# WAI CHUN MINING INDUSTRY GROUP COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 0660)

# ANNUAL REPORT 2010

# CONTENTS

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Lam Ching Kui *(Chairman)*
Guo Qing Hua *(Chief Executive Officer)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Chun Wai, Tony
Shaw Lut, Leonardo
Wong Wai Man, Raymond

## AUTHORISED REPRESENTATIVES

Lam Ching Kui
Guo Qing Hua

## COMPANY SECRETARY

Yu Man To, Gerald
*B.Bus, MBA, CPA (Aust.), FCPA*

## AUDIT COMMITTEE

Chan Chun Wai, Tony *(Chairman)*
Shaw Lut, Leonardo
Wong Wai Man, Raymond

## REMUNERATION COMMITTEE

Wong Wai Man, Raymond *(Chairman)*
Chan Chun Wai, Tony
Shaw Lut, Leonardo
Guo Qing Hua

## REGISTERED OFFICE

Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 4917-4932
49/F., Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

## AUDITORS

HLM & Co.
*Certified Public Accountants*
Room 305
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

## REGISTRAR IN HONG KONG

Union Registrars Limited
18th Floor
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

## PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited

## STOCK CODE

0660

## COMPANY WEBSITE

www.0660.hk

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Wai Chun Mining Industry Group Company Limited (the "Company"). I would like to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

## FINANCIAL REVIEW

### Financial Performance

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$284,128,000, representing a significant increase of approximately 20.6 times when compared to 2009. The increase in turnover is attributable to an increase in demand from overseas consumers from the footwear business and contribution from the modified starch and other biochemical ("Modified Starch") business acquired in 2010. The Group recorded gross profit and gross profit margin of approximately HK$33,768,000 and 11.9% respectively, representing a significant increase of approximately 108.3 times and approximately 5 times respectively when compared to 2009. Operating expenses increased by 1.8 times from approximately HK$26,091,000 recorded in 2009 to approximately HK$47,188,000 in 2010. The increase is mainly attributable to the modified starch and other biochemical business acquired in 2010.

During the year, the Group recorded a loss on disposal of held for trading investments of approximately HK$2,054,000 and a gain on disposal of subsidiaries of approximately HK$40,809,000.

Loss attributable to shareholders of the Company reduced significantly from approximately HK$22,743,000 in 2009 to a profit of approximately HK$20,305,000 this year.

#### Footwear Business

The footwear business has improved significantly when compared to that of 2009. The Group recorded a turnover of HK$33,203,000 and a segment loss of HK$203,000, a significant increase from the turnover of approximately HK$13,137,000 and a segmental loss of approximately HK$16,977,000 recorded in 2009. This is mainly attributable in the increase in overseas demand.

#### Modified Starch and Other Biochemical Business

Newly acquired in 2010, the Modified Starch business contributed approximately HK$250,925,000 and approximately HK$9,247,000 to the Group's turnover and segment results respectively. Although the business made a positive contribution to the results of the Group for the year ended 31 December 2010, the net profit after tax of the Modified Starch business was below the budget due to the slower than expected start up of the new factory.

### Financial Resources and Position

As at 31 December 2010, total borrowings amounted to approximately HK$129,844,000, representing an increase of 13.5% compared to 2009. All borrowings of the Group relate to the Modified Starch business as the outstanding borrowings brought forward from 2009 were either repaid or belong to those subsidiaries disposed of during the year. All borrowings are denominated in Renminbi and bear interest at floating rates except bank overdraft which is at prime lending interest rate.

Cash and cash equivalents amounted to approximately HK$93,479,000 as at 31 December 2010 which are mostly denominated in Hong Kong Dollars and Renminbi. As the Group's businesses are conducted in Hong Kong and the Peoples' Republic of China ("PRC"), therefore the Group does not expect to be exposed to any material foreign exchange risks.

Bank deposits of approximately HK$36,772,000 have been pledged to secure banking facilities granted to the Group. The Group does not have any material contingent liabilities as at 31 December 2010.

The Group ended the year with a current ratio of 1.1 times and a gearing ratio (net debt to total assets) of 11.6%.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2010.

### Open Offer

In February 2010, the Company completed an open offer with an assured allotment of one offer share at HK$0.03 per share for every 5 existing shares held. The Company issued 2,575,780,896 shares under the open offer raising net proceeds of approximately HK$76.2 million. The net proceeds were used to: (i) pay the consideration for the acquisition of the 51% equity interest in Weifang Century-Light Biology Science Company Limited and its subsidiaries (collectively "Weifang Century-Light") amounting to approximately HK$11.7 million; (ii) partially reduce the amount due to ultimate holding company amounting to approximately HK$41 million and (iii) the remaining balance of approximately HK$23.5 million as general working capital.

## BUSINESS REVIEW

The Group is principally engaged in the trading, manufacturing and exporting of athletic and athlete-style footwear, as well as the manufacturing of working shoes, safety shoes, golf shoes, and other functional footwear and the manufacturing and sale of modified starch and other biochemical products.

The global economy has improved during the year, stimulating overseas demand for consumer goods such as footwear products. Orders have been increasing steadily during the year and the Group expects this trend to continue in 2011.

The acquisition of Weifeng Century-Light was completed at the beginning of the year. Weifang Century-Light is principally engaged in the selling and manufacturing of modified starch and other biochemical products (變性澱粉及其他生化產品) in the PRC. Pursuant to the agreement dated 8 December 2009 entered into between Mr. Gong Weifeng ("Mr. Gong") and Wai Chun Industrial (Hong Kong) Limited ("WCIL"), a wholly owned subsidiary of the Company, in relation to the acquisition by WCIL of the 51% equity interests in Weifang Century-Light (the "Acquisition"), the Company and Mr. Gong agreed that in the event the aggregate net profit after tax of Weifang Century-Light for the year ended 31 December 2010 is less than RMB8 million, Mr. Gong is obliged to buy back the 51% equity interests in Weifang Century-Light for a consideration of RMB10.3 million, which is the same consideration paid for by the Company in respect of the Acquisition. Although the results of Weifeng Century-Light is satisfactory, due to a slower than expected start up of the new factory, the net profit after tax of Weifang Century-Light for the year ended 31 December 2010 was short of the RMB8 million target. The Company is currently assessing the business outlook and prospect with Mr. Gong and in accordance to the Acquisition agreement, the Company has 60 days from the date on which the audited results of the Company for the year ended 31 December 2010 is published, for Mr. Gong to issue the notice to repurchase Weifeng Century-Light.

## Disposal of Nority

During the year, the Company disposed of its entire interest in Nority Limited ("Nority"), a 65% owned subsidiary of the Company to an independent third party. Nority was principally engaged in the manufacturing, sales and exporting of shoes. The Directors believe that the sale of Nority would allow the Group to reallocate its resources to the Group's other shoes manufacturing and trading entities.

## Memorandum of Understanding

On 10 June 2010, the Company and its 62.51% controlling shareholder, Chinese Success Limited, entered into a non-legally binding memorandum of understanding ("MOU") with 中鐵資源集團有限公司 (China Railway Resources Company Limited) ("CRR"), a member company of China Railway Group Limited, a joint stock limited company incorporated in the PRC, the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively and 中國鐵路(香港)工程有限公司(China Railway (Hong Kong) Engineering Limited), a wholly owned subsidiary of CRR. Please refer to the announcement dated 14 July 2010 issued by the Company for details of the MOU. However discussions on the possible cooperation were terminated on 23 November 2010.

On 20 November 2010, the Company entered into the Heads of Agreement ("HOA") with 廣西有色金屬集團有限公司 (Guangxi Non-ferrous Metals Group Company Limited) and 廣西新思迪投資貿易有限公司 (Guangxi Sincerity Investments & Trading Company Limited) together the "Guangxi Parties") in respect of the possible acquisitions of (i) 74% interest in a manganese mine and 100% interest in a trading company in South Africa; and (ii) the entire interest in two iron mines in the Kingdom of Cambodia. However the HOA was terminated on 11 March 2011, as there were uncertainties in relation to the reorganisation and compliance with the relevant laws and regulations and the Company and the Guangxi Parties were unable to reach an ultimate agreement on the final structure and terms of definitive agreements. Please refer to the announcements dated 24 November 2010 and 11 March 2011 issued by the Company for details of the HOA and the termination agreement.

## Prospects

The Company believes that the worst of the financial tsunami is now behind us and the global economy would continue to improve, restoring consumer confidence thus stimulating overseas demand for consumer goods such as footwear products. Due to the continued increase in food consumption and animal feed demand in developing countries, the Group expects to experience substantial growth in sales of modified starch, biochemical products and animal feed addictives. After the completion to the new factory and the installation of new machineries, the production rate has increased significantly which enable Weifang Century-Light to achieve a higher profit margin.

In order to maximize profitability and returns to the Company and the shareholders in the long run, the Company shall continue to seek new opportunities to expand its existing businesses or diversify into other industries.

**Lam Ching Kui**
*Chairman*

Hong Kong, 22 March 2011

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

Mr. Lam Ching Kui, aged 52, has over 18 years of experience in project investments and securities investments. Mr. Lam has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong. He has made investments in listed securities and renewable energy. Mr. Lam is an indirect substantial shareholder of the Company and has been the Chairman and an Executive Director of the Company since December 2007. Mr. Lam is responsible for the overall strategic planning of the Group. Mr. Lam is also the chairman and an executive director of Wai Chun Group Holdings Limited ("Wai Chun Group"), a public listed company in Hong Kong.

