TRADING RECORD

The following table is a summary of the combined results of the Group during the Track Record Period which has been extracted from, and should be read in conjunction with, the Accountants' Report.

	For the year ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Revenue	331,240	447,343	521,989
Direct operating costs	(264,339)	(336,125)	(419,538)
Gross profit	66,901	111,218	102,451
Other income	15,022	16,918	29,504
Selling and distribution costs	(42,232)	(41,807)	(46,885)
Administrative expenses	(14,905)	(17,727)	(13,865)
Other expenses	(209)	(1,917)	(546)
Finance costs	(8,515)	(6,551)	(4,272)
Profit before income tax	16,062	60,134	66,387
Income tax expense	(1,126)	(5,230)	(4,731)
Profit for the year	14,936	54,904	61,656
Other comprehensive income, including reclassification adjustments			
Exchange loss on translation of financial statements of foreign operations	(443)	(294)	(182)
Other comprehensive income for the year, including reclassification adjustments and net of tax	(443)	(294)	(182)
Total comprehensive income for the year	14,493	54,610	61,474
Profit for the year attributable to:			
Owners of the Company	15,105	55,131	61,677
Non-controlling interests	(169)	(227)	(21)
	14,936	54,904	61,656
Total comprehensive income attributable to:			
Owners of the Company	14,777	54,858	61,495
Non-controlling interests	(284)	(248)	(21)
	14,493	54,610	61,474

Set out below is the breakdown of other revenue during the Track Record Period:

	For the year ended 31 December		
	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Net foreign exchange gain	–	9,683	9,619
Gain from sales of scrapped paper and by-products	11,466	7,068	17,724
Compensation from suppliers	1,800	–	–
Gain on financial assets at fair value through profit or loss	458	–	–
Impairment of trade receivables written back	518	45	1,421
Interest income	178	24	89
Gain on disposals of property, plant and equipment	–	77	155
Others	602	21	496
	15,022	16,918	29,504

The Group anticipates that expenses in relation to the Listing will be approximately HK$16 million. Such expenses will be accounted for in the Group's profit and loss and as such, the Directors understand that such expenses may have an impact on the financial results of the Group for the year ending 31 December 2011.

SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

In the individual financial statements of the combining entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. In the combined financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the end of reporting period. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure are recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off their costs over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture and fixtures	20%
Office equipment	20%
Leasehold improvements	20% – 50% or over the lease term, whichever is shorter
Computer equipment and systems	33%
Motor vehicles	20%
Machinery	6.6% – 20%

The assets' depreciation methods, estimated useful lives and residual value are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

Financial assets

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at end of each reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment and impairment is recognised based on the classification of the financial asset.

Objective evidence of impairment of individual financial assets 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 debtors;

– A breach of contract, such as a default of delinquency in interest for 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 debtors; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

Financial assets carried at amortised cost

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in any subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

For financial assets other than financial assets at fair value through profit or loss and loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of receivables is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account in respect of that receivable 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.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using first-in, first-out method, and in the case of work in progress and finished goods, comprises direct materials and, where applicable, direct labour costs and those overhead costs that have been 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 applicable selling expenses.

When the inventories are sold, the carrying amount of those inventories is recognized 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 in which 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.

Leases

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 (the "initial value"), of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance lease charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance lease charges.

Finance lease 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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss using the straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

Financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables, financial liabilities at fair value through profit or loss, finance lease liabilities and amounts due to group companies.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Financial liabilities at fair value through profit or loss

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivate contract is entered into and subsequently re-measured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

Trade and other payables and amounts due to group companies

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing. All assets are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("**CGU**")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment loss is charged pro rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Other borrowing costs are expensed when incurred. Borrowing costs are capitalised as part of the cost of a qualifying asset 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 being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  i. the same taxable entity; or

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Turnover

The Group's turnover has been growing during the Track Record Period, from approximately HK$331.2 million in 2008 to approximately HK$447.3 million in 2009 and further increased to approximately HK$522.0 million in 2010, representing an increase of approximately 35.1% from 2008 to 2009 and approximately 16.7% from 2009 to 2010. The growth in turnover is mainly attributable to the growth in sales orders.

The following table illustrates the breakdown of the Group's turnover during the Track Record Period with respect to geographical areas:

	For year ended 31 December					
	2008		2009		2010	
Turnover	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
U.S.	101,172	30.5	150,758	33.7	149,169	28.6
Australia	92,977	28.1	122,699	27.4	127,211	24.4
U.K.	81,577	24.6	95,240	21.3	122,886	23.5
Hong Kong	18,672	5.6	10,788	2.4	19,082	3.7
Germany	15,894	4.8	25,669	5.8	39,238	7.5
New Zealand	9,212	2.8	11,685	2.6	22,771	4.4
Netherlands	8,207	2.5	8,630	1.9	13,201	2.5
Belgium	–	0.0	6,328	1.4	10,202	2.0
France	1,907	0.6	5,545	1.3	2,125	0.4
Others	1,622	0.5	10,001	2.2	16,104	3.0
	331,240	100.0	447,343	100.0	521,989	100.0

During the Track Record Period, the U.S., Australia and the U.K. were the three largest markets of the Group and contributed to approximately 28.6%, 24.4% and 23.5% of the Group's turnover in 2010 respectively. With a view to diversifying its overseas market and reaching new customers, the Group has been participating in various international book fairs so as to further expand its customer base. During the Track Record Period, total turnover contributed by European countries other than the U.K. such as Germany, the Netherlands, Belgium and France has increased from approximately 7.9% of the Group's turnover in 2008 to approximately 10.4% in 2009, and further grew to approximately 12.4% in 2010.

The following table illustrates the breakdown of the Group's turnover during the Track Record Period with respect to different types of books:

For the year ended 31 December	**Children's books**		**Educational text books and materials**		**Leisure and lifestyle books**		**Total**
	HK$'000	*(% to total sales)*	*HK$'000*	*(% to total sales)*	*HK$'000*	*(% to total sales)*	*HK$'000*
2008	39,455	(11.9)	37,275	(11.3)	254,510	(76.8)	331,240
2009	43,089	(9.7)	82,965	(18.5)	321,289	(71.8)	447,343
2010	43,749	(8.4)	101,786	(19.5)	376,454	(72.1)	521,989

During the Track Record Period, leisure and lifestyle books contributed the largest proportion of the sales, accounting for approximately 76.8%, 71.8% and 72.1% of sales respectively. Given that the Group is principally engaged in the provision of book printing services, the amount of printing products produced by the Group during the Track Record Period was subject to strategies of the customers, popularity of books and market trends. In addition, the Group has established stable relationships with reputable and sizable customers and will continue to provide printing services to those customers and cater for their needs in the future.

During the Track Record Period, the Group turnover of childrens' books increased from approximately HK$39.4 million in 2008 to approximately HK$43.1 million in 2009 and further increased to approximately HK$43.7 million in 2010. Educational text books and materials increased from approximately HK$37.3 million in 2008 to approximately HK$82.9 million in 2009 and further increased to approximately HK$101.8 million in 2010, whilst leisure and lifestyle books and others increased from approximately HK$254.5 million in 2008 to approximately HK$321.3 million in 2009 and further increased to approximately HK$376.5 million in 2010. Such growth in turnover was mainly due to organic growth in markets, which in turn, resulted in increases in sales orders.

The Group has recorded an increase in the proportion of revenues from educational text books and materials from approximately 11.3% 2008 to approximately 18.5% in 2009. Such increase was mainly due to the commencement of business relationships between the Group and several European based book publishers (the "**European Book Publishers**") in December 2008 which are principally engaged in the publication of educational text books and reference materials in Europe. During the Track Record Period, those customers contributed to approximately HK$1.1 million, HK$45.7 million and HK$64.2 million to the Group's revenue in 2008, 2009 and 2010 respectively.

Direct operating costs

The following table sets forth the breakdown of direct operating costs for the periods indicated:

	2008		**2009**		**2010**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Raw materials and consumables used	172,760	65.3	241,560	71.9	290,877	69.3
Processing fees	26,537	10.0	33,944	10.1	42,715	10.2
Other production costs	23,704	9.0	29,324	8.7	37,391	8.9
Subcontracting fees with independent sub-contractors	25,841	9.8	10,290	3.1	22,051	5.3
Depreciation expenses	11,923	4.5	16,984	5.0	22,081	5.3
Staff costs	3,574	1.4	4,023	1.2	4,423	1.0
	264,339	100	336,125	100.0	419,538	100.0

Raw materials and consumables used are the most significant sources of direct costs of the Group with paper being the major raw material for the printing business of the Group. During the Track Record Period, the cost of paper consumed amounted to approximately HK$122.9 million, HK$163.8 million and HK$213.5 million, representing approximately 71.1%, 67.8% and 73.4% respectively of the total cost of raw materials and consumables. The increase in the cost of paper was mainly due to the increase in purchase volumes during the three years ended 31 December 2010. During the Track Record Period, the average price of reel paper decreased by approximately 19.5% in 2009 as compared to 2008 and increased approximately 7.9% in 2010 as compared to that in 2009. In 2009, the average price of sheet paper decreased by approximately 13.5% as compared to 2008 and increased approximately 11.5% in 2010 as compared to that in 2009. The price of reel paper and sheet paper dropped in 2009 mainly due to the global financial crisis beginning in the fourth quarter of 2008.

