中國包裝集團有限公司

China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

Annual Report 2011

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. Leung Heung Ying, Alvin
Mr. Wong Tat Wai, Derek

Independent Non-Executive Directors

Dr. Lam Andy Siu Wing, *JP*
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

AUDIT COMMITTEE

Dr. Lam Andy Siu Wing, *JP (Chairman)*
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

REMUNERATION COMMITTEE

Dr. Lam Andy Siu Wing, *JP (Chairman)*
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah

NOMINATION COMMITTEE

(Established on 20 March 2012)

Dr. Lam Andy Siu Wing, *JP (Chairman)*
Mr. Siu Siu Ling, Robert
Mr. Tam Tak Wah
Mr. Leung Heung Ying, Alvin

COMPANY SECRETARY

Mr. Leung Heung Ying, Alvin

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 06-07, 28th Floor
Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

REGISTERED OFFICE

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

AUDITOR

ZHONGLEI (HK) CPA Company Limited
Unit 313-17, 3/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank

COMPANY WEBSITE

http://www.cpackaging.com.hk

Board of Directors' Statement

The board (the "**Board**") of directors (the "**Directors**") of China Packaging Group Company Limited (the "**Company**"), together with its subsidiaries (collectively, the "**Group**"), is pleased to present the Company's annual report for the year ended 31 December 2011, being the first annual report since Integrated Asset Management (Asia) Limited ("**IAM**") and Business Giant Limited ("**BGL**") (IAM and BGL are hereinafter collectively referred to, the "**Investors**" or the "**Controlling Shareholders**") became the Controlling Shareholders of the Company with the discharge of the provisional liquidators of the Company and completion of the restructuring of the Group on 1 November 2011. Trading of the ordinary shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") resumed on 4 November 2011.

REVIEW OF RESULTS

For the year ended 31 December 2011, notwithstanding downturn of the economy of the mainland China ("**PRC**") and the tough operating environment in the PRC with tightening credit control and inflationary pressure, the Group had been striving hard to consolidate its business and achieved a net operating profit before restructuring related items of approximately RMB10,360,000 for the year (calculated based on net profit of approximately RMB157,518,000 less gain on restructuring of approximately RMB161,733,000 with the addition of restructuring costs and expenses of approximately RMB8,389,000 and finance costs of approximately RMB6,186,000), which attained the estimated operational profit before restructuring related items of approximately RMB10,300,000 as set out in the profit forecast contained in the circular of the Company dated 12 September 2011 (the "**Profit Forecast**").

The Group recorded a consolidated net profit attributable to owners of the Company of approximately RMB157,518,000 for the year ended 31 December 2011 attaining the estimated consolidated net profit of approximately RMB157,490,000 as set out in the Profit Forecast.

BUSINESS REVIEW

In view of the downturn of the economy of the PRC, 2011 remained a challenging year for the Company to consolidate its core tinpate cans business. For the year ended 31 December 2011, the Group's revenue was approximately RMB142,311,000 (2010: RMB124,812,000), representing an increase of approximately 14.02% as compared to last year which was due to an increase in sales volume of tinplate cans. The Group recorded a gross profit margin of 18.71% for the year ended 31 December 2011 (2010: 18.34%). The Group continued to be cautious in controlling its cost of production and overheads. The consolidated profit attributable to owners of the Company ("**Shareholders**") amounted to approximately RMB157,518,000 for the year ended 31 December 2011 (2010: RMB9,247,000,000). Basic earnings per ordinary share ("**Share**") was approximately RMB1.29 for the year ended 31 December 2011 (2010: RMB0.11 per Share (restated)).

PROSPECTS

In view of the completion of the restructuring of the Company on 1 November 2011 and implementation of Schemes, the financial position of the Group has been substantially improved and the net liabilities position of the Group has also been turned around to net assets position.

Looking ahead, in light of the uncertainties and challenges face by world major economies, slowing down of the PRC economy, tightening credit control and inflationary pressure in the PRC, the Group will continue to manage its businesses in a prudent manner and exercise stringent financial control on the business of the Group. The Group will adopt a cautious approach in evaluating any investment opportunities to ensure a bright prospect to the shareholders of the Company.

Board of Directors' Statement

APPRECIATION

We would like to take this opportunity to express the Board's sincere gratitude to all Shareholders, investors, bankers, business associates and customers for their continuing support to the Group, and to all staff members for their hard work and contributions during the past year.