Mr. Guo Qing Hua, aged 48, graduated from Department of Automation and Computer Science of Huazhong Industrial College (presently known as Huazhong University of Science and Technology) in 1983 and graduated from the postgraduate study of World Economy of College of Economics of Hubei University in 2002. Mr. Guo has an Executive Master of Business Administration degree from the Huazhong University of Science and Technology. He has more than 20 years experience in credit management and information technology consulting in the PRC. Mr. Guo is the Chief Executive Officer and has been an Executive Director of the Company since February 2009. Mr. Guo is also the chief executive officer and an executive director of Wai Chun Group.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tony Chan Chun Wai, aged 39, is a Certified Public Accountant (Practicing) of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He is a director in a CPA practice. He has extensive experience in audit assurance and business advisory services with clients operating in a variety of industries in both Hong Kong and the PRC. Moreover, Mr. Chan also has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisition as well as corporate finance. Before commencing his own practice, Mr. Chan has worked in major international accounting firms and a listed company. Mr. Chan is an independent non-executive director of Hans Energy Company Limited, Oriental City Group Holdings Limited and Honbridge Holdings Limited, whose shares are listed on the Stock Exchange. He is also an independent non-executive director of China Nutrifruit Group Limited, a company listed in NYSE AMEX. Mr. Chan has been an Independent Non-executive Director of the Company since May 2007.

Mr. Shaw Lut, Leonardo, aged 45, is the deputy head of 華頓綜合經濟研究所 (Huadun Economic Institute), the director of 行政及公務人員研修基金 (Administrator and Official Study Fund), the vice director of 國務院發展研究中心東方公共管理綜合研究所專家委員會 (the Expert Committee of the Eastern Public Management Institute of the Development Research Centre of State Council). Mr. Shaw graduated from Shanghai Fudan University and was a teacher and researcher at Fudan University. Mr. Shaw is currently a committee member of All-China Youth Federation, the deputy chairman of Beijing United Youth Association and the deputy chairman of Internet Professional Association, Hong Kong. Mr. Shaw has been an Independent Non-executive Director of the Company since February 2007. Mr. Shaw is also an independent non-executive director of Wai Chun Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Wong Wai Man, Raymond, aged 60, holds a Doctor's degree in Business Administration in the University of Newcastle, Australia. He also holds two Bachelor degrees of Laws in the PRC and UK respectively and has been awarded five Master degrees in Comparative Law, Chinese Laws, Management, Information Systems and Business Administration from universities in U.K., Hong Kong and the PRC. He has served the Immigration Department of the Hong Kong Special Administrative Region for over 35 years. He joined the Department in May 1972 and was the Assistant Director of the Immigration Department in charge of development and management of information systems and related matters from 2002 till October 2007 when he retired. He was also the Chairman of the IT Division of the Hong Kong Institution of Engineers, 2006/07session. He has been the part-time lecturer at the Chinese University of Hong Kong since 1998 and the Visiting Professor of the Jiaotung University in Shanghai, the PRC, since March 2007. Mr. Wong has been an Independent Non-executive Director of the Company since November 2009.

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding and the principal activities of its subsidiaries are set out in note 41 to the consolidated financial statements. There were no significant changes in the nature of the Company's principal activities during the year. Subsidiaries that engage in the manufacture and sale of modified starch and other biochemical products were acquired during the year.

## RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the financial statements on pages 25 to 89.

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

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity set out on page 29.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2010 is set out on page 90.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

## DIRECTORS

### Executive Directors

Mr. Lam Ching Kui *(Chairman)*
Mr. Guo Qing Hua *(Chief Executive Officer)*

### Independent Non-executive Directors

Mr. Chan Chun Wai, Tony
Mr. Shaw Lut, Leonardo
Mr. Wong Wai Man, Raymond

The biographical details of the Directors of the Company are set out on pages 6 to 7 of this Annual Report.

In accordance with Article 99 of the Articles of Association of the Company, Mr. Lam Ching Kui and Mr. Guo Qing Hua shall retire from office by rotation at the forthcoming Annual General Meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent.

### Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for a term of not more than three years commencing from their date of appointment, which continues thereafter until terminated by either party giving not less than one months' notice in writing to the other party.

Each of the Independent Non-executive Directors has entered into a service agreement with the Company for a term of two years from their date of appointment, which can be terminated by either party giving not less than one month notice in writing to the other party. Each of the Independent Non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Company's Articles of Association.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' Remuneration

Details of emoluments of the Directors are set out in Note 13 to the financial statements.

All the current Independent Non-executive Directors are entitled to HK$120,000 per annum as directors' fee (without any bonus payment).

The Directors' fees are subject to shareholders' approval at the AGM. Other emoluments are determined by the Company's Board of Directors with reference to the recommendations from the Remuneration Committee taking into account the directors' duties, responsibilities and performance and the results of the Group.

## Interests in Contracts

Other than as disclosed in note 37 to the financial statements, there are no contract of significance to which the Company, its holding company, fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Competing Business

None of the Directors had any interests in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, during the year and up to the date of this report.

## Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2010, the interests and short positions of the Directors and chief executive in the shares of the Company (the "Shares") and underlying shares of the Company or any of, its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

## Long Positions

| Name of Director | Capacity | Number of Shares Held | Approximate percentage of shareholding |
|---|---|---|---|
| Lam Ching Kui | Interests of controlled corporations | 9,660,064,320 | 62.51% |

Mr. Lam Ching Kui is the beneficial owner of Chinese Success Limited, the major shareholder holding 62.51% of the issued share capital of the Company.

Save as disclosed above, as at 31 December 2010, none of the Directors of the Company had any interests or short positions in the Shares or underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares

At no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

## Substantial Shareholders

As at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

| Name of Shareholder | Capacity | Number of Shares Held | Approximate percentage of shareholding |
|---|---|---|---|
| Chinese Success Limited | Beneficial owner | 9,660,064,320 | 62.51% |
| Wai Chun Investment Fund | Interests of controlled corporations | 9,660,064,320 | 62.51% |
| Onward Global Investments Limited | Beneficial owner | 1,286,350,000 | 8.32% |
| Spring Garden Investments Limited | Beneficial owner | 1,286,400,000 | 8.32% |

(1) Mr. Lam Ching Kui is the beneficial owner of Chinese Success Limited, the major shareholder holding 62.51% of the issued share capital of the Company.

(2) Mr. Pan Guoxin is the beneficial owner of Spring Garden Investments Limited, the substantial shareholder holding 8.32% of the issued share capital of the Company.

(3) Mr. Liu Wei is the beneficial owner of Onward Global Investments Limited, the substantial shareholder holding 8.32% of the issued share capital of the Company.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2010, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

## Short positions in Shares and underlying Shares in the Company

As at 31 December 2010, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

## Other Persons

As at 31 December 2010, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

## Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company on 10 June 2003 (the "SOS"), the Company may, at their discretion, invite full-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 10 June 2003.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of approval of the SOS without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 28 days of the date of grant, upon payment of HK$10.00 per grant.

As at 31 December 2010, no share option was granted under the SOS and no share option was lapsed or cancelled during the year.

## CONNECTED TRANSACTION

On 8 December 2008, the Group entered into an Administrative Services Agreement with Wai Chun Group, a listed company in Hong Kong, pursuant to which Wai Chun Group agreed to reimburse the Group the costs incurred in respect of the administrative services provided in the premises at Rooms 4917-4932, 49th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong for a period of 22 months commencing 1 September 2008. The Administrative Services Agreement ended on 30 June 2010.

Mr. Lam Ching Kui indirectly owns and controls approximately 62.51% and 74.2% of the issued capital of the Group and Wai Chun Group respectively. Mr. Lam Ching Kui, being a director and the ultimate controlling shareholder (as defined in the Listing Rules) of both the Group and Wai Chun Group and therefore, the entering into of the Administrative Services Agreement between the Group and Wai Chun Group constitutes a continuing connected transaction for each of the Group and Wai Chun Group which are subject to the reporting and announcement requirements but are exempted from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the year ended 31 December 2010 and prior to the expiry of the Administrative Services Agreement on 30 June 2010, the Group received total administrative services income of HK$1,200,000 from Wai Chun Group. Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed the above continuing connected transaction and in their opinion, the transaction is:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has also confirmed that a letter pursuant to Rule 14A.38 of the Listing Rules has been issued to the Board by the auditor of the Company.

## PUBLIC FLOAT

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

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 24.08% of total turnover and sales to the largest customer accounted for approximately 8.84%. The five largest suppliers of the Group in aggregate accounted for about 53.01% of its operating costs for the year. Purchases from the largest supplier accounted for about 45.09% of its operating costs. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's Share capital) had any interest in the Group's five largest customers or suppliers.

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

## EMOLUMENT POLICY

As at 31 December 2010, the Group had a total of 78 employees, the majority of whom are situated in the PRC. In addition to offering competitive remuneration packages to employee discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 38 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this report.

## CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

## AUDITOR

SHINEWING (HK) CPA Limited acted as auditor of the Company for the year 31 December 2009. Subsequent to SHINEWING (HK) CPA Limited resignation in 2010, Messrs. HLM & Co. was appointed as auditor of the Company for the year ended 31 December 2010. A resolution will be submitted to the forthcoming AGM to re-appoint HLM & Co. as the auditor of the Company.

On behalf of the Board

**Lam Ching Kui**
*Chairman*

Hong Kong, 22 March 2011

# CORPORATE GOVERNANCE REPORT

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company complied with the code provisions as set out in the Code throughout the year ended 31 December 2010 except that the Chairman of the Board did not attend and chair the 2010 annual general meeting of the Company as stipulated under code E1.2. The Chairman was away on a business trip on that day.

## BOARD OF DIRECTORS

### Composition of the Board

As at the date of this Annual Report, the Board comprises five members as follows:

### Executive Directors

Mr. Lam Ching Kui *(Chairman)*
Mr. Guo Qing Hua *(Chief Executive Officer)*

### Independent Non-executive Directors

Mr. Chan Chun Wai, Tony
Mr. Shaw Lut, Leonardo
Mr. Wong Wai Man, Raymond

### Responsibilities

The Board has a balance of skill and experience and a balanced composition of Executives and Non-executive Directors and is responsible for oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company.

