan is a company incorporated in the PRC providing guarantee and security to assist enterprises in the PRC to obtain loans from banks, which is beneficially owned by an independent third party, which equity interests was held in the name of and in trust for the said independent third party by (i) Mr. Lin Rong Feng (brother-in-law of Mr. Lin) and (ii) a niece of Mr. Lin (who is also the wife of Mr. Zhang Hongwang) as to 50% each. The guarantees have been released on 22 October 2009.

The carrying amounts of the Group's borrowings approximate to their fair values.

25. DEFERRED TAX

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

	Withholding tax on the distributable profits
	RMB'000
At 1 January 2007, 31 December 2007, 1 January 2008	–
Deferred tax charged to the consolidated income statements during the year *(note 11)*	1,455
At 31 December 2008 and 1 January 2009	1,455
Deferred tax charged to the consolidated income statements during the year *(note 11)*	1,726
At 31 December 2009	3,181

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

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

26. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on 7 October 2009, with authorized share capital of HK$380,000 divided into 380,000,000 shares of HK$0.001 each, with one ordinary share issued and held by Hopeland International. Further details of the Company's share capital are set out in Appendix V to the Prospectus.

For the purpose of this report, the issued capital of the Group as at 31 December 2007, 2008 and 2009 represented the issued capital of the Company.

On 7 October 2009, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorized share capital of HK$380,000 divided into 380,000,000 shares with the par value of HK$0.001. On the same day, one subscriber share with the par value of HK$0.001 was transferred to Hopeland International and 9,999 shares with par value of HK$0.001 were further allotted and issued to Hopeland International.

On 15 December 2009, Hopeland International and the Company entered into a share purchase agreement, pursuant to which the entire interest in the share capital of China Grandsoo was transferred from Hopeland International to the Company. In consideration of the said transfer, the Company allotted and issued 99,990,000 shares with a par value of HK$0.001 each, credited as fully paid, to Hopeland International.

27. RESERVES

	As at 31 December		
	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*
Capital surplus/share premium	–	4,366	40,158
Statutory surplus reserve	7,511	13,930	31,745
Capital reserve	12,972	28,917	28,994
Translation of foreign operations	1,993	2,698	2,721
Retained earnings	68,130	93,897	247,294
	90,606	143,808	350,912

Capital surplus/share premium

On 23 January 2008, 30 January 2008 and 23 February 2008, HK$10,000,000 registered capital of Fujian Sijia was issued at an amount of RMB15,000,000 to Kailai Trading, Jutai Trading, Sanfang Trading and YueHui Investment.

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

Statutory surplus reserve

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

Xiamen Grandsoo, Fujian Sijia, Fujian Si Tai Di and Smile in Rain were established as foreign invested enterprises in the PRC and therefore are subject to the above mandated restrictions on distributable profits.

Capital Reserve

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

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

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

Translation of foreign operations

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

28. DISPOSAL OF SUBSIDIARIES

In January 2008, the Group disposed of its direct or indirect interests in Fujian Si Tai Di and Smile in Rain to Bestide Int'l. The consideration was settled by cash by Bestide Int'l. The payment was used to reduce the amount due to Mr. Lin by the Group. The two disposed subsidiaries were classified as continuing operations as they had remained dormant with no revenue during the Relevant Periods before the disposal. All assets and liabilities of Fujian Si Tai Di and Smile in Rain, though in nature related to their respective raincoat and general protective clothing business, are not classified as part of the discontinued raincoat and general protective clothing business of Fujian Sijia (as disclosed in note 13) since they did not fulfill the requirement of HKFRS 5, and are not related to the Group's continuing Reinforced Material and End Product business. Please refer to pages 106 to 108 of the History, Reorganization and Group Structure section of the Prospectus for further details. The related assets and liabilities of the disposed subsidiaries as of the disposal date are as follow:

	31 January 2008 *RMB'000*
Net assets disposed of:	
Property, plant and equipment	1,798
Cash and bank balance	45
Inventories	1,722
Prepayments for raw material and equipment	6,763
Other payables and accruals	(1,956)
Capital reserve	277
	8,649
Gain on disposal of subsidiaries	2,158
	10,807

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	31 January 2008 *RMB'000*
Cash consideration	–
Cash and bank balances disposed of	(45)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(45)

29. CONTINGENT LIABILITIES

As at the end of each reporting period, the Group had no significant contingent liabilities.

30. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by the assets of the Group are included in note 24 to the Financial Information.