On behalf of the Board
Leung Heung Ying, Alvin
Executive Director

Hong Kong, 20 March 2012

COMPLETION OF THE RESTRUCTURING OF THE GROUP, KEY EVENTS AFTER THE APPOINTMENT OF THE PROVISIONAL LIQUIDATORS AND THE SUBSEQUENT DISCHARGE OF THE PROVISIONAL LIQUIDATORS

Trading in the shares of the Company had been suspended since 28 April 2009.

Pursuant to a petition seeking the Company's winding up presented by Deutsche Bank Aktiengesellschaft on 8 July 2009, and a subsequent application on 2 October 2009 by DBS Bank (Hong Kong) Limited for a provisional liquidation order to be made against the Company, the court of Hong Kong appointed Mr. Roderick John Sutton and Mr. Fok Hei Yu to act as joint and several provisional liquidators to the Company (the "**Provisional Liquidators**") on the same day.

Pursuant to an application of the Company, Messrs Fok Hei Yu and Roderick John Sutton, both of FTI Consulting (Hong Kong Limited), and Mr. G. James Cleaver, of Zolfo Cooper, Cayman Islands were appointed as joint provisional liquidators of the Company by an order of the Grand Court of the Cayman Islands (the "**Cayman Court**") dated 25 March 2010.

On 28 December 2009, the Provisional Liquidators, on behalf of the Company, FTI Consulting (Hong Kong) Limited ("**Escrow Agent**") entered into an exclusivity and escrow agreement with BGL whereby BGL was granted a 12-month exclusivity to negotiate the restructuring of the Company, certain subsidiaries and associated companies in the Group, and in turn, BGL agreed to advance funds to the Company to meet the costs and expenses in relation to the implementation of the restructuring of the Company. On 24 December 2010, the Provisional Liquidators, on behalf of the Company, the Escrow Agent and BGL entered into a supplemental agreement to extend the exclusivity period to 24-month up to 27 December 2011.

On 22 February 2010, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") issued a letter to the Company, inter alia, requested the Company to submit a viable resumption proposal to address certain issues.

The Stock Exchange placed the Company in the first stage of the delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). If the Company failed to submit a viable resumption proposal by 21 August 2010, the Stock Exchange might proceed to place the Company in the second stage of delisting procedures. A resumption proposal was submitted to the Stock Exchange on 21 August 2010 (the "**Resumption Proposal**").

By a letter dated 26 May 2011, the Stock Exchange informed the Company that the Stock Exchange allows trading resumption if the Company fulfils certain conditions ("**Resumption Conditions**") by 31 December 2011.

On 17 June 2011, the Company, the Provisional Liquidators, the Investors and the Escrow Agent entered into a restructuring agreement (as supplemented by a side letter dated 9 September 2011) ("**Restructuring Agreement** ") which provides for, inter alia, the reorganisation of the capital structure of the Company ("**Capital Reorganisation**") involving among others, capital reduction ("**Capital Reduction**"), the subscription of new shares, the convertible preference shares and the convertible loan notes by the Investors, the grant of options to creditors under the schemes of arrangement in Hong Kong and the Cayman Islands (the "**Schemes**"), the bonus issue of new shares ("**Bonus Issue**"), the proposed implementation of the Schemes and the proposed application for the whitewash waiver.

All the resolutions in respect of the transactions contemplated under the Restructuring Agreement were approved at an extraordinary general meeting of the Company held on 6 October 2011 ("**EGM**").

Management Discussion and Analysis

On 11 October 2011 (Cayman time), the scheme of arrangement in the Cayman Islands (the "**Cayman Scheme**") was sanctioned by the Cayman Court and the Capital Reduction was approved by the Cayman Court. The Capital Reorganisation became effective after 9:00 p.m. on 12 October 2011.

On 24 October 2011, the Cayman Court ordered the withdrawal of the petition for the winding up of the Company dated 5 February 2010 and the discharge of the provisional liquidators in the Cayman Islands.

At the Hong Kong court (the "**HK Court**") hearing of the petition for the sanction of the scheme of arrangement in Hong Kong (the "**Hong Kong Scheme**") held on 25 October 2011, the Hong Kong Scheme was sanctioned by the HK Court.

The Schemes have become effective on 1 November 2011.