Processing fees are one of the significant direct operating costs of the Group which comprise mainly staffs costs of the Processing Facility. During the Track Record Period, processing fees amounted to approximately HK$26.5 million, HK$33.9 million and HK$42.7 million, representing approximately 10.0%, 10.1% and 10.2% respectively of the total direct operating costs during the Track Record Period. The increase in processing fees from 2008 to 2010 was mainly due to the increase in book production orders placed with the Processing Facilities. During the Track Record Period, the processing fee per impression was approximately HK7.34 cents, HK5.39 cents and HK6.54 cents. The decrease in processing fee per impression from 2008 to 2009 was mainly due to the increase in the maximum printing capacity (with plate changes) utilisation rate of the Processing Facility from approximately 60.5% to 101.0%. The increase in processing fee per impression from 2009 to 2010 was mainly due to decrease in the maximum printing capacity (with plate changes) utilisation rate from approximately 101.0% to 94.1%.

Other production costs (the "**Other Production Costs**") in relation to the Processing Facility also contribute to a significant part of the Group's direct operating costs. During the Track Record Period, Other Production Costs amounted to approximately HK$23.7 million, HK$29.3 million and HK$37.4 million, representing approximately 9.0%, 8.7% and 8.9% respectively of the total direct operating costs. The increase in Other Production Costs from 2008 to 2010 was due to increases in (i) transportation expenses from approximately HK$3.4 million in 2008 to approximately HK$4.9 million in 2010; (ii) lease expenses, relating to subsidies for construction costs, repairs and maintenance in relation to the Processing Facility from approximately HK$3.1 million in 2008 to approximately HK$7.0 million in 2010; (iii) utilities expenses of the Processing Facility from approximately HK$10.0 million in 2008 to approximately HK$15.7 million in 2010; (iv) advertising and entertainment expenses from approximately HK$1.1 million in 2008 to approximately HK$2.4 million in 2010; (v) machinery maintenance expenses from approximately HK$1.8 million in 2008 to approximately HK$2.5 million in 2010; and (vi) miscellaneous and consumables from approximately HK$3.2 million in 2008 to approximately HK$3.9 million in 2010.

Sub-contracting fees with independent sub-contractors were another significant part of the Group's costs of sales. During the Track Record Period sub-contracting fees amounted to approximately HK$25.8 million, HK$10.3 million and HK$22.1 million, representing approximately 9.8%, 3.1% and 5.3% respectively of the total direct operating costs during the Track Record Period. The Group acquired new printing and case-in machinery at a cost of HK$57.2 million in 2008 and HK$8.2 million in 2009. Accordingly, the production capacity of the Processing Facility was significantly increased after the new printing and case-in machinery was installed and operating at full capacity in 2009. Sub-contracting fees paid to independent sub-contracting decreased accordingly.

During the Track Record Period, depreciation expenses amounted to approximately HK$11.9 million, HK$17.0 million and HK$22.1 million, representing approximately 4.5%, 5.0% and 5.3% of the total cost of sales respectively. Such increases in depreciation were a result of the additional printing and case-in machineries purchased by the Group in 2009.

The following table illustrates the gross profit margin during the Track Record Period with respect to different types of books:

For the year ended 31 December	Children's books	Educational text books and materials	Leisure and lifestyle books	Total
2008	29.9%	27.3%	17.7%	20.2%
2009	38.7%	32.6%	21.0%	24.9%
2010	33.1%	25.0%	16.6%	19.6%

The Group's turnover is mainly denominated in Australian dollars, US dollars, Pound Sterling, Euros and Hong Kong dollars. Given the time gaps between the sales orders placed by the customers and the issuing of invoices following the completion of production, the appreciation or depreciation of foreign exchange during such period may affect the gross profit performance of the Group. The time gap between the placing of sales order and issuing of invoices is typically around three months, although in certain circumstances it can be as short as two weeks and as long as twelve months.

In 2009, gross profit margins of children books, educational text books and materials and leisure and lifestyle books increased by approximately 29.4%, 19.4%, 18.6% respectively from 2008 which was mainly due to the appreciation of the Australian dollar against the Hong Kong dollar during time gaps between the sales orders placed by the customers and delivery of invoices in 2009.

In 2010, gross profit margins of children's books, educational text books and materials and leisure and lifestyle books decreased by approximately 14.5%, 23.3%, 21.0% respectively from 2009 to 2010. As a result of the appreciation of the Australian dollar against the Hong Kong dollar in 2009, the Group was able to record noticeably high gross profit margin for the year ended 31 December 2009. However, in 2010 as the Australian dollar ceased to appreciate as significantly as in 2009, the gross profit margin in 2010 returned to a level that was comparable to 2008. In addition, the Group recorded the lowest gross profit margin during the Track Record Period for educational text books and materials of approximately 25.0% in 2010 due to the cessation of appreciation of the Australian dollar and the relatively low gross profit margin of educational text books and materials provided to the European Book Publishers. In 2008, the Group gained a new customer which has reduced the overall gross profit margins for educational text books and materials. In spite of the small increment in gross profit margin in 2009 as a result of the appreciation of the Australian dollar, the overall reduction in gross profit margin is reflected in 2010.

Selling and distribution expenses

The following table sets forth the breakdown of the selling and distribution expenses for the periods indicated:

	2008		**2009**		**2010**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Freight & transportation expenses	24,889	58.9	24,460	58.5	33,540	71.5
Sales commission	4,045	9.6	5,734	13.7	1,646	3.5
Staff costs	12,032	28.5	9,907	23.7	9,847	21.0
Advertising & promotion expenses	195	0.5	77	0.2	240	0.5
Insurance expenses	1,071	2.5	1,629	3.9	1,612	3.5
	42,232	100.0	41,807	100.0	46,885	100.0

Freight and transportation expenses represent the costs of transporting products to customers. During the Track Record Period, freight and transportation expenses remained stable from 2008 to 2009 as the increase in sales orders was offset by the decrease in the costs of transportation. However, freight and transportation expenses increased from approximately HK$24.5 million in 2009 to approximately HK$33.5 million in 2010 due to the increase in sales orders from 2009 to 2010.

Sales commission represents commission paid to (i) local and overseas agents who successfully referred business to the Group; and (ii) 1010 Printing (USA) Inc. ("**1010 USA**"). During the Track Record Period, sales commission increased from approximately HK$4.0 million in 2008 to approximately HK$5.7 million in 2009 and decreased to approximately HK$1.6 million in 2010. The increase in 2009 was due to the increase in business referred by the sales agents and commission paid to 1010 USA. The decrease in 2010 was due to decrease in business referred by the sales agents and the closure of 1010 USA.

Staff costs decreased from approximately HK$12.0 million in 2008 to approximately HK$9.9 million in 2009 and further decreased to approximately HK$9.8 million in 2010. During the Track Record Period, the Group's management decided to focus its efforts on increasing business with its larger customers and to reduce its business with smaller clients. As a result, the Group was able to retain a more compact sales team to manage and develop the business with its larger customers. The decrease in staff costs was therefore due to the reduction in the number of sales persons from 21 in 2008 to 12 in 2010. Since the increase in revenue of the Group during the Track Record Period was mainly caused by the increase in purchase orders from its major customers and the Company decided to control its staff costs by focusing resources on its target customers such as the sizable and reputable customers and identified markets, the Company was of the view that it could maintain the profitability of the Group, which in turn, caused the decrease in staff costs during the Track Record Period.

Administrative expenses

The following table sets forth the breakdown of the administrative expenses for the periods indicated:

	2008		2009		2010	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Administration service fee paid to Recruit Group	360	2.4	1,200	6.8	1,800	13.0
Audit and other professional fees	712	4.8	1,234	7.0	816	5.9
Depreciation expenses	1,525	10.2	1,645	9.3	2,283	16.4
Computer maintenance and services fees	532	3.6	604	3.4	1,291	9.3
Exchange loss	7,224	48.5	–	–	–	–
Loss on financial liabilities at fair value through profit and loss	–	–	7,330	41.3	1,220	8.8
Management fee paid to Recruit Group	–	–	1,200	6.8	1,500	10.8
Rental and utilities	1,515	10.2	1,543	8.7	1,604	11.6
Travelling and accommodation	1,283	8.6	1,572	8.8	1,602	11.6
Other office expenses and sundries	1,754	11.7	1,399	7.9	1,749	12.6
	14,905	100.0	17,727	100.0	13,865	100.0

Administrative service fees paid to the Recruit Group represent the salaries of administrative staff of the Recruit Group charged to the Group. The fee increased from approximately HK$0.4 million in 2008 to approximately HK$1.2 million in 2009 and further increased to approximately HK$1.8 million in 2010 due to the expansion of the Group which require more administrative staff from the Recruit Group.

Depreciation expenses represent depreciation of office furniture and equipment of the Group. Such expenses increased from approximately HK$1.5 million in 2008 to approximately HK$1.6 million in 2009 and further increased to approximately HK$2.3 million in 2010 which was due to the addition of furniture and equipment during the Track Record Period.

Computer maintenance and service fees represent maintenance and related expenses in relation to the computers of the Group. Such expenses increased from approximately HK$0.5 million in 2008 to approximately HK$0.6 million in 2009 and further increased to approximately HK$1.3 million in 2010 which was due to the increase in the number of computers during the Track Record Period.

The Group recorded an exchange loss of approximately HK$7.2 million in 2008 due to the exchange losses on foreign currency accounts receivables which was caused by the significant depreciation of most of the foreign currencies relevant to the Group against the Hong Kong dollar in 2008.

Loss in the fair value of financial liability through profit and loss account represents the loss arising from revaluating foreign currency forward contracts entered into by the Group for hedging its accounts receivables. The decrease in loss in fair value of financial liabilities through profit or loss from approximately HK$7.3 million in 2009 to approximately HK$1.2 million in 2010 was due to decrease in loss recognised in settling the foreign currency forward contracts. The Group entered into a number of forward contracts with the banks to sell Australian dollars at a fixed rate. The comparatively high loss in settlement of the forward contracts in 2009 was due to the significant appreciation of Australian dollars. As the Australian dollars ceased to appreciate as significantly as in 2010, the loss in fair value assets in 2010 reduced accordingly.