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

With the support of the Chief Executive Officer and the management team, the Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

The Chief Executive Officer is responsible for day-to-day management of the Company's operations, financial management and the effective implementation of the overall strategies and initiatives adopted by the Board.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

During the year ended 31 December 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Each Independent Non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

## Appointment/re-election of removal of directors

The appointment of all the directors, including Independent Non-executive Directors, is for a specific term of not more than three years from date of appointment. The Articles of Association provide for the retirement of Directors by rotation and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting following the appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Company's Articles of Association. The Board is responsible for the reviewing the Board composition, monitoring the appointment of Directors and assessing the independence of the Independent Non-executive Directors.

## Board Process

During the year ended 31 December 2010, the Board held 4 regular board meetings. In addition, board meetings are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are usually attended by executive directors only. The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

| Name of Director | Number of meetings attended/held |
|---|---|
| **Executive Directors** | |
| Mr. Lam Ching Kui *(Chairman)* | 4/4 |
| Mr. Guo Qing Hua *(Chief Executive Officer)* | 4/4 |
| **Independent Non-executive Directors** | |
| Mr. Shaw Lut, Leonardo | 4/4 |
| Mr. Chan Chun Wai, Tony | 4/4 |
| Mr. Wong Wai Man, Raymond | 4/4 |

Directors are provided with relevant information to make informed decisions. The Board and each director have separate and independent access to the Company's senior management for information and making enquires if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

# BOARD COMMITTEES

The Company has set up a number of committees of the Board, including the Remuneration Committee and the Audit Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

## Remuneration Committee

The Remuneration Committee comprises one Executive Director and three Independent Non-executive Directors.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for Non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration.

During the year ended 31 December 2010, the Remuneration Committee held 1 meeting, with attendance record as follows:

| Name of Director | Number of meetings attended/held |
|---|---|
| Mr. Chan Chun Wai, Tony | 1/1 |
| Mr. Guo Qing Hua *(Chief Executive Officer)* | 1/1 |
| Mr. Shaw Lut, Leonardo | 1/1 |
| Mr. Wong Wai Man, Raymond | 1/1 |

During the year under review, the Remuneration Committee reviewed matters relating to remuneration packages of directors and senior management.

## Audit Committee

The Audit Committee comprises Mr. Chan Chun Wai, Tony, Mr. Shaw Lut, Leonardo and Mr. Wong Wai Man, Raymond, all of whom are Independent Non-executive Directors.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and reviews the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

During the year ended 31 December 2010, the Audit Committee held 2 meetings, with attendance record as follows:

| Name of Director | Number of meetings attended/held |
|---|---|
| Mr. Chan Chun Wai, Tony | 2/2 |
| Mr. Shaw Lut, Leonardo | 2/2 |
| Mr. Wong Wai Man, Raymond | 2/2 |

At the meetings, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2009 and the interim report for the six months ended 30 June 2010 respectively. The Audit Committee has also reviewed the Group accounting principles and practices, Listing Rules and statutory compliance, internal controls and financial reporting matters. The Committee is satisfied with their review of the independence of the Auditors and their audit process for 2010 audit and recommended the Board their re-appointment in 2011 at the forthcoming Annual General Meeting.

The Group's results and financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2010, following specific enquiry made by the Company, confirm that they have complied with the required standard set out in the Model Code throughout the year of 2010.

## EXTERNAL AUDITORS AND THEIR REMUNERATION

HLM & Co. were first appointed as auditors of the Company in 2010 upon the retirement of SHINEWING (HK) CPA Limited.

HLM & Co. retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM & Co. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

The external auditors of the Company is HLM & Co. provided services in respect of the audit of Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2010. HLM & Co. also reviewed the 2010 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by HLM & Co. in respect of audit services for the year ended 31 December 2010 amounted to HK$500,000.

| Description of non-audit services performed by HLM & Co. | Fee Paid HK$ |
|---|---|
| (1) Interim review of financial statements of the Company and its subsidiaries for the six months ended 30 June 2010 | 128,000 |

## DIRECTORS' RESPONSIBILITY IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge that their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Independent Auditors' Report on pages 23 to 24 of this Annual Report.

## INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorized use of disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliances with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

The Directors acknowledge their responsibilities to ensure a sound and effective internal control system designed to facilitate efficient operations and to provide reasonable assurance in the financial reporting and compliance with applicable laws and regulations.

During the internal control system review performed in 2010, the Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function. There are no material internal controls deficiencies that may affect the shareholders of the Company have come to the attention of the Audit Committee or the Board. They considered that the system had effectively safeguarded the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

## SHAREHOLDERS COMMUNICATION

The Directors are aware of the importance of maintaining good relations and communications with shareholders. The Company uses a range of communication tools, such as the Annual General Meeting (the "AGM"), the annual report, the interim report, various notices and announcements and circulars to ensure its shareholders are kept well informed of key business imperatives. The AGM allows the Directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

To further promote effective communication, the corporate website is maintained to disseminated Company's announcements and other relevant financial and non-financial information electronically on a timely basis through the website of the Company, www.0660.hk and the Stock Exchange, www.hkex.com.hk.

恒健會計師行
HLM & Co.
Certified Public Accountants

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**TO THE SHAREHOLDERS OF WAI CHUN MINING INDUSTRY GROUP COMPANY LIMITED**
**偉俊礦業集團有限公司**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Wai Chun Mining Industry Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 89, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## OPINION

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

**HLM & Co.**
*Certified Public Accountants*
Hong Kong
22 March 2011

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 7 | **284,128** | 13,137 |
| Cost of sales | | **(250,360)** | (12,828) |
| Gross profit | | **33,768** | 309 |
| Other revenue | 8 | **2,502** | 4,325 |
| Selling expenses | | **(19,149)** | – |
| Administrative expenses | | **(28,039)** | (26,091) |
| Loss on disposal of obsolete inventories | | **–** | (8,161) |
| Realised (loss) gain on disposal of held for trading investments | | **(2,054)** | 1,468 |
| Unrealised gain on held for trading investments | | **–** | 9,866 |
| Gain on disposal of subsidiaries | 31 | **40,809** | – |
| Finance costs | 10 | **(3,539)** | (4,459) |
| **Profit (loss) before taxation** | | **24,298** | (22,743) |
| Taxation | 11 | **(893)** | – |
| **Profit (loss) for the year** | 12 | **23,405** | (22,743) |
| Profit (loss) attributable to: | | | |
| – Shareholders of the Company | | **20,305** | (22,743) |
| – Non-controlling interests | | **3,100** | – |
| | | **23,405** | (22,743) |
| **Dividend** | 14 | **–** | – |
| **Earnings (loss) per share** | 15 | **HK cents** | HK cents |
| – Basic | | **0.13** | (0.20) |
| – Diluted | | **0.13** | (0.20) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Profit (loss) for the year** | **23,405** | (22,743) |
| Other comprehensive income: | | |
| Exchange differences on translation | **1,034** | – |
| **Total comprehensive income (expense) for the year** | **24,439** | (22,743) |
| **Total comprehensive income (expense) attributable to:** | | |
| – Shareholders of the Company | **20,765** | (22,743) |
| – Non-controlling interests | **3,674** | – |
| | **24,439** | (22,743) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **15,091** | 1,714 |
| Prepaid leasehold land payments | 17 | **7,768** | – |
| Deposit paid for acquisition of a subsidiary | | **–** | 4,682 |
| Golf club debenture | | **–** | 246 |
| | | **22,859** | 6,642 |
| **Current assets** | | | |
| Inventories | 18 | **46,334** | – |
| Prepaid leasehold land payments | 17 | **159** | – |
| Trade receivables | 19 | **48,915** | 5,162 |
| Deposits, prepayments and other receivables | 20 | **102,532** | 2,121 |
| Held for trading investments | 21 | **–** | 15,490 |
| Bank balances and cash | 22 | **93,479** | 11,010 |
| | | **291,419** | 33,783 |
| **Current liabilities** | | | |
| Trade payables | 23 | **68,655** | 7,251 |
| Accruals and other payables | 24 | **68,341** | 4,853 |
| Tax payable | | **2,012** | 1,006 |
| Amounts due to ultimate holding company | 25 | **–** | 56,106 |
| Amounts due to a director | 26 | **–** | 4,754 |
| Amounts due to a related company | 27 | **–** | 251 |
| Secured bank loans — due within one year | 28 | **124,004** | – |
| Obligation under finance lease | 33 | **60** | – |
| Bank overdraft | 22 | **5,694** | – |
| | | **268,766** | 74,221 |
| **Net current assets (liabilities)** | | **22,653** | (40,438) |
| **Total assets less current liabilities** | | **45,512** | (33,796) |
| **Non-current liabilities** | | | |
| Amounts due to a minority shareholder of a subsidiary | | **–** | 53,282 |
| Obligation under finance lease | 33 | **86** | – |
| **Total non-current liabilities** | | **86** | 53,282 |
| **Total assets less liabilities** | | **45,426** | (87,078) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 30 | **38,637** | 32,197 |
| Reserves | | **(11,335)** | (98,295) |
| Equity (capital deficiency) attributable to Shareholders of the Company | | **27,302** | (66,098) |
| Non-controlling interests | | **18,124** | (20,980) |
| **Total equity (capital deficiency)** | | **45,426** | (87,078) |

The consolidated financial statements on pages 25 to 89 were approved and authorised for issue by the Board of Directors on 22 March 2011 and are signed on its behalf by:

**Lam Ching Kui**
*Director*

**Guo Qing Hua**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Share capital HK$'000 | Share premium HK$'000 | Other reserve HK$'000 Note | Translation reserve HK$'000 | Convertible note reserve HK$'000 | Accumulated losses HK$'000 | Attributable to shareholders of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | 26,837 | 48,079 | 6,906 | – | 4,368 | (161,979) | (75,789) | (20,980) | (96,769) |
| Total comprehensive expense for the year | – | – | – | – | – | (22,743) | (22,743) | – | (22,743) |
| Deemed contribution from a minority shareholder of a subsidiary | – | – | 3,597 | – | – | – | 3,597 | – | 3,597 |
| Conversion of convertible note (Note 29) | 5,360 | 27,845 | – | – | (4,368) | – | 28,837 | – | 28,837 |
| | 5,360 | 27,845 | 3,597 | – | (4,368) | – | 32,434 | – | 32,434 |
| **At 31 December 2009** | 32,197 | 75,924 | 10,503 | – | – | (184,722) | (66,098) | (20,980) | (87,078) |
| Profit for the year | – | – | – | – | – | 20,305 | 20,305 | 3,100 | 23,405 |
| Other comprehensive income for the year | – | – | – | 460 | – | – | 460 | 574 | 1,034 |
| Total comprehensive income for the year | – | – | – | 460 | – | 20,305 | 20,765 | 3,674 | 24,439 |
| Issue of shares by open offer | 6,440 | 69,792 | – | – | – | – | 76,232 | – | 76,232 |
| Disposal of subsidiaries | – | – | (3,597) | – | – | – | (3,597) | 20,980 | 17,383 |
| Non-controlling interests arising on the acquisition of subsidiairies | – | – | – | – | – | – | – | 14,450 | 14,450 |
| | 6,440 | 69,792 | (3,597) | – | – | – | 72,635 | 35,430 | 108,065 |
| **At 31 December 2010** | 38,637 | 145,716 | 6,906 | 460 | – | (164,417) | 27,302 | 18,124 | 45,426 |

Note

Other reserve represents the share of a subsidiary's share premium arising from the allotment and issue of shares, and deemed contribution from Shareholders of the Company.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit (loss) for the year | **23,405** | (22,743) |
| Adjustments for: | | |
| Finance costs | **3,539** | 4,459 |
| Interest income | **(61)** | (4) |
| Depreciation on property, plant and equipment | **1,527** | 2,510 |
| Amortisation on prepaid leasehold land payments | **248** | – |
| Realised loss (gain) on disposal of held for trading investments | **2,054** | (1,468) |
| Unrealised gain on held for trading investments | **–** | (9,866) |
| Discount on acquisition of subsidiaries | **(109)** | – |
| Gain on disposal of subsidiaries | **(40,809)** | – |
| Net gain on disposal of property, plant and equipment | **–** | (1,842) |
| Loss on disposal of obsolete inventories | **–** | 8,161 |
| Impairment loss recognised on property, plant and equipment | **–** | 822 |
| Allowance for bad and doubtful debts | **–** | 305 |
| Taxation | **893** | – |
| Operating cash flows before movements in working capital | **(9,313)** | (19,666) |
| (Increase) decrease in inventories | **(28,643)** | 1,824 |
| Increase in trade receivables | **(32,345)** | (5,162) |
| Increase in deposits, prepayments and other receivables | **(93,012)** | (594) |
| Increase (decrease) in trade payables | **56,773** | (2,925) |
| Increase (decrease) in accruals and other payables | **72,175** | (87) |
| **Cash used in operations** | **(34,365)** | (26,610) |
| Tax paid | **(302)** | – |
| Net cash used in operating activities | **(34,667)** | (26,610) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Investing activities** | | |
| Interest received | **61** | 4 |
| Acquisition of subsidiaries | **(5,724)** | – |
| Proceeds from disposal of property, plant and equipment | **999** | 5,094 |
| Purchase of property, plant and equipment | **(4,002)** | (564) |
| Increase in prepaid leasehold land payments | **(235)** | – |
| Proceeds from disposal of held for trading investments | **13,436** | 2,292 |
| Proceeds from disposal of subsidiaries | **(85)** | – |
| Deposit paid for acquisition of a subsidiary | **–** | (4,682) |
| **Net cash generated from investing activities** | **4,450** | 2,144 |
| **Financing activities** | | |
| Interest paid | **(3,539)** | (694) |
| Repayment of trust receipt loans | **–** | (4,272) |
| Repayment of bank loan | **(204,714)** | – |
| New loan raised | **299,901** | – |
| Finance lease | **146** | – |
| Decrease in amounts due to ultimate holding company | **(56,106)** | (11,032) |
| (Decrease) increase in amounts due to a director | **(4,754)** | 2,587 |
| Increase in amounts due to a minority shareholder of a subsidiary | **–** | 15,831 |
| Decrease in amounts due to a related company | **(251)** | (854) |
| Issue of shares upon open offer | **76,232** | – |
| **Net cash generated from financing activities** | **106,915** | 1,566 |
| **Net increase (decrease) in cash and cash equivalents** | **76,698** | (22,900) |
| **Effects of foreign exchange rate changes** | **77** | – |
| **Cash and cash equivalents at the beginning of the year** | **11,010** | 33,910 |
| **Cash and cash equivalents at the end of the year** | **87,785** | 11,010 |
| **Analysis of the balances of cash and cash equivalents:** | | |
| Bank balances and cash | **93,479** | 11,010 |
| Bank overdraft | **(5,694)** | – |
| | **87,785** | 11,010 |

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the trade, manufacture and export of athletic and athletic-style leisure footwear, leather shoes, working shoes, safety shoes, and other functional shoes, and manufacture and sale of modified starch and other biochemical products.

The ultimate holding company of the Group is Wai Chun Investment Fund ("Wai Chun"), a private investment fund incorporated in the Cayman Islands with limited liability.

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

The following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new and revised Standards and Interpretations is discussed below.

### Application of new and revised standards and interpretations

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs |
| HKFRS 1 (Amendments) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK — Interpretation ("Int") 5 | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| HK(IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners |

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

### Amendments to HKFRS 7 Financial Instruments: Disclosures (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

### Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

### HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Weifang Century-Light, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

**HKFRS 3 (as revised in 2008) Business Combinations** (Continued)

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, these changes in policies have resulted in acquisition-related costs of approximately HK$285,000 being charged to the consolidated income statement.

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 (as revised in 2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of Improvements to HKFRSs issued in 2010, HKFRS 3 (as revised in 2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with HKFRS 2 Share-based Payment at the acquisition date ("market-based measure").

The amendments to HKFRS 3 (as revised in 2008) as part of Improvements to HKFRSs issued in 2010 (as described above) have been applied in advance of their effective dates (annual periods beginning on or after 1 July 2010).

However, the application of the improvements to HKFRS 3 has had no impact on the accounting for the acquisition of Weifang Century-Light in the current year as there is no share-based payment awards held by the acquiree's employees.

There is no other significant financial impact to the consolidated financial statements of the Group.

**HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements**

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.

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

**HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements** (Continued)

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate, for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's disposal in the current year of its entire interests in China Career Education Investment and Management Co., Ltd. and Nority Limited, and the acquisition of 51% equity interest in Weifang Century-Light.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of the revised Standard has resulted in share options reserve relating to the employee share option plan of a subsidiary of the Company, being included as part of non-controlling interest in the consolidated statement of changes in equity. Previously, the share options reserve was presented separately in the consolidated statement of changes in equity.

However, the application of the revised Standard has had no impact on the accounting for the acquisition of Weifang Century-Light in the current year as there is no share-based payment awards held by the acquiree's employees.

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

### Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

### Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

The application of HK Int 5 has had no impact on the accounting for the secured bank loans and reported profit or loss for the current and prior years as all of secured bank loans are due within one year.

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

### New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5] |
| HKFRS 7 (Amendments) | Disclosures — Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[7] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[6] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendments) | Classification of Rights Issues[2] |
| HK (IFRIC) — Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[4] |
| HK (IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

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

HKFRS 9 Financial Instruments issued in November 2009 and amended in December 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

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

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

### New and revised Standards and Interpretations issued but not yet effective (Continued)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as a fair value through profit and loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability's credit risk in the comprehensive income to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures — Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactons involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC)-Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

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

### New and revised Standards and Interpretations issued but not yet effective (Continued)

HK (IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transaction in the future, HK (IFRIC) — Int 19 will affect the required accounting. In particular, under HK (IFRIC) — Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting polices below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

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

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

#### Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

#### Changes in the Group's ownership interests in existing subsidiaries

*Changes in the Group's ownership interest in existing subsidiaries on or after 1 January 2010*

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations

#### Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

#### Business combinations that took place on or after 1 January 2010 (Continued)

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

#### Business combinations that took place on or after 1 January 2010 (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Sub-letting income/rental income is recognised on a straight-line basis over the term of the relevant lease.

Administrative income is recognised when services have been provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing

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

#### The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange difference arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful life of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rate.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as an expense when employees have rendered services entitling them to the contributions.

### Share-based payment transactions

#### Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payment transactions (Continued)

**Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement** (Continued)

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful life, using the straight-line method. The estimated useful life, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of tangible assets other than goodwill

At the end of each of reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions (Continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

*Effective interest method* (Continued)

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earning on the financial asset and is included in the "other gains and losses" line item in the consolidated income statement. Fair value is determined in the manner described in note 6.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, deposits, prepayments and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

*Impairment of financial assets* (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

**Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Other financial liabilities*

Other financial liabilities (including accruals, deposit received and other payables) are subsequently measured at amortised cost using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

### Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the life of the convertible notes using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recongises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Key sources of estimation uncertainty

The following are 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.

#### Depreciation of property, plant and equipment

The Group's net carrying values of property, plant and equipment as at 31 December 2010 were approximately HK$15,091,000 (2009: approximately HK$1,714,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of 2 years to 25 years and after taking into account of their estimated residual values, using the straight-line method, at the rate of 4% to 50% per annum, commencing from the date in which the property, plant and equipment are available for use. The estimated useful life that the Group places the property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

#### Allowance for bad and doubtful debts

Management regularly reviews and judges the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounts using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, additional impairment may be required. Allowance for bad and doubtful debts amounting to by HK$Nil (2009: approximately HK$305,000) has been recognised during the year.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts exceed its recoverable amount, in accordance with the Group's accounting policy. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The Group has assessed and reviewed annually for impairment loss whenever events or change in circumstances indicate that the carrying amount may not be recoverable.

Such estimations were based on certain assumptions, which are subject to uncertainty and might materially differ from actual results. Impairment loss of HK$Nil was recognised during the year (2009: approximately HK$822,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Financial assets | | |
| Held for trading investments | **–** | 15,490 |
| Loans and receivables (including cash and cash equivalents) | **244,926** | 17,389 |
| Financial liabilities | | |
| Other financial liabilities at amortised cost | **266,840** | 126,497 |

## 6. FINANCIAL INSTRUMENTS (Continued)

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

The Group's major financial instruments include trade receivables, deposits and other receivables, held for trading investments, bank balances and cash, trade payables, accruals and other payables, and amounts due to a related company/ultimate holding company/a minority shareholder of a subsidiary/a director. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, market risk (currency risk, interest rate risk and equity price risk) and liquidity risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group has concentration of credit risk as 13% (2009: 81%) and 31% (2009: 100%) of the total trade receivables which was due from the Group's largest customer and the three largest customers respectively. The Group's concentration of credit risk by geographical locations is mainly in The People's Republic of China (the "PRC") and The Republic of Korea (the "Korea"), which accounted for 79% (2009: Nil) of the total receivables as at 31 December 2010.

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

None of the Group's financial assets are secured by collateral or other credit enhancements.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

## 6. FINANCIAL INSTRUMENTS (Continued)

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

**Foreign currency risk**

The Group's foreign currency assets, liabilities and transactions are principally denominated in United States dollars ("USD"), Renminbi ("RMB") and Taiwan New dollars ("TND"). These currencies are not the functional currencies of the Group entities to which these balances relate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| USD | **10,575** | 5,007 | **–** | 5,338 |
| RMB | **227,246** | 158 | **261,996** | 488 |
| TND | **–** | – | **–** | 1,011 |
| | **237,821** | 5,165 | **261,996** | 6,837 |

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

*Sensitivity analysis*

The Group is mainly exposed to RMB. Since Hong Kong dollar ("HK$") is directly linked to the value of USD, risk exposed to the Group in this respect will not be significant. The directors of the Company consider that the risk exposed to TND is not material for the current year.

The following table details the Group's sensitivity to a 4% (2009: 4%) increase or decrease in HK$ against RMB. 4% (2009: 4%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. A positive number below indicates an increase in post-tax profit (loss) with a 4% weakening of HK$ (2009: 4%) against RMB. For a 4% (2009: 4%) strengthening of HK$ against RMB, there would be an equal and opposite impact on the post-tax profit (loss), and the balances below would be negative.

## 6. FINANCIAL INSTRUMENTS (Continued)

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

**Foreign currency risk** (Continued)

*Sensitivity analysis* (Continued)

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Profit (loss) for the year | **1,390** | 13 |

The Group's sensitivity to RMB has increased during the current year mainly due to the increase in RMB denominated receivables and payables as at 31 December 2010.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

**Interest rate risk**

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings and fixed rate bills payables. Except for the fixed rate bills payables, it is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The Group's exposure to cash flow interest risk is minimal.

The Group is also exposed to fair value interest rate risk in relation to amounts due to ultimate holding company/a related company. The Group currently does not use any derivative contracts to hedge its exposure to fair value interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2009: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2009: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would increase/decrease by approximately HK$369,177 (2009: loss for the year approximately HK$110,067). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

## 6. FINANCIAL INSTRUMENTS (Continued)

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

**Other price risk**

The Group is exposed to equity price risk mainly through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5 % (2009: 5%) higher/lower, post-tax profit for the year ended 31 December 2010 would increase/decrease by HK$Nil (loss for the year ended 31 December 2009: approximately HK$775,000). This is mainly due to the changes in fair value of held for trading investments.

**Liquidity risk**

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

The Group had net current assets and equity attributable to owners of the Company of approximately HK$22,653,000 and HK$27,302,000 respectively as at 31 December 2010.

The management will closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## 6. FINANCIAL INSTRUMENTS (Continued)

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

**Liquidity risk** (Continued)

*Liquidity tables*

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

| | 0 to 180 days HK$'000 | 181 to 365 days HK$'000 | Over 1 year HK$'000 | Carrying value HK$'000 |
|---|---|---|---|---|
| **2010** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade payables | **65,348** | **3,049** | **258** | **68,655** |
| Accruals and other payables | **68,341** | **–** | **–** | **68,341** |
| Bank overdraft | **5,694** | **–** | **–** | **5,694** |
| Secured bank loans | | | | |
| — due within one year | **117,993** | **6,011** | **–** | **124,004** |
| Obligation under finance lease | **29** | **31** | **86** | **146** |
| | **257,405** | **9,091** | **344** | **266,840** |

| | 0 to 180 days HK$'000 | 181 to 365 days HK$'000 | Over 1 year HK$'000 | Carrying value HK$'000 |
|---|---|---|---|---|
| 2009 | | | | |
| Non-derivative financial liabilities | | | | |
| Trade payables | 7,251 | – | – | 7,251 |
| Accruals and other payables | 4,853 | – | – | 4,853 |
| Amounts due to ultimate holding company | 56,106 | – | – | 56,106 |
| Amounts due to a director | 4,754 | – | – | 4,754 |
| Amounts due to a minority shareholder of a subsidiary | – | – | 53,282 | 53,282 |
| Amounts due to a related company | 251 | – | – | 251 |
| | 73,215 | – | 53,282 | 126,497 |

## 6. FINANCIAL INSTRUMENTS (Continued)

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

#### Financial instruments carried at fair value

The carrying value of financial instruments measured at fair value at 31 December 2010 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirely based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

At 31 December 2010, the Group did not have any financial instruments based on the Level 1 for the fair value hierarchy.

During the year ended 31 December 2010, there were no transfers between financial instruments in Level 1 and 2.

#### Fair values of financial instruments carried at other than fair value

At 31 December 2010, the Group did not have any financial instruments with fair value calculated based on Level 3 of the fair value hierarchy.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted active bid prices and ask prices respectively; and
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

## 7. TURNOVER

Turnover represents the amounts received and receivable for goods sold net of discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Revenue from modified starch and other biochemical products | **250,925** | – |
| Revenue from footwear | **33,203** | 13,137 |
| | **284,128** | 13,137 |

See note 9 of an analysis of revenue by major products and services.

## 8. OTHER REVENUE

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Interest income | **61** | 4 |
| Sub-letting income | **–** | 30 |
| Net gain on disposal of property, plant and equipment | **–** | 1,842 |
| Rental income | **–** | 13 |
| Administrative income | **1,200** | 2,400 |
| Discount on acquisition of subsidiaries | **109** | – |
| Government grants | **1,060** | – |
| Others | **72** | 36 |
| | **2,502** | 4,325 |

## 9. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. In addition, for 'footwear' and 'modified starch and other biochemical products' operation, the information reported to the Board is further analysed based on the different classes of customers.

Specifically, the Group's reportable segments under HKFRS 8 are as follow:

| | |
|---|---|
| Footwear | Trading of athletic and athletic-style leisure footwear, working shoes, safety shoes, golf shoes and other functional shoes |
| Modified starch and other biochemical products | Manufacture and sale of modified starch and other biochemical products |

The reportable segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs that are regularly reviewed by the executive directors of the Company being the CODM of the Group.

Segments profit (loss) represents profit earned or loss incurred by each segment without allocation of other revenue, central administration costs including directors' salaries, gain on disposal of subsidiaries, and finance costs. This is the basis of measurement reported to the CODM for the purposes of resource allocation and assessment of segment performance.

### Business segments

The CODM regularly review revenue and operating results derived from trade of athletic and athletic-style leisure footwear, working shoes, safety shoes, golf shoes and other functional shoes on an aggregated basis, and sales and manufacturing of modified starch and other biochemical products and consider them as two operating segments.

## 9. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

#### Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable segments:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Modified starch and other biochemical products HK$'000** | **Footwear HK$'000** | **Consolidated HK$'000** | Modified starch and other biochemical products HK$'000 | Footwear HK$'000 | Consolidated HK$'000 |
| Segment revenue | **250,925** | **33,203** | **284,128** | – | 13,137 | 13,137 |
| Loss on disposal of obsolete inventories | **–** | **–** | **–** | – | (8,161) | (8,161) |
| Segment results | **9,247** | **(203)** | **9,044** | – | (16,977) | (16,977) |
| Other revenue | | | **43,311** | | | 15,659 |
| Unallocated expenses | | | **(24,518)** | | | (16,966) |
| Finance costs | | | **(3,539)** | | | (4,459) |
| | | | **24,298** | | | (22,743) |
| Taxation | | | **(893)** | | | – |
| Profit (loss) for the year | | | **23,405** | | | (22,743) |

Revenue reported above represents revenue generated from external customers. There was no inter-segment sale during the year (2009: HK$Nil).

#### Segment assets and liabilities

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Modified starch and other biochemical products HK$'000** | **Footwear HK$'000** | **Consolidated HK$'000** | Modified starch and other biochemical products HK$'000 | Footwear HK$'000 | Consolidated HK$'000 |
| **Assets** | | | | | | |
| Segment assets | **296,561** | **6,589** | **303,150** | – | 16,173 | 16,173 |
| Unallocated assets | | | **11,128** | | | 24,252 |
| Consolidated assets | | | **314,278** | | | 40,425 |
| **Liabilities** | | | | | | |
| Segment liabilities | **264,007** | **1,413** | **265,420** | – | 57,777 | 57,777 |
| Unallocated liabilities | | | **3,432** | | | 69,726 |
| Consolidated liabilities | | | **268,852** | | | 127,503 |
| **Geographical assets** | | | | | | |
| Hong Kong | | | **17,775** | | | 35,497 |
| PRC | | | **296,503** | | | 4,928 |
| | | | **314,278** | | | 40,425 |

## 9. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

#### Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than held for trading investments, and current and deferred tax assets. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to reportable segments other than current and deferred tax liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

### Other information

| | 2010 | | | |
|---|---|---|---|---|
| | Modified starch and other biochemical products HK$'000 | Footwear HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| Additions to non-current assets | | | | |
| – acquisition of subsidiaries | 11,833 | – | – | 11,833 |
| – others | 3,994 | 8 | – | 4,002 |
| Depreciation and amortisation | | | | |
| – acquisition of subsidiaries | 311 | – | – | 311 |
| – others | 1,147 | – | 628 | 1,775 |
| Additions to prepaid leasehold land payments | | | | |
| – acquisition of subsidiaries | 7,674 | – | – | 7,674 |
| – others | 235 | – | – | 235 |
| Prepayments | 79,682 | – | – | 79,682 |

## 9. SEGMENT INFORMATION (Continued)

### Other information (Continued)

| | 2009 | | | |
|---|---|---|---|---|
| | Modified starch and other biochemical products HK$'000 | Footwear HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
| Additions to non-current assets | | | | |
| – acquisition of subsidiaries | – | – | – | – |
| – others | – | – | 564 | 564 |
| Depreciation and amortisation | | | | |
| – acquisition of subsidiaries | – | – | – | – |
| – others | – | – | 2,510 | 2,510 |
| Impairment loss on property, plant and equipment | – | – | 822 | 822 |
| Prepayments | – | – | – | – |

### Geographical information

For the year ended 31 December 2010, the Group's operations were principally located in Hong Kong (country of domicile), the PRC and the Korea with revenue and profits derived from its operations in Hong Kong, the PRC and the Korea. For the year ended 31 December 2009, the Group's operations were located in Hong Kong with revenue and profits derived from its operations in Hong Kong.

The following is an analysis of the Group's revenue from external customers and non-current assets by geographical location:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Hong Kong | **33,203** | 13,137 | **86** | 1,714 |
| Korea | **111,928** | – | **–** | – |
| PRC | **95,381** | – | **22,773** | 4,928 |
| Others | **43,616** | – | **–** | – |
| | **284,128** | 13,317 | **22,859** | 6,642 |

## 9. SEGMENT INFORMATION (Continued)

### Information on major customers

For the year ended 31 December 2010, revenue is derived from a large number of customers and no single customer or group under common control contributes more than 10% of the Group's turnover. Accordingly, an analysis of customers is not presented.

For the year ended 31 December 2009, revenue from three customers of the Group amounting to approximately HK$5,873,000, HK$5,121,000 and HK$2,143,000 had individually accounted for over 10% of the Group's total revenue.

### Information on major suppliers

Included in costs of sales arising from purchases of modified starch and other biochemical products from Weifang Shengtai Pharmaceutical Co., Ltd. was approximately HK$112,877,000 (2009: HK$Nil) which arose from purchases from the Group's largest supplier. No other single supplier contributed 10% or more to the Group's purchases for 2010 (2009: Nil).

## 10. FINANCE COSTS

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Interest on: | | |
| – Bank loan and overdrafts wholly repayable within five years | **3,526** | 182 |
| – Short-term loan from ultimate holding company | **–** | 468 |
| – Short-term loan from a related company | **13** | 44 |
| Imputed interest on non-current interest-free loan from: | | |
| – A minority shareholder of a subsidiary | **–** | 1,429 |
| Effective interest expenses on Convertible Note (Note 29) | **–** | 2,336 |
| | **3,539** | 4,459 |

## 11. TAXATION

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Tax expenses attributable to the Company and its subsidiaries: | | |
| Current tax: | | |
| Hong Kong | – | – |
| PRC | 1,734 | – |
| | 1,734 | – |
| Over-provision in prior years: | | |
| Hong Kong | (1,005) | – |
| PRC | 164 | – |
| | (841) | – |
| Total income tax recognised in profit or loss | 893 | – |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%).

The taxation for the years can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Profit (Loss) before taxation | 24,298 | (22,743) |
| Tax at the domestic income tax rate of 16.5% (2009: 16.5%) | 4,009 | (3,753) |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | 564 | – |
| Tax effect of expenses not deductible for tax purpose | 389 | 2,933 |
| Tax effect of income not taxable for tax purpose | (6,753) | (2,175) |
| Tax effect of deductible temporary differences not recognised | 186 | 186 |
| Tax effect of tax losses not recognised | 3,339 | 2,809 |
| Under-provision for prior year in PRC | 164 | – |
| Over-provision for prior year in Hong Kong | (1,005) | – |
| Taxation for the year | 893 | – |

## 11. TAXATION (Continued)

At 31 December 2010, the Group has unused tax losses of approximately HK$84,084,000 (2009: approximately HK$96,078,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams of the Group. The losses may be carried forward indefinitely.

## 12. PROFIT (LOSS) FOR THE YEAR

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Profit (Loss) for the year has been arrived at after charging: | | |
| Auditor's remuneration | **516** | 512 |
| Interest expenses | **3,539** | 4,459 |
| Depreciation on property, plant and equipment | **1,527** | 2,510 |
| Amortisation on prepaid leasehold land payment | **248** | – |
| Allowance of bad and doubtful debt | **–** | 305 |
| Impairment loss for property, plant and equipment | **–** | 822 |
| Loss on disposal of obsolete inventories | – | 8,161 |
| Realised loss on disposal of held for trading investments | **2,054** | – |
| Staff costs (including directors' emoluments and retirement benefit costs) | **7,391** | 6,687 |
| And after crediting: | | |
| Interest income | **61** | 4 |
| Gain on disposal of subsidiaries | **40,809** | – |
| Gain on disposal of property, plant and equipment | **–** | 1,842 |
| Realised gain on disposal of held for investment | **–** | 1,468 |
| Unrealised gain of held for trading investments | **–** | 9,866 |

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

**(a)** The aggregate amounts of emoluments payable to directors of the Company during the year were as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Fees | **360** | 360 |
| Other emoluments: | | |
| Basic salaries, other allowance and benefits in kind | **2,860** | 2,827 |
| Retirement benefit costs | | |
| – Defined contribution retirement plans | **25** | 12 |
| | **2,885** | 2,839 |
| Total emoluments | **3,245** | 3,199 |

**(b)** Directors' emoluments

The emoluments paid or payable to each of the 5 (2009: 7) directors were as follows:

| | | Other emoluments | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Basic salaries, other allowance and benefits in kind HK$'000 | Defined contribution retirement plans HK$'000 | 2010 Total emoluments HK$'000 |
| **Executive** | | | | |
| Lam Ching Kui | – | 2,600 | 12 | 2,612 |
| Guo Qing Hua | – | 260 | 13 | 273 |
| **Independent Non-executive** | | | | |
| Shaw Lut, Leonardo | 120 | – | – | 120 |
| Chan Chun Wai, Tony | 120 | – | – | 120 |
| Wong Wai Man, Raymond | 120 | – | – | 120 |
| **Total for 2010** | 360 | 2,860 | 25 | 3,245 |

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

**(b)** Directors' emoluments (Continued)

| | | Other emoluments | | |
|---|---|---|---|---|
| | Directors' fees HK$'000 | Basic salaries, other allowance and benefits in kind HK$'000 | Defined contribution retirement plans HK$'000 | 2009 Total emoluments HK$'000 |
| Executive | | | | |
| Lam Ching Kui | – | 2,600 | 12 | 2,612 |
| Guo Qing Hua[1] | – | 227 | – | 227 |
| Liu Qun[2] | – | – | – | – |
| Independent Non-executive | | | | |
| Shaw Lut, Leonardo | 120 | – | – | 120 |
| Chan Chun Wai, Tony | 120 | – | – | 120 |
| Geng Ying[3] | 110 | – | – | 110 |
| Wong Wai Man, Raymond[4] | 10 | – | – | 10 |
| Total for 2009 | 360 | 2,827 | 12 | 3,199 |

1. Appointed on 13 February 2009
2. Resigned on 13 February 2009
3. Resigned on 30 November 2009
4. Appointed on 30 November 2009

No director waived or agreed to waive any emoluments during the two years ended 31 December 2010 and 2009.

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

**(c)** During the year, of the five highest paid individuals in the Group, two (2009: one) executive directors of the Company whose emoluments are set out above. The emoluments of the remaining

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Basic salaries, other allowance and benefits in kind | **1,589** | 1,470 |
| Retirement benefit costs | | |
| – Defined contribution retirement plans | **35** | 40 |
| | **1,624** | 1,510 |

The emoluments of the aforementioned three (2009: four) highest paid individuals were within the band of nil to HK$1,000,000 for both years.

No emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during each of the two years ended 31 December 2010 and 2009.

## 14. DIVIDEND

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

## 15. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings per share was based on the Group's profit attributable to shareholders of the Company of approximately HK$20,305,000 (2009: loss for the year approximately HK$22,743,000) and the weighted average number of ordinary shares of 15,221,806,555 (2009: 11,328,175,713) during the year.

The diluted earnings per share is not presented because there were no potential dilutive shares during the year ended 31 December 2010. The calculation of diluted loss per share does not assume the conversion of the convertible note during the year ended 31 December 2009 since their conversion would result in a decrease in loss per share.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements, furniture and fixtures HK$'000 | Machinery and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2009 | – | – | 35,241 | 90,995 | 3,756 | 129,992 |
| Additions | – | – | 4 | – | 560 | 564 |
| Disposals/written off | – | – | (31,885) | (90,886) | (1,308) | (124,079) |
| At 31 December 2009 and 1 January 2010 | – | – | 3,360 | 109 | 3,008 | 6,477 |
| Acquisition of subsidiaries | 4,428 | 1,191 | 18 | 5,771 | 425 | 11,833 |
| Exchange difference | 154 | 42 | – | 200 | 14 | 410 |
| Additions | 425 | 494 | 21 | 2,739 | 323 | 4,002 |
| Disposals/written off | – | – | – | – | (2,156) | (2,156) |
| At 31 December 2010 | 5,007 | 1,727 | 3,399 | 8,819 | 1,614 | 20,566 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2009 | – | – | 32,031 | 87,564 | 2,663 | 122,258 |
| Charge for the year | – | – | 1,092 | 985 | 433 | 2,510 |
| Impairment loss recognised | – | – | 822 | – | – | 822 |
| Disposals/written off | – | – | (31,040) | (88,484) | (1,303) | (120,827) |
| At 31 December 2009 and 1 January 2010 | – | – | 2,905 | 65 | 1,793 | 4,763 |
| Acquisition of subsidiaries | 22 | – | 6 | 123 | 160 | 311 |
| Exchange difference | 6 | – | – | 17 | 8 | 31 |
| Charge for the year | 231 | – | 373 | 586 | 337 | 1,527 |
| Disposals/written off | – | – | – | – | (1,157) | (1,157) |
| At 31 December 2010 | 259 | – | 3,284 | 791 | 1,141 | 5,475 |
| **NET CARRYING VALUES** | | | | | | |
| At 31 December 2010 | 4,748 | 1,727 | 115 | 8,028 | 473 | 15,091 |
| At 31 December 2009 | – | – | 455 | 44 | 1,215 | 1,714 |

The above items of property, plant and equipment are depreciated on a straight-line basis less their residual values at the following rates per annum:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease, or 15 — 25 years |
| Construction in progress | Nil |
| Leasehold improvements, furniture and fixtures | 12.5%-33.33% |
| Machinery and equipment | 10%-50% |
| Motor vehicles | 20%-25% |

Impairment loss recognised in respect of leasehold improvements, furniture and fixtures during the year amounted to HK$Nil (2009: approximately HK$822,000) as the directors expected that the future economic benefits to arise from the continued use of the asset are estimated to be less than its carrying amount.

## 17. PREPAID LEASEHOLD LAND PAYMENTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| NET BOOK VALUE | | |
| At 1 January | – | – |
| Acquisition of subsidiaries | 7,674 | – |
| Additions | 235 | – |
| Exchange reserve | 266 | – |
| Amortisation | (248) | – |
| At 31 December | 7,927 | – |
| Analysed for reporting purposes as: | | |
| Current assets | 159 | – |
| Non-current assets | 7,768 | – |
| | 7,927 | – |

The leasehold land is held under long-term lease and situated in the PRC for the purpose of industrial construction.

## 18. INVENTORIES

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Raw materials | 458 | – |
| Finished goods | 45,876 | – |
| | 46,334 | – |

## 19. TRADE RECEIVABLES

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Trade receivables | 48,915 | 6,732 |
| Less: Allowance for bad and doubtful debts | – | (1,570) |
| Total trade receivables | 48,915 | 5,162 |

## 19. TRADE RECEIVABLES (Continued)

The Group allows credit period ranging from 30 to 180 days (2009: 30 to 60 days) to its trade customers. The aging analysis of trade receivables is as follows:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| 0-30 days | **36,437** | 829 |
| 31-60 days | **2,493** | – |
| 61-90 days | **53** | – |
| 91-180 days | **5,602** | – |
| Past due | **4,330** | 4,333 |
| Total | **48,915** | 5,162 |

Included in the Group's trade receivables as at 31 December 2010 were debtors with an aggregate carrying amount of approximately HK$4,330,000 which were past due at the end of the reporting period for which the Group had not recognised an allowance for bad and doubtful debts because there was no significant change in credit quality and the amounts were still considered recoverable. These customers who trade on credit terms are subject to credit verification procedures. The Group did not hold any collateral over these balances nor did it have a legal right of offset against any amounts owed by the Group to the counterparties.

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

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Past due | **4,330** | 4,333 |

Movement in the allowance for bad and doubtful debts:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Balance at beginning of the year | **1,570** | 1,570 |
| Allowance recognised on receivables | **–** | 305 |
| Impairment losses reversed | **(1,570)** | – |
| Amounts written-off as uncollectible | **–** | (305) |
| Balance at end of the year | **–** | 1,570 |

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$Nil (2009: approximately HK$1,570,000).

The directors consider that the carrying amount of trade receivables approximates their fair value.

## 20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Prepayments (Note a) | **79,682** | – |
| Other receivables (Note b) | **22,289** | 156 |
| Rental and utilities deposits | **561** | 1,965 |
| Total | **102,532** | 2,121 |

The Company:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Prepayments | **–** | – |
| Other receivables | **10,485** | – |
| Rental and utilities deposits | **556** | 1,965 |
| Total | **11,041** | 1,965 |

Note:

(a) During the year, the Group had prepayment in aggregate of approximately HK$79,000,000 which is mainly attributable to the newly acquired subsidiaries, Weifang Century-Light. Prepayment consist of security deposits for land of approximately HK$11,000,000, prepayments for consumable tools of approximately HK$6,500,000, prepayments for raw materials and goods for trading or goods for further processing of approximately HK$62,182,000.

(b) Included in the Group's other receivables increased by approximately HK$22,000,000 mainly from the payment of approximately HK$10,500,000 for acquiring 30% equity interest of Minera Chile Exploitacion Limitada and payment held by a minority shareholder of a subsidiary for purchase of inventories.

## 21. HELD FOR TRADING INVESTMENTS

Held for trading investments comprise:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong, at fair value | **–** | 15,490 |

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

## 22. BANK BALANCES AND CASH/BANK OVERDRAFT

### Bank balances and cash

Bank balances carry interest at market rates which range from 0% to 0.09% (2009: 0% to 0.01%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately HK$36,772,000 (2009: HK$Nil) have been pledged to secure bills payables and short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

### Bank overdraft

Bank overdraft was unsecured and carried interest at prime lending interest rate of 6% per annum as at 31 December 2010.

## 23. TRADE PAYABLES

The average credit period on purchases of goods ranges from 30 to 180 days (2009: 30 to 90 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The aging analysis of trade payables is as follows:

| | **2010<br>HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| 0-30 days | **57,909** | 1,951 |
| 31-60 days | **2,847** | 2,063 |
| 61-90 days | **733** | 480 |
| 91-180 days | **3,516** | – |
| Past due | **3,650** | 2,757 |
| | **68,655** | 7,251 |

## 24. ACCRUALS AND OTHER PAYABLES

| | **2010<br>HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Accruals | **3,551** | 2,314 |
| Other payables | **64,790** | 2,539 |
| | **68,341** | 4,853 |

## 25. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

## 26. AMOUNTS DUE TO A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

## 27. AMOUNTS DUE TO A RELATED COMPANY

The amount is unsecured, interest-bearing at 6% (2009: 6%) per annum and repayable on demand.

## 28. SECURED BANK LOANS

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Bank loans | **71,473** | – |
| Bills payables | **52,531** | – |
| | **124,004** | – |
| Carrying amount repayable: | | |
| Within one year | **124,004** | – |

All bank loans are denominated in Renminbi with variable rate from 3.7% to 7.0% per annum.

All bills payables with a fixed interest rate were interested in 2010 and advanced against bills discounted. The weighted average effective interest rate on the bills is prevailing bank interest rate (2009:Nil%) per annum.

At the end of the reporting period, the Group's secured bank loans were fully secured by properties which are owned by a minority shareholder of a subsidiary.

## 29. CONVERTIBLE NOTE

The Company issued a HK$28,836,800 2% Convertible Note on 29 March 2007. The Convertible Note is denominated in Hong Kong dollars and entitles the holder to convert it into ordinary shares of the Company at any time after the sixth month or the date of issue of the Convertible Note until 5 business days prior to the maturity date on 30 September 2009 at a conversion price of HK$0.01345. Interest is payable once every six months in arrears at the end of each six-month period between the date of issue of the Convertible Note and the maturity date. The Company will redeem the Convertible Note at 100% of its principal amount on the maturity date. No early redemption is allowed.

The Convertible Note contains two components, liability and equity element. The equity element is presented in equity heading "convertible note reserve". The effective interest rate of the liability component is 12.57%.

The Convertible Note in the principal amount of HK$28,836,800 was converted into 2,144,000,000 new ordinary shares of the Company at the initial conversion price of HK$0.01345 per share on 21 September 2009.

No additional convertible note is issued for the year.

## 29. CONVERTIBLE NOTE (Continued)

The movement of the liability component of the Convertible Note for the year is set out below:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | – | 26,932 |
| Interest charge (Note 10) | – | 2,336 |
| Interest accrued | – | (431) |
| Conversion of Convertible Note | – | (28,837) |
| Carrying amount at 31 December | – | – |

## 30. SHARE CAPITAL

| | **Number of shares** | **Amount** HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.0025 each at 1 January 2009 and 31 December 2009, 1 January 2010 and 31 December 2010 | 40,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.0025 each at 1 January 2009 | 10,734,904,480 | 26,837 |
| Issue of shares upon conversion of Convertible Note (Note 29) | 2,144,000,000 | 5,360 |
| Ordinary shares of HK$0.0025 each at 31 December 2009 and 1 January 2010 | 12,878,904,480 | 32,197 |
| Issue of shares on open offer (Note) | 2,575,780,896 | 6,440 |
| Ordinary shares of HK$0.0025 each at 31 December 2010 | **15,454,685,376** | **38,637** |

Note: During the year, the Company allotted and issued 2,575,780,896 ordinary shares of HK$0.0025 each at the price of HK$0.03 per share as a result of an open offer to the then existing shareholders.

## 30. SHARE CAPITAL (Continued)

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

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

## 31. GAIN ON DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire interests in China Career Education Investment and Management Co., Ltd. and Nority Limited.