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	60	121	224
In the second to fifth years, inclusive	111	76	61
	171	197	285

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of each reporting period:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Plant and machinery	474	–	50,000

33. RELATED PARTY TRANSACTIONS

(a) The Group had no material transactions with related parties during the Relevant Periods.

(b) Outstanding balances with related parties:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Due from a related party:			
Lin Jinxiang	2,820	–	–
	2,820	–	–
Due to a related party:			
Xiamen Daxiang Protective Sheet Co., Ltd.	(2,300)	–	(4,451)
	(2,300)	–	(4,451)

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

(c) Outstanding balances with directors:

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Due from directors:			
Lin Shengxiong	–	500	–
Lin Hongting	1,281	–	–
	1,281	500	–
Due to directors:			
Lin Shengxiong	(18,850)	(35,887)	–
Lin Hongting	–	–	(624)
	(18,850)	(35,887)	(624)

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

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

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	463	589	969
Pension scheme contributions	8	8	22
Total compensation paid to key management personnel	471	597	991

Further details of directors' remuneration are included in note 9 to the Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

All the Group's financial assets as at the end of each reporting period, including trade and notes receivables, deposits and other receivables, amounts due from directors and related parties and cash and cash equivalents are categorized as loans and receivables.

Financial liabilities

All the Group's financial liabilities as at the end of each reporting period, including trade and bills payables, other payables and accruals, amounts due to directors and a related party and interest-bearing bank borrowings are categorized as financial liabilities at amortized cost.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 31 December 2009 were at fixed interest rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 22.7%, 6.9% and 1.4% of the Group's sales for the years ended 31 December 2007, 2008 and 2009, respectively, were denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 100% of costs for the Relevant Periods were denominated in the units' functional currency. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax**
	%	*RMB'000*
Year ended 31 December 2007		
If RMB weakens against United States dollar	5	2,825
If RMB strengthens against United States dollar	(5)	(2,825)
If RMB weakens against Hong Kong dollar	5	9
If RMB strengthens against Hong Kong dollar	(5)	(9)
Year ended 31 December 2008		
If RMB weakens against United States dollar	5	1,056
If RMB strengthens against United States dollar	(5)	(1,056)
If RMB weakens against Hong Kong dollar	5	40
If RMB strengthens against Hong Kong dollar	(5)	(40)
If RMB weakens against Euro dollar	5	10
If RMB strengthens against Euro dollar	(5)	(10)
Eight months ended 31 December 2009		
If RMB weakens against United States dollar	5	9
If RMB strengthens against United States dollar	(5)	(9)
If RMB weakens against Hong Kong dollar	5	190
If RMB strengthens against Hong Kong dollar	(5)	(190)
If RMB weakens against Euro dollar	5	–
If RMB strengthens against Euro dollar	(5)	–

Credit risk

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

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

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

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

Liquidity risk

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

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

	31 December 2007					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	25,450	18,876	–	–	44,326
Other payables and accruals	12,647	–	–	–	–	12,647
Interest-bearing bank borrowings	–	1,867	9,450	2,000	2,375	15,692
Due to directors	18,850	–	–	–	–	18,850
Due to a related party	2,300	–	–	–	–	2,300
	33,797	27,317	28,326	2,000	2,375	93,815

	31 December 2008					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	34,703	15,399	–	–	50,102
Other payables and accruals	11,011	–	–	–	–	11,011
Interest-bearing bank borrowings	–	4,500	15,000	2,000	1,875	23,375
Due to directors	35,887	–	–	–	–	35,887
	46,898	39,203	30,399	2,000	1,875	120,375

	31 December 2009					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	3,236	34,958	7,172	–	–	45,366
Other payables and accruals	7,671	9,092	–	–	–	16,763
Interest-bearing bank borrowings	–	1,525	33,975	2,000	1,375	38,875
Due to directors	624	–	–	–	–	624
Due to a related party	4,451	–	–	–	–	4,451
	15,982	45,575	41,147	2,000	1,375	106,079

Capital management

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

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

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

	As at 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	44,326	50,102	45,366
Other payables and accruals	12,647	11,011	16,763
Interest-bearing bank borrowings	15,692	23,375	38,875
Due to directors	18,850	35,887	624
Due to a related party	2,300	–	4,451
Less: Cash and cash equivalents	(30,340)	(87,612)	(184,987)
Net debt/(asset)	63,475	32,763	(78,908)
Equity attributable to owners of the Company	90,694	143,896	351,000
Capital and net debt	154,169	176,659	272,092
Gearing ratio	41%	19%	(29%)

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong