CT HOLDINGS (INTERNATIONAL) LIMITED
詩天控股（國際）有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code : 1008)

Annual Report 2010

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tsoi Tak *(Chairman) (re-designated with effect from 14 April 2011)*
Ms. Wu Sin Wah, Eva *(Chief Executive Officer)*
Mr. Cai Xiao Ming, David
Mr. Cai Xiao Xing
Mr. Kiong Chung Yin, Yttox

Non-executive Director

Mr. Sean Xing He *(appointed with effect from 14 April 2011)*

Independent non-executive Directors

Mr. Lam Ying Hung, Andy
Mr. Lui Tin Nang
Mr. Siu Man Ho, Simon

COMPANY SECRETARY

Mr. Yau Chung Hang, FCCA, CPA

AUDIT COMMITTEE

Mr. Lui Tin Nang
(chairman of the audit committee)
Mr. Lam Ying Hung, Andy
Mr. Siu Man Ho, Simon
Mr. Sean Xing He *(appointed with effect from 14 April 2011)*

REMUNERATION COMMITTEE

Mr. Kiong Chung Yin, Yttox
(chairman of the remuneration committee)
Mr. Siu Man Ho, Simon
Mr. Lam Ying Hung, Andy
Mr. Lui Tin Nang
Mr. Sean Xing He *(appointed with effect from 14 April 2011)*

NOMINATION COMMITTEE

Ms. Wu Sin Wah, Eva
(chairman of the nomination committee)
Mr. Siu Man Ho, Simon
Mr. Lam Ying Hung, Andy
Mr. Lui Tin Nang
Mr. Sean Xing He *(appointed with effect from 14 April 2011)*

AUTHORISED REPRESENTATIVES

Ms. Wu Sin Wah, Eva
Mr. Cai Xiao Ming, David

COMPLIANCE ADVISER

Optima Capital Limited

JOINT AUDITORS

CCIF CPA Limited
World Link CPA Limited

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Dah Sing Bank Limited
The Bank of East Asia Limited

LEGAL ADVISERS

Cayman Islands:
Conyers Dill & Pearman
Hong Kong:
Michael Li & Co.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2301–2, 23rd Floor
Tower Two, Nina Tower
8 Yeung Uk Road
Tsuen Wan
New Territories
Hong Kong

CORPORATE WEBSITE

www.ctprinting.com.hk

STOCK CODE

1008

LISTING DATE

30 March 2009

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of CT Holdings (International) Limited (the "Company") and its subsidiaries (together the "Group"), I present the annual results for the year ended 31 December 2010 (the "year under review").

During the year under review, the Company achieved a turnover of approximately HK$370.0 million with profits attributable to owners amounting to approximately HK$7.7 million and the basic earnings per share being approximately HK4 cents. The Board did not recommend the payment of final dividend for the year under review.

The business environment in the year under review was as difficult as in the previous year. Publishers in general continued to be very prudent and conservative in their inventory management and new product development in light of the waning demand with no strong signs of recovery. Short order cycles and relatively smaller order sizes had become the norm. On the other hand, the Group was facing continuous appreciation of Renminbi and rising costs of raw materials and labour wages in the People's Republic of China (the "PRC"). However, given the disappointing atmosphere of the markets, the Group was only able to transfer part of the increase in cost to the customers who, at the same time, demanded increasingly competitive prices. The resultant drop in profit margin was mitigated thanks to the strict cost control measures implemented by the Group.

Despite the disappointing market conditions, the Group kept improving its client portfolio by reinforcing the relationship with its current customers with good track record while weeding out less desirable ones. The Group continued to seek new customers and participated in a number of international book fairs to meet prospective new customers. On the other hand, the Group exercised strict credit control policies to manage exposure to accounts with good performance and contain exposure to accounts with poor records.

The result of Shitian Paper Craft (Shenzhen) Company Limited ("CT Shenzhen") was disappointing in the year under review. Its operation was scaled down in the second half of the year pending review of its development plan.

In view of the challenges, the Group has been searching for new growth impetus and exploring opportunities in the PRC market. Riding on the solid experience in the printing industry, the Group has been exploring for expansion opportunities within the printing industry and entered into a conditional sale and purchase agreement in respect of the acquisition of a group of cigarette package printing companies in the PRC, which has a solid track record and is considered to be one of the leading companies in the industry in the PRC, on 29 December 2010. The PRC is the largest cigarette manufacturer in the world and its market of cigarette packages provide ample opportunities for cigarette package printers. Given the large population of cigarette smokers and the expected economic growth in the PRC which will raise consumer spending power of the PRC, the Group is optimistic on the growth in demand of cigarettes and hence the growth potential of the business of cigarette package printing in the PRC. The Board is confident that the acquisition represents an opportunity for the Group to enter into the lucrative market of cigarette package printing in the PRC thereby strengthening its income stream. The Group may, from time to time, consider further acquisitions of companies engaging in similar cigarette package printing business should suitable opportunities arise.

Tsoi Tak
Chairman
31 March, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

TURNOVER

During the year under review, the turnover of the group was approximately HK$370.0 million (2009: HK$362.8 million), which represents a slight increase of approximately HK$7.2 million or 2.0% when compared with last year.

As a result of our continuous effort in exploring the European market, turnover from this region increased by approximately 14.4% as compared with prior year and accounted for approximately 72.5% (2009: 64.7%) of the Group's total turnover during the year under review. However, the increase in turnover generated from Europe is offset by the decrease in income generated from the Asian market mainly because CT Shenzhen has scaled down its operation during the second half of the year.

GROSS PROFIT

Gross profit decreased by approximately HK$17.6 million or 19.2% to approximately HK$73.8 million (2009: HK$91.4 million) despite an increase in turnover. The gross profit margin also dropped to approximately 19.9% (2009: 25.2%). The gross profit margin was mainly eroded by the continuous increase in raw materials cost and direct manufacturing costs.

OTHER REVENUE

Other revenue mainly represents the net proceed from sales of scrap materials. During the year under review, such income increased by approximately HK$1.4 million as compared with prior year.

SELLING EXPENSES

During the year under review, the selling expenses were approximately HK$31.9 million (2009: HK$25.9 million), which represents an increase of approximately HK$6.0 million or 23.3% when compared with 2009. As a result of the global upsurge of shipping cost and the increase in requirement for urgent freight booking from our customers, the freight and transportation costs increased significantly by approximately 52.4% to approximately HK$22.1 million (2009: HK$14.5 million) during the year under review.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately HK$1.7 million when compared with prior year. In 2009, some of our customers suffering from the financial tsunami closed down and therefore impairment losses of approximately HK$4.1 million were incurred. Following the gradual recovery of the global economy, impairment losses provided for the doubtful account receivables decreased dramatically. The effect of the aforementioned was partly offset by the increase in exchange losses of approximately HK$2.8 million as a result of appreciation of Reminbi against Hong Kong dollars during the year under review.

FINANCE COSTS

Finance costs decreased slightly by approximately HK$1.0 million during the year under review, which was in line with the decrease in the average balances of secured bank loans and obligations under finance lease.

NET PROFIT

During the year under review, profit attributable to the owners of the Company was approximately HK$7.7 million, representing a decrease approximately of HK$15.0 million when compared with 2009. Such significant drop-off was mainly caused by the decrease in gross profit and increase in selling expenses, partly offset by the decrease in administrative expenses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION AND LIQUIDITY

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. As at 31 December 2010, the Group had net current assets of approximately HK$182.2 million (2009: HK$158.9 million), while the Group's cash and cash equivalents amounted to approximately HK$75.6 million (2009: HK$56.3 million). The improvement in cash position was contributed by the increase in cash-flow generated from operation.

As at 31 December 2010, the interest-bearing bank loans of the Group amounted to approximately HK$36.6 million (2009: HK$39.8 million) which were repayable within one year. The interest-bearing obligations under finance leases amounted to approximately HK$18.5 million (2009: HK$33.5 million) of which approximately HK$12.0 million (2009: HK$15.0 million) were repayable within one year. Carrying amount of property, plant and equipment and bank deposits pledged for securing these credit facilities amounted to approximately HK$46.5 million and HK$25.1 million respectively.

As at 31 December 2010, the Group's gearing ratio represented by the amount of interest-bearing borrowings divided by shareholders equity was approximately 19.1% (2009: 26.3%). The improvement in the gearing ratio was mainly due to the repayment of the interest-bearing borrowings, especially the finance lease, during the year under review. As at 31 December 2010, the Group did not have any capital commitment.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2010, the Group did not provide any guarantees to any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, the Group has entered a conditional sale and purchase agreement to acquire 100% equity interest in Brilliant Circle Holdings International Limited (together with its subsidiaries and an associated company, the "Target Group") from Mr. Tsoi Tak, the Chairman of the Board, who is also a non-executive Director and the controlling shareholder of the Company, at a consideration of HK$2.4 billion (the "Acquisition"). The consideration will be satisfied by the issuance of 480,000,000 new shares of the Company at HK$5 each. The Target Group is principally engaged in the printing of cigarette packages and manufacturing of laminated paper in the PRC. The management is of the view that the Acquisition will provide valuable investment opportunity to the Group to participate in the cigarette packages printing business in the PRC which is of high growth potential. Completion of the Acquisition took place on 14 April 2011. Details of the Acquisition are set out in the announcements of the Company dated 1 February 2011 and 14 April 2011 and the circular of the Company dated 28 March 2011 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

During the year under review, the Group's operation was mainly financed by funds generated from its operation and borrowings. As at 31 December 2010, the borrowings were mainly denominated in Hong Kong dollars and United States dollars ("US dollars"), while the cash and cash equivalents held by the Group were mainly denominated in Hong Kong dollars and Renminbi. All of the Group's borrowings were variable rate borrowings and no hedging has been employed by the Group during the year under review. The Group's turnover is mainly denominated in US dollars, Pounds Sterling, Euros and Hong Kong dollars, while its costs and expenses are mainly denominated in US dollars, Hong Kong dollars and Renminbi. As majority portion of the Group's assets, liabilities, revenues and payments during the year under review were denominated in either Hong Kong dollars or US dollars, the Board considers that the risk exposure to foreign exchange rate fluctuations is not significant. The Group does not have a formal hedging policy and has not entered into any material foreign currency exchange contracts or derivative transactions to hedge against its currency risks.

HUMAN RESOURCES

As at 31 December 2010, the Group had 42 full-time staff based in Hong Kong and the PRC. The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries. The Group also made contributions to provident funds, elderly insurance, medical insurance, unemployment insurance and work-related injury insurance in accordance with appropriate laws and regulations in the PRC, The Group has also adopted a share option scheme to provide incentive or reward to eligible high-calibre employees and attract human resources that are valuable to the Group.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. TSOI Tak (蔡得), aged 57, is the Chairman of the Board and was appointed as a non-executive Director on 11 November 2008 and was re-designated as an executive Director with effect from 14 April 2011. Mr. Tsoi has more than 26 years of business experience in the PRC, of which over 19 years is in the PRC packaging and printing industry. Mr. Tsoi is the founder of the Group and is currently a director of most of the subsidiaries of the Company. Mr. Tsoi entered into the printing industry in 1990 when he established a joint venture in the PRC to engage in the printing of packaging boxes. Prior to that, Mr. Tsoi was engaged in trading business in the PRC. Mr. Tsoi graduated in 1978 from South China Normal University majoring in Chinese. Mr. Tsoi is a member of the 5th Changde Committee of the Municipal Chinese People's Political Consultative Conference and a council member of Guang Dong Printing and Replicate Association. Mr. Tsoi is the father of Mr. Cai Xiao Ming David ("Mr. David Cai") and Mr. Cai Xiao Xing ("Mr. Tony Cai"), each of whom is an executive Director.

Ms. WU Sin Wah, Eva (胡倩華), aged 53, was appointed as an executive Director on 18 December 2008. She is also the chief executive officer (the "CEO") of the Company. Ms. Wu is responsible for the overall management of the Group, including sales and marketing, shipping and logistics, purchasing and administration of the Group. Ms. Wu is the general manager of CT Printing Limited ("CT Printing") and a director of CT Shenzhen. Ms. Wu has over 16 years of experience in industrial management, of which over 10 years is in the printing industry. Before joining the Group in October 2003, Ms. Wu was an executive manager of a printing company principally engaged in book printing and binding business with its own factory in Dongguan, the PRC, where she was responsible for its overall management including the production, purchasing, accounting, logistic and human resources functions.

Mr. CAI Xiao Ming, David (蔡曉明), aged 33, was appointed as an executive Director on 18 December 2008. He is responsible for the overall financial management of the Group. Mr. David Cai is also a director of CT Printing. Mr. David Cai is a member of the 6th Maoming Committee of the Municipal Chinese People's Political Consultative Conference. Mr. David Cai has more than seven years of experience in the packaging and printing industry gained from the management of the Group's business. Mr. David Cai joined the Group in January 2001 and he is the elder brother of Mr. Tony Cai.

Mr. CAI Xiao Xing (蔡曉星) (also known as Mr. Tony Cai), aged 26, was appointed as an executive Director on 18 December 2008. He is responsible for the formulation and implementation of marketing strategies of the Group. Mr. Tony Cai received his Bachelor of General Studies from Simon Fraser University, Canada with an extended minor in economics in 2008 where he gained knowledge in marketing and business management. He is also the member of the 12th Haikou Committee of the Municipal Chinese People's Political Consultative Conference. Mr. Tony Cai joined the Group in October 2008 and he is the son of Mr. Tsoi and the younger brother of Mr. David Cai.

Mr. KIONG Chung Yin, Yttox (姜仲賢), aged 44, was appointed as an executive Director on 18 December 2008. He is responsible for the marketing of the Group. Mr. Kiong is also the legal representative and a director of CT Shenzhen. Mr. Kiong has more than 19 years of experience in sales and customer service of various industries including banking, electronics and machinery trading, of which over 13 years is related to the printing industry. Before joining the Group in January 2001, Mr. Kiong was a sales manager in a printing company. Mr. Kiong received his Master of Business Administration in General Management from University of Exeter, the UK in 1992, and Professional Diploma in Business Studies (Banking) from Hong Kong Polytechnic University in 1988.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Sean Xing He (何欣), aged 46, was appointed as a non-executive Director with effect from 14 April 2011. He has over 10 years experience in investment management. Mr. He is the Head of Ares Asia and sits on the Investment Committee of the Fund. Mr. He joined Ares Management (Cayman), Ltd. in March 2010 from The Carlyle Group, where he had been since 2000, is a managing director, global partner and the head of China growth capital. Ares Management (Cayman), Ltd. is the general partner of ACOF Asia Management, L.P. which is the general partner of Ares BCH Holdings, L.P., a substantial Shareholder. He is a director of Ares Management (Cayman), Ltd. Mr. He was a director of Honghua Group Limited, a company listed on the Main Board of the Stock Exchange, from 18 January 2008 to 14 April 2010. Mr. He graduated from Zhejiang University in 1985, with a Bachelor's degree in structural engineering, and in 1991 he received a Master's degree in engineering from Carleton University (Canada). In 1994, he earned an MBA from the Schulich School of Business, York University (Canada). In 1997, Mr. He qualified as an American Chartered Financial Analyst (CFA).

Independent non-executive Directors

Mr. LAM Ying Hung, Andy (林英鴻), aged 47, was appointed as an independent non-executive Director on 4 March 2009. Mr. Lam has over 20 years of experience in accounting, banking and finance sectors. Mr. Lam is the managing consultant of Lontreprise Consulting Limited. Mr. Lam is an associate member of various professional organisations, namely The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries and The Hong Kong Institute of Bankers. Mr. Lam is also a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Lam is also an independent non-executive director of Xingfa Aluminium Holdings Limited, a company listed on the Main Board of the Stock Exchange and Sino-Life Group Limited, a company listed on the GEM Board of the Stock Exchange. Mr. Lam received his Master of Professional Accounting and Master of Science in E-commerce for Executives both from The Hong Kong Polytechnic University.

Mr. LUI Tin Nang (呂天能), aged 53, was appointed as an independent non-executive Director on 4 March 2009. Mr. Lui has obtained a bachelor degree in science from the University of Leeds and a master degree in business administration from the University of Bradford in United Kingdom. He is a fellow member of the HKICPA (Practicing) and the Institute of Chartered Accountants in England & Wales, member of the Chartered Institute of Management Accountant. He has years of experience in accounting, auditing, taxation and corporate finance. Mr. Lui is an independent non-executive director of National Investments Fund Limited and Vital Pharmaceutical Holdings Limited, companies whose shares are listed on the Main Board of the Stock Exchange. He was also appointed as an independent non-executive director of China Pipe Group Limited and resigned on 23 February 2009. Mr. Lui was also appointed as an independent non-executive director of Finet Group Limited during 26 August 2010 to 30 September 2010.

Mr. SIU Man Ho, Simon (蕭文豪), aged 38, was appointed as an independent non-executive Director on 4 March 2009. Mr. Siu is a practicing solicitor of the High Court of Hong Kong. Mr. Siu is a partner of Sit, Fung, Kwong & Shum, Solicitors and his areas of practice include corporate finance, capital markets, securities, mergers and acquisitions, joint ventures and general commercial matters. Mr. Siu currently serves as an independent non-executive director of Wai Yuen Tong Medicine Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Siu received his Bachelor's degree in Laws from The University of Hong Kong in 1996.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Gao Pixing (高丕興), aged 58, is the chief executive officer of the Brilliant Circle Holdings International Limited ("BCH") and its subsidiaries (together the "BC Group"). He is responsible for the production and factory management of the Target Group. He joined Changde Goldroc Printing Co., Limited, an associated company of BCH, ("CD Goldroc") in 2001 and the BC Group in 2007, and has over 10 years of experience in the cigarette package printing industry.

Ms. Huang Xinyi (黃新沂), aged 62, is the vice president of the BC Group. She is responsible for the finance and accounting of the BC Group. She joined the BC Group in 2001 and holds a professional certificate in industrial finance and accounting and is a senior registered accountant in the PRC.

Mr. Qin Song (欽松), aged 38, is the vice president of the BC Group and the general manager of Bengbu Jinhuangshan Rotogravure Printing Co., Ltd., a subsidiary of BCH. He is responsible for the sales and marketing of the BC Group. He joined the BC Group in 2002.

Mr. Tang Jian Xin (唐建新), aged 40, is the general manager of Shenzhen Kecai Printing Co., Ltd., a subsidiary of BCH. He joined CD Goldroc in 1997 and the BC Group in 2006. He has more than 10 years of experience in cigarette package industry and has been awarded 2009 年度廣東省企業優秀管理人材(Outstanding management of enterprises in Guangdong Province 2009*).

Mr. Jiang Xiang Yu (蔣祥瑜), aged 55, is the general manager of Xiangfan Jinfeihuan Colour Package Co., Ltd, a subsidiary of BCH. He joined the BC Group in 1999 and has over 10 years of experience in cigarette package industry.

Mr. Zheng Chao (鄭超), aged 48, is the general manager of Zhaotong Antong Package Material Co., Ltd., a subsidiary of BCH. He joined the BC Group in 1999 and has over 10 years of experience in laminated paper manufacturing industry. Mr. Zheng holds a college degree.

Mr. YAU Chung Hang (邱仲珩), aged 38, is the chief financial officer and company secretary of the Company. Mr. Yau obtained the Bachelor of Arts in Accounting from the University of Bolton, the UK. Mr. Yau has more than 14 years of experience in finance and accounting. Prior to joining the Group, Mr. Yau had worked as financial controller for two listed companies in Hong Kong and had previously worked in an international accounting firm. He is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of HKICPA. Mr. Yau joined the Group in September 2007.

Mr. CHUNG Tat Hung (鍾達鴻), aged 43, is the finance manager of the Group. He is responsible for the accounting and finance operations of the Group. Before joining the Group in October 2003, Mr. Chung had worked in various companies as finance manager and accounting manager, and was previously an accountant of an international accounting firm. Mr. Chung is a fellow member of HKICPA and a certified practicing accountant of Australian Society of Certified Practising Accountants. Mr. Chung received his Master of Business Administration jointly offered by the University of Sydney and the University of New South Wales in Australia in 2002 and Bachelor of Commerce from the Australian National University in 1991.

Mr. FOO Chi Hung (傅志雄), aged 42, is the senior sales manager of CT Printing. He is responsible for the sales, marketing and customer service function of the Group. Mr. Foo has more than 16 years of experience in printing industry. Before joining the Group in August 2006, Mr. Foo had worked in the sales department and production department for various printing companies. Mr. Foo received his Diploma in Printing offered by the Vocational Training Council of Hong Kong in 1990.

COMPANY SECRETARY

Mr. YAU Chung Hang is the company secretary of the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities of the principal subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

ANALYSIS OF OPERATIONS

Details of an analysis of the Group's turnover and contribution to operating profit for the year by geographical segments are set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group are set out in the consolidated statement of comprehensive income on page 24. The Board did not recommend the payment of dividend for the year.

USE OF IPO PROCEEDS

Following the listing of the shares of the Company on the Stock Exchange on 30 March 2009 involving an initial public offering of 50,000,000 ordinary shares of the Company at an offer price of HK$1.25 per share, net proceeds of approximately HK$48.9 million were raised of which HK$27.9 million had been utilised up to the date of this report. The unutilised proceeds have been deposited in licensed banks in Hong Kong. As stated in the prospectus of the Company dated 18 March 2009, the Company plans to use the proceeds in the purchase of new machinery and equipment, business development of the domestic market of packaging and decorative printed products in the PRC, expansion of sales network and for general working capital purposes.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales to the Group's five largest customers accounted for approximately 39.5% of the Group's turnover and sales to the Group's largest customer was approximately 10.35% of the Group's total turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 63.5% of the Group's total purchases, and the purchases attributable to the Group's largest supplier was approximately 30.1% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had interests in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

RESERVES

Details of the movements in reserves of the Group and the Company are set out in the consolidated statement of changes in equity and note 27 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on page 85.

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.