The net liabilities of the subsidiaries at the date of disposal are as follow:

| | 2010 | | |
|---|---|---|---|
| | China Career Education Investment and Management Co., Ltd. HK$'000 | Nority Limited HK$'000 | Total HK$'000 |
| Net assets disposal of: | | | |
| Golf club debenture | – | 246 | 246 |
| Deposits, prepayments and other receivables | – | 156 | 156 |
| Bank balances and cash | 48 | 37 | 85 |
| Trade payables | – | (2,756) | (2,756) |
| Accruals and other payables | (57) | (2,584) | (2,641) |
| Amounts due to a minority shareholder | – | (56,879) | (56,879) |
| Net liabilities | (9) | (61,780) | (61,789) |
| Non-controlling interests | – | 20,980 | 20,980 |
| Gain on disposal | 9 | 40,800 | 40,809 |
| Total consideration | – | – | – |
| Net cash outflow arising on disposal | | | |
| Cash consideration | – | – | – |
| Bank balances and cash disposed of | (48) | (37) | (85) |
| | (48) | (37) | (85) |

## 32. ACQUISITION OF SUBSIDIARIES

On 1 January 2010, the Group acquired 51% equity interest in Weifang Century-Light from an independent third party at a consideration of RMB10,300,000 (equivalent to approximately HK$11,711,000).

| | **Fair value** HK$'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 11,522 |
| Prepaid leasehold land payments | 7,673 |
| Inventories | 17,105 |
| Trade receivables | 9,928 |
| Deposits, prepayments and other receivables | 13,402 |
| Tax receivable | 500 |
| Bank balances and cash | 1,305 |
| Trade payables | (7,141) |
| Accruals and other payables | (78) |
| Bank borrowings — due within one year | (27,946) |
| | 26,270 |
| Non-controlling interests of its subsidiaries | (3,094) |
| Net assets acquired | 23,176 |
| Non-controlling interests | (11,356) |
| 51% equity interest | 11,820 |
| Total consideration | (11,711) |
| Discount on acquisition | 109 |
| Satisfied by: | |
| Cash consideration paid | (7,029) |
| Deposit paid for acquisition of a subsidiary | (4,682) |
| | (11,711) |
| Net cash outflow arising on acquisition | |
| Cash consideration paid | (7,029) |
| Bank balances and cash acquired | 1,305 |
| | (5,724) |

## 33. OBLIGATION UNDER FINANCE LEASE

The Group leased certain of its motor vehicle under finance lease. The average lease term is 3 years (2009: Nil). Interest underlying all obligations under finance lease is at floating rate at respective contract dates (2009: Nil) per annum.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Amounts payable under finance lease: | | | | |
| Within one year | **74** | – | **60** | – |
| In more than one year and not more than five years | **93** | – | **86** | – |
| In more than five years | **–** | – | **–** | – |
| | **167** | | **146** | |
| Less: future finance charges | **(21)** | – | **N/A** | – |
| Present value of lease obligations | **146** | – | **146** | – |
| Less: Amounts due for settlement within 12 months (shown under current liabilities) | | | **(60)** | – |
| Amounts due for settlement after 12 months | | | **86** | – |

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Finance lease obligations are denominated in Renminbi, currency other than the functional currency of the relevant group entity.

## 34. RETIREMENT BENEFITS OBLIGATIONS

### Defined contribution retirement plans

The employees of the Group in the PRC are members of defined contribution plans organised by the relevant local government authorities in the PRC. The subsidiary is required to make monthly contributions to these plans at a fixed percentage of the employee's basic salary. The only obligation of the Group with respect to the retirement benefit scheme in the PRC is to make the required contributions under the scheme.

The Group participates in a retirement benefit scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

The total expense recognised in the consolidated statement of comprehensive income of approximately HK$81,000 (2009: approximately HK$89,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

## 35. OPERATING LEASE COMMITMENTS

### The Group as lessee

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Minimum lease payments in respect of rented premises paid under operating leases during the year | **2,582** | 5,745 |

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

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Within one year | **1,774** | 2,220 |
| In the second to fifth year inclusive | **827** | 142 |
| | **2,601** | 2,362 |

Operating lease payments represent rental payables by the Group for its office premises in Hong Kong and PRC. Leases and rentals are negotiated and fixed respectively for an average term of two years.

## 35. OPERATING LEASE COMMITMENTS (Continued)

### The Group as lessor

The Group leased its golf club membership. The golf club membership rental income earned during the year was HK$Nil (2009: approximately HK$13,000).

At the end of the reporting period, the Group had no capital commitments (2009: HK$Nil).

## 36. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Bank deposits | **36,772** | – |

## 37. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) During the year, the Group entered into the following transactions with related parties. The transactions were carried out at estimated market prices determined by the directors of the Company.

| **Related parties** | **Nature of transactions** | **2010 HK$'000** | 2009 HK$'000 | **Interested director** |
|---|---|---|---|---|
| Wai Chun Investment Fund | Interest expenses | **–** | 468 | Lam Ching Kui |
| Wai Chun Group Holdings Limited | Administrative service income | **1,200** | 2,400 | Lam Ching Kui |
| | Interest expenses | **13** | 44 | |
| | Interest (income) | **(8)** | – | |
| Fellow subsidiary of a minority shareholder of a subsidiary | Rental expenses | **–** | 1,534 | N/A |
| Fellow subsidiary of a minority shareholder of a subsidiary | Management fee expenses | **–** | 2,000 | N/A |

## 37. RELATED PARTY TRANSACTIONS (Continued)

(b) The remuneration of directors of the Company and other members of key management during the year was as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Short-term benefits | 4,809 | 3,826 |
| Post-employment benefits | 60 | 34 |
| | 4,869 | 3,860 |

(c) Details of the balances with related parties as at the end of the reporting period are set out in the consolidated statement of financial position and relevant notes.

## 38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

Pursuant to a share option scheme adopted by the shareholders of the Company on 10 June 2003 (the "SOS"), the Company may, at their discretion, invite full-time employees of the Group, including Directors of the Company and its subsidiaries, and any suppliers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares on the Stock Exchange on the date of grant or the nominal value of the shares.

The SOS will remain in force for a period of 10 years commencing on 10 June 2003.

The share options under the SOS are exercisable at any time for a period to be determined by the directors, which shall not more than be 10 years after the date of grant.

The total number of shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the shares in issue on the date of approval of the SOS without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 28 days of the grant upon payment of HK$10.00 per grant.

As at 31 December 2010, no share option was granted under the SOS and no share option was lapsed or cancelled during the year.

## 39. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Interests in subsidiaries | | **3,068** | 125 |
| Plant and equipment | | **87** | 1,714 |
| | | **3,155** | 1,839 |
| Current assets | | | |
| Deposits, prepayments and other receivables | | **11,041** | 1,965 |
| Held for trading investments | | **–** | 15,490 |
| Amounts due from subsidiaries | | **12,079** | – |
| Bank balances and cash | | **2,774** | 1,450 |
| | | **25,894** | 18,905 |
| Current liabilities | | | |
| Accruals and other payables | | **3,432** | 2,269 |
| Amounts due to ultimate holding company | | **–** | 41,176 |
| Amounts due to a director | | **–** | 4,754 |
| Amounts due to a related company | | **–** | 251 |
| Amounts due to a subsidiary | | **–** | 66 |
| | | **3,432** | 48,516 |
| Net current assets (liabilities) | | **22,462** | (29,611) |
| Total assets less liabilities | | **25,617** | (27,772) |
| Capital and reserves | | | |
| Share capital | 30 | **38,637** | 32,197 |
| Reserves | 40 | **(13,020)** | (59,969) |
| Total equity (Capital deficiency) | | **25,617** | (27,772) |

## 40. RESERVES

### The Company

| | Share premium HK$'000 | Other reserve HK$'000 | Convertible note reserve HK$'000 | Accumulated losses HK$'000 | total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | 48,079 | 62,934 | 4,368 | (192,750) | (77,369) |
| Conversion of Convertible Note (note 29) | 27,845 | – | (4,368) | – | 23,477 |
| Total comprehensive expenses for the year | – | – | – | (6,077) | (6,077) |
| At 31 December 2009 and 1 January 2010 | 75,924 | 62,934 | – | (198,827) | (59,969) |
| Issue of share by open offer | 69,792 | – | – | – | 69,792 |
| Total comprehensive income for the year | – | – | – | (22,843) | (22,843) |
| At 31 December 2010 | 145,716 | 62,934 | – | (221,670) | (13,020) |

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

| Name of company | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/registered capital | Proportion of ownership interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | **2010** | 2009 | **2010** | 2009 | |
| Wai Chun Incorporation Limited | Hong Kong | Ordinary share of HK$ 1,000 | **100%** | 100% | **-** | – | Trading of footwear |
| Wai Chun Industrial (HK) Limited | Hong Kong | Ordinary share of HK$ 1,000 | **-** | – | **100%** | 100% | Investment holding |
| Weifang Century-Light Biology Science Co. Ltd. | PRC | Registered capital USD 2,929,000 | **-** | – | **51%** | – | Manufacturing of modified starch and biochemical products |
| Century-light Industry Co., Ltd. | PRC | Registered capital RMB 5,000,000 | **-** | – | **26%** | – | Trading of modified starch and biochemical products |

# FIVE YEARS FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **284,128** | 13,137 | 82,480 | 68,080 | 132,418 |
| Profit (loss) before taxation | **24,298** | (22,743) | (72,995) | (94,733) | (44,268) |
| Taxation | **(893)** | – | – | – | (9,645) |
| Profit (loss) for the year | **23,405** | (22,743) | (72,995) | (94,733) | (53,913) |
| Non-controlling interests | **(3,100)** | – | 6,885 | 10,856 | 3,122 |
| Profit (loss) for the year attributable to shareholders of the Company | **20,305** | (22,743) | (66,110) | (83,877) | (50,791) |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total Assets | **314,278** | 40,425 | 65,793 | 70,227 | 146,696 |
| Total Liabilities | **(268,852)** | (127,503) | (162,562) | (94,001) | (53,029) |
| | **45,426** | (87,078) | (96,769) | (23,774) | 93,667 |
| Non-controlling interests | **(18,124)** | 20,980 | 20,980 | 14,095 | (1,791) |
| Equity (capital deficiency) attributable to shareholders of the Company | **27,302** | (66,098) | (75,789) | (9,679) | 91,876 |