On 1 November 2011, the HK Court granted order for the withdrawal of the winding-up petition against the Company presented by Deutsche Bank Aktiengesellschaft on 8 July 2009 and for the discharge of the Provisional Liquidators. Accordingly, the Provisional Liquidators were discharged.

On 1 November 2011, all the conditions precedent to the Restructuring Agreement were satisfied, all the transactions contemplated thereunder were completed and the Investors became the controlling shareholders of the Company.

As all of the Resumption Conditions have been satisfied and fulfilled on 1 November 2011, trading of the Company's ordinary shares on the Stock Exchange resumed on 4 November 2011.

CHANGE OF BOARD MEMBERS AND APPOINTMENT OF MEMBERS OF AUDIT COMMITTEE AND REMUNERATION COMMITTEE

At the annual general meeting of the Company held on 6 October 2011, Mr. Liu Zhi Qing and Mr. Chong Hoi Fung retired as Directors. The Company ceased to have any Board member since then.

On 1 November 2011, being the date of completion of the Restructuring Agreement, as all the transactions contemplated under the Restructuring Agreement had been completed, the appointments of the two proposed executive Directors, namely Mr. Leung Heung Ying, Alvin and Mr. Wong Tat Wai, Derek, and the three proposed independent non-executive Directors, namely Dr. Lam Andy Siu Wing, *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah as conditionally approved by the shareholders of the Company at the EGM, became effective.

On 1 November 2011, audit committee and remuneration committee of the Company, each of which consists of Dr. Lam Andy Siu Wing, *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah, were established. Dr. Lam Andy Siu Wing, *JP* is the chairman of the audit committee and the remuneration committee.

CHANGE IN CAPITAL STRUCTURE

The Company had undergone the following changes in its capital structure during the year of 2011 pursuant to the Resumption Proposal and the Restructuring Agreement:

(a) Capital Consolidation

Every eight old ordinary shares of HK$0.10 each ("**Old Share(s)**") in the issued share capital of the Company had been consolidated into one consolidated ordinary share ("**Consolidated Share(s)**") with nominal value of HK$0.80 each.

(b) Capital Reduction

The nominal value of each issued Consolidated Share had been reduced from HK$0.80 to HK$0.001 ("**Share(s)**") by cancellation of HK$0.799 of the paid-up capital of each issued Consolidated Share.

(c) Partial Accumulated Loss Set-Off

The credit generated from the Capital Reduction had been applied to set off against part of the accumulated losses of the Company.

(d) Share Split

The authorised unissued share capital of the Company of HK$134,287,891.90, comprised 1,342,878,919 Old Shares each with a nominal value of HK$0.10, had been altered so as to be comprised of 134,287,891,900 Shares of HK$0.001 each.

(e) Preference Shares

By a special resolution passed at the EGM, a new class of convertible preference shares of nominal value HK$0.001 each ("**Preference Share(s)**") was created.

(f) Increase in authorised share capital

By an ordinary resolution passed at the EGM on 6 October 2011, the authorised share capital of the Company had been increased from HK$200,000,000 to HK$250,000,000.

(g) Subscription of Shares, Preference Shares and Convertible Loan Notes by the Investors

The Company had conducted the following fund raising exercises pursuant to the Resumption Proposal and as contemplated under the Restructuring Agreement:

(i) Subscription of Shares

The Investors had subscribed for 230,000,000 Shares at a subscription price of HK$0.12 per Share with gross proceeds of HK$27,600,000.

(ii) Subscription of Preference Shares

The Investors had subscribed for 520,000,000 Preference Shares at a subscription price of HK$0.12 per Preference Share with gross proceeds of HK$62,400,000.

(iii) Subscription of Convertible Loan Notes

Convertible loan notes in the aggregate principal amount of HK$18,000,000 which are convertible into Shares at a conversion price of HK$0.12 per Share (the "**Convertible Loan Notes**") were issued to the Investors. The Convertible Loan Notes bear 2% interest per annum which is payable semi-annually on 30 June and 31 December and are due on 31 October 2016.

(h) Bonus issue of Shares

1,067,822 Shares had been issued by way of bonus on the basis of 13 bonus Shares for every 1,000 Share held by those qualifying Shareholders whose names appeared in the Register of Members of the Company on the record date, 20 October 2011.

In addition, the Company had granted to the scheme administrators to hold for the benefit of the creditors of the Schemes options to subscribe for 56,000,000 Shares (the "**Options**"). The Options are exercisable at a price of HK$0.15 per Share and for a period of one year from the date of issue.