SHARE OPTION SCHEME

On 4 March 2009, the shareholders of the Company had approved and adopted a share option scheme (the "Share Option Scheme"). Key terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest.

(ii) Qualifying participants of the Share Option Scheme include any employee, executive and non-executive directors, customer or supplier of goods or services to any member of the Group, consultant, adviser, manager, officer or entity that provide research, development or other technological support to the Group or its member(s).

(iii) The total number of shares in respect of which options may be granted under the Share Option Scheme is 20,000,000 shares, being 10% of the total number of shares in issue as at 30 March 2009, being the date of listing of the shares of the Company on the Stock Exchange.

(iv) The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

(v) Unless approved by shareholders in general meeting, the total number of shares issued and to be issued upon exercise of all options granted to any eligible participant under the Share Option Scheme in the 12 month period up to and including such further grant must not exceed 1% of the total number of shares in issue.

(vi) The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted.

(vii) A non-refundable consideration of HK$1 is payable on acceptance of the offer of grant of an option. An offer of grant of an option may be accepted by an eligible person within the date as specified in the offer letter issued by the Company, being a date not later than 21 business days from the date offer is made.

(viii) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be notified by the Board at its sole discretion. There is no performance target that has to be achieved before the exercise of any option.

(ix) The subscription price must be at least the higher of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (2) the average of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of a Company's share.

(x) The Board is entitled at any time within 10 years between 30 March 2009 and 29 March 2019 to offer the grant of an option to any qualifying participants.

Up to the date of this report, no option under the Share Option Scheme has been granted by the Board.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements 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.

SUBSIDIARIES

Details of the Company's subsidiaries as at the date of this report are set out in note 17 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEME

The Group operates provident fund scheme as defined in the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the laws of Hong Kong (the "MPF Scheme"). The MPF Scheme was a defined contribution scheme and the assets of the MPF Scheme were managed by a trustee.

The MPF Scheme is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions were made by the Group at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose is HK$20,000 per month. Staff members were entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits were required by law to be preserved until the retirement age of 65.

The employees of the Group's subsidiary established in the PRC are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

The Group's cost for the schemes charged to the consolidated statement of comprehensive income for the year ended 31 December 2010 amounted to approximately HK$576,000 (2009: HK$415,000).

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Tsoi Tak *(Chairman) (redesignated from non-executive Director on 14 April 2011)*
Ms. Wu Sin Wah, Eva *(Chief Executive Officer)*
Mr. Cai Xiao Ming, David
Mr. Cai Xiao Xing
Mr. Kiong Chung Yin, Yttox

Non-executive Director:

Mr. Tsoi Tak *(Chairman) (redesignated as executive Director on 14 April 2011)*
Mr. Sean Xing He *(appointed on 14 April 2011)*

REPORT OF THE DIRECTORS

Independent non-executive Directors:
Mr. Lam Ying Hung, Andy
Mr. Lui Tin Nang
Mr. Siu Man Ho, Simon

According to article 84(1) of the Articles of Association of the Company, one-third of the Directors for the time being shall retire from office by rotation at the annual general meeting of the Company but shall then be eligible for re-election. According to article 83(3) of the Articles of Association of the Company, any Director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Details of the Directors subject to rotation and re-election are contained in the circular despatched together with this annual report.

In compliance of Rule 3.10(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board. Pursuant to paragraph 12B of Appendix 16 of the Listing Rules, each of the independent non-executive Directors has confirmed by annual confirmation that he has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Company considers that all three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 7 to 9.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Tak has entered into an appointment letter with the Company dated 14 April 2011 and his term of appointment shall continue unless terminated by either party serving three months' written notice. Each of Ms. Wu Sin Wah, Eva, Mr. David Cai, Mr. Tony Cai and Mr. Kiong Chung Yin, Yttox has entered into a service agreement with the Company for an initial term of three years commencing from 30 March 2009, and will continue thereafter until terminated by not less than three months' notice in writing served by either party. Mr. Sean Xing He has been appointed for a fixed term of three years commencing from 14 April 2011. Each of Mr. Lam Ying Hung, Andy, Mr. Lui Tin Nang and Mr. Siu Man Ho, Simon has been appointed for a fixed term of three years commencing from 30 March 2009.

Save as aforesaid, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions entered into during the year were disclosed in note 28 to the consolidated financial statements. Furthermore, on 29 December 2010, the Company, CT Management Investments Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Mr. Tsoi Tak, the Chairman of the Board, who was then also a non-executive Director and the controlling shareholder of the Company, for the acquisition of 100% equity interest in Brilliant Circle Holdings International Limited at a consideration of HK$2.4 billion. The proposed acquisition constitutes a very substantial acquisition and connected transaction of the Company under the Listing Rules. Details of which are set out in the announcements of the Company dated 1 February 2011 and 14 April 2011 and the circular of the Company dated 28 March 2011 respectively. Save as the aforesaid and those disclosed under the paragraph headed "Continuing Connected Transactions" below, these related party transactions either did not constitute connected transactions under the Listing Rules or were discontinued prior to the listing of the Company's shares on the Stock Exchange. Save as the transactions aforementioned, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, and there were no contract of significance for the provision of services to the Group by the controlling shareholder of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

MANAGEMENT CONTRACTS

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

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

As at 31 December 2010, the following Directors or the chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules:

(i) The Company

Name of Director	Capacity	Number shares held	Position	Approximate percentage of issued share capital
Mr. Tsoi Tak	Interest of controlled corporation	105,000,000 *(Note 1)*	Long	52.5%
	Beneficial owner	480,000,000 *(Note 2)*	Long	240.0%
		585,000,000		292.5%
Mr. Cai Xiao Ming, David	Interest of controlled corporation	45,000,000 *(Note 3)*	Long	22.5%

Notes:

1. These shares are held by Profitcharm Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Tsoi Tak. There has been a change in nature of interests of Profitcharm Limited in respect of 176,800,000 Shares to be sold under the sale and purchase agreement dated 29 December 2010 and entered into among Profitcharm Limited, Mr. Tsoi Tak and Ares BCH Holdings, L.P., representing 26% of the issued share capital of the Company as enlarged by the issue of the consideration shares under the Acquisition. By virtue of the SFO, Mr. Tsoi Tak is deemed to be interested in the entire 105,000,000 shares held by Profitcharm Limited.

2. These shares represent the consideration shares to be issued to Mr. Tsoi Tak under the Acquisition.

3. These shares are held by Sinorise International Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. David Cai. By virtue of the SFO, Mr. David Cai, is deemed to be interested in the entire 45,000,000 shares held by Sinorise International Limited.

(ii) Associated corporation

Name of associated corporation	Name of registered owner	Capacity	Position	Number of shares in the associated corporation	Approximate percentage of shareholding in the associated corporation
Profitcharm Limited	Tsoi Tak	Beneficial owner	Long	200 shares of US$1.00 each	100%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN AND/OR SHORT POSITIONS

So far as is known to the Directors and chief executives of the Company, as at 31 December 2010, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, would be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of shareholder	Capacity	Number of shares held	Position	Approximate Percentage of issued share capital
Profitcharm Limited *(Note 1)*	Beneficial owner	105,000,000	Long	52.5%
Sinorise International Limited *(Note 2)*	Beneficial owner	45,000,000	Long	22.5%
ACOF Asia Management, L.P.	Interest of controlled corporation	176,800,000	Long	88.4%
Ares BCH Holdings, L.P.	Beneficial owner	176,800,000	Long	88.4%
Ares Management (Cayman), Ltd.	Interest of controlled corporation	176,800,000	Long	88.4%

Notes:

1. Profitcharm Limited is a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Tsoi Tak.

2. Sinorise International Limited is a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. David Cai.

CONTINUING CONNECTED TRANSACTIONS

On 22 June 2010, the processing factory of the Group (the "Processing Factory") entered into a lease agreement (the "Factory Lease Agreement") with 深圳市科彩印務有限公司 (Shenzhen Kecai Printing Co., Ltd.) ("Kecai"), pursuant to which, the Processing Factory has rented certain premises in the Grand Industrial Zone located in Shenzhen, the PRC from Kecai for a term of three years commencing from 1 June 2010 as its production sites.

On 22 June 2010, CT Shenzhen also entered into a lease agreement (the "Group Lease Agreement") with Kecai, pursuant to which, CT Shenzhen has rented certain premises in the Grand Industrial Zone located in Shenzhen, the PRC from Kecai for a term of three years commencing from 1 June 2010 as its production sites.

In February 2010, Mr. Tsoi, being a director and the controlling shareholder interested in 52.5% of the shareholding of the Company, acquired the entire issued share capital in the intermediate holding company of Kecai which had therefore become beneficially owned as to approximately 99% by Mr. Tsoi and as to approximately 1% by his brother. Kecai was thus a connected person to the Company within the meaning of the Listing Rules.

Given the relationship of Mr. Tsoi and Kecai, and the contractual requirement of CT Printing to reimburse the rental payable by the Processing Factory to Kecai under the terms of the processing agreement between CT Printing and the Processing Factory, the rental reimbursements by CT Printing Limited to the Processing Factory are regarded as continuing connected transactions on the part of the Company under the Listing Rules. As advised by the Processing Factory, the terms of the Factory Lease Agreement were arrived at after arm's length negotiations between the Processing Factory and Kecai with reference with the market rate.

The transactions under the Group Lease Agreement constitute continuing connected transaction of the Company. The terms of the Group Lease Agreement were arrived at after arm's length negotiations between CT Shenzhen and Kecai with reference with the market rate.

The annual caps on the aggregate rent payable under the Factory Lease Agreement and the Group Lease Agreement are set at HK$4,000,000, HK$7,000,000 and HK$7,000,000 for each of the three financial years of the Company ending 31 December 2010, 31 December 2011 and 31 December 2012 respectively.

Details of the transactions were set out in the announcement of the Company dated 22 June 2010.

During the year, the rental expenses paid to Kecai, including reimbursing the rental payable by the Processing Factory to Kecai, pursuant to the aforesaid lease agreements did not exceed the annual cap of HK$4,000,000.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the continuing connected transactions were entered into:

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

(b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with their respective contracts on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

The Board has received a letter from the auditors of the Company confirming that the above continuing connected transactions:

(a) have received the approval of the Board;

(b) are in accordance with the pricing policies of the Company;

(c) have been entered into in accordance with their respective contracts; and

(d) have not exceeded their respective approved annual caps set out above for the year.

The Company has complied with the applicable requirements under the Listing Rules in respect of continuing connected transactions engaged in by the Group.

The aforesaid transactions would cease to be continuing connected transactions of the Company under the Listing Rules subsequent to the completion of the Acquisition.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 18 to 21.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge, as at the date of this report, there is sufficient public float of 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

The financial statements have been jointly audited by CCIF CPA Limited and World Link CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
CT Holdings (International) Limited

Tsoi Tak
Chairman

Hong Kong, 31 March 2011

CORPORATE GOVERNANCE REPORT

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the Code on Corporate Governance Practice (the “Code”) contained in Appendix 14 of the Listing Rules since the listing of its issued shares on the Stock Exchange on 30 March 2009. For the year ended 31 December 2010, the Company has complied in general with the Code except that the Chairman of the Board could not attend the annual general meeting of the Company held on 4 June 2010 due to business engagement in the PRC.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made specific enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors’ securities transactions for the year ended 31 December 2010.

THE BOARD OF DIRECTORS

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of overall business strategies, internal control and risk management systems, and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of CEO. The Directors have the responsibility to act objectively in the interests of the Company.

Currently, the Board comprises nine Directors, including five executive Directors namely Mr. Tsoi Tak, Ms. Wu Sin Wah, Eva, Mr. David Cai, Mr. Tony Cai and Mr. Kiong Chung Yin, Yttox, one non-executive Director namely Mr. Sean Xing He, and three independent non-executive Directors namely Mr. Lam Ying Hung, Andy, Mr. Lui Tin Nang and Mr. Siu Man Ho, Simon. Mr. Tsoi Tak is also the father of Mr. David Cai and Mr. Tony Cai, both being executive Directors. Mr. Tsoi Tak and Ms. Wu Sin Wah, Eva, both being executive Directors were appointed as the Chairman and the CEO respectively. The names and biographical details of the Directors are set in the section entitled “Directors and Senior Management” in this annual report.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors representing one-third of the Board. Pursuant to paragraph 12B of Appendix 16 of the Listing Rules, each of the independent non-executive Directors has confirmed by annual confirmation that he has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement. Amongst the three independent non-executive Directors, both Mr. Lam Ying Hung, Andy and Mr. Lui Tin Nang have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

The Board has delegated various responsibilities to the Board committees including the audit committee (the “Audit Committee”), the remuneration committee (the “Remuneration Committee”) and the nomination committee (the “Nomination Committee”) (collectively, the “Board Committees”). Further details of these committees are set out below on pages 19 to 20.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

Four board meetings were held during the year ended 31 December 2010. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as the operation and financial performance of the Group. Notice of board meeting was sent to all Directors at least 14 days prior to a regular board meeting. Reasonable notices will be given to the Directors for ad-hoc board meetings. Directors may participate either in person or through electronic means of communications.

All relevant materials were sent to all the Directors relating to the matters brought before the meetings. All the Directors have been provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings. Details of individual attendance of Directors are set out in the table on page 20 of this annual report.

Appointments, Re-election and Removal of Directors

Except Mr. Tsoi Tak, each of the executive Directors has entered into a service contract with the Company for a specific term of three years commencing from 30 March 2009. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. On 14 April 2011, a new non-executive Director is appointed.

All of the independent non-executive Directors and the non-executive Director were appointed for a term of three years, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2010, Mr. Tsoi Tak is the Chairman and was a non-executive Director who provides leadership to the Board but he would not be involved in the day-to-day management of the Group's business. Since 14 April 2011 (being the date of completion of the Acquisition), Mr. Tsoi Tak has been re-designated as executive Director. Ms. Wu Sin Wah, Eva was appointed as the CEO of the Company and her role is to oversee the overall management of the Group.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 4 March 2009 in compliance with Rules 3.21 to 3.23 and Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and monitor the financial reporting process and internal control of the Group. During the year ended 31 December 2010, the Audit Committee consisted of all three independent non-executive Directors and Mr. Lui Tin Nang is the chairman of the Audit Committee. The Audit Committee has reviewed the Company's financial statements and the Group's combined financial statements for the year ended 31 December 2010, including the accounting principles and practices adopted by the Company and the Group. The Board has not taken a different view from that of the Audit Committee regarding the selections, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 4 March 2009 in compliance with Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. In determining the emolument payable to the Directors, the Remuneration Committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. During the year ended 31 December 2010, the Remuneration Committee consisted of four members (including the three independent non-executive Directors and Mr. Kiong Chung Yin, Yttox, an executive Director) and Mr. Kiong Chung Yin, Yttox is the chairman of the Remuneration Committee.

Nomination Committee

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 4 March 2009 in compliance with the recommended best practice set out in Appendix 14 of the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. During the year ended 31 December 2010, the Nomination Committee consisted of four members (including the three independent non-executive Directors and Ms. Wu Sin Wah, Eva, an executive Director) and Ms. Wu Sin Wah, Eva, is the chairman of the Nomination Committee. Potential new Directors are selected on the basis of their qualifications, skills and experience which the Directors consider will make a positive contribution to the performance of the Board.

Independent Board Committee

During the year ended 31 December 2010, two independent committees of the Board comprising all the independent non-executive Directors were formed to consider and approve the continuing connected transactions relating to the Factory Lease Agreement and the Group Lease Agreement, and the connected transaction relating to the Acquisition as announced by the Company dated 22 June 2010 and 1 February 2011 respectively.

Attendance of meetings

The attendance of each Director at Board meetings and Board Committees meetings during the year ended 31 December 2010 was as follows:

	Attendance out of number of meetings				
Name of director	**Board**	**Independent Board**	**Remuneration Committee**	**Nomination Committee**	**Audit Committee**
Chairman & Non-executive Director					
Tsoi Tak	3/4	–	–	–	–
Executive Directors					
Wu Sin Wah, Eva	4/4	–	–	2/2	–
David Cai	3/4	–	–	–	–
Tony Cai	4/4	–	–	–	–
Kiong Chung Yin, Yttox	4/4	–	2/2	–	–
Independent non-executive Directors					
Lam Ying Hung, Andy	4/4	2/2	2/2	2/2	2/2
Lui Tin Nang	4/4	2/2	2/2	2/2	2/2
Siu Man Ho, Simon	4/4	2/2	2/2	2/2	2/2

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial Reporting

The Board, supported by the chief financial officer and the finance department of the Group, is responsible for the preparation of the financial statements of the Company and the Group. In the preparation of financial statements, Hong Kong Financial Reporting Standards have been adopted and the appropriate accounting policies and statutory requirements have been consistently complied with. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner.

External Auditors

During the year ended 31 December 2010, the fee paid/payable to the external auditors of the Company amounted to approximately HK$1.1 million of which approximately HK$0.9 million was incurred for statutory audit and approximately HK$0.2 million was incurred for non-audit services.

Internal controls

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

After the reviewing the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided for the year ended 31 December 2010.

Directors' responsibility on the financial statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010, which were prepared in accordance with applicable accounting standards.

The reporting responsibilities of the external auditors of the Company on the consolidated financial statements of the Company are set out in the independent auditors' report on pages 22 to 23.

NON-COMPETITION UNDERTAKINGS

The Company has been confirmed by Mr. Tsoi Tak that (i) he has complied with the undertakings contained in the deed of non-competition undertaking dated 4 March 2009 executed by him in favour of the Group; and (ii) he and/or any of his associates is not offered or becomes aware of any new project or business opportunity directly or indirectly to engage or becomes interested in any business carried on by any member of the Group from time to time or in which any member of the Group is engaged or has invested or is otherwise involved in since 30 March 2009, being the listing date of the Company's shares on the Stock Exchange.

GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

COMMUNICATION WITH SHAREHOLDERS

The Company aims to maintain regular, effective and fair communication with shareholders and is committed to conveying important and relevant information to shareholders on a timely basis. In compliance with the Listing Rules, at least 20 clear business days' notice will be given to the shareholders for annual general meeting and at least 10 clear business days' notice will be given for all other meetings. All general meetings of the Company have been conducted by way of poll and detailed procedures for conducting a poll were explained at the commencement of the meeting. Results on all general meetings will be published by way of an announcement immediately following the relevant general meeting.

INDEPENDENT AUDITORS' REPORT

CCIF
CCIF CPA LIMITED
陳葉馮會計師事務所有限公司
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

World Link CPA Limited
5th Floor, Far East Consortium Building
121 Des Voeux Road, Central, Hong Kong
Email 電郵: info@worldlinkcpa.com
Website 網址: www.worldlinkcpa.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CT HOLDINGS (INTERNATIONAL) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of CT Holdings (International) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 24 to 84, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of 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' judgment, 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.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2011

Kwok Cheuk Yuen
Practising Certificate Number P02412

World Link CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2011

Fung Tze Wa
Practising Certificate Number P01138

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	7	370,031	362,750
Cost of sales		(296,251)	(271,386)
Gross profit		73,780	91,364
Other revenue	8	4,754	2,621
Selling expenses		(31,947)	(25,912)
Administrative expenses		(33,870)	(35,562)
Profit from operation		12,717	32,511
Listing expenses	9(d)	–	(1,569)
Finance costs	9(a)	(3,976)	(4,966)
Profit before taxation	9	8,741	25,976
Income tax	10(a)	(1,008)	(3,243)
Profit for the year attributable to owners of the Company		7,733	22,733
Other comprehensive income:			
Reversal of fair value reserve in respect of the disposal of available-for-sale financial assets		–	618
Exchange difference on translating foreign operation		1,213	–
Total other comprehensive income for the year		1,213	618
Total comprehensive income for the year attributable to owners of the Company		8,946	23,351
Earnings per share			
– basic and diluted	14	HK$0.04	HK$0.12

The notes on pages 30 to 84 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	121,002	147,720
		121,002	147,720
Current assets			
Inventories	18	53,143	47,072
Trade and other receivables	19	113,169	148,070
Pledged bank deposits	20	25,082	25,306
Cash and cash equivalents	21	75,579	56,256
		266,973	276,704
Current liabilities			
Trade and other payables	22	32,773	59,471
Obligations under finance leases	23	11,979	15,006
Secured bank loans	24	36,557	39,782
Current taxation	25(a)	3,482	3,554
		84,791	117,813
Net current assets		182,182	158,891
Total assets less current liabilities		303,184	306,611
Non-current liabilities			
Obligations under finance leases	23	6,524	18,503
Deferred tax liabilities	25(b)	8,767	9,161
		15,291	27,664
NET ASSETS		287,893	278,947

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (restated)
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	2,000	2,000
Reserves	27	285,893	276,947
TOTAL EQUITY		287,893	278,947

Approved and authorised for issue by the board of directors on 31 March 2011.

On behalf of the board

Tsoi Tak
Chairman

Wu Sin Wah, Eva
Chief Executive Officer

The notes on pages 30 to 84 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	17	211,210	211,210
Current assets			
Trade and other receivables	19	1,248	191
Amount due from a subsidiary	19	38,554	38,807
Cash and cash equivalents	21	193	2,658
		39,995	41,656
Current liabilities			
Accruals and other payables	22	58	331
		58	331
Net current assets		39,937	41,325
Total assets less current liabilities		251,147	252,535
NET ASSETS		251,147	252,535
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	2,000	2,000
Reserves	27(a)	249,147	250,535
TOTAL EQUITY		251,147	252,535

Approved and authorised for issue by the board of directors on 31 March 2011.