Rental and utilities expenses were stable during the Track Record Period, accounting for approximately HK$1.5 million in 2008, approximately HK$1.5 million in 2009 and approximately HK$1.6 million in 2010.

Travelling and accommodation expenses were stable during the Track Record Period accounting for approximately HK$1.3 million and approximately HK$1.6 million and approximately HK$1.6 million respectively.

Other office expenses and sundries represent miscellaneous expenses of the Group such as bank charges, insurance expenses, stationery, telephone and other communication expenses.

Other expenses

Other expenses for the year ended 31 December 2008, 2009 and 2010 mainly consisted of impairment loss of trade receivable. For the year ended 31 December 2009, the impairment loss of trade receivable was approximately HK$1.9 million.

Profit for the year attributable to the owners of the Company

Profit for the year attributable to the owners of the Company grew during the Track Record Period, from approximately HK$15.1 million in 2008 to approximately HK$55.1 million in 2009 and further increased to approximately HK$61.7 million in 2010. Net profit margins (calculated as profit for the year attributable to owners of the Company divided by turnover) during the Track Record Period were approximately 4.6%, 12.3% and 11.8% respectively.

Discussion on operating results

Year ended 31 December 2010 compared to year ended 31 December 2009

Turnover

For the year ended 31 December 2010, the Group recorded revenue of approximately HK$522.0 million, an increase of approximately 16.7% from revenue of approximately HK$447.3 million in 2009. The increase was primarily due to the increase in Group sales orders.

Direct operating costs and gross profit

The Group's direct operating costs increased by approximately 24.8% from approximately HK$336.1 million in 2009 to approximately HK$419.5 million in 2010 as a result of the continuing expansion of the Group's business. Factors contributing to the increase include increases of (i) the cost of paper and other raw materials from approximately HK$241.6 million in 2009 to approximately HK$290.9 million in 2010 which were mainly due to increases in the volume of paper and raw materials used for the printing business; (ii) processing fees from approximately HK$33.9 million in 2009 to approximately HK$42.7 million in 2010; (iii) depreciation expenses from approximately HK$17.0 million to approximately HK$22.1 million due to new printing and case-in machineries purchased in 2009; and (iv) Other Production Costs from approximately HK$29.3 million in 2009 to approximately HK$37.4 million in 2010. The increase in Other Production Costs was primarily due to increases in (i) transportation expenses from approximately HK$3.5 million to approximately HK$4.9 million; (ii) lease expenses, relating to subsidies for construction costs, repairs and maintenance in relation to the Processing Facility from HK$5.5 million to approximately HK$7.0 million; (iii) advertising and entertainment expenses from HK$1.0 million to approximately HK$2.4 million; (iv) utilities expenses of the Processing Facility from approximately HK$13.3 million to approximately HK$15.7 million; (v) machinery maintenance expenses from approximately HK$2.0 million to approximately HK$2.5 million; and (vi) miscellaneous and other expenses from approximately HK$3.1 million to approximately HK$3.9 million.

For the year ended 31 December 2010, sub-contracting fees with independent sub-contractors increased by approximately 114.3% from approximately HK$10.3 million in 2009 to approximately HK$22.1 million in 2010. The increase was mainly due to the increase in sales orders.

As mentioned above, the Group's turnover is mainly denominated in Australian dollars, US dollars, Pound Sterling, Euros and Hong Kong dollars. Given the time gaps between the sales orders placed by the customers and the issuing of invoices following the completion of production, the appreciation or depreciation of foreign exchange during such period may affect the gross profit performance of the Group. The time gap between the placing of sales order and issuing of invoices is typically around three months long, although in certain circumstances it can be as short as two weeks and as long as twelve months. In 2010, gross profit margin decreased by approximately 5.3% from approximately 24.9% in 2009 to approximately 19.6%. As a result of the appreciation of the Australian dollar against the Hong Kong dollar in 2009, the Group was able to record noticeably high gross profit margin for the year ended 31 December 2009. However, as the Australian dollar ceased to appreciate as significantly as in 2010, the gross profit margin in 2010 returned to a level that was comparable to 2008.

Other income

For the year ended 31 December 2010, other income increased by approximately 74.4% as compared to 2009. This increase was mainly due to (i) better bad debt recovery of approximately HK$1.37 million from approximately HK$0.1 million in 2009 to approximately HK$1.4 million in 2010; and (ii) increase in gains from sales of scrapped paper and by products of approximately HK$10.6 million from approximately HK$7.1 million in 2009 to approximately HK$17.7 million in 2010. Increase in gains from sales of scrapped paper and by products was primarily caused by the increase in the prices of raw materials and paper.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 12.1% from approximately HK$41.8 million in 2009 to approximately HK$46.9 million in 2010. This increase was primarily caused by the increase in freight and transportation expenses of approximately HK$9.0 million from approximately HK$24.5 million in 2009 to approximately HK$33.5 million in 2010. The increase in freight and transportation expenses was due to the increase in sales volume. Such increase was partially offset by the decrease in sales commission of approximately HK$4.1 million. The decease in sales commission was due to (i) the decrease in accepting business referred by sales agents and (ii) the closure of 1010 USA.

Administrative expenses

The Group's administrative expenses decreased by approximately 21.8% from approximately HK$17.7 million in 2009 to approximately HK$13.9 million in 2010. The decrease in administrative expenses was influenced by a mixture of (i) the increase of approximately HK$0.6 million in the salaries of administrative staffs from approximately HK$1.2 million in 2009 to approximately HK$1.8 million in 2010; (ii) the increase of approximately HK$0.3 million in other office expenses and sundries from approximately HK$1.4 million in 2009 to approximately HK$1.7 million in 2010; (iii) the increase of HK$0.7 million in depreciation expenses of fixed assets from approximately HK$1.6 million in 2009 to approximately HK$2.3 million in 2010; and (iv) the decrease of approximately HK$ 6.1 million in the loss on revaluating the foreign currency forward contracts for hedging the accounts receivables from approximately HK$7.3 million in 2009 to approximately HK$1.2 million in 2010.

Other expenses

The Group's other expenses decreased by approximately 71.5% from approximately HK$1.9 million in 2009 to approximately HK$0.5 million in 2010, mainly due to the decrease in impairment loss on trade receivable in 2010.

Finance costs

Finance costs decreased by approximately 34.8% from approximately HK$6.6 million in 2009 to approximately HK$4.3 million in 2010, in line with the decrease in interest expenses payable to the intermediate holding company of approximately HK$2.7 million from approximately HK$5.4 million in 2009 to approximately HK$2.7 million in 2010, as a result of the decrease in the outstanding amount payable to intermediate holding company.

Income tax expenses

The balance decreased by approximately 9.5% from approximately HK$5.2 million in 2009 to approximately HK$4.7 million in 2010. The effective tax rate of the Group was approximately 8.7% in 2009 and approximately 7.1% in 2010. The decrease in total income tax expenses from 2009 to 2010 was mainly due to the net effects of (i) the increase in Hong Kong profits tax from approximately HK$90,000 to approximately HK$1,811,000; and (ii) the decrease in changes of temporary differences between accounting values of the property, plant and equipment and their values for tax purposes for the year ended 31 December 2010 compared to that for the year ended 31 December 2009.

Accelerated tax depreciation represented the temporary difference between the carrying amounts of property, plant and equipment and their respective tax bases at the end of each reporting period. The decrease in the change of accelerated tax depreciation charged to profit or loss from approximately HK$3.7 million in 2009 to approximately HK$0.3 million in 2010 was due to smaller tax depreciation allowances claimed during the year ended 31 December 2010.

The increase in Hong Kong profits tax was directly related to the increase in the revenue and assessable profit in 2010.

Profit for the year attributable to owners of the Company

As a result of the foregoing, profit for the year attributable to owners of the Company increased by approximately 11.9% from approximately HK$55.1 million in 2009 to approximately HK$61.7 million in 2010.

Year ended 31 December 2009 compared to year ended 31 December 2008

Turnover

For the year ended 31 December 2009, the Group recorded revenue of approximately HK$447.3 million, an increase of approximately 35.1% from revenue of approximately HK$331.2 million in 2008. The increase was primarily due to the increase in Group sales orders.

Direct operating costs and gross profit margin

The Group's direct operating cost increased by approximately 27.2% from HK$264.3 million in 2008 to approximately HK$336.1 million in 2009 as a result of the continued expansion of the Group's business. Factors contributing to the increase include the increase of (i) the cost of paper and other raw materials from approximately HK$172.8 million in 2008 to approximately HK$241.6 million in 2009, which was mainly due to the increase in the volume of paper and raw materials used for the printing business; (ii) processing fees from approximately HK$26.5 million in 2008 to approximately HK$33.9 million in 2009; (iii) depreciation expenses from approximately HK$11.9 million to approximately HK$17.0 million due to new printing and case-in machineries purchased in 2009; and (iv) Other Production Costs from approximately HK$23.7 million in 2008 to approximately HK$29.3 million in 2009. The increase in Other Production Costs was primarily due to the increases in lease expenses, relating to subsidies for construction costs, repairs and maintenance in relation to the Processing Facility from approximately HK$3.1 million to approximately HK$5.5 million and utilities expenses of the Processing Facility from approximately HK$10.0 million to approximately HK$13.3 million.

For the year ended 31 December 2008, sub-contracting fees with independent sub-contractors decreased by approximately HK$15.5 million from approximately HK$25.8 million in 2008 to approximately HK$10.3 million in 2009. The decrease was mainly due to the increase in the Processing Facility's production capacity in 2009.

As explained above, given the time gaps between the sales orders placed by customers and the issuing of invoices following the completion of production, the fluctuations in relevant foreign exchange rates during such period may affect the gross profit performance of the Group. In 2009, gross profit margin increased by approximately 4.7% from approximately 20.2% in 2008 to approximately 24.9% mainly due to the appreciation of the Australian dollar against the Hong Kong dollar during time gaps between the sales orders placed by customers in Australia and delivery of invoices in 2009.

Other income

For the year ended 31 December 2009, other income increased by approximately 12.6% as compared to 2008. The increase was mainly due to the mixed effects of the (i) increase in foreign exchange appreciation from nil in 2008 to approximately HK$9.7 million; and (ii) decrease in gains from sales of scrapped paper and by-products from HK$11.5 million to HK7.1 million. As certain materials used in the book printing industry can be recycled, the Group is able to generate income from sales of scrapped paper and by-products such as used zinc plates. The Group is able to recover up to 33% of the materials purchase unit price of used zinc plates and scrapped paper from used materials merchants. As all zinc plates can be resold and production wastage and written off stock can be sold as scrapped paper, the Group is able to generate income from the recycling of used or scrapped materials. Foreign exchange gains were primarily caused by the significant appreciation on the accounts receivable denominated in foreign currencies at the end of 2008 and the decrease in gains from sales of scrapped paper and by-products was primarily caused by the improved production efficiency achieved at the Processing Facility which reduced the quantity of scrapped paper, as well as the decrease in paper price in 2009.

Selling and distribution expenses

Selling and distribution expenses decreased during the year by approximately 1.0% from approximately HK$42.2 million in 2008 to approximately HK$41.8 million in 2009. This decrease was mainly a result of the decrease in sales staff salaries of approximately HK$2.1 million from approximately HK$12.0 million in 2008 to approximately HK$9.9 million in 2009 which was partially offset by increases in sales commission of approximately HK$1.7 million and insurance expenses of approximately HK$0.6 million. The decrease in salaries of sales personnel was due to the decrease in the number of sales persons from 21 in 2008 to 16 in 2009. The increase was sales commission is mainly caused by the increase in commission paid to 1010 USA by approximately HK$1.3 million.

Administrative expenses

Administrative expenses increased by approximately 18.9% from approximately HK$14.9 million in 2008 to approximately HK$17.7 million in 2009. The increase in administrative expenses was influenced by a mixture of (i) the increase of approximately HK$0.8 million in administrative staff salaries from approximately HK$0.4 million in 2008 to approximately HK$1.2 million in 2009; (ii) the increase of approximately HK$7.3 million in the loss on revaluating the foreign currency forward contracts for hedging the accounts receivables from nil in 2008 to approximately HK$7.3 million in 2009; (iii) the increase in management fees paid to Recruit in connection with services rendered by Recruit for management of the printing business at cost of approximately HK$1.2 million from nil in 2008 to approximately HK$1.2 million in 2009; and (iv) the decrease of exchange losses on foreign currencies accounts receivable from approximately HK$7.2 million in 2008 to nil in 2009, which was caused by the significant depreciation of most of the foreign currencies relevant to the Group against the Hong Kong dollar in 2008.

Other expenses

Other expenses increased by approximately 817.2% from approximately HK$0.2 million in 2008 to approximately HK$1.9 million in 2009, which was due to the increase in impairment loss of trade receivable in 2009.

Finance costs

Finance costs decreased by approximately 23.1% from approximately HK$8.5 million in 2008 to approximately HK$6.6 million in 2009. The decrease of the balance is mainly a result of the following reasons (i) the increase in approximately HK$0.2 million of interest changes on bank borrowings wholly repayable within five years from approximately HK$0.8 million in 2008 to approximately HK$1.0 million in 2009, as a result of the increase in bank borrowings; and (ii) the decrease of approximately HK$1.8 million of interest expenses payable to the intermediate holding company from approximately HK$7.2 million in 2008 to approximately HK$5.4 million in 2009, as a result of the decrease in the outstanding amount due to the intermediate holding company.

Income tax expenses

Income tax expenses increased by approximately 364.5% from approximately HK$1.1 million in 2008 to approximately HK$5.2 million in 2009. The effective tax rate of the Group was approximately 7.0% in 2008 and approximately 8.7% 2009. The increase in income tax expenses was in line with the increase in assessable profits for the year.

Profit for the year attributable to owners of the Company

As a result of the foregoing, profit for the year attributable to owners of the Company increased by approximately 265.0% from approximately HK$15.1 million in 2008 to approximately HK$55.1 million in 2009.

Discussion of major balance sheet components

Analysis of inventory

The following table sets forth a breakdown of inventories of the Group:

	As at 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	40,266	30,373	44,259
Work-in-progress	11,243	11,514	19,422
Finished goods	876	572	206
	52,385	42,459	63,887
Less: Provision for inventories write-down	(1,081)	(982)	(3,982)
	51,304	41,477	59,905

Paper accounted for the majority of inventories held by the Group (representing approximately 66.2%, 64.4% and 60.4% of inventories during the Track Record Period). As at 31 December 2010, over 90% of paper recorded as inventories of the Group was aged below one year. Work-in-progress products are mainly unfinished books on the production lines and the finished goods are mostly printed books. Since finished goods are usually shipped out once print production is completed, finished goods are maintained at a relatively low level in the Group's inventories. Inventory turnover days (being closing inventories of the year divided by total cost of sales and multiplied by 365 days) for each of the three years ended 31 December 2010 were approximately 71 days, 45 days and 52 days respectively.

The Group's inventories, which were mainly comprised of paper, are not subject to frequent obsolescence and technological changes. No material obsolescence of inventory has been identified during the Track Record Period. Nevertheless, procedures are in place to control the status and stock level of the inventory of the Group. In general, it is the Group's policy to keep inventory level of different raw materials to satisfy the production requirements of the Group, for instance, paper for up to 60 days, ink for up to 15 days and chemicals for 30 days. In addition, stock counts on all types of inventories are carried out on a periodical basis in order to identify any obsolete and defective inventory. In general, the Group is not subject to significant exposure of inventory obsolescence.

The increase in inventory level from 2009 to 2010 was to in order to manage with the increase in sales orders from major customers and the expected increase in paper price so as to mitigate its financial impact on the Group's production cost. The decrease in inventory level from 2008 to 2009 was primarily due to the decrease in paper price in 2009.

For the inventory balance as at 31 December 2010, inventory usage as at 31 May 2011 was approximately HK$53.4 million, of which approximately HK$33.8 million was comprised of raw materials; approximately HK$19.4 million was utilised in work in progress and approximately HK$0.2 million was comprised of finished goods.

Analysis of trade receivables and other receivables

Trade and other receivables constitute a major component of the Group's current assets throughout the Track Record Period. The increase in trade receivables of the Group was mainly due to the expansion of business which was in line with the growth in turnover of the Group and the extension of the credit terms to one of the Group's top five customers. Other receivables were primarily related to the deposits made on the purchase of new machinery.

Trade receivables turnover days of the Group (being calculated as the average of the beginning and closing trade receivables of the year/period divided by the total revenue and multiplied by 365 days) were approximately 92 days, 104 days, 122 days. Trade receivables turnover days were in line with the average credit terms granted by the Group. The increase in the trade receivable turnover days during the Track Record Period was due to the extension of the credit terms to one of Group's the Group's top five customers (the "**Customer**"). As at 31 May 2011, all trade receivables due from the Customer in respect of the year ended 31 December 2010 were fully settled.

In general, credit periods up to 45 to 180 days are granted to the Group's customers, while extensions of credit periods by an extra 30 to 60 days may be granted by the Group to certain customers with good payment history and frequent transactions. Such circumstances may be considered on a case by case basis with the authority of the executive Directors, the approval from the Group's credit insurers and an assessment of the impact on the Group's financial position. The Group's insurers would perform credit checks on the Group's customers before accepting clients and conduct annual reviews on accepted clients. If the insurers have any doubt on the financial credibility of any of the Group's customers, are unlikely to offer or extend any insurance terms on such credit. As such, any risk to the Group in relation to the extension of such credit terms is largely mitigated not only by the insurance companies' due diligence on the Group's customer but also the "payout" by the insurance companies in the event of payment defaults. These factors were considered in the extension of credit terms as mentioned above to the Customer. The Customer made a specific request to the Group for an extension of its credit terms as it was seeking to expand its business and operations and wanted greater flexibility in managing its working capital during mid-2009. The decision by the Group to grant such extension was commercially driven and based on the Customer's specific payment history, the Group's cash flow position and the approval of the Group's insurers. The Group is not aware of any financial difficulties faced by the Customer. As at 31 December 2010, the Group recorded approximately HK$2.0 million in overdue settlement of not more than 30 days with the Customer, which was, in general, settled upon its monthly settlement arrangements with the Group. Save as the above and an overdue sum of approximately HK$89,000 within 31 to 60 days as at 31 December 2010, which represents approximately 0.3% of its accounts receivables, the payments of the Customer were duly settled during their credit terms. As at 31 December 2010, the outstanding accounts receivable due from the Customer was approximately HK$32.7 million of which all sums had been settled. As at 31 May 2011, the outstanding accounts receivable from the Customer was approximately HK$14.8 million in respect of invoices issued between 1 January 2011 to 31 May 2011. During the Track Record Period, the Group has occasionally granted such extensions to other customers, albeit, in limited situations. The Directors are of the view that such extensions have no material financial impact to the Group.

During the Track Record Period, the Group strictly adhered to this credit policy. The sales personnel of the Group are responsible for monitoring the settlement from customers. In determining the amount of impairment, the Group takes into account the collectability, ageing status, creditworthiness and the past collection history of each debtor. The Group makes no general provision of trade receivables after than specific provisions. Impairment is made for specific trade receivables which are unlikely to be collected. If the financial condition of the customers deteriorates, resulting in an impairment of their ability to make payments, additional provision may be required. The Group has purchased export credit insurance to reduce the potential impairment loss in relation to uncollectible accounts.

The following table sets forth a breakdown of other receivables and deposits for the periods indicated:

	2008		2009		2010	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Deposits on acquisition of machinery	3,662	14.8	4,596	64.4	19,726	86.6
Deposits paid to paper supplier	7,733	31.4	–	–	118	0.5
Advances to Processing Facility	8,435	34.2	1	0.0	8	0.0
Others	4,836	19.6	2,543	35.6	2,937	12.9
	24,666	100.0	7,140	100.0	22,789	100.0

The decrease of other receivables in 2009 to approximately HK$7.1 million as compared to approximately HK$24.7 million in 2008 was due to the decrease in deposits paid to paper suppliers of the Group from approximately HK$7.7 million in 2008 to nil in 2009 and the decrease in advanced payments of the processing fees to the Processing Facility from approximately HK$8.4 million in 2008 to approximately nil in 2009. The decrease in deposits paid to paper suppliers of the Group was primarily caused by changes in payment terms of some suppliers from deposit in advance to cash upon delivery and the decrease in advanced payments of the processing fees paid to the Processing Facility was primarily caused by lease payments made in advance in 2008. The increase of other receivables in 2010 compared with that in 2009 was due to (i) the increase in number of new printing machineries purchased from twelve in 2009 to thirteen in 2010; and (ii) most of installments attributed to a new printing machine purchased in 2010 of approximately HK$13.0 million had been made to its suppliers given that most of new machineries purchased by the Company were required to be paid in several installments to such suppliers until completion of the trial run of the machines.

As at 31 May 2011, a total of approximately HK$181.5 million relating to trade receivables as at 31 December 2010 had been settled, of which approximately HK$0.3 million related to trade receivables due for over 90 days; approximately HK$53.7 million related to trade receivables due within 90 days and approximately HK$127.5 million related to trade receivables that were not yet past due.

Analysis of trade payables and other payable

Trade payables and invoice financing loans related primarily to the purchase of raw materials. The increase of the balances during the Track Record Period was mainly due to the expansion in the Group's book production which required more raw materials and supplies. Credit periods granted by the suppliers are 0-90 days.

During the Track Record Period, trade payables turnover days (being calculated as the average of the beginning and ending trade payables and other payables balance for the year/period, divided by the cost of sales for the year/period and multiplied by 365 days) were approximately 27 days, 38 days and 40 days, which were generally in line with the Group's payment terms. The increase in the trade payables turnover days during the Track Record Period was primarily due to the increase in credit terms granted by certain suppliers.

The following table sets forth a breakdown of other payables and accruals for the periods indicated:

	2008		2009		2010	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Volume rebate and commission	5,379	32.1	12,539	67.3	17,560	64.3
Accrued purchase and production costs	9,491	56.7	3,970	21.4	6,747	24.7
Accrued transportation fee	175	1.0	408	2.2	932	3.4
Other	1,707	10.2	1,701	9.1	2,066	7.6
	16,752	100.0	18,618	100.0	27,305	100.0

The increase of other payables in 2009 compared with that in 2008 was mainly due to increases in volume rebates to its customers from approximately HK$5.4 million to approximately HK$12.5 million, which was primarily caused by the increase in sales orders. This was partially deducted by the decrease in accrued purchase and production costs from approximately HK$9.5 million to approximately HK$4.0 million. The decrease in accrued purchase and production costs was due to the decrease in sub-contracting fees in 2009 which caused the decrease in year end accrual.

The increase of other payables in 2010 of approximately HK$18.6 million as compared to approximately HK$27.3 million in 2009 was due to increases in (i) the volume rebate and commission from approximately HK$12.5 million to approximately HK$17.6 million, which was primarily caused by the increase in sales orders; and (ii) the accrued purchase and production costs from approximately HK$4.0 million to approximately HK$6.7 million due to the expansion of business which increased production expenses and purchases.

As at 31 May 2011 a total of approximately HK$324,000 of trade payables as of 31 December 2010 had not yet been settled.

Analysis of secured bank loans

Secured bank loans and other borrowings constituted the largest component of the Group's current liabilities as at 31 December 2010. These amounts were mainly used to finance the purchase of machineries.

Working capital management policy

The Group actively and regularly reviews and manages its capital structure. Given that the turnover of trade receivables and inventories of the Group is slower than the turnover of the Group's trade payables, should short term working capital be required, the Group factors its trade receivables to the banks to reduce the cash turnaround time. The Group also closely monitors the settlement of trade receivables. The Group intends to maintain sufficient working capital by securing raw materials and extending credit to customers according to industry practice, which might be possible with higher level of borrowings.

For each of the three years ended 31 December 2010, the Group's gross trade receivables amounted to approximately HK$93.3 million, HK$163.0 million and HK$189.7 million, respectively. The Group generally offers credit terms to customers ranging from 45 to 180 days from the date of invoice. In certain situations, pending the approval of the Group's credit insurers, assessment of the customer's financial position, payment history of the customers, frequency of transactions and with the authority of the executive Directors, the Group may offer extensions of credits periods by an extra 30 to 60 days. On the other hand, the Group is generally granted credit terms from its suppliers ranging from nil to 90 days. Given the differences in the timing of credit periods granted to certain customers and suppliers, the Group may be exposed to strains on its working capital which could have a material adverse effect on the Group's operations and financial condition.

Bank borrowings of the Group increased from approximately HK$49.5 million to HK$83.3 million from 2008 to 2010. The Group recorded decreases in (i) net cash inflows from operating activities from approximately HK$86.0 million for year ended 31 December 2009 to net cash inflows of approximately HK$31.4 million for year ended 31 December 2010; and (ii) cash and cash equivalents from approximately HK$38.6 million as at 31 December 2009 to approximately HK$16.1 million as at 31 December 2010.

The Group is aware of the fact that its turnover of trade receivables and inventories is slower than its turnover of trade payables. In order to maintain sufficient working capital, the Group will closely monitor its cash flow movements. In particular, the Group has adopted the following working capital management policies:

– actively and regularly review and manage its capital structure;

– maintain a minimum cash balance of HK$10 million which is a buffer amount to be able to satisfy its general cash outflows for general operations for two months, excluding the cost of sales;

– factor its trade receivables to banks to reduce the cash turnaround time where appropriate and necessary;

– shorten the credit terms to customers and extend the credit terms from suppliers in the event that the Directors foresee that the Group may face difficulties with its cash flow as a result of its trading activities; and

– the always ensure that it is able to utilise its banking facilities to strengthen its working capital capacity.

Analysis of finance leases

Finance leases constituted another major component of the Group's non-current and current liabilities throughout the Track Record Period. The balance decreased from approximately HK$9.9 million as at 31 December 2008 to approximately HK$5.5 million as at 31 December 2009 and then increased to approximately HK$19.8 million as at 31 December 2010. The increase in the balance from 2009 to 2010 was mainly due to the increase in new finance leases raised in respect of purchases of new machineries to expand production capacity. The decrease in the balance from 2008 to 2009 was mainly due to repayment on those new machineries installed at the Processing Facility in 2009.

Analysis of amounts due to the intermediate holding company and fellow subsidiaries

For each of the three years ended 31 December 2010, total amounts due to the intermediate holding company and fellow subsidiaries amounted to approximately HK$179.2 million, HK$151.6 million and HK$2.4 million respectively.

As at 31 December 2008, total amounts due to the intermediate holding company and fellow subsidiaries were approximately HK$179.2 million and nil, respectively, which were mainly comprised of working capital borrowed from the Recruit Group.

As at 31 December 2009, total amounts due to the intermediate holding company and fellow subsidiaries were approximately HK$150.9 million and approximately HK$0.7 million, respectively, which were mainly comprised of working capital borrowed from the Recruit Group and office expenses paid by Recruit Group on behalf of the Group.

As at 31 December 2010, total amounts due to intermediate holding company and fellow subsidiaries were approximately HK$1.5 million and HK$0.9 million, respectively, which were mainly comprised of office expenses paid by Recruit Group on behalf of the Group.

As at the Latest Practicable Date, all payments to the intermediate holding company and fellow subsidiaries on behalf of the Group have been settled.

Financial assets/liabilities at fair value through profit or loss

Financial assets/liabilities at fair value through profit or loss represents fair values of the forward foreign exchange contracts intended to be held for hedging purposes. The appreciation of the foreign currencies against Hong Kong dollars caused the loss of fair value of the forward foreign exchange contracts whereas the depreciation of foreign currencies against Hong Kong dollars caused the gain in fair value of the forward foreign exchange contracts.

As at 31 December 2008, the Company recorded a gain of approximately HK$0.6 million in forward foreign exchange contracts which was mainly due to the depreciation of Pound Sterling. As at 31 December 2009 and 2010, the Company recorded a loss in fair value of the forward foreign exchange contracts of approximately HK$2.4 million and HK$5.2 million, respectively, both of which were mainly due to the appreciation in Australian dollars.

TAXATION

The Group carries on its business mainly in Hong Kong and is mainly subject to Hong Kong profits tax in respect of its profits arising in or derived from Hong Kong from such business.

During the Track Record Period, the Group conducted its printing business under the Processing Agreement. Pursuant to DIPN 21 issued by the IRD, in cases where a Hong Kong manufacturing business enters into a contract processing arrangement with a PRC entity where the production processes are carried out at a processing facility situated in the PRC and such business provided raw materials and machinery without consideration and to provide technical and managerial know-how, profits from the sale of goods that were manufactured by such PRC entity can be apportioned on a 50:50 basis and the chargeable profits so apportioned can be treated as non-taxable in Hong Kong. As such the Directors consider that it is reasonable for the Group to adopt the DIPN 21 for the tax assessment of 1010 PIL and to claim for apportionment of profit during the Track Record Period. In this connection, and pursuant the Processing Agreement entered into between the Processing Partner and 1010 PIL and the confirmation of the management of the Group that:

- the Processing Facility has been set up for providing subcontracting services to 1010 PIL since 2005;
- 1010 PIL is responsible for the supply of raw materials and machinery without consideration and to provide technical and managerial know-how while the Processing Partner is responsible for the provision of the Processing Facility and labour force;
- in return for the processing service, 1010 PIL shall pay a processing fee to the Processing Partner; and
- the legal title to the raw materials and finished goods remains with 1010 PIL throughout the manufacturing process,

the reporting accountants are of the view that, provided that the Group keeps sufficient documents to substantiate its involvement in the processing arrangement with the Processing Partner, the Group should be able to adopt the DIPN 21 for tax assessment purposes.

In addition, 1010 PIL also engaged unrelated subcontractors in the PRC and Hong Kong when required, however, as 1010 PIL has minimal involvement in the manufacturing activities of unrelated subcontractors, the relevant sales income from subcontractors should be treated as onshore and fully taxable. As at the Latest Practicable Date and as confirmed by the Directors, the Inland Revenue Department has not yet issued any enquiry letter or profit tax assessment/assessor's statement of loss to 1010 PIL.

Based on the facts that, (i) the manufacturing process relating to the business of Group is carried out by the Processing Facility in the PRC pursuant to the Processing Agreement; (ii) the Processing Facility is responsible for the processing, manufacturing or assembling the goods, while the Group is responsible for the provision of raw materials, the machinery and equipment, the design of products, skills and technological know-how in accordance with the terms of the Processing Agreement; and (iii) the Group is responsible for monitor the production process and operation of the Processing Facility and is responsible for quality control, the Directors, having been advised by BDO Limited, consider that it is reasonable for the Group to adopt the DIPN 21 for the tax assessment of the Group. The Group first applied DIPN 21 to claim for apportionment of profit in 2003/04 being the first assessable year of the Group since its incorporation. During the Track Record Period and up to the Latest Practicable Date, the Group has not received any objection or enquiry from the IRD in this respect.

Unless there is a material change in the taxation legislation or its interpretation in Hong Kong and the PRC, the Directors are of the view that, in the absence of any unforeseeable circumstances, DIPN 21 is applicable to the Group and such adoption by the Group for the tax assessment of the Group would unlikely be challenged by the IRD. Notwithstanding the above, in the event that the IRD considers the Group's mode of manufacturing operations under the processing agreements is not within the scope of the profits eligible for apportionment under the DIPN 21, the maximum taxes payable by the Group for each of the three financial years ended 31 December 2010 would be approximately HK$2.7 million, HK$11.8 million and HK$12.4 million respectively.

In respect of PRC law, the reporting accountants are also of the view that the Group's exposure to PRC corporate income tax under the Processing Agreement is remote. According to Guo Shui Han 2007 No 403 issued by the China tax bureau, it is noted that it is not the present intention of the PRC to tax Hong Kong entities for profits derived from this type of processing arrangement. Based on an interpretation published by Guangdong local tax bureau dated 5 August 2008, the tax bureau only taxed the Processing Partner based on the subcontracting charge but not the trading profits of 1010 PIL. Furthermore, the Directors have confirmed that 1010 PIL has never been challenged by the local tax authority in the PRC as to its potential treatment as a PRC entity permanent for tax purposes. Based on the processing arrangements under the Processing Agreement, the PRC Legal Advisers, consider it is unlikely that the Group would be subject to PRC enterprise income tax.

During each of the three years ended 31 December 2010, Hong Kong profits tax payable by the Group amounted to approximately HK$0.2 million, HK$0.1 million and HK$1.7 million respectively. During each of the three years ended 31 December 2010, tax expenses of the Group recognised as deferred tax charges amounted to approximately HK$0.9 million, HK$5.2 million and HK$3.1 million respectively. As a result, the effective tax rates of the Group during the Track Record Period were approximately 7.0%, 8.7% and 7.1% respectively. As the tax losses of the Group from previous years have been fully utilised, future assessable profits of the Group may not be offset and tax payable by the Group may increase.

No profits tax was provided for the Group's business in the U.K. as the business has suffered losses for the years ended 31 December 2009 and 2010 while it generated small assessable profit for the year ended 31 December 2008. As such it was subject to corporate tax in the U.K. at the rate of 21% on estimated assessable profits and U.K. corporate tax of HK$14,000 was provided for the year ended 31 December 2008. The U.S. business also suffered losses or generated immaterial assessable profits and as such, no U.S. profits tax was provided for during the Track Record Period. In addition the U.S. operations have been carved out of the Group and as such, any taxable profits might not be applicable to the Group. Although the business in Australia had no assessable profits for the years ended 31 December 2008 and 2009, it generated small assessable profit for the year ended 31 December 2010. As such it was subject to corporate tax in Australia at the rate of 30% on estimated assessable profits and Australia corporate tax of HK$3,000 was provided for the year ended 31 December 2010.

As confirmed by the Directors, the Group has complied with Hong Kong and PRC tax regulations and made all required tax filings under all relevant tax laws and regulations in the Hong Kong, PRC, Australia and U.K. jurisdictions, has paid all outstanding liabilities and has no disputes with any tax authorities.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into certain related party transactions which were based on the actual costs incurred by the related parties and determined in accordance with certain allocation bases. The related party transactions are summarised as follows:

Name of related parties	Nature of transactions	2008	2009	2010
		HK$'000	*HK$'000*	*HK$'000*
Recruit Holdings Limited	Interest expense	7,199	5,363	2,658
	Management fees paid	–	1,200	1,500
Recruit Information Technology Limited	Computer service fees paid	360	480	1,200
	Purchase of property, plant and equipment	52	3,000	–
Recruit Management Services Limited	Computer service fees paid	60	60	35
	Administration service fees paid	360	1,200	1,800
1010 Printing (USA) Inc.	Commission paid	79	1,400	–
Recruit Advertising Limited	Printing income	60	104	50
Central Publishing Limited	Printing income	–	41	–

Interest expense

Interest expense was charged based on the outstanding loan balance at 5-7%, 3% and 3% per annum for each of the three years ended 31 December 2010 respectively, which was determined based on the cost of borrowing of the Recruit Group.

Based on the above, the Sponsor considers that the allocation basis of the interest expense was fair and reasonable.

Management fee

Management fees paid to Recruit, representing mainly staff costs and other general expenses incurred by Recruit, were primarily allocated on a cost reimbursement basis. Staff costs were allocated to the Group based on (i) the estimated time spent on managing the printing business by the directors of Recruit; and (ii) the actual hourly rates of the directors of Recruit calculated on the basis of their actual remuneration. Other general expenses were allocated based on the percentage as represented by such directors' remuneration of Recruit allocated to the printing business over the total directors' remuneration of Recruit (2008: 5%, 2009: 25%, 2010: 30%). The sum of staff costs and other general expenses were charged to the Group as management fees for the years ended 31 December 2009 and 2010. No management fees were charged to the Group for the year end 31 December 2008 because of the immaterial amount involved.

Based on the above, the Sponsor considers that the allocation basis of the management fees was fair and reasonable.

Computer service fee and administration service fee

Recruit Information Technology Limited provided computer services (i.e. information technology services) whereas Recruit Management Services Limited provided general administrative services. The costs incurred by Recruit Information Technology Limited and Recruit Management Services Limited were mainly staff salaries. Similar to the management fees, the relevant staff salaries of these two related companies were allocated to the Group based on the cost reimbursement basis. In particular, staff costs of Recruit Information Technology Limited and Recruit Management Services Limited were allocated to the Group based on (i) the estimated time spent on providing the relevant services by the staff of Recruit Information Technology Limited and Recruit Management Services Limited; and (ii) the actual hourly rates of the staff of Recruit Information Technology Limited and Recruit Management Services Limited calculated on the basis of their actual salaries. Other general expenses of Recruit Information Technology Limited and Recruit Management Services Limited were allocated based on the percentage as represented by such staff costs of Recruit Information Technology Limited and Recruit Management Services Limited allocated to the printing business over the total staff costs of Recruit Information Technology Limited and Recruit Management Services Limited (2008: 10%, 2009: 25%, 2010: 35%). The total allocated staff costs and other general expenses were then split between Recruit Information Technology Limited and Recruit Management Services Limited and charged to the Group as computer service fees and administration service fees respectively.

Based on the above, the Sponsor considers that the allocation basis of the computer service fees and administration service fees were fair and reasonable respectively.

Purchases of property, plant and equipment

Purchases of property, plant and equipment by the Group from Recruit Information Technology Limited relate to the transfer of certain computer equipment and office furniture and costs incurred by Recruit Information Technology Limited for the development of the Group's ERP system which were based on the prevailing market price.

Based on the above, the Sponsor considers that the allocation basis of the property, plant and equipment purchases was fair and reasonable.

Commission paid

Commission paid to 1010 Printing (USA) Inc. was based on 10% of sales generated by 1010 Printing (USA) Inc.

The Sponsor considers that the basis of commission for sales generated was fair and reasonable.

Printing income

The Group received income from Recruit Advertising Limited and Central Publishing Limited for printing services in respect of certain publications (being Recruit Career Expo supplements and tips for career advancement) and calendars for Recruit. The print services provided by the Group were based on the prevailing market price.

The Sponsor considers that the basis of printing income was fair and reasonable.

All related party transactions had been discontinued before the Latest Practicable Date.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL RESOURCES

Overview

During the Track Record Period, the Group generally financed its operations through a combination of shareholders' loan, internally generated cash flows and bank borrowings. Following the completion of the Share Offer, the Group expects its capital and operating requirements to be funded principally through internally generated cash flows, the net proceeds from the Share Offer and cash on hand. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing or bank borrowings.

Net current assets

During the years ended 31 December 2008 and 2009, in order to expand the business and increase the production capacity, the Group acquired a significant amount of property, plant and equipment and such capital expenditure was financed by its intermediate holding company and bank borrowings. Property, plant and equipment are classified as non-current assets, while the amount due to the intermediate holding company (repayable on demand) and bank borrowings (with repayment on demand clauses) were classified as current liabilities. Accordingly, there were net current liabilities of the Group as at 31 December 2008 and 2009.

Based on the financial information of the Group as at 31 December 2010, the Group had net current assets of approximately HK$121.5 million. The current assets of the Group included inventories of approximately HK$59.9 million, trade and other receivables of approximately HK$211.3 million, amounts due from fellow subsidiaries of approximately HK$0.7 million and cash and cash equivalents of approximately HK$16.1 million.

As further detailed below, cash balances decreased in 2010 mainly due to the purchase of property, plant and equipment of HK$33.8 million and repayments of HK$29.8 million on the outstanding amounts due to the Group's intermediate holding company, which was offset by the proceeds of HK$21.8 million received from the issuance of new shares and cash inflow from operating activities of HK$31.4 million.

The current liabilities included trade and other payables of approximately HK$66.9 million, financial liabilities at fair value through profit or loss of approximately HK$5.2 million, bank borrowings of approximately HK$83.3 million, finance lease liabilities of approximately HK$7.0 million, amounts due to the intermediate holding company of approximately HK$1.5 million, amounts due to fellow subsidiaries of approximately HK$0.9 million and provision for taxation of approximately HK$1.7 million.

Net current assets as at 31 May 2011

As at 31 May 2011, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, the Group had net current assets of approximately HK$159.5 million, comprising current assets of approximately HK$310.2 million and current liabilities of approximately HK$150.7 million. The following table summarises the details of the Group's unaudited current assets and liabilities as at 31 May 2011:

	HK$'000
	(unaudited)
Current assets	
Inventories	70,346
Trade and other receivables	201,129
Cash and cash equivalents	38,695
	310,170
Current liabilities	
Trade and other payables	72,487
Financial liabilities at fair value through profit or loss	4,251
Bank borrowings	64,306
Finance lease liabilities	5,971
Provision for taxation	3,683
	150,698
Net current assets	159,472

Loan and banking facilities

As at 31 December 2010, total debts comprised of finance leases liabilities amounting to approximately HK$19.8 million, bank borrowings amounting to approximately HK$83.3 million and amounts due to the intermediate holding company and fellow subsidiaries amounting to approximately HK$2.4 million, were approximately HK$105.5 million, resulting in a gearing ratio (being total debt divided by total assets) of approximately 21.7%. The finance lease liabilities represented the amount of finance lease loans raised for the purchases of machineries, while the bank borrowings mainly represented loans for financing the purchase of machineries and a small-medium enterprise loan which is supported/guaranteed by the Hong Kong government.

At the close of business on 31 May 2011, unutilised banking facilities available to the Group amounted to approximately HK$145.0 million. As confirmed by the Directors, none of the loans or banking facilities contained cross-default provisions and the Group has never delayed or defaulted in any repayment of bank or other borrowings during the Track Record Period.

Capital structure

As at 31 December 2010, the Group had net assets of approximately HK$297.5 million, comprising non-current assets of approximately HK$199.5 million (comprising property, plant and equipment), net current assets of approximately HK$121.5 million and non-current liabilities of approximately HK$23.6 million (representing the finance leases liabilities of approximately HK$12.8 million and deferred taxation of approximately HK$10.7 million). For the years ended 31 December 2008 and 2009, the Group's capital expenditure was approximately HK$71.6 million and HK$50.7 million respectively, and amounts due to the intermediate holding company were approximately HK$179.2 million and HK$150.9 million respectively. Such capital expenditure was made by the Group in order to increase its production capacity, which, along with the reliance on advances from the Recruit Group to finance the Group's daily operation, resulted in the net current liabilities as at 31 December 2008 and 2009 respectively.

Capital expenditure

During the Track Record Period, the Group has incurred capital expenditure mainly for the purchase of property, plant and equipment amounting to approximately HK$71.6 million, HK$50.7 million and HK$57.8 million respectively.

The Group currently plans to use approximately HK$41.0 million for the purchase of new machineries and equipment, including, but not limited to, offset printing machines, digital printing machines and new hardcover line. The Directors believe that such capital expenditure budget will be sufficient for the Group's expected expenditure in year 2011.

The Group anticipates that the funds required for such capital expenditure will be financed by cash generated from operations and bank borrowings, as well as the net proceeds from the Share Offer. It should be noted that the current plan with respect to future capital expenditure may be subject to change based on the implementation of the Group's business plan, including, but not limited to, potential acquisitions, the progress of the Group's capital projects, market conditions, the outlook of future business conditions of the Group and potential acquisitions. As the Group will continue to expand, additional capital expenditure may be incurred and the Group may consider raising additional funds as and when appropriate. The ability of the Group in obtaining additional funding in the future is subject to a variety of uncertainties including, but not limited to, the future operation results of the Group, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other countries in which the major customers of the Group operates in.

Capital commitments

As at 31 December 2010, the Group had capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment of approximately HK$16.3 million.

Contingent liabilities

As at 31 December 2010, the Group had no significant contingent liabilities or outstanding litigation.

Operating lease commitments

As at 31 December 2010, the Group had operating lease commitments in respect of non-cancellable operating leases on properties and production facilities of approximately HK$34.1 million, of which approximately HK$7.8 million is due within one year and approximately HK$26.3 million is due within two to five years.

Foreign exchange risk

The Group's turnover is mainly denominated in Australian dollars, US dollars, Pound Sterling, Euro and Hong Kong dollars, while its costs and expenses are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The Group's exposure to exchange rate fluctuations results primarily from revenue generated from overseas sales and purchases from overseas suppliers, which are denominated in currencies other than US dollars and Hong Kong dollars, and the production and operating costs incurred in the PRC. During the Track Record Period, approximately 30.8%, 38.7% and 38.7% respectively of the Group's turnover were denominated in currencies other than US dollars and Hong Kong dollars. Since Hong Kong dollars are pegged with US dollars, no significant exposure is expected on US dollar transactions and balances.

The following table sets out the average foreign currency exchange rates against the Hong Kong dollars during the Track Record Period and the change in such rates during such period.

	USD	EUR	AUD	NZD	GBP	RMB
2008	7.79	11.46	6.64	5.56	14.43	1.12
2009	7.75	10.81	6.15	4.93	12.15	1.14
% change	-0.5%	-5.7%	–7.4%	–11.3%	–15.8%	1.8%
2010	7.77	10.31	7.15	5.61	12.01	1.15
% change	0.3%	-4.6%	16.3%	13.8%	–1.2%	0.9%

As disclosed above, the Group has from time to time entered into foreign currency exchange contracts to hedge against currency risk but not for speculative purposes. The Board reviews the Group's foreign currency risk position on a quarterly basis and gives guidance for foreign currency hedging. The finance department of the Group reviews the sales order book and trade receivables level weekly in light of the prevailing market situation to assess whether any foreign currency hedging is desirable. The finance department of the Group is required to seek the approval from one of the executive Directors, before the execution of any forward foreign exchange contracts. The executive Director in charge then reports to the Board on the hedging status during the quarterly meeting.

The Group only enters into contracts for hedging purposes with fixed rates and sums are selected by the Group's finance department and approved by one of the Directors. All contracts are settled by delivering foreign currency cash generated from the business. The maximum allowable exposure is approximately 50% of foreign exchange receivables (excluding USD) without hedging. In addition, the finance department of the Group closely monitors the exchange rates and communicates with the sales department to update the exchange rates when sales contracts are entered into. When material fluctuations in the exchange rate of a currency is noted (for instance, in the first half of 2010), the Group will strive for using US dollars for sales transactions. The Group also monitors closely the exchange rate of Renminbi in its costing and budgeting such that the Renminbi impact on production cost, due to exchange rate fluctuation, is incorporated in its pricing.

The following table sets out the details of foreign currencies held by the Group and the corresponding value of assets being hedged in the form of foreign exchange forward contracts outstanding as at each of the three years ended 31 December 2010 and as at the Latest Practicable Date.

	2008		2009		2010		Latest Practicable Date		
Currency held	Cash and accounts receivables	Forward contract	Cash and accounts receivables	Forward contract	Cash and accounts receivables	Forward contract	Confirmed order (Note 1)	Cash and accounts receivables	Forward contract
AUD (millions)	4.0	1.0	8.2	4.5	6.5	6.2	4.6	5.8	6.0
EUR (millions)	–	–	–	–	–	–	0.8	1.8	0.5
GBP (millions)	0.8	0.6	1.0	0.3	–	–	0.7	1.0	0.5
NZD (millions)	0.2	0.2	0.5	0.3	0.6	0.1	0.1	0.3	0.3

Notes:

1. As at the Latest Practicable Date the Group has confirmed the orders from certain customers but the invoices have not been issued by the Group yet.

2. The values of assets shown in the above table are illustrated by their respective currency.

For each of the three years ended 31 December 2010, the Group recorded exchange gain/(loss) of approximately (HK$7.2 million), HK$9.7 million and HK$9.6 million, respectively. During the same period, the Group recorded fair value gain/(loss) on forward foreign contracts of HK$0.5 million, (HK$7.3 million) and (HK$1.2 million), respectively.

The exchange gain or loss was caused by the changes of the fair values of trade receivables and foreign currencies at each of the three years ended 31 December 2010. The changes of fair values of trade receivable and foreign currencies were primarily due to changes of foreign exchange rates. The Group recorded an exchange loss in 2008 as a result of the significant drop in all foreign currencies in the last quarter of the year. However, it was able to recover some gains in 2009 due to the significant appreciation of most foreign currencies, especially the Australian dollar in the first quarter of 2009. In 2010, the Group again recorded a gain as a result of the appreciation of the Australian dollar, pound sterling and the New Zealand dollar in the second half of the year.

As the Group's forward contracts do not fulfil the requisite requirements to fall under the hedge accounting rules, the Group is not required to comply with such rules.

Cash flow information

The table below sets out a summary of the cash flow information during the Track Record Period:

	2008	2009	2010
	HK$'000	*HK$'000*	*HK$'000*
Net cash (used in)/from operating activities	(20,002)	85,988	31,379
Net cash used in investing activities	(70,408)	(49,369)	(33,521)
Net cash from/(used in) financing activities	121,981	(34,512)	(20,282)
Cash and cash equivalents at end of the year	36,451	38,558	16,134

Operating activities

For the year ended 31 December 2008, net cash outflow from operating activities amounted to approximately HK$20.0 million which was mainly attributable to the operating profit before changes in working capital of approximately HK$36.9 million deducted by the increase in trade and other receivables and inventories of approximately HK$35.0 million and HK$18.7 million respectively. The increases in sales and trade and other receivables and inventories for the year end 31 December 2008 were mainly due to the growth in production during the year.

For the year ended 31 December 2009, net cash inflow in operating activities amounted to approximately HK$86.0 million which was mainly attributable to the operating profit before changes in working capital amounted to approximately HK$94.3 million, the increase in trade and other payables of approximately HK$37.9 million and decrease in inventories of approximately HK$9.9 million were deducted by the increase in trade and other receivables of approximately HK$52.5 million. The increases in trade and other receivables and trade and other payables were in line with the growth in turnover of the Group. As disclosed above, the decrease in inventory level was primarily due to the decrease in paper prices in 2009.

For the year ended 31 December 2010, net cash inflow from operating activities amounted to approximately HK$31.4 million. The net cash generated from operating activities primarily consisted of operating profit before changes in working capital of approximately HK$98.1 million and was partially offset by the decrease in trade and other payables of approximately HK$4.6 million, the increase in inventories of approximately HK$21.4 million and the increase in trade and other receivables of approximately HK$42.5 million. The increase in trade and other receivables and inventories were in line with the growth in turnover of the Group.

Investing activities

Net cash outflow in investing activities amounted to approximately HK$70.4 million, HK$49.4 million and HK$33.5 million during the Track Record Period respectively. The cash used in investing activities during the Track Record Period was mainly used in the purchase of property, plant and equipment amounting to approximately HK$71.6 million, approximately HK$50.7 million and approximately HK$33.8 million.

Financing activities

For the year ended 31 December 2008, net cash generated from financing activities amounted to approximately HK$122.0 million, which was mainly attributable to the increase in the amounts due to the intermediate holding company of approximately HK$82.3 million and proceeds from bank borrowings of approximately HK$51.7 million and partially offset by dividend paid of approximately HK$4.3 million and capital element of finance lease liabilities paid of approximately HK$4.2 million.

For the year ended 31 December 2009, net cash used in financing activities amounting to approximately HK$34.5 million was mainly attributable to the decrease in amounts due to the intermediate holding company (being approximately HK$33.7 million), repayments of bank borrowing of approximately HK$5.2 million and capital element of finance lease liabilities paid of approximately HK$4.4 million and which was partially offset by proceeds of bank borrowings of approximately HK$10.0 million.

For the year ended 31 December 2010, net cash used from financing activities amounted to approximately HK$20.3 million which was mainly attributable to the decrease in amounts due to the intermediate holding company of approximately HK$29.8 million, dividend paid of approximately HK$30.0 million, repayments on bank borrowings of approximately HK$10.1 million and capital element of finance lease liabilities paid of approximately HK$9.6 million and which was partially offset by proceeds of bank borrowings of approximately HK$39.1 million and proceeds from the issue of share capital equal to approximately HK$21.8 million.

INDEBTEDNESS

At the close of business on 31 May 2011, which is the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the publication of this prospectus, the Group had bank borrowings of approximately HK$64.3 million and finance lease liabilities of approximately HK$16.3 million.

At the close of business on 31 May 2011, unutilised banking facilities available to the Group amounted to approximately HK$145.0 million. As confirmed by the Directors, none of the loans or banking facilities contained cross-default provisions and the Group has never delayed or defaulted in any repayment of bank or other borrowings during the Track Record Period.

Save for the aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Group did not have, at the close of business on 31 May 2011, any debt securities authorised or otherwise created but unissued, or term loans or bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchase contracts or finance leases, guarantees, or other material contingent liabilities.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rate of exchange prevailing as at 31 May 2011.

DISTRIBUTABLE RESERVE

As at 31 December 2010, the distributable reserve of the Group was approximately HK$216.5 million.

RISK MANAGEMENT

The Group does not have written risk management policies and guidelines. However, the Board would meet periodically to analyse and formulate strategies to manage the Group's exposure to a variety of risks arising from its operating and investing activities. Generally, the Group employs conservative strategies regarding its risk management to ensure appropriate measures are implemented on a timely and effective manner.

WORKING CAPITAL

The Directors are of the opinion that after taking into account the cash flow generated from the operating activities, the existing financial resources available to the Group including internally generated funds, the available banking facilities and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements for the next 12 months from the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in the Group's financial or trading position since 31 December 2010 (being the date to which the Group's latest audited combined financial statements were prepared up) which was set out in the Accountants' Report.

DIVIDENDS

For each of the three years ended 31 December 2010, 1010 Group declared dividends of HK$4.3 million, nil and HK$30.0 million, respectively. Subsequent to the year ended 31 December 2010, 1010 Group also declared a dividend of HK$20.0 million. As at the Latest Practicable Date, all outstanding dividends payable had been fully settled. The Company may declare dividends after taking into account, among other things, the results of the Group, cash flows and financial condition and position, operating and capital requirements. The amount of distributable profits is based on HKFRS, the Memorandum and Bye-laws, the Companies Act, applicable laws and regulations and other factors that are relevant to the Group, including, but not limited to, the consent from certain banks which have credit lines with the Group.

The Company has not declared any dividend since incorporation and, currently, the Group has neither formulated any dividend policy nor determined any target dividend payout rate after Listing. Nevertheless, this should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

PROPERTY INTERESTS

The Group does not own any property. As at the Latest Practicable Date, all properties utilised by the Group were leased from Independent Third Parties on normal commercial terms following arm's length negotiations. BMI Appraisals, an independent property valuer, has valued the Group's property interests as at 30 April 2011 and is of the opinion that the value of its property interests is of no commercial value. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

At the Latest Practicable Date, the Directors confirm that there are no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted net tangible assets of the Group which is based on the audited combined net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2010 as shown in the Accountants' Report, is adjusted as follows:

The purpose of this statement of unaudited pro forma adjusted net tangible assets is to illustrate the net tangible assets of the Group as a result of the Listing based on the audited combined net tangible assets of the Group as at 31 December 2010. Please note that the above statement of unaudited pro forma adjusted net tangible assets is prepared for illustrative purposes only, and that because of its nature, it may not give a true picture of the Company's financial position or results. Please refer to Appendix II to this prospectus for the opinion of the reporting accountants in relation to the unaudited pro forma adjusted net tangible assets.

	Audited combined net tangible assets attributable to the owners of the Company as at 31 December 2010 *HK$'000* *(Note 1)*	**Add: Estimated net proceeds from the Share Offer** *HK$'000* *(Note 2)*	**Unaudited pro forma adjusted combined net tangible assets** *HK$'000*	**Unaudited pro forma adjusted combined net tangible assets per Share** *HK cents* *(Note 3)*
Based on the Offer Price of HK$0.70 per Offer Share	297,503	71,500	369,003	73.80
Based on the Offer Price of HK$0.90 per Offer Share	297,503	96,500	394,003	78.80

Notes:

(1) The audited combined net tangible assets attributable to the owners of the Company as at 31 December 2010 are based on audited combined net assets attributable to owners of the Company as at 31 December 2010 as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer are based on 125,000,000 Offer Shares and the Offer Price of HK$0.70 or HK$0.90, being the low or high end of the stated Offer Price range per Offer Share, after deduction of the underwriting fees and related expenses payable of approximately HK$16 million as estimated by the directors of the Company in connection with the Share Offer and takes no account of any Shares which may be issued by the Company pursuant to Appendix V to this prospectus.

(3) The unaudited pro forma adjusted combined net tangible assets per Offer Share is calculated based on 500,000,000 Shares in issue immediately following the completion of the Share Offer. It does not take into account any Offer Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Offer Shares referred to in Appendix V to this prospectus or otherwise.