On behalf of the board

Tsoi Tak
Chairman

Wu Sin Wah, Eva
Chief Executive Officer

The notes on pages 30 to 84 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company						
	Share capital	Share premium (note 27(c)(i))	Fair value reserve (note 27(c)(ii))	Merger reserve (note 27(c)(iii))	Exchange reserve (note 27(c)(v)	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	2	108,807	(618)	19	–	100,039	208,249
Changes in equity for 2009:							
Profit for the year	–	–	–	–	–	22,733	22,733
Other comprehensive income – Reversal of fair value reserve in respect of the disposal of available-for-sale financial assets	–	–	618	–	–	–	618
Total comprehensive income	–	–	618	–	–	22,733	23,351
Elimination of share capital pursuant to the Reorganisation	(2)	–	–	–	–	–	(2)
Issue of 9,999,999 ordinary shares of the Company pursuant to the Reorganisation (note 26(b))	100	–	–	(98)	–	–	2
Issue of 140,000,000 ordinary shares of the Company pursuant to the capitalisation issue (note 26(c))	1,400	(1,400)	–	–	–	–	–
Issue of 50,000,000 ordinary shares of the Company for public offering (note 26(d))	500	62,000	–	–	–	–	62,500
Transaction costs directly attributable to the issue of new shares	–	(15,153)	–	–	–	–	(15,153)
At 31 December 2009 and 1 January 2010	2,000	154,254	–	(79)	–	122,772	278,947
Changes in equity for 2010:							
Profit for the year	–	–	–	–	–	7,733	7,733
Other comprehensive income – Exchange difference on translating foreign operation	–	–	–	–	1,213	–	1,213
Total comprehensive income	–	–	–	–	1,213	7,733	8,946
At 31 December 2010	2,000	154,254	–	(79)	1,213	130,505	287,893

The notes on pages 30 to 84 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Operating activities			
Profit before taxation		8,741	25,976
Adjustments for:			
Depreciation	16	17,165	15,877
Interest income	8	(135)	(40)
Finance costs	9(a)	3,976	4,966
Impairment loss for trade receivables	19(b)	(126)	3,837
Net loss on sale of property, plant and equipment		348	1
		29,969	50,617
Changes in working capital			
(Increase)/decrease in inventories		(6,071)	4,051
Decrease in trade and other receivables		35,027	12,130
(Decrease)/increase in trade and other payables		(26,698)	21,550
Cash generated from operations		32,227	88,348
Income taxes paid – PRC	25(a)	(1,474)	(50)
Net cash generated from operating activities		30,753	88,298
Investing activities			
Payment for the purchase of property, plant and equipment	16	(2,044)	(37,030)
Proceeds from sale of property, plant and equipment		11,298	171
Interest received	8	135	40
Decrease/(increase) in pledged bank deposits		224	(10,189)
Proceeds from sale of available-for-sale financial assets		–	17,160
Net cash generated from/(used in) investing activities		9,613	(29,848)
Financing activities			
Proceeds from new bank loans		36,557	239,282
Repayment of bank loans		(39,782)	(275,689)
Payments of interest element of finance lease	9(a)	(1,036)	(1,733)
Other borrowing costs paid		(2,940)	(3,233)
Payments of capital element of finance lease		(15,006)	(22,624)
Proceeds from issuance of ordinary shares for public offering		–	62,500
Payments of transaction costs directly attributable to issue of new shares		–	(15,153)
Net cash used in financing activities		(22,207)	(16,650)
Net increase in cash and cash equivalents		18,159	41,800
Cash and cash equivalents at 1 January	21	56,256	14,456
Effect of foreign exchange rates changes		1,164	–
Cash and cash equivalents at 31 December	21	75,579	56,256

The notes on pages 30 to 84 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated and domiciled in the Cayman Islands under Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 11 November 2009. The Company has established a principal place of business in Hong Kong at Suites 2301–2, 23rd Floor Tower 2, Nina Tower, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong and has been registered as an non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 24 December 2008. Its issued shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 March 2009.

The principal activity of the Company is investment holdings. The principal activities of the subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 33 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollar ("HK$"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the consolidated financial statements (continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss. Total comprehensive income 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. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset .

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and non-controlling interests (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

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 where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d)(i) Business combinations

Business combinations 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 acquisition-date fair values, except that:

- deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of acquisition are recognised and measured in accordance with HKAS 12, Income Tax;

- liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

- liabilities or equity instruments relating 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 re-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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d)(i) Business combinations (continued)

Business combinations 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.

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.

Business combinations prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d)(i) Business combinations (continued)

Business combinations prior to 1 January 2010 (continued)

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Merger accounting is applied in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

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

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d)(ii) Goodwill

Goodwill is stated at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress as described in note 2(f), are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(h)), if any.

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

Leasehold improvement	12 years
Plant and machinery	12 years
Plant and machinery (parts)	10-12 years
Furniture and equipment	3-5 years
Motor vehicles	4-5 years

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Construction-in-progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is 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.

(g) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries (see note 2(h)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment; and

– investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

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

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim reporting period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(j) Trade and other receivables

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(o)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

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

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

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

  - the same taxable entity; or

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

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Provisions and contingent liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Provisions and contingent liabilities (continued)

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

(p) Revenue recognition

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

i) Service income

Revenue from printing services is recognised when the services are rendered.

ii) Interest income

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

iii) Management fee income

Management fee income is recognised when the services are rendered.

iv) Income from investments

Income from investments is recognised when the shareholder's rights to receive payment have been established.

(q) Borrowing costs

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

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

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Translation of foreign currencies (continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

(t) Employee benefits

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

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

The employees of the Company's subsidiary which operates in PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with rules of the central pension scheme.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

(u) Segment reporting

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

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (revised 2008)	Business combinations
HKAS 27 (revised 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Financial instruments: Recognition and measurement – eligible hedged items
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 27 (revised 2008), Consolidated and Separate Financial Statements

Revisions to HKAS 27 (revised 2008) have not had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of such previous transactions.

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. Hong Kong Interpretation 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.

As a result, the bank loan that contains a repayment on demand clause with the carrying amount of HK$2,800,000 has been reclassified from non-current liabilities to current liabilities as at 31 December 2009. No bank loan was classified as non-current liability as at 1 January 2009 and therefore no reclassification is required as at that date. As at 31 December 2010, all bank loans are classified as current liabilities. The application of HK (Int) 5 has had no impact on the reported profit or loss for the current and prior years.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The effect of adoption of Hong Kong Interpretation 5 is as follows:

	31 December 2010 HK$'000	31 December 2009 HK$'000
Current liabilities		
Increase in secured bank loans	–	2,800
Non-current liabilities		
Decrease in secured bank loans	–	(2,800)

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and cash equivalents, pledged bank deposits, trade and other receivables, financial guarantees, obligations under finance leases, bank loans and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency 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. There has been no changes to the Group's exposure to these kinds of risks or the manner in which it manages and measures these risks in compared with 2009.

(a) Financial risk factors

(i) Credit risk

As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 4 months from the date of billing. For debtors with balances aged more than 120 days, further credit would not be granted until all outstanding balances are settled.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, 10% (2009: 9%) and 39% (2009: 31%) of the total trade and other receivables was due from the Group's largest customers and the five largest customers respectively. 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.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(i) Credit risk (continued)

The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration to credit risk related to the largest customer did not exceed 5% of gross monetary assets at any time during the year.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

The Group limits its exposure to credit risk on liquid funds by placing deposits with financial institutions that meet the established credit ratings. Given these established credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2010, the Group has certain concentration of credit risk on liquid funds as the total cash and cash equivalents and time deposits of HK$100,661,000 (2009: HK$81,562,000) are placed at several financial institutions in Hong Kong and the PRC with high credit ratings.

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2010, the Group has available un-utilised banking facilities of approximately HK$252,594,000 (2009: HK$249,024,000).

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

The following liquidity table sets out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, i.e. if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

The Group

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2010						
Bank loans subject to a repayable on demand clause	–	–	–	–	–	–
Other bank loans	36,989	–	–	–	36,989	36,557
Trade and other payables	32,773	–	–	–	32,773	32,773
Obligations under finance leases	12,468	6,640	–	–	19,108	18,503
	82,230	6,640	–	–	88,870	87,833

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2009 (restated)						
Bank loans subject to a repayable on demand clause	40,505	–	–	–	40,505	39,782
Trade and other payables	59,471	–	–	–	59,471	59,471
Obligations under finance leases	16,043	12,468	6,640	–	35,151	33,509
	116,019	12,468	6,640	–	135,127	132,762

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

The Company

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2010					
Accruals and other payables	58	–	–	58	58
Financial guarantees issued: Maximum amount guaranteed (Note 30)	60,309	–	–	60,309	–
	60,367	–	–	60,367	58

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
As at 31 December 2009					
Accruals and other payables	331	–	–	331	331
Financial guarantees issued: Maximum amount guaranteed (Note 30)	82,885	–	–	82,885	–
	83,216	–	–	83,216	331

The amounts included above for financial guarantee contracts existing as at 31 December 2009 and 2010 are the maximum amounts the Group could be called if that amount is claimed by the counterparty to the guarantee. This estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

The table that follows summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Company's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity Analysis-Term Loans subject to a repayment on demand clause based on scheduled repayments.

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000
As at 31 December 2010	–	36,989	–	–	–	36,989
As at 31 December 2009	–	40,505	–	–	–	40,505

(iii) Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as the potential impact on the Group's financial position arising from volatility. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate should the need arises.

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowing, predominantly with variable interest rate.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 24); obligation under finance leases (see note 23) and short-term deposits placed with banks (see note 20 and 21). The directors consider the Group's exposure to cash flow interest rate risk in relation to bank deposits is not significant as interest bearing bank deposits are within short maturity period and majority of the banks are with high credit rating. The Group's cash flow interest rate risk is mainly concentrates on the fluctuation of the London Interbank Offered Rate or Hong Kong Prime Rate.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(iii) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Variable rate borrowings:		
Obligations under finance leases	18,503	33,509
Secured bank loans	36,557	39,782
Total borrowings	55,060	73,291

All variable rate borrowings bore interest at 1.75% to 2.25% per annum over the London Interbank Offered Rate or at Hong Kong Prime Rate.

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$550,598 (2009: HK$732,900). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other component of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(iv) Currency risk

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

(i) Exposure to currency risk

The Company's exposure to currency risk is insignificant. The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using spot rate at the year end.

The Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	2010			2009		
	Great British pound $'000	Euros $'000	Renminbi $'000	Great British pound $'000	Euros $'000	Renminbi $'000
Trade and other receivables	1,115	410	2,422	3,320	1,133	621
Cash and cash equivalents and pledged bank deposits	375	204	17,153	219	392	2,256
Trade and other payables	(113)	(119)	(7,511)	–	–	(14,372)
Secured bank loans	–	–	–	(1)	–	–
Overall net exposure	1,377	495	12,064	3,538	1,525	(11,495)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

(iv) Currency risk (continued)

(ii) Sensitivity analysis

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

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits HK$'000
Great British Pound	9%	103	9%	318
	(9%)	(103)	(9%)	(318)
Euros	5%	21	5%	76
	(5%)	(21)	(5%)	(76)
Renminbi	5%	504	5%	(575)
	(5%)	(504)	(5%)	575

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date while all other variables remains constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's entities' profit after tax in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Fair values

The fair values of cash and cash equivalents, pledged bank deposits, trade and other receivables and trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

(c) Estimation of fair value

The fair values of interest-bearing bank loans and obligations under finance leases are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The directors of the Company consider the carrying amounts of financial assets and financial liabilities as recorded in the consolidated financial statements approximate their fair values at the end of the reporting date.

5. CRITICAL ACCOUNTING ESTIMATES

Key sources of estimation uncertainty

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

(i) Impairment of property, plant and equipment

The recoverable amount of an asset is the higher of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods. The carrying amount of property, plant and equipment as at the end of the reporting period was HK$121,002,000.

(ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the trade receivables and other receivables, where applicable, at the end of each reporting period. The estimates are based on the ageing of the trade receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance might be required. The carrying amount of trade and other receivables as at the end of the reporting period was HK$113,169,000.

(iii) Estimated net realisable value of inventories

The Group's management writes down slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventories will be written down where events or changes in circumstances indicate that the net realisable value is below cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed. The carrying amount of inventories as at the end of the reporting period was HK$53,143,000.

5. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (continued)

(iv) Current taxation and deferred taxation

Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred taxation relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed.

The carrying amounts of current taxation and deferred tax liabilities were HK$3,482,000 and HK$8,767,000 respectively.

6. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the Board of Directors, the chief operating decision-makers ("CODM"), for the purposes of resources allocation and performance assessment.

Geographically, management considers the performance of the main business carried out in PRC and Hong Kong as a whole. The Group derive their revenue primarily from the provision of printing services in Asia (including PRC and Hong Kong) and overseas markets, which are the reportable segments. The Group's CODM regularly review the consolidated financial information to assess the performance and make resource allocation decisions for the Group's operation. The CODM consider the business solely from the geographical perspective.

a) Geographical information

The following table sets out the information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the countries in which the customers domiciled. The geographical location of the Group's segment assets and capital expenditure is based on the physical location of the assets.

6. SEGMENT REPORTING (CONTINUED)

a) Geographical information (continued)

The Group comprises the following main reportable segments:

	Year ended 31 December 2010						
	Europe HK$'000	Asia HK$'000	North America HK$'000	South America HK$'000	Oceania HK$'000	Africa HK$'000	Consolidated HK$'000
Revenue from external customers	268,272	55,219	36,475	–	7,921	2,144	370,031
Segment result	26,969	6,051	8,379	–	2,356	439	44,194
Bank interest income							135
Other revenue and other net income							4,619
Central corporate expenses							(36,231)
Profit from operations							12,717
Finance costs							(3,976)
Income tax							(1,008)
Profit for the year							7,733
Depreciation for the year	11,513	3,654	1,565	–	340	93	17,165
Impairment loss on trade receivables	13	–	–	–	–	–	13

6. SEGMENT REPORTING (CONTINUED)

a) Geographical information (continued)

	Year ended 31 December 2009						
	Europe HK$'000	Asia HK$'000	North America HK$'000	South America HK$'000	Oceania HK$'000	Africa HK$'000	Consolidated HK$'000
Revenue from external customers	234,577	79,144	34,190	1,093	8,017	5,729	362,750
Segment result	33,049	14,171	8,914	203	2,546	1,102	59,985
Bank interest income							40
Other revenue and other net income							2,581
Central corporate expenses							(30,095)
Profit from operations							32,511
Finance costs							(4,966)
Listing expenses							(1,569)
Income tax							(3,243)
Profit for the year							22,733
Depreciation for the year	9,992	3,796	1,456	47	342	244	15,877
Impairment loss on trade receivables	3,787	327	16	–	1	–	4,131

The Group's assets and liabilities are physically located in the PRC including Hong Kong, and accordingly, no analysis on segment assets and liabilities and capital expenditure is provided.

b) Information about major customers

The Group has one external customer (located in Europe) with whom attributing over 10% of the total revenue from the Group's sole operating activity of provision of printing services. During the year, the revenue from provision of printing services to this customer amounted to approximately HK$37,096,000 (2009: HK$40,947,000).

7. TURNOVER

The principal activities of the Group are engaged in the provision of printing services.

Turnover represents the sales value goods of provision of printing services, less sales returns and discounts for the year.

	2010 HK$'000	2009 HK$'000
Provision of printing services	370,031	362,750

8. OTHER REVENUE

	2010 HK$'000	2009 HK$'000
Other revenue		
Bank interest income (note i)	135	40
Sales of scrap materials	3,953	2,504
Sundry income	666	77
	4,754	2,621

Note:

(i) The bank interest income represented the total interest income on financial assets not at fair value through profit or loss.

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following :

	2010 HK$'000	2009 HK$'000
a) Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	2,940	3,233
Finance charges on obligations under finance leases	1,036	1,733
Total interest expense on financial liabilities not at fair value through profit or loss	3,976	4,966

9. PROFIT BEFORE TAXATION (CONTINUED)

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2010 and 2009, the interest on bank borrowings which contain a repayment on demand clause amounted to HK$166,000 and HK$166,000 respectively.

	2010 HK$'000	2009 HK$'000
b) Staff costs		
Salaries, wages and other benefits	48,517	47,325
Contributions to defined contribution retirement plan	576	415
	49,093	47,740

	2010 HK$'000	2009 HK$'000
c) Other items		
Auditors' remuneration	651	906
Cost of inventories (note 18(b))	296,251	271,386
Depreciation for		
– owned assets	11,656	9,267
– assets held under finance leases	5,509	6,610
Impairment loss for trade receivables (note 19(b))	13	4,131
Net foreign exchange loss	4,013	1,176
Operating lease charges in respect of land and buildings	7,527	5,196
Loss on disposal of property, plant and equipment	348	1

d) Listing expenses

The amount represented professional fees and other expenses related to the listing of Company's shares on the Stock Exchange being recognised for the year ended 31 December 2009. Pursuant to HKAS 32 Financial Instruments: Presentation, the transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense when incurred. No listing expenses have occurred in the year ended 31 December 2010.

10. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) Income tax in the consolidated statement of comprehensive income represents:

	2010 HK$'000	2009 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	1,393	–
Current tax – PRC Enterprise Income Tax		
– Provision for the year	–	1,515
– Underprovision in respect of prior years	9	–
Deferred tax (note 25(b))		
– Origination of temporary differences	(394)	1,728
	1,008	3,243

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2009: 25%).

The companies within the Group do not subject to any income or other taxes except in Hong Kong and the PRC.

b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2010 HK$'000	2009 HK$'000
Profit before taxation	8,741	25,976
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	1,148	4,837
Tax effect of non-taxable income	(89)	(3)
Tax effect of non-deductible expenses	25	229
Tax effect of non-taxable net income relating to offshore operation	(1,170)	(1,990)
Tax effect of unused tax losses not recognised	1,085	404
Tax effect of utilisation of unused tax losses not recognised in prior year	–	(73)
Decrease in deferred taxation	–	(161)
Underprovision in prior years	9	–
Actual tax expense	1,008	3,243

11. DIRECTORS' REMUNERATION

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

	Year ended 31 December 2010				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary or performance related bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Chairman and non-executive director					
Tsoi Tak	–	150	–	–	150
Executive directors					
Cai Xiao Ming, David	–	375	–	9	384
Cai Xiao Xing	–	225	–	9	234
Kiong Chung Yin, Yttox	–	281	–	8	289
Wu Sin Wah, Eva	–	730	–	12	742
Independent non-executive directors					
Lam Ying Hung, Andy (note i)	50	–	–	–	50
Lui Tin Nang (note i)	50	–	–	–	50
Siu Man Ho, Simon (note i)	50	–	–	–	50
	150	1,761	–	38	1,949

11. DIRECTORS' REMUNERATION (CONTINUED)

	Year ended 31 December 2009				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary or performance related bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Chairman and non-executive director					
Tsoi Tak	–	151	–	–	151
Executive directors					
Cai Xiao Ming, David	–	378	–	8	386
Cai Xiao Xing	–	227	–	8	235
Kiong Chung Yin, Yttox	–	777	–	12	789
Wu Sin Wah, Eva	–	803	–	12	815
Independent non-executive directors					
Lam Ying Hung, Andy (note i)	38	–	–	–	38
Lui Tin Nang (note i)	38	–	–	–	38
Siu Man Ho, Simon (note i)	38	–	–	–	38
	114	2,336	–	40	2,490

Note:

i) Mr. Lam Ying Hung, Andy, Mr. Lui Tin Nang and Mr. Siu Man Ho, Simon were appointed as independent non-executive directors of the Company since 4 March 2009.

During the years ended 2009 and 2010, no director of the Company has waived any emoluments and no emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: two) were directors of the Company whose emoluments are disclosed in note 11. The emoluments of the remaining three (2009: three) individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	1,759	1,775
Contributions to retirement benefit schemes	36	36
	1,795	1,811

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

Their emoluments were all within HK$1,000,000.

During the years ended 31 December 2009 and 2010, no emolument was paid to any of the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of approximately HK$1,388,000 (2009: loss of HK$3,828,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$7,733,000 (2009: HK$22,733,000) and the weighted average number of 200,000,000 ordinary shares (2009: 187,808,000 shares) in issue during the year, calculated as follows:

	2010 No. of shares '000	2009 No. of shares '000
At 1 January	200,000	–
Effect of Reorganisation (note 26(b))	–	10,000
Effect of capitalisation issue (note 26(c))	–	140,000
Effect of share issued upon public offering on 30 March 2009 (note 26(d))	–	37,808
Weighted average number of ordinary shares in issue	200,000	187,808

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding throughout the years ended 31 December 2009 and 2010.

15. STAFF RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme during the year.

As stipulated by rules and regulations in the PRC, the Group contributed to a state-sponsored retirement plan for its workforce in the PRC at a certain percentage of the basic salaries of its workforce, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The relevant government agency is responsible for the entire pension obligation payable to all retired employees.

The total expense recognised in the consolidated statement of comprehensive income of HK$576,000 (2009: HK$415,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2010, no contributions (2009: HK$Nil) due in respect of the year ended 31 December 2010 (2009) reporting period had not been paid.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Motor vehicles HK$'000	Leasehold improvement HK$'000	Furniture and equipment HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
As at 1 January 2009	1,163	2,830	1,685	167,589	–	173,267
Additions	424	–	1,026	23,122	12,458	37,030
Disposals	–	(545)	–	(375)	–	(920)
As at 31 December 2009 and 1 January 2010	1,587	2,285	2,711	190,336	12,458	209,377
Additions	–	362	356	554	772	2,044
Disposals	–	(889)	–	(1,414)	(10,361)	(12,664)
Transfer	–	2,882	–	–	(2,882)	–
Exchange difference	4	–	8	33	13	58
As at 31 December 2010	1,591	4,640	3,075	189,509	–	198,815
Accumulated depreciation						
As at 1 January 2009	447	995	1,008	44,078	–	46,528
Charge for the year	233	1,008	405	14,231	–	15,877
Written back on disposals	–	(545)	–	(203)	–	(748)
As at 31 December 2009 and 1 January 2010	680	1,458	1,413	58,106	–	61,657
Charge for the year	282	749	572	15,562	–	17,165
Written back on disposals	–	–	–	(1,018)	–	(1,018)
Exchange difference	1	–	4	4	–	9
As at 31 December 2010	963	2,207	1,989	72,654	–	77,813
Carrying amount						
As at 31 December 2010	628	2,433	1,086	116,855	–	121,002
As at 31 December 2009	907	827	1,298	132,230	12,458	147,720

As at 31 December 2010, the carrying amount of the Group's plant and machinery includes an amount of HK$46,495,000 (2009: HK$62,436,000) of assets held under finance leases.

17. INVESTMENTS IN SUBSIDIARIES

	The Company 2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	211,210	211,210

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

Name of company	Place of establishment/ incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Particulars of issued and paid up capital	Principal activity
CT Management Investments Limited	British Virgin Islands/ Hong Kong	100%	100%	–	US$200	Investment holding
CT Printing Limited	Hong Kong	100%	–	100%	HK$20,000	Provision of printing services
詩天紙藝制品(深圳)有限公司#	The PRC	100%	–	100%	US$4,280,000	Provision of the printing of packaging and decoration matters, research and development on printing technology, wholesale, import and export of the packaging products and other related services

Wholly foreign-owned enterprise registered in the PRC

18. INVENTORIES

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

	The Group 2010 HK$'000	2009 HK$'000
Materials	36,482	26,938
Work in progress	13,244	12,799
Finished goods	3,417	7,335
	53,143	47,072

18. INVENTORIES (CONTINUED)

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount of inventories sold (Note 9(c))	296,251	271,386

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	109,022	148,128	–	–
Less: Allowance for doubtful debts (note 19(b))	(4,762)	(5,150)	–	–
	104,260	142,978	–	–
Other receivables	3,725	–	–	–
Amount due from a subsidiary	–	–	38,554	38,807
Amount due from a related company	202	–	–	–
Loans and receivables	108,187	142,978	38,554	38,807
Prepayments	1,376	779	1,248	191
Rental, utility and sundry deposits	873	1,052	–	–
Deposit paid for purchase of property, plant and equipment	–	90	–	–
Trade deposits paid	2,449	3,023	–	–
Staff advances	284	148	–	–
	4,982	5,092	1,248	191
	113,169	148,070	39,802	38,998

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group normally grants credit terms of up to 90 to 120 days to its customers. The directors may from time to time approve extended credit periods for extra 30 to 60 days to certain wholesale customers during the year. Further details on the Group's credit policy are set out in note 4(a)(i).

The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

a) Aging analysis

Trade receivables, net of allowance for doubtful debts, are HK$104,260,000 (2009: HK$142,978,000), with the following aging analysis presented based on invoice date as at the end of the reporting period:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 month	19,093	38,133
More than 1 month but within 3 months	32,429	45,727
More than 3 months but within 6 months	39,973	42,208
More than 6 months but within 1 year	4,014	11,487
Over 1 year	8,751	5,423
	104,260	142,978

The carrying amounts of trade receivables approximate to their fair values.

b) Impairment of trade receivables

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

Movements in the allowance for doubtful debts:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	5,150	1,358
Amount recovered during the year	(262)	(45)
Uncollectible amounts written off	(82)	(294)
Impairment loss reversed (Note 1)	(57)	–
Impairment losses recognised (Note 2)	13	4,131
At 31 December	4,762	5,150

Note 1: A reversal of impairment loss of HK$57,000 (2009: HK$Nil) has been recognised due to the recovery of that amounts during the year.

Note 2: As at 31 December 2010, trade receivables of the Group amounting to approximately HK$13,000 (2009: HK$4,131,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 1 year as at the end of the reporting period or were due from companies with financial difficulties. Accordingly, specific allowances for doubtful debts of HK$13,000 (2009: HK$4,131,000) were recognised. The Group does not hold any collateral over these balances (2009: HK$Nil).

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	74,260	126,194
Past due but not impaired		
3 to 6 months past due	20,802	3,780
Over 6 months	9,198	13,004
	30,000	16,784
	104,260	142,978

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group holds trade deposits of approximately HK$1,441,000 (2009: HK$2,006,000). The directors consider the carry amount of the trade deposits approximate to their fair values. The Group does not hold any colleral over these balances.

The amounts of approximately HK$31,892,000 (2009: HK$85,230,000) are factored to banks with recourse. These amounts are included in trade receivables as at 31 December 2010. If the customers have raised disputes in relation to the trade receivables factored and the Group cannot resolve the disputes within the period stipulated by the banks, the Group has to pay back to the banks on the amount of the trade receivables factored.

The Group obtained bank loans of HK$893 (2009: HK$12,000) in respect of the above factored trade receivables as at 31 December 2010.

During the years ended 31 December 2009 and 2010, the factoring loans were secured by unlimited corporate guarantees provided by the Company to its subsidiaries.

20. PLEDGED BANK DEPOSITS

	The Group	
	2010	2009
	HK$'000	HK$'000
Pledged bank deposits	25,082	25,306

The amounts are pledged to the banks to secure general banking facilities granted to the Group as at 31 December 2009 and 2010.

The interest rates on the deposits ranged from 0.01% to 0.07% (2009: 0.001% to 0.1%) per annum.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Deposits with banks	–	10,000	–	–
Cash at bank and on hand	75,579	46,256	193	2,658
Cash and cash equivalents in the consolidated statements of financial position and consolidated statement of cash flows	75,579	56,256	193	2,658

The interest rates on the cash at bank and deposits with banks ranged from 0.001% to 0.01% (2009: 0.001% to 0.1%) per annum.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	20,294	37,118	–	–
Bills payable	5,249	9,594	–	–
Accrued salaries and bonuses	2,026	5,265	38	87
Trade deposits received	2,082	2,748	–	–
Accruals and other payables	2,092	3,212	20	244
Accruals and amount due to a related party (note 28(a))	1,008	706	–	–
Financial liabilities measured at amortised cost	32,751	58,643	58	331
Other tax payable	22	828	–	–
	32,773	59,471	58	331

The amount due to a related party is unsecured, non-interest bearing and repayable on demand.

All of the trade and other payables are expected to be paid or recognised as income within one year.

The following is an aging analysis of trade payables and bills payable presented based on invoice date as at the end of the reporting period:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 month	13,909	27,310
More than 1 month but within 2 months	5,025	10,466
More than 2 months but within 3 months	4,954	7,140
More than 3 months but within 1 year	1,655	1,796
	25,543	46,712

The directors consider the carrying amounts of the trade payables and bills payable approximate to their fair values.

23. OBLIGATIONS UNDER FINANCE LEASES

The Group leased certain of its manufacturing equipment under finance leases. The lease term is 1 to 2 years (2009: 1 to 5 years). Interest rates underlying all obligations under finance leases are fixed at respective contract rates ranging from 3.75% to 4.25% (2009: 1.75% to 4.25%) per annum. The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

As at the end of the reporting period, the Group had obligations under finance leases repayable as follows:

	The Group			
	2010		2009	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	11,979	12,468	15,006	16,043
After 1 year but within 2 years	6,524	6,640	11,979	12,468
After 2 years but within 5 years	–	–	6,524	6,640
	6,524	6,640	18,503	19,108
	18,503	19,108	33,509	35,151
Less : Total future interest expenses		(605)		(1,642)
Present value of lease obligations		18,503		33,509

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

24. SECURED BANK LOANS

The analysis of the carrying amount of secured bank loan is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000 (restated)
Current liabilities		
Portion of term loans from banks due for repayment within one year	36,557	36,982
Portion of term loans from banks due for repayment after one year which contain a repayment on demand clause	–	2,800
	36,557	39,782
Non-current liabilities		
Bank loans	–	–
Total	36,557	39,782

At 31 December 2010, interest-bearing bank loans were due for repayment as follows:

	2010	2009
	HK$'000	HK$'000
Portion of term loans due for repayment within one year	36,557	36,982
Term loans due for repayment after one year		
After 1 year but within 2 years	–	1,600
After 2 years but within 5 years	–	1,200
After 5 years	–	–
	–	2,800
	36,557	39,782

The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

Note: All of the banking facilities are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

24. SECURED BANK LOANS (CONTINUED)

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 4(a)(ii). As at 31 December 2010, none of the covenants relating to drawn down facilities had been breached (2009: HK$Nil).

All of the secured bank loans, including amounts repayable on demand, are carried at amortised cost.

There was no bank loans due for repayment after one year as at 31 December 2010.

Bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year for the year ended 31 December 2009 with the amount of HK$2,800,000.

There was no bank loans due for repayment after one year as at 1 January 2009.

Secured bank loans of the Group consisted of floating-rate borrowings. Floating-rate borrowings bore interest at 1.75% to 2.25% per annum over the London Interbank Offered Rate or at Hong Kong Prime Rate.

At 31 December 2010, the Group's bank loans were secured by factored trade receivables (see note 19(c)) and pledged bank deposits (see note 20) held by the Group and unlimited corporate guarantees provided by the Company to its subsidiaries. The amount of undrawn banking facilities at 31 December 2010 was approximately HK$252,594,000 (2009: HK$249,024,000).

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out in note 4(a)(iv).

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

a) Current tax payable in the consolidated statement of financial position represents:

	The Group	
	2010 HK$'000	2009 HK$'000
As at 1 January	3,554	2,089
Provision for the year		
– Hong Kong Profits Tax	1,393	–
– PRC Enterprise Income Tax	9	1,515
Enterprise income tax paid in the PRC	(1,474)	(50)
As at 31 December	3,482	3,554

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

b) Deferred tax assets and liabilities recognised:

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

The Group

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
Deferred tax arising from:			
As at 1 January 2009	7,433	–	7,433
Charged/(credited) to profit or loss	2,225	(497)	1,728
As at 31 December 2009 and 1 January 2010	9,658	(497)	9,161
(Credited)/charged to profit or loss	(891)	497	(394)
As at 31 December 2010	8,767	–	8,767

The Group

	2010 HK$'000	2009 HK$'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	8,767	9,161

There were no significant unrecognised deferred tax liabilities as at the end of the reporting period.

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

c) Deferred tax assets not recognised:

At the end of the reporting period, the Group has unused tax losses of approximately HK$7,232,000 (2009: HK$2,443,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the unpredictability of future profits streams. Deductible temporary differences have not been recognized in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences. Included in unused estimated tax losses are losses of approximately HK$3,465,000 (2009: HK$Nil) that will expire within 5 years from the year origination. Other losses may be earned forward indefinitely.

26. SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares
Authorised:			
Ordinary shares of HK$0.01 each as at 1 January 2009		40,000,000	HK$400,000
Increase in authorised share capital, ordinary shares of HK$0.01 each on 4 March 2009	note (a)	960,000,000	HK$9,600,000
At 31 December 2009 and 2010		1,000,000,000	HK$10,000,000
Issued and fully paid:			
At 1 January 2009		1	–
Credit the 1 ordinary share in issue as fully paid on 4 March 2009		–	HK$0.01
Issue of ordinary shares pursuant to the reorganisation on 4 March 2009	note (b)	9,999,999	HK$99,999.99
Issue of ordinary shares pursuant to the capitalisation issue on 4 March 2009	note (c)	140,000,000	HK$1,400,000
Increase of ordinary shares upon public offering on 30 March 2009	note (d)	50,000,000	HK$500,000
At 31 December 2009 and 2010		200,000,000	HK$2,000,000

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares ranked equally with regard to the Company's residual assets.

No share options were granted for the years ended 31 December 2009 and 2010.

26. SHARE CAPITAL (CONTINUED)

Notes:

(a) Pursuant to the written resolution passed by all shareholders on 4 March 2009, the Company increased its authorised share capital from HK$400,000 to HK$10,000,000 by the creation of an additional 960,000,000 shares of HK$0.01 each.

(b) On 4 March 2009, the Company allotted and issued 6,999,999 and 3,000,000 ordinary shares of HK$0.01 each to Profitcharm Limited and Sinorise Limited, respectively, credited as fully paid in consideration of the transfer of the entire issued share capital of CT Management Investments Limited by Mr. Tsoi Tak and Mr. Cai Xiao Ming, David. The one nil paid share of HK$0.01 held by Profitcharm Limited was credited as fully paid at par. Profitcharm Limited and Sinorise Limited then became the immediate parent company and shareholding company of the Company respectively.

(c) Pursuant to the written resolution passed by all shareholders on 4 March 2009, conditional on the share premium account of the Company being credited as a result of the initial listing of the shares of the Company on the Stock Exchange, directors of the Company were authorised to capitalise an amount of HK$1,400,000 from such account and applying such sum in paying up in full as par a total of 140,000,000 shares for allotment and issued to the shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 4 March 2009.

(d) On 30 March 2009, the Company was successfully listed on the Stock Exchange following the completion of its public offering of 50,000,000 shares at HK$1.25 each to the investors.

Immediately following completion of the public offering and the capitalisation issue, the issued share capital of the Company was HK$2,000,000 divided into 200,000,000 ordinary shares of HK$0.01 each and there were 800,000,000 authorised but unissued ordinary shares.

27. RESERVES AND DIVIDEND

(a) The movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium note 27(c)(i) HK$'000	Contributed surplus note 27(c)(iv) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	–	–	(2,194)	(2,194)
Changes in equity for 2009:				
Issue of shares pursuant to the reorganisation (note 26(b))	–	211,110	–	211,110
Issue of shares pursuant to the capitalisation issue (notes 26(c))	(1,400)	–	–	(1,400)
Issue of shares for public offering (note 26(d))	62,000	–	–	62,000
Transaction costs directly attributable to the issue of new shares	(15,153)	–	–	(15,153)
Loss for the year and total comprehensive loss for the year	–	–	(3,828)	(3,828)
At 31 December 2009 and 1 January 2010	45,447	211,110	(6,022)	250,535
Changes in equity for 2010:				
Loss for the year and total comprehensive loss for the year	–	–	(1,388)	(1,388)
At 31 December 2010	45,447	211,110	(7,410)	249,147

The Company's reserves as at 31 December 2010 available for distribution to owners of the Company as calculated under the provision of the Companies Law of Cayman Islands as set out in note 27(c)(i) are approximately HK$249,147,000 (2009: HK$250,535,000).

27. RESERVES AND DIVIDEND (CONTINUED)

(b) Dividend

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

(c) Nature and purpose of reserves

i) Share premium

– *Share premium of the Group*

The share premium account of the Group included the application of the share premium account governed by the Companies Law of the Cayman Islands and Section 48B of the Hong Kong Companies Ordinance.

Out of the total consolidated share premium account of HK$154,254,000, HK$108,807,000 is governed by Section 48B of the Hong Kong Companies Ordinance and it is not distributable to the owners of the Company.

– *Share premium of the Company*

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

ii) Fair value reserve

Fair value reserve of the Group comprising the cumulative net changes in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies.

iii) Merger reserve

Merger reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation during the year ended 31 December 2009.

iv) Contributed surplus

Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation during the year ended 31 December 2009.

v) Exchange reserve

The exchange reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

27. RESERVES AND DIVIDEND (CONTINUED)

(d) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The capital structure of the Group consists of net debt (which includes obligations under finance leases and secured bank loans), and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

During the year ended 31 December 2010, the Group's strategy, which was unchanged from 2009, was to monitor its capital structure on the basis of a gearing ratio, being the total of all interest-bearing borrowings divided by equity attributable to owners of the Company. The gearing ratio at 31 December 2010 and 2009 were as follows:

	2010 HK$'000	2009 HK$'000
Obligations under financial leases (note 23)	18,503	33,509
Secured bank loans (note 24)	36,557	39,782
	55,060	73,291
Total equity	287,893	278,947
Gearing ratio	19.1%	26.3%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

The Group has entered into the following material related party transactions:

a) Material related party transactions

	The Group	
	2010	2009
	HK$'000	HK$'000
i) Shenzhen Kecai Printing Company Limited (Note)		
– Factory rental and building management fee	4,343	2,665
– Provision of services	156	–
Year-end balance included in amount due from a related company arising from sales of goods (Note 19)	202	–
Year-end balance included in accrual and amount due to a related company arising from factory rental and building management fee and other reimbursement (Note 22)	1,008	706

Note: Shenzhen Kecai Printing Company Limited is a subsidiary of Brilliant Circle Holdings International Limited, of which Mr. Tsoi Tak, the ultimate controlling party of the Company, has entire interest.

b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2010	2009
	HK$'000	HK$'000
Salaries, allowances and other benefits	4,221	4,832
Contributions to defined contributions retirement plan	74	82
	4,295	4,914

28. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

c) Operating lease commitments to a related party

As at the end of the reporting period, the Group had total future minimum lease payments to a related company, Shenzhen Kecai Printing Company Limited, under non-cancellable operating leases in respect of land and buildings falling due as follows.

The leases term are three years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

	2010 HK$'000	2009 HK$'000
Within one year	5,306	2,072
After one year but within five years	7,517	8,290
More than five years	–	16,579
	12,823	26,941

29. COMMITMENTS

a) Operating lease commitments

As at the end of the reporting period, the Group had total future minimum lease payments, under cancellable and non-cancellable operating leases in respect of land and buildings falling due as follows.

The leases term are three years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

	2010 HK$'000	2009 HK$'000
Within one year	16,569	4,713
After one year but within five years	7,517	10,655
More than five years	–	16,579
	24,086	31,947

b) Capital commitments

Capital commitments outstanding at 31 December 2010 not provided for in the consolidated financial statements were as follows:

	2010 HK$'000	2009 HK$'000
Acquisition of property, plant and equipment contracted for but not provided	–	2,279

30. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2009 and 2010, the Company has provided unlimited corporate guarantees to its subsidiary for bank borrowings and bills financing for obtaining general banking facilities and leasing facilities. As at 31 December 2010, the aggregate amount that could be required to be paid if the guarantees were called upon in entirely amounted to HK$312,903,000 (2009: HK$346,218,000), of which HK$60,309,000 (2009: HK$82,885,000) has been utilised by its subsidiary. The maximum liability of the Company under the guarantees issued represents the amount of facilities drawn down by its subsidiary of HK$60,309,000 (2009: HK$82,885,000) as at 31 December 2010. No recognition was made in the years ended 31 December 2009 and 2010 because the fair value of the guarantees are insignificant and that the directors of the Company did not consider it probable that a claim would be made against the Company under the guarantees.

31. MAJOR NON-CASH TRANSACTIONS

There is no non-cash transactions involved during the year ended 31 December 2009 and 2010.

32. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The directors consider the ultimate controlling party of the Company as at 31 December 2010 to be Mr. Tsoi Tak.

The directors consider the immediate parent and ultimate holding company of the companies comprising the Group be Profitcharm Limited, a company incorporated in British Virgin Islands. Profitcham Limited does not produce financial statements available for public use.

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following Amendments, New Standards and Interpretations which are not yet effective for the year ended 31 December 2010. These include the following which may be relevant to the Group.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

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

33. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 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.

- 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 at fair value through profit or 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 is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable 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 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.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

34. COMPARATIVE FIGURES

As a result of the application of Hong Kong Interpretation 5, Presentation of Financial Statements, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. Further details of these developments are disclosed in note 3.

35. EVENTS AFTER THE REPORTING PERIOD

On 29 December 2010, CT Management Investments Limited, a wholly-owned subsidiary of the Company entered into an acquisition agreement and conditionally agreed to purchase the entire equity interest in Brilliant Circle Holdings International Limited (the "Target Company") at a consideration of HK$2,400,000,000 (the "Acquisition"), which will be satisfied by the allotment and issue of 480,000,000 new shares of the Company to the vendor, Mr. Tsoi Tak, credited as fully paid, at HK$5 per consideration share. The transaction constituted a very substantial acquisition and connected transactions under the Listing Rules.

Mr. Tsoi Tak is the ultimate controlling party of the Company and the Target Company is also wholly-owned by him. The Acquisition is thus considered as a business combination under common control.

An extraordinary general meeting of the Company would be held on 14 April 2011 for the purpose of, among other things, approving the Acquisition. It is expected that the completion of Acquisition would take place soon after obtaining the approval by the independent shareholders of the Company on the aforesaid extraordinary general meeting.

The Target Company and its subsidiaries are principally engaged in the printing of cigarette packages and the manufacturing of laminated paper.

FIVE YEAR SUMMARY

The consolidated results of the Group for the financial years 2006 to 2010 and the consolidated assets and liabilities of the Group as at 31 December 2006, 2007, 2008, 2009 and 2010 are as follows:

	Year ended 31 December				
Results	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000
Turnover	268,193	335,392	403,188	362,750	370,031
Profit before taxation	30,234	32,734	34,635	25,976	8,741
Income tax	(2,664)	(2,797)	(2,803)	(3,243)	(1,008)
Profit for the year	27,570	29,937	31,832	22,733	7,733
Attributable to:					
Owners of the Company	27,570	29,937	31,832	22,733	7,733

	At 31 December				
Assets and liabilities	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000
Total assets	298,255	417,435	388,014	424,424	387,975
Total liabilities	(261,931)	(350,505)	(179,765)	(145,477)	(100,082)
Total equity	36,324	66,930	208,249	278,947	287,893

On 29 December 2010, the Company and CT Management Investments Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Mr. Tsoi Tak pursuant to which the Group has conditionally agreed to purchase the entire equity interest in Brilliant Circle Holdings International Limited, which, together with its subsidiaries, are principally engaged in the printing of cigarette packages and the manufacturing of laminated paper. Completion of the acquisition took place on 14 April 2011. Details of the acquisition are set out in the announcements of the Company dated 1 February 2011 and 14 April 2011 and the circular of the Company dated 28 March 2011 respectively.

The Company is confident that the acquisition represents an opportunity for the Group to enter into the lucrative market of cigarette printing in the PRC. In order to have a better understanding on the cigarette printing market in the PRC, the Company has engaged Frost & Sullivan, which is an independent consulting firm, to conduct a research report on the PRC cigarette market and the PRC cigarette packaging market and an extract of which is set out in this section as additional information to Shareholders.

The Directors wish to emphasise that the contents of the research report are prepared by Frost & Sullivan independently. Shareholders and public investors are advised to exercise care and caution in reading and analysing the information contained in this section.

1 EXECUTIVE SUMMARY

Frost & Sullivan's strategic analysis of cigarette and cigarette packaging market in the PRC delves into the following:

– A market analysis and forecast of cigarette market in the PRC;

– A market analysis and forecast of cigarette packaging market in the PRC;

– An overview of the competitive landscape of cigarette packaging market in the PRC.

According to the National Bureau of Statistics of China, the PRC produced 3,065.8 thousand MT of tobacco leaves in 2009. It was the largest tobacco producer in the world in 2009, representing around 43.2 percent of the global tobacco leaf production. It was also the largest tobacco-consuming country in 2009, accounting for 38.9 percent of total global tobacco consumption.

In 2009, the annual cigarette production volume in the PRC reached 45.8 million cases. It is likely to reach 55.2 million cases in 2015 at a CAGR of 3.2 percent from 2009 to 2015. The gross industrial output value of cigarette manufacturing in the PRC is anticipated to grow from RMB492.50 billion in 2009 to RMB1,208.40 billion in 2015, representing a CAGR of 16.1 percent.

By the end of 2009, the production capacity and production volume of cigarette packaging market in the PRC reached 72.0 and 50.4 million cases, respectively. The production volume of cigarette packages is estimated to reach 59.8 million cases in 2015 at a CAGR of 2.9 percent from 2009 to 2015. Meanwhile, the production capacity of cigarette packages is anticipated to reach 85.1 million cases by the end of 2015. With the growing demand of middle- and high-end cigarette packages and increasing cost of raw material, the sales value of cigarette packaging is likely to increase from RMB32.72 billion in 2009 to RMB65.97 billion in 2015 in PRC, representing a CAGR of 12.4 percent.

The PRC had around 180 cigarette packaging manufacturers by the end of 2009, and they have been located countrywide to serve the China National Tobacco Corporation (CNTC) in different provinces. Five leading cigarette packaging manufacturers, Shenzhen Jinjia Group Co., Ltd., Brilliant Circle Holdings International Limited, AMVIG Holdings Limited, Shantou Dongfeng Printing Factory Co., Ltd., and Shanghai Tobacco Package Printing Co., Ltd., have accounted for 27.6 and 24.0 percent of the total market share in terms of production capacity and production volume in 2009, respectively. Brilliant Circle Holdings International Limited ranked the second in terms of production capacity and the third in terms of production volume in the same year.

INDEPENDENT MARKET RESEARCH REPORT

2 OVERVIEW OF THE PRC CIGARETTE MARKET

2.1 Global Market Overview

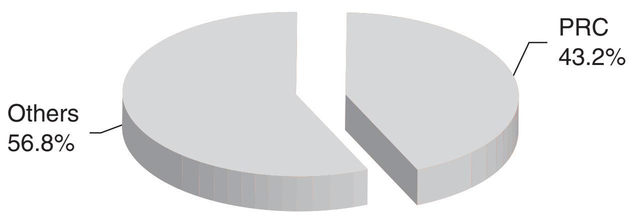
According to Food and Agriculture Organization of the United Nations, the total number of smokers in the world was more than 1 billion in 2009. However, due to stricter cigarette controls in regions such as the European Union and the United States, cigarette consumption in developed countries has continued to decline in the recent years. By comparison, the cigarette consumption in developing countries such as the PRC is likely to increase, with less strict cigarette controls and huge number of cigarette consumers.

By 2009, there were about 100 tobacco-producing countries worldwide, and the main producing countries are the PRC, India, Brazil, the United States, Turkey, Zimbabwe, and Malawi. According to China Ministry of Health, there were more than 300 million smokers in the PRC in 2009. The PRC has been the world's largest tobacco producer and consumer in 2009.

Chart 2.1 shows the percent of tobacco leaf production by region for the global tobacco market in 2009.

Chart 2.1

Tobacco Market: Percent of Tobacco Leaf Production by Region (Global), 2009



Others mainly include India, Brazil, the United States, Turkey, Zimbabwe, Malawi, and so on.

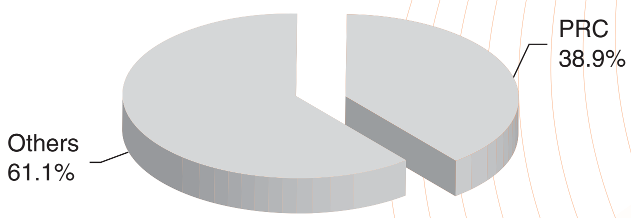
Source: National Bureau of Statistics of China, Frost & Sullivan

According to the National Bureau of Statistics of China, the PRC produced 3,065.8 thousand MT of tobacco leaves in 2009. It was the largest tobacco producer in the world in 2009, representing around 43.2 percent of the global tobacco leaf production.

Chart 2.2 shows the percent of consumption by region for the global tobacco market in 2009.

Chart 2.2

Tobacco Market: Percent of Consumption by Region (Global), 2009



Others mainly include EU, India, Russia, the United States, and Brazil.

Source: Frost & Sullivan

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.1 Global Market Overview (Continued)

According to Frost & Sullivan analysis, the global tobacco consumption reached around 8.0 million MT in 2009. The PRC has also been the largest tobacco consumption country in 2009, accounting for 38.9 percent of total global tobacco consumption. It was followed by EU, India, Russia, the United States, and Brazil. Tobacco consumption is likely to grow further in developing countries such as the PRC, India, and Brazil due to relatively fast economic and population growth, as well as culture reasons.

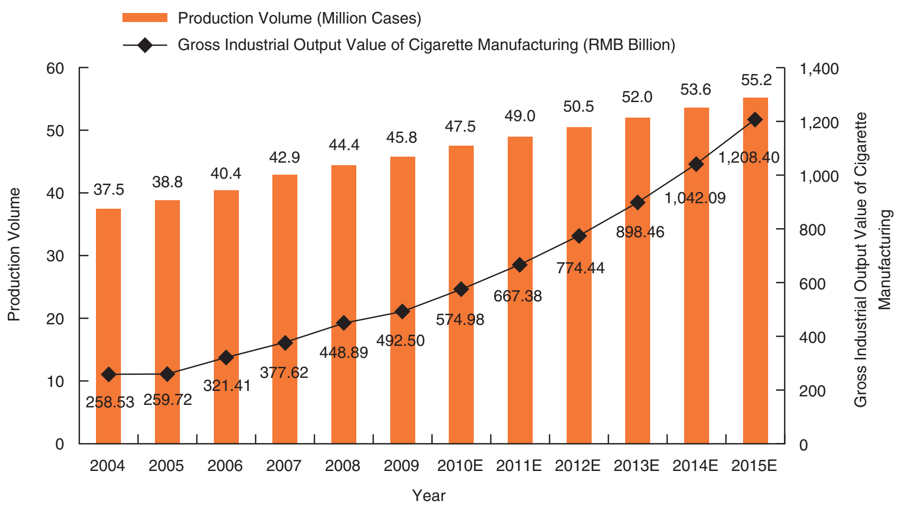
2.2 Cigarette Production in the PRC

Tobacco includes cigarettes, cigars and other tobacco products; in the PRC, tobacco products are mainly refer to cigarettes.

Chart 2.3 shows the cigarette production volume and gross industrial output value of cigarette manufacturing forecasts in the cigarette market in the PRC from 2004 to 2015.

Chart 2.3

Cigarette Market: Cigarette Production Volume and Gross Industrial Output Value of Cigarette Manufacturing Forecasts (PRC), 2004-2015E



Note: The base year is 2009

Source: Historical data are from National Bureau of Statistics of China; forecast data are from Frost & Sullivan

From 2004 to 2009, the cigarette production volume in the PRC has increased steadily at a CAGR of 4.0 percent. In 2009, the annual cigarette production volume in the PRC reached 45.8 million cases. During the forecast period, the PRC cigarette market is still expected to follow upward trend and maintain the leading position in the world. The cigarette production volume in the PRC is likely to reach 55.2 million cases in 2015 at a CAGR of 3.2 percent from 2009 to 2015.

The gross industrial output value of cigarette manufacturing in the PRC has increased from RMB258.53 billion in 2004 to RMB492.50 billion in 2009 at a CAGR of 13.8 percent. Due to favorable forecast of disposable income growth in the PRC in the forecast period, cigarette consumption structure is likely to be updated, and the demand for high-end cigarette brands is likely to grow. The gross industrial output value of cigarette manufacturing in the PRC is anticipated to reach RMB1,208.40 billion at a CAGR of 16.1 percent from 2009 to 2015.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.3 Market Drivers

Figure 2-1 shows the market drivers ranked in order of impact for the PRC cigarette market from 2010 to 2015.

Figure 2-1

Cigarette Market: Market Drivers Ranked in Order of Impact (PRC), 2010E-2015E

Driver	1-3 Years	4-6 Years
Economic and disposable income growth	High	High
Population growth	High	High
Industry consolidation supported by the PRC Government	Medium	High
Increasing overseas demand	Low	Medium

Source: Frost & Sullivan

Economic and Disposable Income Growth

As a result of strong economic growth in the PRC, the annual disposable income of households increases consequently. The increase in disposable income is likely to increase the demand of cigarette. The PRC has been the largest cigarette consumption country in the world with more than 300 million smokers. With increasing disposable income, smokers are likely to spend more on cigarette, especially high-end cigarettes that they were not able to afford before.

Besides the daily demand from the smokers, cigarette demand from social events such as business banquets, weddings, and parties is also likely to increase. Cigarettes are used as the most common social means in business culture; it is Chinese tradition to serve cigarettes along with snacks in social events or to give cigarettes as wedding gifts. With increasing disposable income, Chinese people are willing to spend more on weddings and parties, where serving high-end cigarettes are considered to gain vanity.

Population Growth

According to National Bureau of Statistics of China, the population of the PRC reached 1,334.7 million in 2009 at a CAGR of 0.6 percent since 2000. Based on the forecast from International Monetary Fund (IMF), the population is likely to reach 1,375.3 million in 2015, a net increase of around 40.6 million. Continuous growth in the population is likely to result in the increase in smoking population in the PRC.

Industry Consolidation Supported by the PRC Government

The market concentration of cigarette industry in the PRC is gradually increasing. The PRC Government proposed *The Plan of Cigarette Industry Improvement (《煙草行業「卷煙上水平」總體規劃》)*, which encourages cigarette companies to enhance the high-end brand cigarette production and emphasize on brand building. The purpose of the plan is to improve the market size and structure of the cigarette market in the PRC by improving the competitiveness of the cigarette companies in the region. The PRC cigarette market is expected to grow under such stimulus, especially in the sales of high-end products. The market concentration is also anticipated to grow with further expected mergers and acquisitions.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.3 Market Drivers (Continued)

Increasing Overseas Demand

The cigarette export in the PRC has been increasing rapidly during past few years. According to China Customs, the CAGR of overall cigarette export volume was 7.5 percent from 2000 to 2009, and the annual growth rate reached 18.5 percent in 2009. The rapid growth in the overseas demand increases awareness of the PRC cigarette brands, which is likely to further stimulate the demand from the overseas market. The development of the export market has led to the growth in the PRC cigarette market and has stimulated the brand building for the high-end PRC cigarette brands in the global market.

2.4 Regulatory Analysis

The Implementation Regulations of State Tobacco Monopoly Law

In 1997, *the Implementation Regulations of State Tobacco Monopoly Law (《中華人民共和國煙草專賣法實施條例》)* was enacted to exercise the tobacco monopoly administration. It empowers State Tobacco Monopoly Administration (STMA) to monitor the production, sales, transportation, import, export as well as economics and technology cooperations with overseas countries in relation to cigarettes in the PRC. STMA is also responsible for the cigarette pricing and the promulgation and enforcement of laws and policies relating to the PRC cigarette industry. The CNTC is under supervision of STMA and is responsible for monopoly of tobacco products and the operation of production, sales, materials, import, and export business in relation to tobacco products in the PRC. CNTC has supervised more than 150 cigarette production factories and allocated annual production quotas to the cigarette production factories according to their capacity, profitability, and sales in the previous year. *The Implementation Regulations of State Tobacco Monopoly Law* also stated that the packages of tobacco products would indicate the grade of tar content and the health-warning message.

World Health Organization Framework Convention on Tobacco Control

On October 11th, 2005, the PRC ratified the WHO Framework Convention on Tobacco Control (FCTC), an international treaty intended to reduce tobacco-related disease and death. Under the conditions of the FCTC, the PRC is required to completely ban cigarette promotion and sponsorship on radio, television, print media, and Internet within five years, as well as to prohibit tobacco companies from sponsoring international events or activities. The PRC has also resolved to ban all tobacco vending machines, as well as smoking in indoor work places, public areas, and public transportations. The ban was put into effect since January 9th, 2011. Parties of FCTC also required conducting price and tax measures to reduce the demand for tobacco. Besides, duty-free tobacco should be banned or limited. In terms of the tobacco packaging, FCTC required that 30 to 50 percent area of cigarette box is covered by the health-warning message, and misleading words such as "low tar" and "light" are forbidden.

The Plan of Cigarette Industry Improvement

In 2010, *The Plan of Cigarette Industry Improvement (《煙草行業「卷煙上水平」總體規劃》)* was firstly announced by STMA at the 2010 National Tobacco Conference, which is aimed to improve the cigarette industry structure and to strengthen the competitiveness of the PRC cigarette companies against the international cigarette competitors. The plan has set improvement assignment and measures for the next five years from five perspectives, including brand development, raw material security, technology upgrade, marketing, and business management.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.4 Regulatory Analysis (Continued)

The Plan of Cigarette Industry Improvement (Continued)

From the brand development perspective, the aim is to enlarge brand size, enhance brand value, and reduce the harm of tobacco products. To enlarge the brand size, the plan set a five-year target to develop ten top brands with distinct characteristics, clear positioning, and high brand awareness in the international market. Among the ten top brands, two brands need to reach an annual production above 5 million cases, three brands need to reach an annual production above 3 million cases, and five brands need to reach an annual production above 2 million cases by 2015. To enhance the brand value, the plan is required to develop 12 brands with sales revenue of more than RMB40 billion, in which six brands need reach sales revenue of more than RMB60 billion and one brand need reach sales revenue of more than RMB100 billion. This is the "532", "461" strategy.

In 2009, the average tar content of cigarettes in the PRC market was 12.2 mg per cigarette. To reduce the harm of cigarettes, the plan sets a target that the tar content in all cigarettes should be reduced to 10 mg or lower by 2015; the cigarettes with 8 mg tar content need to reach 8 million cases, and the cigarettes with 5 mg tar content need to reach 2 million cases.

To secure the raw material supply, it is planned to develop 74 tobacco leaf plantation bases with high-quality tobacco leaf production and achieve modernized production in 2015. To improve the cigarette companies' competitiveness against international competitors, upgrading the cigarette production technologies and product innovation is necessary. Moreover, cigarette companies need to develop their brand awareness by innovative marketing and sales channels. A healthy business management system is necessary as well.

Such a strategic industry development plan is anticipated to stimulate the industry consolidation of the PRC cigarette market, and the market structure tends to move forward to high-end brands. The production capacity of low-end brands tends to be consolidated and is likely to shift to high-end production.

Law on the Protection of Minors, Law on Prevention of Juvenile Delinquency, and Advertising Law

Besides the above industrial regulations, *Law on the Protection of Minors (《未成年人保護法》)*, *Law on Prevention of Juvenile Delinquency (《預防未成年人犯罪法》)*, and *Advertising Law (《廣告法》)* also have relevant regulations on cigarettes. According to Law on the Protection of Minors and Law on Prevention of Juvenile Delinquency, sale of tobacco to citizens under age 18 is not allowed, and smoking is forbidden in secondary schools, kindergartens, classrooms, dormitories, activity rooms, and other places where minors gather for activities. Moreover, according to the Advertising Law, tobacco advertising must be marked with "Smoking is harmful to health", and tobacco advertising in various waiting rooms, theatres, meeting halls, sports stadiums, and other public places are forbidden.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.5 Regional Analysis

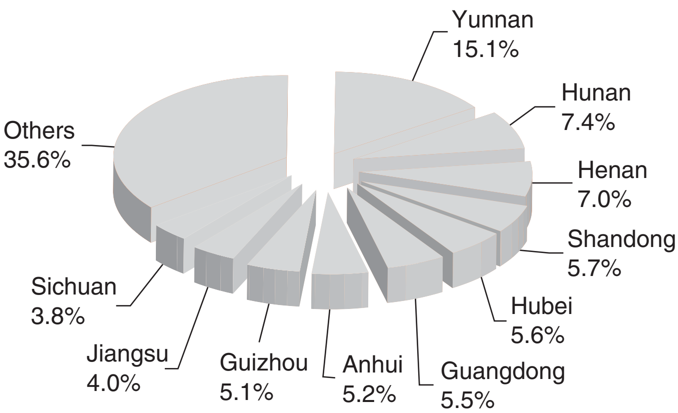
2.5.1 Major Cigarette Producing Regions in the PRC

In 2009, the PRC's largest cigarette-producing region, Yunnan, accounted for 15.1 percent of total cigarette production volume in the PRC.

Chart 2.4 shows the percent of production volume by region in the PRC cigarette market in 2009.

Chart 2.4

Cigarette Market: Percent of Production Volume by Region (PRC), 2009



Source: National Bureau of Statistics of China

Cigarette production companies are mainly located in southwest regions in the PRC. Yunnan ranks the first in terms of cigarette production, followed by Hunan and Henan. These three major regions have produced nearly one-third of the total cigarette production volume in the PRC in 2009. Other major cigarette-producing regions include Shandong, Hubei, Guangdong, Anhui, Guizhou, Jiangsu, and Sichuan. The top-ten producing regions held 64.4 percent of the total cigarette production volume in the PRC in 2009.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.5 Regional Analysis (Continued)

2.5.2 Regional Major Cigarette Brands

Figure 2-2 shows the regional major cigarette brands in major producing regions in the PRC cigarette market in 2009.

Figure 2-2

Cigarette Market: Regional Major Cigarette Brands in Major Producing Regions (PRC), 2009

Region	Major Brand List	
Yunnan	Yunyan (雲煙)	Hongtashan (紅塔山)
Hunan	Furongwang (芙蓉王)	Baisha (白沙)
Henan	Hongqiqu (紅旗渠)	Dihao (帝豪)
Shandong	Hatamen (哈德門)	General (將軍)
Hubei	Golden Dragon (紅金龍)	Huanghelou (黃鶴樓)
Guangdong	Double Happiness (雙喜)	Wuyeshen (五葉神)
Anhui	Huangshan (黃山)	Red 3 Ring (紅三環)
Guizhou	Huangguoshu (黃果樹)	Zunyi Brand (遵義)
Jiangsu	Nanjing (南京)	Suyan (蘇煙)
Sichuan	Pride (嬌子)	Tianxiaxiu (天下秀)

Source: Frost & Sullivan

In Yunnan, Yunyan (雲煙) and Hongtashan (紅塔山) are the two major brands. Both brands are very popular in the PRC, and Yunyan (雲煙) is well known for its pure and mild taste. Furongwang (芙蓉王) and Baisha (白沙) are the two core brands in Hunan. Huanghelou (黃鶴樓) is one of the key brands in Hubei, named after one of Hubei's famous places of interest, Yellow Crane Tower. It is one of the high-end brands with high retail price, especially for its sub-brand "Huanghelou 1916", due to its rare tobacco leaf raw material and hand-making process. The brand Double Happiness (雙喜) in Guangdong and Huangshan (黃山) in Anhui are also among the most popular brands in the PRC cigarette market.

2.6 Introduction to China National Tobacco Corporation

CNTC is the economic entity under the supervision of STMA. It is responsible for monopoly of tobacco products and the operation of production, sales, materials, import, and export business in relation to tobacco products in the PRC. It was formed in January 1982 and has 18 cigarette manufacturers, which supervised approximately 158 cigarette production factories by 2009; it allocates annual production quotas to the cigarette production factories according to their capacity, profitability, and sales in the previous year.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.6 Introduction to China National Tobacco Corporation (Continued)

Figure 2-3 illustrates CNTC's cigarette manufacturers ranking by production volume and sales value in the PRC cigarette market in 2008 and 2009.

Figure 2-3

Cigarette Market: CNTC's Cigarette Manufacturers Ranking by Production Volume and Sales Value (PRC), 2008 and 2009

Rank	CNTC Cigarette Manufacturers	Production Volume (Million Cases)		Sales Value (RMB Billion)	
		2009	2008	2009	2008
1	CNTC Yunnan	7.34	7.16	107.10	96.26
2	CNTC Industry Co.	4.01	3.91	38.21	32.76
3	CNTC Hunan	3.39	3.30	56.81	50.09
4	CNTC Henan	3.23	3.17	26.72	24.30
5	CNTC Chuanyu	2.70	2.57	26.21	23.01
6	CNTC Shandong	2.60	2.55	21.31	19.51
7	CNTC Hubei	2.56	2.49	33.49	28.03
8	Shanghai Cigarette	2.53	2.47	51.18	48.22
9	CNTC Anhui	2.38	2.32	22.23	20.07
10	CNTC Guizhou	2.32	2.27	20.18	17.93
11	CNTC Guangdong	2.17	2.11	32.04	28.59
12	CNTC Jiangsu	1.85	1.79	33.77	31.46
13	CNTC Shaanxi	1.61	1.54	12.11	10.53
14	CNTC Zhejiang	1.61	1.52	33.84	29.40
15	CNTC Fujian	1.60	1.50	18.88	17.02
16	CNTC Hebei	1.49	1.42	11.59	10.36
17	CNTC Guangxi	1.37	1.31	11.78	10.38
18	CNTC Jiangxi	1.06	1.01	9.89	8.56

Source: Frost & Sullivan Analysis

Among the 18 cigarette manufacturers, CNTC Yunnan ranked the first in both production volume and sales value in 2008 and 2009. The sales value of CNTC Yunnan reached RMB107.10 billion with 7.34 million cases of production in 2009. Other top cigarette manufacturers with higher production volume and sales values are CNTC Industry Co., CNTC Hunan, CNTC Henan, and CNTC Chuanyu. Their sales values reached RMB38.21 billion, RMB56.81 billion, RMB26.72 billion and RMB26.21 billion in 2009, respectively. CNTC Industry Co. is a holding company, which controls Harbin Cigarette Factory, Yanji Cigarette Factory, Lanzhou Cigarette Factory, and Shenzhen Cigarette Factory.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.7 Cigarette Classification

According to STMA, cigarettes in the PRC are divided into five categories based on the wholesale price without tax (cigarette manufacturer to CNTC) (不含稅調撥價).

Figure 2-4 shows the cigarette classification standard according to STMA in the PRC cigarette market from 2006 to 2009.

Figure 2-4

Cigarette Market: Cigarette Classification Standard (PRC), 2006-2009

Tier	Standard of Wholesale Price Without Tax (Cigarette Manufacturer to CNTC) Promulgated in May 2006 (RMB/200 Cigarettes)	Standard of Wholesale Price Without Tax (Cigarette Manufacturer to CNTC) Promulgated in May 2009 (RMB/200 cigarettes)
Tier 1	≥ 100 (inclusive)	≥ 100 (inclusive)
Tier 2	50 (inclusive)~100	70 (inclusive)~100
Tier 3	30 (inclusive)~50	30 (inclusive)~70
Tier 4	16.5 (inclusive)~30	16.5 (inclusive)~30
Tier 5	0~16.5	0~16.5

Source: STMA

The classification standard promulgated in 2006 divided cigarette into five tiers in terms of wholesale price without tax (cigarette manufacturer to CNTC): from RMB0 to RMB16.5, from RMB16.5 (inclusive) to RMB30, from RMB30 (inclusive) to RMB50, from RMB50 (inclusive) to RMB100, and above RMB100 (inclusive). The standard was revised by STMA in May 2009, where the price range of Tier 2 revised from RMB50 (inclusive) to RMB100 to RMB70 (inclusive) to RMB100.

Tier 1 cigarettes target the PRC luxury cigarette market. These are mainly bought for gifts and used in social events such as weddings and business banquet. Such a market in the PRC is very huge due to Chinese traditional cigarette culture. Tier 2 cigarettes' target end users are the smokers with high disposable incomes, and Tier 3 cigarettes are mainly for middle-class consumers. These two markets are also likely to growth rapidly due to the increase in disposable incomes as a result of the strong GDP growth of the PRC. Tier 4 and Tier 5 cigarettes' consumers are the low-class people.

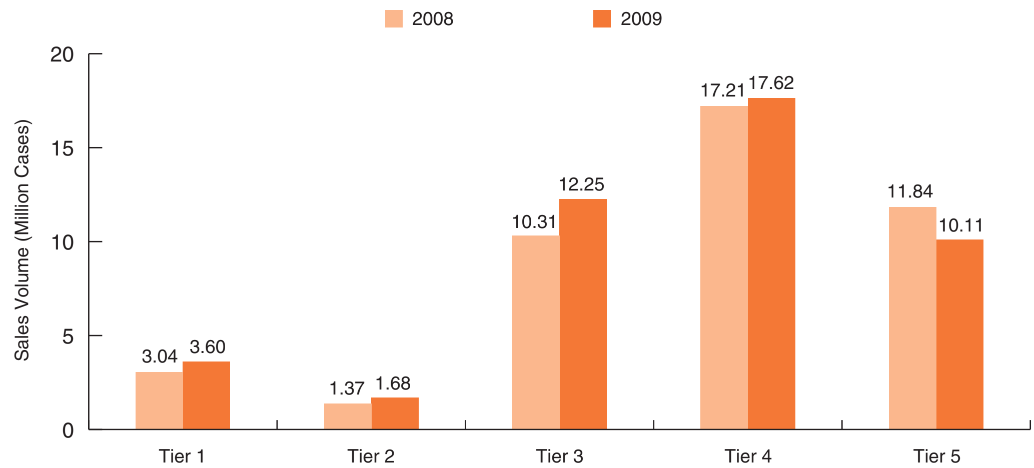
2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.7 Cigarette Classification (Continued)

Chart 2.5 shows the sales volume by cigarette tier in the PRC cigarette market in 2008 and 2009.

Chart 2.5

Cigarette Market: Sales Volume by Cigarette Tier (PRC), 2008 and 2009

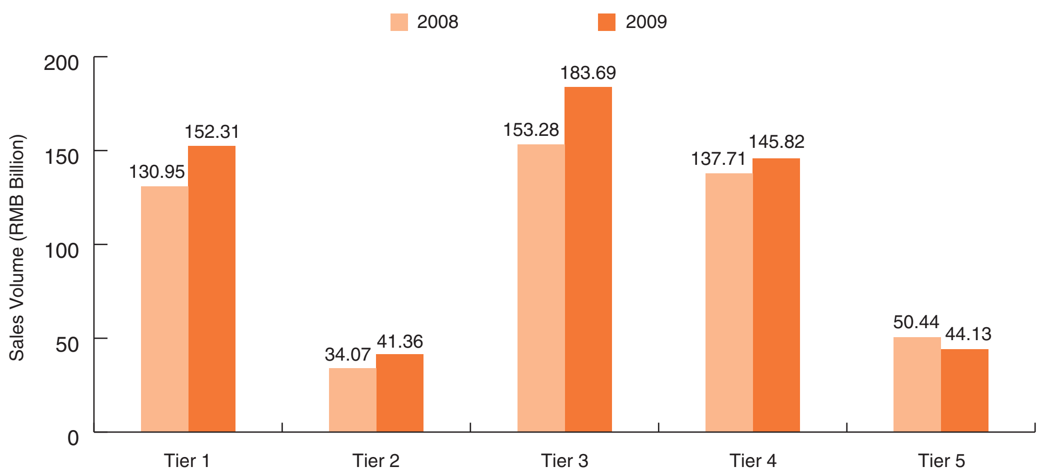


Source: Frost & Sullivan

Chart 2.6 shows the sales value by cigarette tier in the PRC cigarette market in 2008 and 2009.

Chart 2.6

Cigarette Market: Sales Value by Cigarette Tier (PRC), 2008 and 2009



Source: Frost & Sullivan

Tier 4 cigarettes held the largest share in terms of sales volume in the PRC in 2008 and 2009. Its sales volume reached 17.21 million cases in 2008 and 17.62 million cases in 2009. However, Tier 4 cigarettes only ranked the third in terms of the sales value in the PRC, which was RMB137.71 billion in 2008 and RMB145.82 billion in 2009.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.7 Cigarette Classification (Continued)

Tier 3 cigarettes had both high sales volume and sales value in 2008 and 2009. The sales volume of Tier 3 cigarettes was 10.31 million cases in 2008 and 12.25 million cases in 2009. Tier 3 cigarettes had the highest sales value, reached RMB153.28 billion in 2008 and RMB183.69 billion in 2009.

Tier 1 cigarettes had relatively less sales volume but had high sales value. Its sales volume in 2008 was 3.04 million cases with a sales value of RMB130.95 billion. In 2009, the sales volume of Tier 1 cigarettes was 3.60 million cases with a sales value of 152.31 billion.

Compared with Tier 1 cigarettes, Tier 5 cigarettes had less sales value but had relatively high sales volume. The sales volume of Tier 5 cigarettes was 11.84 million cases in 2008 and 10.11 million cases in 2009. The sales value of Tier 5 cigarettes was only RMB50.44 billion in 2008 and RMB44.13 billion in 2009.

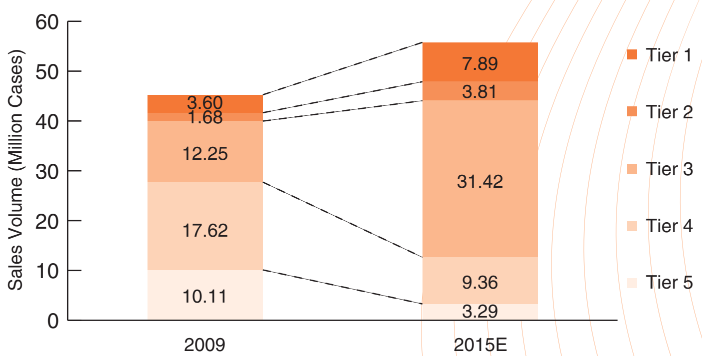
Tier 2 cigarettes had relatively small amount both in terms of sales volume and value, which was 1.37 million case with RMB34.07 billion sales value in 2008, and 1.68 million cases with RMB41.36 billion sales value in 2009.

Tier 1 to 4 cigarettes have shown steady growth in both sales volume and sales value from 2008 to 2009, whereas Tier 5 has declined rapidly during the same period. After the revision of cigarette classification since May 2009, the price range of Tier 3 cigarettes has been increased, and further growth in Tier 3 cigarettes is expected in the future. Currently, Tier 1 and Tier 2 cigarettes have small sales volume compared to Tier 3 cigarettes, but under the The Plan of Cigarette Industry Improvement, these are also anticipated to grow significantly in the future. Tier 4 cigarettes have relatively small growth potential, with the annual growth rate of 2.4 percent in sales volume and 5.9 percent in sales value, during 2008 and 2009, respectively.

Chart 2.7 shows the sales volume forecasts by cigarette tier in the PRC cigarette market in 2009 and 2015.

Chart 2.7

Cigarette Market: Sales Volume Forecasts by Cigarette Tier (PRC), 2009 and 2015E



Source: Frost & Sullivan

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.7 Cigarette Classification (Continued)

Under the stimulation of government policy on high-end cigarettes, Tier 1 to Tier 3 cigarettes are likely to be the segments that generate most growth in 2015. Especially for Tier 3, its sales volume is expected to increase from 12.25 million cases in 2009 to 31.42 million cases in 2015, at a CAGR of 17.0 percent. Tier 1 cigarettes and Tier 2 cigarettes are likely to grow at CAGR of 14.0 percent and 14.6 percent, respectively, during the same period. It is expected that in 2015, the sales volume of Tier 1 cigarettes and Tier 2 cigarettes are likely to reach 7.89 and 3.81 million cases. Tier 4 and Tier 5 cigarettes are anticipated to shrink dramatically at a negative CAGR of 10.2 percent and 17.1 percent, respectively. By 2015, the sales volume of Tier 4 and Tier 5 cigarettes are expected to be only 9.36 and 3.29 million cases. The total sales volume share of Tier 1, Tier 2, and Tier 3 cigarettes increased from 38.7 percent in 2009 to 77.3 percent in 2015, whereas the total share of Tier 4 and Tier 5 cigarettes decreased from 61.3 percent to 22.7 percent during the same period.

2.7.1 Value Chain Analysis

Figure 2-5 shows value chain information of cigarette tiers in the PRC cigarette market in 2009.

Figure 2-5

Cigarette Market: Value Chain Information of Cigarette Tiers (PRC), 2009

Tier	Wholesale Price with Tax (Cigarette Manufacturer to CNTC) (RMB/200 Cigarettes)	Wholesale Price (CNTC to Retailers) (RMB/200 Cigarettes)	Average Packaging Cost (RMB/200 Cigarettes)	Percentage of Packaging Cost Over Wholesale Price (CNTC to Retailers)
Tier 1	169.6	248.5	9.8	3.9%
Tier 2	94.3	124.7	4.3	3.4%
Tier 3	54.2	73.9	3.3	4.5%
Tier 4	30.7	39.4	1.3	3.3%
Tier 5	16.9	20.5	1.3	6.3%

Note: Wholesale price with tax (cigarette manufacturer to CNTC), (含稅調撥價), refers to the wholesale price with tax that cigarettes manufacturer sell to CNTC; and wholesale price (CNTC to retailers), (批發價) in, refers to the wholesale price CNTC sell to retailers

Source: Frost & Sullivan

In 2009, the wholesale prices with tax (cigarette manufacturer to CNTC) for Tier 1, Tier 2, Tier 3, Tier 4, and Tier 5 were RMB169.6, RMB94.3, RMB54.2, RMB30.7, and RMB16.9, respectively. At the same period, the wholesale prices (CNTC to retailers) for these cigarette tiers were RMB248.5, RMB124.7, RMB73.9, RMB39.4, and RMB20.5, respectively. Retail prices for these cigarette tiers in 2009 were RMB285.8, RMB140.9, RMB82.9, RMB43.3, and RMB22.6, respectively. Overall, Tier 1 cigarettes had the highest profit margin for CNTC in 2009, which was 46.6 percent.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.7 Cigarette Classification (Continued)

The average packaging cost of Tier 1 cigarettes were RMB9.8 per 200 cigarettes in 2009, 3.9 percent over the wholesale price (CNTC to retailers). Tier 2 cigarettes' average packaging cost was 3.4 percent over the wholesale price (CNTC to retailers) in 2009, which was RMB4.3 per 200 cigarettes. Tier 3 cigarettes' average packaging cost was RMB3.3 per 200 cigarettes in 2009, which was 4.5 percent over the wholesale price (CNTC to retailers). The average packaging cost for both Tier 4 and Tier 5 cigarettes was RMB1.3 per 200 cigarettes in 2009, which was 3.3 percent and 6.3 percent over the wholesale price (CNTC to retailers), respectively.

2.8 Top PRC Cigarette Brands

Figure 2-6 shows the top 15 brands ranked by sales value in the PRC cigarette market in 2008 and 2009.

Figure 2-6

Cigarette Market: Top 15 Brands Ranked by Sales Value (PRC), 2008 and 2009

		2009		2008	
Rank	**Brand**	**Production Volume (Million Cases)**	**Sales Value (RMB Billion)**	**Production Volume (Million Cases)**	**Sales Value (RMB Billion)**
1	Baisha (白沙)	2.65	33.59	2.47	30.17
2	Chunghwa (中華)	0.56	32.83	0.54	30.47
3	Hongtashan (紅塔山)	2.21	31.58	1.73	24.59
4	Yunyan (雲煙)	1.38	27.98	1.30	24.84
5	Furongwang (芙蓉王)	0.65	26.88	0.56	22.17
6	Double Happiness (雙喜)	1.68	25.95	1.50	21.56
7	Liqun (利群)	0.86	24.80	0.68	19.43
8	Honghe (紅河)	2.01	21.44	1.76	18.49
9	Hongjinlong (紅金龍)	2.21	20.24	2.03	16.37
10	Yuxi (玉溪)	0.54	18.17	0.47	14.39
11	Huangshan (黃山)	1.39	17.09	1.22	14.73
12	Septwolves (七匹狼)	1.21	17.06	1.08	14.93
13	Huanghelou (黃鶴樓)	0.49	16.31	0.37	12.66
14	Hongqiqu (紅旗渠)	2.03	15.22	1.80	12.81
15	Nanjing (南京)	0.71	14.29	0.63	12.86
Total of Top 15		20.58	343.42	18.14	290.48
Total		45.80	567.31	44.40	506.46
Share of Top 15 in Total		**44.9%**	**60.5%**	**40.9%**	**57.4%**

Source: Frost & Sullivan

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.8 Top PRC Cigarette Brands (Continued)

Baisha (白沙), Chunghwa (中華), and Hongtashan (紅塔山) have been the top three brands in the PRC, each with a sales value over RMB30 billion in 2009. Baisha is the product of CNTC Hunan, with a positioning for medium-end customers. It is very popular in the PRC cigarette market, with the sales value 33.59 billion in 2009, 11.3 percent higher than the value in 2008. Chunghwa is the high-end brand of Shanghai Cigarette, with sales value of RMB32.83 billion in 2009, 7.7 percent higher than in 2008. Hongtashan is the middle-end product of CNTC Yunan, and its sales value increased 28.4 percent from 2008 to 2009 and reached RMB31.58 billion with production of 2.21 million cases in 2009.

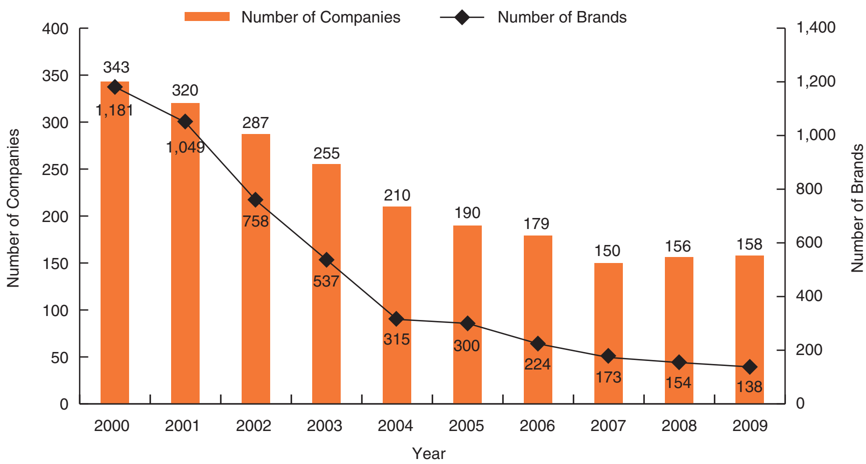
Yunyan (雲煙), Furongwang (芙蓉王), Double Happiness (雙喜), Liqun (利群), Honghe (紅河), and Hongjinlong (紅金龍) were the brands with sales value between RMB20.00 billion to RMB30.00 billion in 2009. Yuxi (玉溪), Huangshan (黃山), Septwolves (七匹狼), Huanghelou (黃鶴樓), Hongqiqu (紅旗渠), and Nanjing (南京) were the brands with sales value around RMB14 billion to RMB20 billion.

From 2008 to 2009, the market concentration increased in terms of both production volume and sales value. The total production volume of top 15 brands' market share occupied 44.9 percent of total PRC cigarette production in 2009, which was 4.0 percent higher than that in 2008. Meanwhile, top 15 brands' total sales value reached RMB343.42 billion, which was 60.5 percent of the total cigarettes' sales value in the PRC, up from 57.4 percent market share in 2008.

Chart 2.8 shows the number of cigarette companies and brands in the PRC cigarette market from 2000 to 2009.

Chart 2.8

Cigarettes Market: Number of Cigarette Companies and Brands (PRC), 2000-2009



Source: Data for number of companies are from National Bureau of Statistics of China; data for numbers of brands are from Frost & Sullivan.

2 OVERVIEW OF THE PRC CIGARETTE MARKET (CONTINUED)

2.8 Top PRC Cigarette Brands (Continued)

The number of cigarette companies and brands has declined rapidly over the past ten years. The number of cigarette production factories in the PRC was reduced from 343 production factories in 2000 to 158 production factories in 2009, with a negative CAGR of 8.3 percent. The number of cigarette brands in the PRC fell from 1,181 brands in 2000 to a mere 138 brands in 2009, with a negative CAGR of 21.2 percent. The PRC cigarette market was relatively more concentrated in 2009 compared to that in the last decade.

According to *The Plan of Cigarette Industry Improvement announced* at the 2010 National Tobacco Conference, further consolidation is expected to improve the competitiveness of the PRC cigarette companies in the international market. Therefore, industry consolidation is still anticipated as the major market trend in the next five years. Brand concentration is likely to increase, and outdated capacities are expected to be eliminated. More Tier 1 to Tier 3 cigarettes with high product quality and sound brand awareness are expected to be introduced in the market and hold higher market shares. Cigarette companies' profitability is also anticipated to increase. Nevertheless, Tier 4 and Tier 5 cigarettes are not expected to disappear due to the existence of demand by low-income consumers.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET

3.1 Market Introduction

Cigarette packages are used by cigarette manufacturers during the process of packing of cigarettes. Cigarette package production is usually outsourced by cigarette manufacturers to packaging manufacturers in the PRC. In the PRC, cigarette packaging manufacturers only produce cigarette packages, but they do not pack cigarette into packets, boxes, and cases. Produced cigarette packages are delivered from the packaging factories to the factories of cigarette manufacturers where cigarettes are packed into packets, boxes, and cases.

By the end of 2009, the production capacity and production volume of cigarette packaging market in the PRC reached 72.0 and 50.4 million cases, respectively. The PRC cigarette market ranked first in terms of both production volume and consumption volume in 2009 in the world. The global cigarette market experienced a negative growth rate in the past few years by the strong enactment of tobacco control policies. However, PRC's cigarette market still experienced a stable growth in the past, and this trend is likely to remain the same in the future. Hence, the cigarette packaging market in the PRC is anticipated to have a sustainable growth from 2009 to 2015 at a CAGR of 2.9 percent in terms of production volume.

The sales value of the cigarette packaging market in the PRC increased from RMB24.29 billion in 2004 to RMB32.72 billion in 2009, represented a CAGR of 6.1 percent during that period. However, it is likely to surge from 2009 to 2015 at a CAGR of 12.4 percent.

The key development trends of the cigarette packaging market in the PRC are likely to be environmental protection, development of anti-counterfeit technology, and innovation in design.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.2 Production Chain Overview

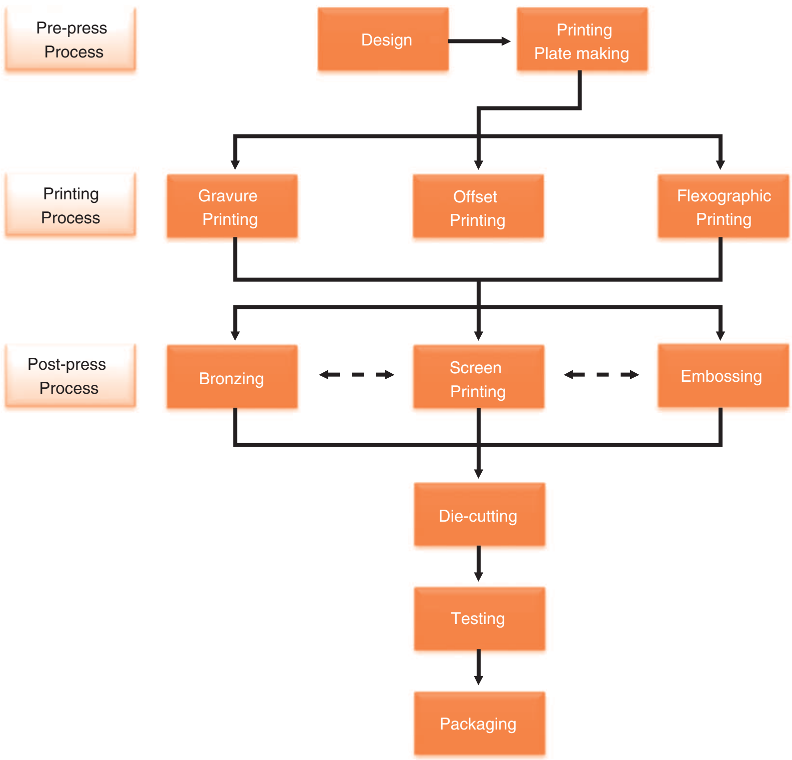
3.2.1 Technology Introduction

The production process of cigarette packaging in the PRC is divided into three phases, namely pre-press (印前), printing (印刷), and post-press (印後).

Chart 3.1 shows the technical process of cigarette packaging in the PRC cigarette packaging market in 2010.

Chart 3.1

Cigarette Packaging Market: Technical Process of Cigarette Packaging (PRC), 2010



Source: Frost & Sullivan

Pre-press Process

Package design (包裝設計) and *printing plate making* (印板製作) are involved in the pre-press process. The design capability in the PRC cigarette packaging market achieved great improvements in recent years. Leading participants normally have a strong team of talented designers. Designed images and texts are put on the printing plate through photomechanical, photochemical, and laser technology. In different printing methods, the printing plates are made of different materials, including metal, plastic and rubber.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.2 Production Chain Overview (Continued)

3.2.1 Technology Introduction (Continued)

Printing Process

Printing is the most complicated phase. There are three printing methods involved in this segment, namely *gravure printing* (凹印), *offset printing* (膠印), and *flexographic printing* (柔印). The use of methods depends on the requirements of the clients. Both single method and the combination of different methods can be used for the production of cigarette packages.

Gravure Printing:	Gravure printing is a printing method in which ink is transferred from printing plate with images and texts to the printing material. The printing plate is made of small depressions in the surface. The cells are filled with ink when the printing plate is dipped into the ink tube. The excess ink is scraped off the surface of the printing plate. A rubber-covered roller then presses paper onto the surface of the plate and the images and texts are printed on the surface of the printing materials.
Offset Printing:	In this printing method, inked images and texts are first transferred from a plate to a rubber blanket, serving as an intermediate carrier, and then the images and texts are reprinted on the relevant printing materials. This method uses the repulsion feature of oil and water.
Flexographic Printing:	Flexographic printing is a printing method, which provides high printing speed and quality. It is basically an updated version of letterpress that can be used for printing on almost any type of materials including plastic, metallic films, cellophane, and paper.

Post-press Process

The major post-press processes are *bronzing* (燙金), *screen printing* (絲印), and *embossing* (擊凸). Normally, middle– and high-end cigarette packages have more post-press processes than low-end ones. Testing became a key process in the production of cigarette package after the issuing of environmental protection-related regulations and rules.

Bronzing:	Bronzing makes bronze-like images, and texts are applied to the printing materials under the force of bronzing plate.
Embossing:	Embossing makes patterns or figures to emboss on the surface of printing materials under the force of embossing plate.
Screening Printing:	Screen printing uses a woven mesh to support an ink-blocking stencil. The attached stencil forms open areas of mesh that transfer ink or other printable materials, which can be pressed through the mesh as a sharp-edged image onto a printing materials.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.2 Production Chain Overview (Continued)

3.2.2 Equipment Introduction

There are many types of equipment involved in the processes of pre-press, printing, and post-press.

Pre-press Equipment

Figure 3-1 shows the major pre-press equipment involved in the cigarette packaging process in the PRC cigarette packaging market in 2010.

Figure 3-1

Cigarette Packaging Market: Pre-Press Equipment Involved in Cigarette Packaging Process (PRC), 2010

Equipment	Application
Digital Proofer (數碼打樣機)	Digital proofer offers a fast method of internal product prediction. A digital proofer attached to the scanner can determine if images are scanned correctly, reducing rescans.
Computer-to-Plate Device (CTP 製版機)	Computer-to-plate device provides imaging technology in printing process. In this technology, an image created in a desktop publishing application is put directly onto a printing plate.

Source: Frost & Sullivan

Printing Equipment

Figure 3-2 shows the major printing equipment involved in the cigarette packaging process in the PRC cigarette packaging market in 2010.

Figure 3-2

Cigarette Packaging Market: Printing Equipment Involved in Cigarette Packaging Process (PRC), 2010

Equipment	Application
Gravure Printing Press (凹印機)	Gravure printing press provides products with superb colors and excellent gloss. However, the cost of the printing plate used in this printing method is high as it is made of copper. Hence, gravure printing press is widely used for long, huge quantity, and high-quality printing runs.
Offset Printing Press (膠印機)	Offset printing press provides products with excellent colors. Compared with gravure printing press, the cost of the printing plate for offset printing is low. Hence, it is normally applied in low-volume production, such as packages for the newly established cigarette brands.

Source: Frost & Sullivan

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.2 Production Chain Overview (Continued)

3.2.2 Equipment Introduction (Continued)

Post-press Equipment

Figure 3-3 shows the major post-press equipment involved in the cigarette packaging process in the PRC cigarette packaging market in 2010.

Figure 3-3

Cigarette Packaging Market: Post-press Equipment Involved in the Cigarette Packaging Process (PRC), 2010

Equipment	Application
Bronzing Press (燙金機)	Bronzing press is widely applied to the middle- and high-end brands as they normally have more strict requirements on the outlook of their packages.
Screening Printing Press (絲印機)	Screen printing press is widely used to produce the labels of middle-and high-end brands.
Embossing Press (擊凸機)	Embossing press is widely applied to the middle- and high-end brands.

Source: Frost & Sullivan

3.3 Regulatory Analysis

Requirements of Design of Cigarette Package (《煙草包裝設計要求》)

In 2008, the State Tobacco Monopoly Administration released the *Requirements of Design of Cigarette Package (《煙草包裝設計要求》)*, which stipulated the requirements of cigarette pack design including the structure, shape, images and texts, and raw materials. According to the *Requirements of Design of Cigarette Package*, cigarette packaging manufacturers are recommended to use environment-friendly raw materials instead of the traditional ones. Cigarette packaging manufacturers are proposed to reduce the cost of cigarette package to reduce the waste of paper and other sources. *The Requirements of Design of Cigarette Package* aims at regulating the package design and promotes environment-friendly cigarette package.

Volatile Organic Compound Limitation in the Packaging Papers of Cigarette Carton and Packet (卷煙條與盒包裝紙中揮發性有機化合物的限量)

The *Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (《卷煙條與盒包裝紙中揮發性有機化合物的限量》)* took effect on 1 July 2008. The law aims to reduce the volatile organic compounds emissions from the cigarette package's surface coatings. After the enactment of the law, the cigarette packaging manufacturers are establishing labs and testing departments to detect the amount of volatile organic compounds emissions from the products. In general, the law is likely to encourage the use of environment-friendly raw materials in the cigarette packaging market.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.3 Regulatory Analysis (Continued)

Regulation on Cigarette Package Labeling within the Territories of the People's Republic of China (《中華人民共和國境內卷煙包裝標識的規定》)

Regulation on Cigarette Package Labelling within the Territories of the People's Republic of China (《中華人民共和國境內卷煙包裝標識的規定》) was issued in 2007. The use of misleading slogans, such as Healthy and Low Harmful, are prohibited on the cigarette packages as per the regulation. Besides, warning labels are required to cover 30 percent of the pack, in Chinese on the front and English on the back. Cigarette companies are allowed to design their own labels as long as they meet the minimum requirements. This regulation pushes the development of design capability in the cigarette packaging market in the PRC.

3.4 Market Dynamics

3.4.1 Market Drivers

Figure 3-4 shows the market drivers ranked in order of impact for the PRC cigarette packaging market from 2010 to 2015.

Figure 3-4

Cigarette Packaging Market: Market Drivers Ranked in Order of Impact (PRC), 2010E-2015E

Driver	1–3 Years	4–6 Years
Stable increase of cigarette production and consumption in the PRC	High	High
Impact of cigarette consumption upgrade	High	Medium
Improvements in manufacturing technology	High	Medium
Increasing environmental consciousness	Medium	Medium

Source: Frost & Sullivan

Stable Increase of Cigarette Production and Consumption in the PRC

The cigarette packaging market is strongly driven by the increasing demand of cigarette in the PRC. By the end of 2009, PRC became the leader in the cigarette market, representing about 40.0 percent of the total global production and consumption. The cigarette market in the PRC experienced a stable growth from 2004 to 2009. Due to the Chinese traditional cigarette culture and increasing purchasing power, both cigarette production and consumption in the PRC are anticipated to experience a sustainable increase in the future. The cigarette market in the PRC is likely to become one of the few markets in the world with positive growth rate in the future.

Impact of Cigarette Consumption Upgrade

The sustainable growth in annual disposable income of households accelerates the cigarette consumption. The sales volume of Tier 1, Tier 2, and Tier 3 cigarettes are likely to experience a strong growth in the forecast period, whereas the sales volume of Tier 4 and Tier 5 cigarettes are expected to drop during the same period. Compared with low-end cigarette brands, middle- and high-end brands normally have higher requirements on design, raw materials, quality, and so on, which in turn leads to higher cost of cigarette packaging. Thus, the increase of medium- and high-end cigarette market is likely to drive the sales value of the cigarette packaging market in the PRC in the next five years.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.4 Market Dynamics (Continued)

3.4.1 Market Drivers (Continued)

Improvements in Manufacturing Technology

As a result of continuous research and development (R&D) investments, the manufacturing technology of cigarette packaging is improving. The improvements mainly focus on the anti-counterfeit technology and environmental protection technology. Anti-counterfeit technologies aim to increase protection for cigarette brands and consumers. For example, forgery-proof ink and pigment is developed by adding a special fluorescence compound. New environment-friendly raw materials and manufacturing technologies are developed to reduce the emission of VOC and other harmful chemicals. Improvements in manufacturing technology are expected to further enhance the competitive advantages of the cigarette packaging market in the PRC.

Increasing Environmental Consciousness

In recent years, both consumers and the market participants in the PRC showed significant interest in the environment continuously. The demand for green packaging products experienced a substantial increase in the past. As a result, both government and the market participants realized the importance to develop the environment-friendly cigarette package.

In this situation, the *Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (《卷煙條與盒包裝紙中揮發性有機化合物的限量》)* took effect on 1 July 2008. The law aims to reduce the volatile organic compounds emissions from the cigarette package's surface coatings.

Many environment-friendly raw materials are developed and applied by cigarette packaging manufacturers. For example, aluminium metallized paper is widely used as inner shell at present. Cigarette packaging manufacturers are expected to invest more on developing environment-friendly raw materials and manufacturing technologies.

3.4.2 Market Restraints

Figure 3-5 shows the market restraints ranked in order of impact for the PRC cigarette packaging market from 2010 to 2015.

Figure 3-5

Cigarette Packaging Market: Market Restraints Ranked in Order of Impact (PRC), 2010E-2015E

Restraint	1–3 Years	4–6 Years
Strengthening the cigarette control measures by the PRC government	High	High
Rising cost of raw materials	High	Low
The appearance of graphic warning labels on the pack of cigarette in the future	Low	Medium

Source: Frost & Sullivan

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.4 Market Dynamics (Continued)

3.4.2 Market Restraints (Continued)

Strengthening the Cigarette Control Measures by the PRC Government

The PRC joined the WHO's Framework Convention on Tobacco Control in 2006 and pledged to make all public places smoking-free zones before January 2011. However, both cigarette production and consumption in the PRC grew at a stable rate in the past. The number of smokers in the PRC increased as well. The PRC Government admits that the country has failed to reduce the use of tobacco products because of weak regulations. As a result of the pressure from WHO and other anti-smoking organizations, the PRC Government is likely to strengthen the cigarette control measures in the future.

Rising Cost of Raw Materials

In 2010, the price of pulp increased dramatically compared to that in 2009, due to the reduction of total outputs in 2010. This is mainly because of the massive earthquake in Chile, one of the world's largest pulp producers, in the beginning of 2010. Although the total output in Chile recovered by the end of 2010, the price of pulp is anticipated to maintain at a high level as a result of increasing demand and inflation. However, due to the introduction of substitutes and the improvements in manufacturing technologies, the impact of rising cost of raw materials in the cigarette packaging market is likely to decrease.

The Appearance of Graphic Warning Labels on the Pack of Cigarette in the Future

The United States first mandated the use of warning labels stating *Cigarettes may be hazardous to your health* in 1965. Till date, more than 30 countries have introduced similar labels. A new campaign is launched recently by the World Health Organization. As part of this campaign, larger graphic warning labels, such as corpses, cancer patients, and diseased lungs, are likely to take up half of the pack of cigarette. The governments of the United States and Europe have already planned for warning images on each pack of cigarette sold in western countries. Compared with the images on the pack of cigarette sold in western countries, the image on the package of domestic cigarette is still attractive to the consumers.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

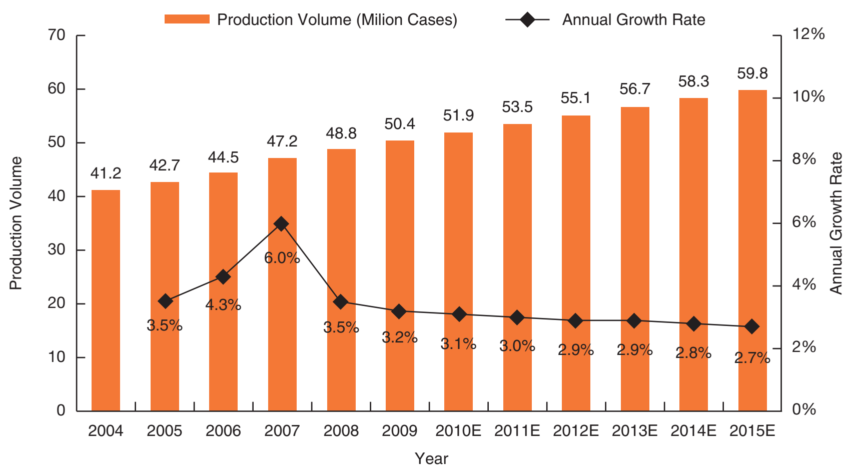
3.5 Market Sizing and Forecasts

The production volume of cigarette packaging market in the PRC represented a stable growth rate from 2004 to 2009, and it is expected to keep growing during the forecast period.

Chart 3.2 shows the production volume forecasts in the PRC cigarette packaging market from 2004 to 2015.

Chart 3.2

Cigarette Packaging Market: Production Volume Forecasts (PRC), 2004-2015E



Note: The base year is 2009.

Source: Frost & Sullivan

The production volume of the cigarette packages increased from 41.2 million cases in 2004 to 50.4 million in 2009, representing a CAGR of 4.1 percent during that period. Production volume of cigarette package is likely to reach 59.8 million cases in 2015, at a CAGR of 2.9 percent from 2009 to 2015. The production volume of cigarette packages is highly correlated with the production volume of cigarette. Hence, the stable development of the cigarette market in the PRC is one of the key drivers to the cigarette packaging market in the PRC.

With the increasing demand of cigarette packages in the PRC, production capacity of the cigarette package increased continuously from 2004 to 2009 to fulfill the total demand. This trend is likely to remain in the future. The average utilization rate of the cigarette packaging market in the PRC is about 70.0 percent.

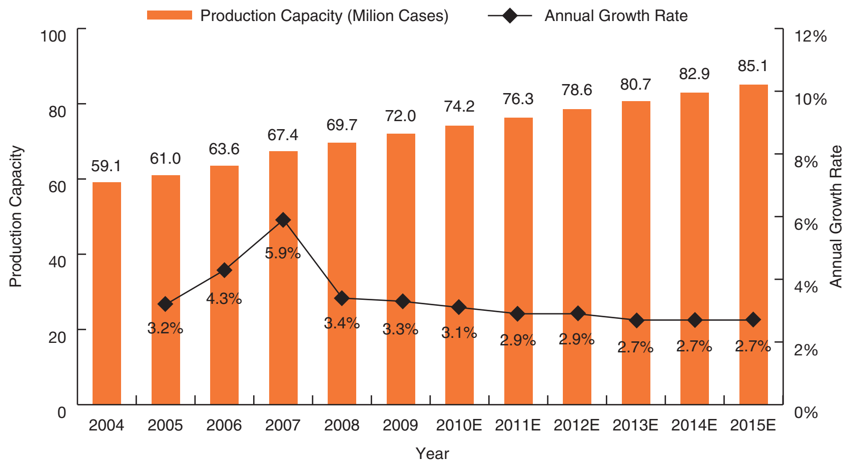
3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.5 Market Sizing and Forecasts (Continued)

Chart 3.3 shows the production capacity forecasts in the PRC cigarette packaging market from 2004 to 2015.

Chart 3.3

Cigarette Packaging Market: Production Capacity Forecasts (PRC), 2004-2015E



Note: The base year is 2009

Source: Frost & Sullivan

The production capacity was 59.1 million cases in 2004 and expanded to 72.0 million cases in 2009, at a CAGR of 4.0 percent. The production capacity is estimated to grow at a CAGR of 2.8 percent from 2009 to 2015, and reach 85.1 million cases by the end of 2015.

The growth of sales value of the cigarette packaging market in the PRC started accelerating in 2005. Driven by the strong expansion of the middle- and high-end cigarette market, the demand for high-qualified cigarette packages surged in the past few years, and this trend is likely to remain the same in the future. Thus, the sales value of the cigarette packaging market is anticipated to increase significantly in the future.

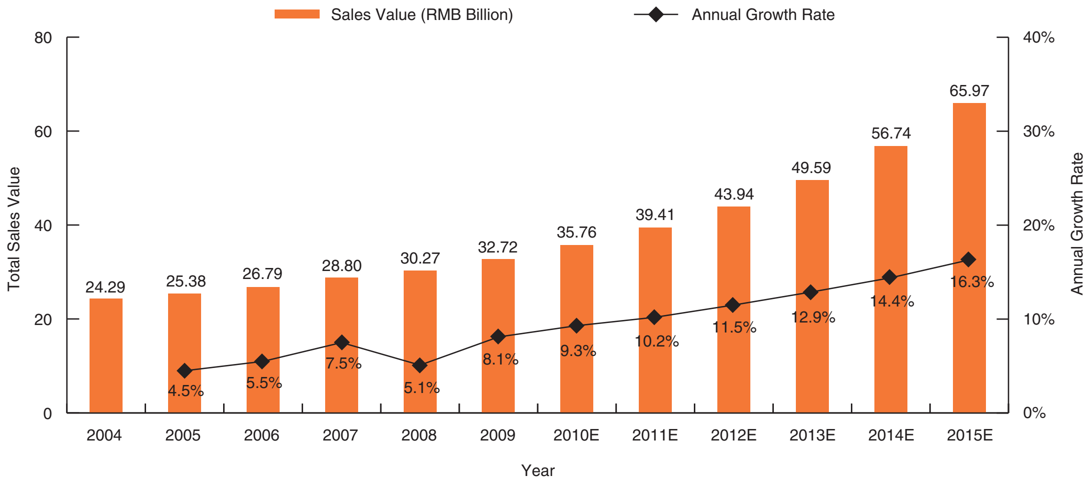
3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.5 Market Sizing and Forecasts (Continued)

Chart 3.4 shows the sales value forecasts in the PRC cigarette packaging market from 2004 to 2015.

Chart 3.4

Cigarette Packaging Market: Sales Value Forecasts (PRC), 2004-2015E



Note: The base year is 2009

Source: Frost & Sullivan

The sales value of cigarette package in the PRC increased from RMB24.29 billion in 2004 to RMB32.72 billion in 2009, representing a CAGR of 6.1 percent. The sales value is likely to reach RMB65.97 billion in 2015 at a CAGR of 12.4 percent from 2009 to 2015.

3.6 Competitive Landscape Analysis

3.6.1 Introduction

Around 180 cigarette packaging manufacturers were present in the PRC by the end of 2009, and they have been located countrywide to serve the CNTC in different provinces. Major market participants with annual capacity of 2.0 million or more cases in the PRC are located in developed provinces and Tier 1 cities, such as Guangdong, Shanghai, and Shenzhen. These leading market participants normally own plants throughout the country.

As there are unique and distinct values for cigarette packages in the PRC, any flaw in the cigarette packages may cause serious damages to the reputation of a particular brand of cigarettes and mislead consumers to perceive genuine cigarettes as counterfeit cigarettes. Therefore, cigarette manufacturers in the PRC are normally likely to keep using the same manufacturing technology for the supply of cigarette packages for a particular brand of cigarettes to avoid any quality problems resulting from the change of the technology and printing equipment.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.6 Competitive Landscape Analysis (Continued)

3.6.1 Introduction (Continued)

According to the industrial expert interviews, leading market participants in the PRC has already finished the expansion of the production capacity before 2008, and they are focusing on the upgrading of the manufacturing technologies and equipment to fulfill the increasing standards of their clients. The production capacity is likely to expand as a result of the increasing consolidation in the cigarette packaging market in the PRC. Small and middle manufacturers are likely to be a member of leading market participants through merger and acquisitions and leverage their competitive advantages as the leading market participants expand their geographical coverage.

Figure 3-6 provides the competitive structure for the PRC cigarette packaging market in 2009.

Figure 3-6

Cigarette Packaging Market: Competitive Structure (PRC), 2009

Number of Participants in the Market	Approximately 180
Types of Participants	Mainly private market participants
End-user Group	CNTC

Source: Frost & Sullivan

There are five leading market participants, each with an annual production capacity of 2.0 million cases or more in the PRC.

Figure 3-7 provides the major manufacturers in the PRC cigarette packaging market in 2009.

Figure 3-7

Cigarette Packaging Market: Major Manufacturers (PRC), 2009

Company Name	Production Capacity (Million Cases)	Production Volume (Million Cases)
Company A	5.5	3.1
Brilliant Circle Holdings International Limited (貴聯控股國際有限公司)	5.0	2.7
Company C	4.4	3.5
Company D	3.0	1.8
Company E	2.0	0.9
Others	52.1	38.3
Total	72.0	50.4

Note: All the figures of Brilliant Circle Holdings International Limited are provided by the company itself; A company's production capacity is calculated by adding the capacity of each plant;

Source: Frost & Sullivan

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

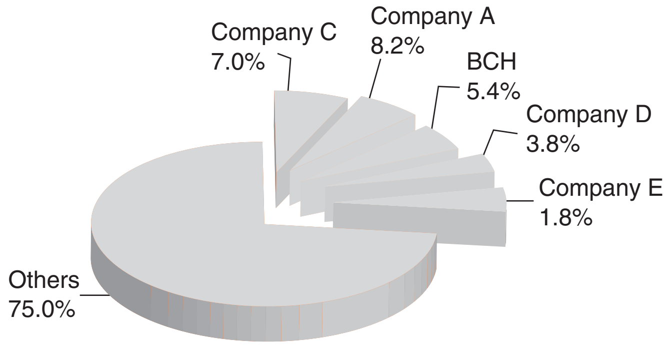
3.6 Competitive Landscape Analysis (Continued)

3.6.1 Introduction (Continued)

Chart 3.5 shows the percent of production volume by major market participants in the PRC cigarette packaging market in 2009.

Chart 3.5

Cigarette Packaging Market: Percent of Production Volume by Major Market Participants (PRC), 2009



Note: All the figures of Brilliant Circle Holdings International Limited are provided by the company itself

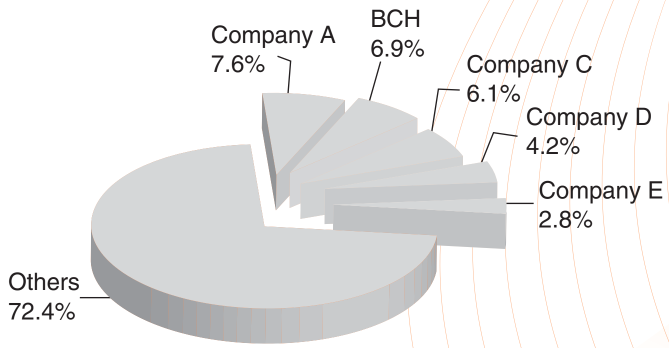
Source: Frost & Sullivan

In 2009, Company C was the largest cigarette packaging manufacturer in terms of production volume, with a share of 7.0 percent of the total cigarette package production volume in the PRC. BCH and Company A were ranked second and third, with market share of 6.2 percent and 5.4 percent, respectively, in the same year.

Chart 3.6 shows the percent of production capacity by major market participants in the PRC cigarette packaging market in 2009.

Chart 3.6

Cigarette Packaging Market: Percent of Production Capacity by Major Market Participants (PRC), 2009



Note: All the figures of Brilliant Circle Holdings International Limited are provided by the company itself

Source: Frost & Sullivan

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.6 Competitive Landscape Analysis (Continued)

3.6.1 Introduction (Continued)

Company A ranked first in terms of production capacity in the PRC cigarette packaging in 2009. Its production capacity in 2009 was 5.5 million cases, representing 7.6 percent of the production capacity of the PRC cigarette packaging market. BCH was ranked second, with a production capacity of 5.0 million cases and representing 6.9 percent of the production capacity of the PRC cigarette packaging market.

3.6.2 Profiles of Key Market Participants

Company A

Company A was established in 1996 in Shenzhen and is listed on PRC A-share main board. Company A owns six plants in the PRC, which are located in Shenzhen, Anhui, Yunnan, Guizhou, Zhejiang, and Jiangsu. In the past few years, Company A has focused on upgrading its manufacturing technologies and equipment to enhance the company's overall competitive advantages in the PRC cigarette packaging market.

The company's major clients include both domestic and foreign cigarette brands, such as Arte, Honghedao (紅河道), Pride (嬌子), Huangshan (黃山), Haorizi (好日子), Taishan (泰山).

Brilliant Circle Holdings International Limited

Brilliant Circle Holdings International Limited was established in 1990 in Hong Kong. In 2010, BCH has established four cigarette packaging plants in Shenzhen, Hunan, Hubei, and Anhui, with a wide network in the PRC. In-depth cooperation with leading cigarette manufacturers is one of BCH's key business strategies. Two of the four cigarette packaging plants have been set up as a joint venture model with local CNTC cigarette manufacturers in three different provinces. BCH also takes lead in the innovation of design and manufacturing technologies. The company obtained many patents for the new manufacturing technologies in the last decade.

In 2010, the company had an annual production capacity of 5.0 million cases of cigarette packages. BCH has established long-run relationship with cigarette manufacturers all over the country. The company has been the key cigarette package supplier for Baisha (白沙), Furongwang (芙蓉王), Hongtashan (紅塔山), Double Happiness (雙喜), Pride (嬌子), Huangguoshu (黃果樹), Huangshan (黃山), and others. In addition, BCH has also provided cigarette packages design service, and its design capability has been recognized by Chunghwa (中華) and some other famous cigarette brands in the PRC.

Company C

Company C was established in 1998 and was listed on the Main Board of the Hong Kong Stock Exchange. By the end of 2010, Company C had six cigarette packaging plants in the PRC, which attains a broad geographical coverage in Beijing, Guangzhou, Zhejiang, Jiangsu, Yunnan, and Shandong, with more than 2,500 staffs. Besides, Company C and its subsidiaries are engaged in the manufacturing of cigarette packaging paper and laser film, which are the major raw materials for cigarette packaging.

With their extensive network, Company C is able to effectively satisfy the needs of its clients throughout the PRC. The majority of Company C clients are leading state-owned cigarette manufacturers in the PRC. Company C produces cigarette packages for Suyan (蘇煙), Dahongying (大紅鷹), Hongxiongshi (紅雄獅), Liqun (利群), Honghe (紅河), Nanjing (南京), Yipinmei (一品梅), Dafengshou (大豐收). Company C has implemented strict safety and environmental protection measures and has been focusing on promoting strong corporate governance practices to achieve the highest standards of transparency.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.6 Competitive Landscape Analysis (Continued)

3.6.2 Profiles of Key Market Participants (Continued)

Company D

Company D was established in Shantou in 1974, with more than 30-year history. The company has four cigarette packaging plants located in Guangdong, Guizhou, Heilongjiang, and Guangxi, with production capacity 3.0 million cases in 2010. Company D has been emphasizing on fostering a consciousness of environmental protection and energy conservation and is always committed to green environmental concepts of emission reduction.

Company D keeps introducing advanced manufacturing equipment and employs effective management to not only improve its production volume and product quality but also further reduce the pollution and the waste of resources. The key clients for Company D are Tangsheng (唐盛), Lanzhou (蘭州), Yunyan (雲煙), Diamond (鑽石), Huangguoshu (黃果樹), Changbaishan (長白山), Haorizi (好日子), Zunyi (遵義).

Company E

Company E appeared as the first cigarette packaging manufacturer in the PRC in 1928. The company is a subsidiary solely owned by a cigarette manufacturer which is the only state-owned enterprise among the top-five market participants in the cigarette packaging market in the PRC. Company E owned two plants in 2010, and both of them are located in Shanghai.

The major clients of Company E are cigarette brands such as Chunghwa (中華), Red Double Happiness (紅雙喜), Shanghai (上海), Panda (熊貓). Both Panda and Chunghwa are leading cigarette brands in the PRC.

3.7 Raw Material Analysis

3.7.1 Introduction

The raw materials used in this industry are cigarette packaging paper (卷煙包裝用紙), and printing ink (印刷油墨). Cigarette packaging paper accounted for near 60.0 percent of the total packaging cost. Carton board (白卡紙) and coated fine paper (銅版紙) are the most commonly used types of cigarette packaging paper. Carton board is widely used in the packages of middle- and high-end cigarette brands, as it has high performance in printing, hot foil stamping and other post-press processes. Compared with laminated paper (複合紙), carton board is regarded as environment-friendly paper. Coated fine paper is normally used in the production of low-end cigarette packages. Restricted by the regression of the low-end cigarette market, the demand of coated fine paper is likely to decrease.

Printing ink accounted for around 10.0 percent of total cigarette packaging cost. Forgery-proof ink and pigment have been applied by some of the leading manufacturers. The forgery-proof ink has been widely used in money printing and is still at a formative stage in the cigarette packaging market in the PRC. With the increase in focusing on the development of anti-counterfeit technologies, forgery-proof ink is likely to be widely used in the future.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.7 Raw Material Analysis (Continued)

3.7.2 Price Trend Analysis

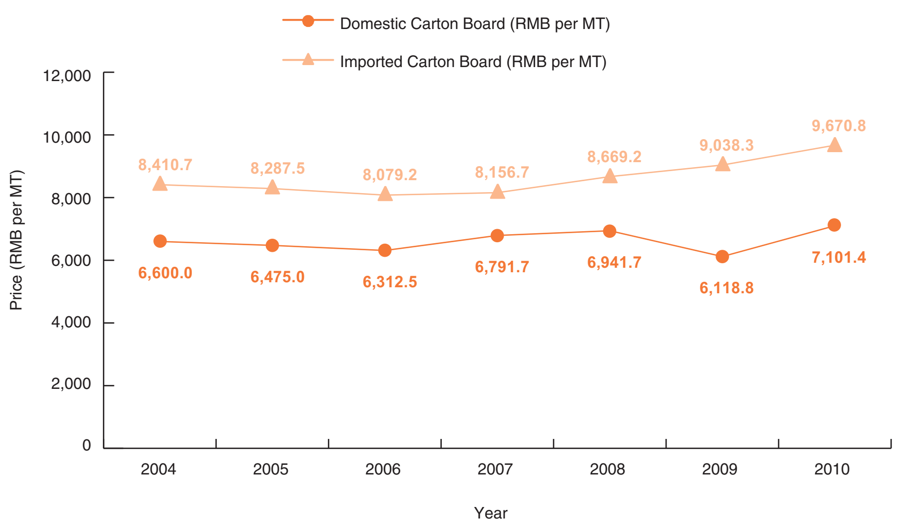
Cigarette Packaging Paper

Carton board and coated fine paper are the two most commonly used types of cigarette packaging paper.

Chart 3.7 shows the price trends of the domestic and imported carton board in the PRC cigarette packaging market from 2004 to 2010.

Chart 3.7

Cigarette Packaging Market: Price Trends of the Domestic and Imported Carton Board (PRC), 2004-2010



Source: Frost & Sullivan

The price of imported carton board increased with a stable annual growth rate, from RMB8,410.7 per MT in 2004 to RMB9,670.8 per MT in 2010 at a CAGR of 1.2 percent during the same period. In 2005 and 2006, the imported carton board market recorded a negative annual growth rate of 1.5 percent and 2.5 percent, respectively. Since 2006, the imported carton board market stepped into a stable growth period. The annual growth rate reached 7.0 percent in 2010 from 1.0 percent in 2007.

Compared with the stable growth of imported carton board market, domestic carton board market fluctuated from 2004 to 2010. In 2009, the market experienced a double-digit negative growth rate of 11.9 percent. However, the market recovered in the next year, with a dramatic growth rate of 16.1 percent.

Due to the increasing demand and inflation, the price of domestic carton board is anticipated to grow at a CAGR between 2.0 percent and 5.0 percent in the following five years. Domestic carton board witnesses a stronger competitive advantage than imported carton board in terms of price. With the improvements on quality, the domestic carton board is likely to have a larger market share than imported carton board in the future.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.7 Raw Material Analysis (Continued)

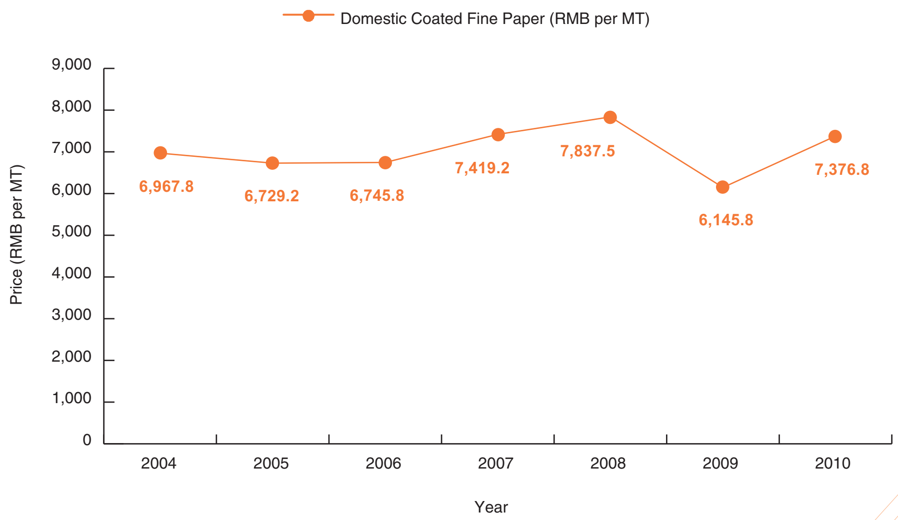
3.7.2 Price Trend Analysis (Continued)

Cigarette Packaging Paper (Continued)

Chart 3.8 shows the price trends of the domestic coated fine paper in the PRC cigarette packaging market from 2004 to 2010.

Chart 3.8

Cigarette Packaging Market: Price Trends of the Domestic Coated Fine Paper (PRC), 2004-2010



Source: Frost & Sullivan

In the PRC cigarette packaging market, domestic coated fine paper dominated the Tier 4 and Tier 5 cigarette market. Similar to the domestic carton board market, the domestic coated fine paper market fluctuated from 2004 to 2010. The price of coated fine paper reached peak of RMB7,837.5 per MT in 2008 and dropped to RMB6,145.8 per MT in 2009. In 2010, the price of coated fine paper experienced a strong growth of 20.0 percent. The price trend of coated fine paper is likely to increase slightly at a CAGR between 0 and 5.0 percent during the next five years, mainly due to rising consumption and inflation.

Printing Ink

Crude oil is the major raw material of the printing ink, and the price of printing ink is highly correlated to the price of crude oil. Since 1998, global crude oil prices have been increasing dramatically, until affected by the financial crisis.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.7 Raw Material Analysis (Continued)

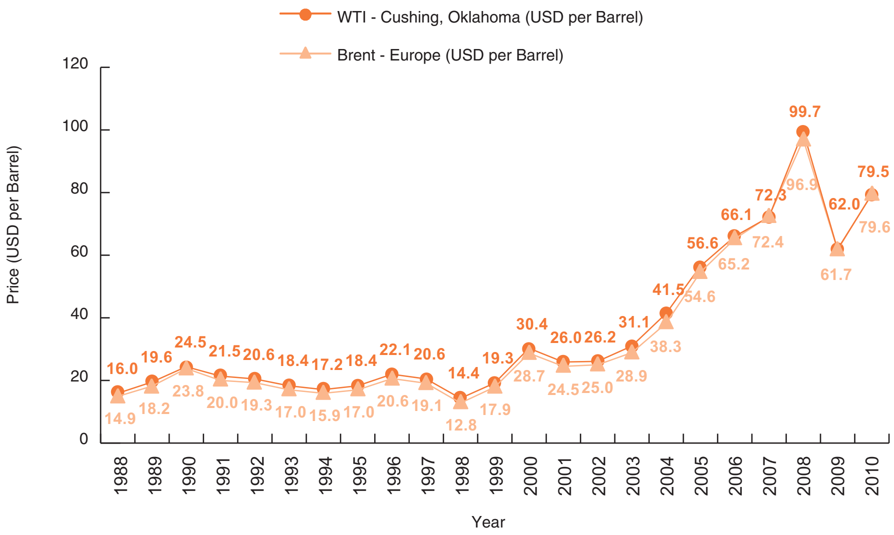
3.7.2 Price Trend Analysis (Continued)

Printing Ink (Continued)

Chart 3.9 shows the price trends of the global crude oil market from 1988 to 2010.

Chart 3.9

Cigarette Packaging Market: Price Trends of the Global Crude Oil (Global), 1988-2010



Note: Annual prices during 1988 and 2010 are calculated from daily data by taking an unweighted average of the daily closing spot prices FOB for a given product over the specified time period.

Source: Energy Information Administration

From 2005 to 2008, crude oil prices were on the rise, West Texas Intermedium (WTI) price averaging $56.6 per barrel in 2005, $66.1 per barrel in 2006, $72.3 per barrel in 2007, and $99.7 per barrel in 2008. After the global economic crisis, the oil price dropped dramatically to around $40.0 per barrel in the early 2009 or even lower at WTI weekly average spot price $36.7 per barrel as of the week ended 16 January 2009. As a result, the Organization of Petroleum Exporting Countries (OPEC) has adopted more effective measures to stabilize oil prices by controlling crude oil production. From June 2009 to December 2009, the oil price has remained around $70 to $80 per barrel. By the end of 2010, the price reached $90 again. Due to the rising cost of crude oil production and the favorable economic expectations in the long run, oil prices are not expected to fall. As a result of the aforementioned factors, crude oil price is likely to keep increasing between 2011 and 2014. According to the International Energy Agency, crude oil price is likely to fluctuate between $100 and $110 per barrel between 2011 and 2014.

Driven by the increase of crude oil price and the development of the manufacturing technology, the price of printing ink is likely to maintain a stable increase in the future. However, according to the industrial expert interviews, the cigarette packaging manufacturers in the PRC have relatively strong bargaining power among the value chain of this industry. Hence, the increase of printing oil price has weak impact to the manufacturers.

3 OVERVIEW OF THE PRC CIGARETTE PACKAGING MARKET (CONTINUED)

3.8 Industry Entry Barriers

The Relationship with Clients

Good client relationship is very important for the cigarette packaging industry in the PRC. The cigarette manufacturers in the PRC are more willing to provide large and stable orders to the cigarette packaging manufacturers that have already built a long-run relationship with them. That is mainly because that those cigarette packaging manufacturers are more familiar with unique customer requirements and have gained creditability from the clients through the long-term corporation.

Manufacturing Technology and R&D Level

The cigarette packaging market has high technology barriers. The key trends of the manufacturing technology in this industry are anti-counterfeit technology and environmental protection technology. Compared with traditional printing technologies, these two technologies have much higher requirements in the areas, such as emission detecting system, research and development for anti-counterfeit raw materials and environment-friendly raw materials, waste reduction and recycling system, and so on. These technologies set up a high entry barrier for new entrants in this industry.

Large Amount of Investment

The cigarette packaging market is generally a capital-intensive industry, which requires large amount of investment in both plant and equipment. With the increasing requirements and standards of the cigarette packages from the cigarette manufacturers, cigarette packaging manufacturers are required to have advanced internal quality control system. As environmental protection and energy conservation has become a key concern in the PRC, emission detecting system, energy saving system, and others are likely to be necessary in the future.

4 APPENDIX

4.1 Terms and Abbreviations

BCH	–	Brilliant Circle Holdings International Limited
CAGR	–	Compound annual growth rate
Case	–	In the PRC cigarette market, the production volume and sales volume is usually measured in 'case'. One case of cigarette equals to 2,500 boxes of cigarette or 50,000 cigarettes
CNTC	–	China National Tobacco Corporation
FAO	–	Food and Agriculture Organization of the United Nations
FCTC	–	Framework Convention on Tobacco Control
MT	–	metric tonnes
PRC	–	People's Republic of China
R&D	–	research and development
STMA	–	State Tobacco Monopoly Administration
VOC	–	Volatile Organic Compounds
WHO	–	World Health Organization
WTI	–	West Texas Intermedium

4 APPENDIX (CONTINUED)

4.2 Limitations in Source of Information

Interviews with end-users, venders and distributors are conducted to collect information for this report, based on a best-efforts basis.

Frost & Sullivan will not be responsible for any information gaps where Interviewees have refused to divulge confidential data or figures.

In instances where information is not available, figures based on similar indicators combined with Frost & Sullivan in-house analysis will be deployed to arrive at an estimate.

Frost & Sullivan will state the information sources at the bottom right-hand corner of each slide for easy reference.

4.3 Note to Numeric Calculations

Value and percentage figures in this report are all rounded. Figures may not add up to the respective totals owing to rounding.

The base year is 2009. The historic period is from 2004 to 2008. The forecast period is from 2010 to 2015.

4.4 Market Engineering Methodologies

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

The Frost & Sullivan's report includes information on the PRC cigarette market and the PRC cigarette packaging market.

The market research process for this study has been undertaken through detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

Projected data in the PRC were obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers such as the stable increase of cigarette production and consumption in the PRC, the impact of cigarette consumption upgrade, the improvements in manufacturing technology, and the increasing environmental consciousness.

4 APPENDIX (CONTINUED)

4.4 Market Engineering Methodologies (Continued)

Frost & Sullivan's report was compiled based on the below assumptions:

- China's economy is likely to maintain steady growth in the next decade;
- China's social, economic, and political environment is likely to remain stable in the forecast period, which ensures the stable development of the Chinese cigarette and cigarette packaging markets;
- Market drivers such as the economic and disposable income growth, population growth, industry consolidation supported by the PRC Government, and increasing overseas demand are likely to drive the PRC cigarette market in the forecast period;
- Market drivers such as the stable increase of cigarette production and consumption in the PRC, the impact of cigarette consumption upgrade, the improvements in manufacturing technology, and the increasing environmental consciousness are likely to stimulate the PRC cigarette packaging market further in the forecast period.