OPERATIONS REVIEW

For the year ended 31 March 2011, the Group continued to engage in the business of manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the PRC.

For the year ended 31 December 2011, notwithstanding downturn of the PRC economy and the tough operating environment in the PRC with tightening credit control and inflationary pressure, the Group had been striving hard to consolidate its business and achieved a net operating profit before restructuring related items of approximately RMB10,360,000 for the year (calculated based on net profit of approximately RMB157,518,000 less gain on restructuring of approximately RMB161,733,000 with the addition of restructuring costs and expenses of approximately RMB8,389,000 and finance cost of approximately RMB6,186,000), which attained the estimated operational profit before restructuring related items of approximately RMB10,300,000 as set out in the Profit Forecast.

The Group also recorded consolidated net profit attributable to owners of the Company of approximately RMB157,518,000 for the year ended 31 December 2011 attaining the estimated consolidated net profit of approximately RMB157,490,000 as set out in the Profit Forecast.

FINANCIAL REVIEW

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

With the completion of the Restructuring Agreement and the Schemes became effective in November 2011, the Group's financial position has improved substantially. The Group recorded a gain on restructuring of approximately RMB161,733,000 during the year. At 31 December 2011, the Group had net current assets of RMB73,543,000 (2010: net current liabilities RMB173,948,000) and liquid assets comprising bank balances and cash and escrow money totaled RMB21,877,000 (2010: RMB3,537,000).

At the year end, equity attributable to owners of the Company amounted to RMB129,633,000, representing an increase of approximately RMB240,547,000 compared to last year (2010: deficit RMB110,914,000) and is equivalent to an attributable amount of RMB1.09 per Share (2010: deficit RMB1.33). The increase in equity attributable to owners of the Company was mainly contributed by the gain on restructuring of approximately RMB161,733,000 and the proceeds raised from the issue of Shares and Preference Shares to the Controlling Shareholders during the year which amounted to approximately RMB22,544,000 and approximately RMB50,971,000, respectively. Such proceeds, to the extent had been used, were applied in accordance with the intended use of proceeds as set out in the circular of the Company dated 12 September 2011.

At 31 December 2011, the Group's total liabilities amounted to approximately RMB26,611,000 (2010: RMB230,696,000). The Group's gearing ratio, calculated on the basis of total borrowings divided by total equity, was at 5.7% at the year end (31 December 2010: not applicable as the Group had shareholders' deficit).

The Convertible Loan Notes were denominated in Hong Kong dollars and bore fixed interest rate at 2% per annum. In terms of maturity, the Convertible Loan Notes, if not converted into Shares, would be due for repayment in October 2016. Further details of the Convertible Loan Notes are set out in note 29 to the consolidated financial statements.

The Group's finance costs for the year under review was RMB6,186,000 (2010: RMB5,460,000). Upon sanction of the Schemes, the finance costs of bank borrowings, other borrowings and other financial liabilities incurred for the year had been discharged. The discharged amount formed part of the gain on restructuring.

Foreign Currency Management

The Group has minimal exposure to foreign currency risks as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi.

The Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging foreign currency exposure if necessary.

Pledge of Assets

As 31 December 2011, the Group did not have any pledged assets.

CONTINGENT LIABILITIES

On 8 July 2009, a winding up petition was served on the Company by Deutsche Bank Aktiengesellschaft. On 2 October 2009, an application was made by DBS Bank (Hong Kong) Limited and an order was granted by the HK Court appointing the Provisional Liquidators as provisional liquidators to the Company. Upon the appointment of Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the HK Court, and subject to such terms as the HK Court may impose. During the year ended 31 December 2011, all claims and potential claims against the Company have been compromised under the Schemes and sanctioned by the HK Court and the Cayman Court. For the details of the Schemes, please refer to note 2 to the consolidated financial statements.

At 31 December 2011, the Group did not have any significant contingent liabilities.

For the year ended 31 December 2010, the Provisional Liquidators make no representation as to the completeness and accuracy of the contingent liabilities.

Capital Commitment

At 31 December 2011, the Group had capital commitment in respect of property, plant and equipment of RMB4,068,000 (2010: Nil).

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2011, the Group had 92 employees including executive Directors (2010: 95, excluding executive Director) situated in the PRC and Hong Kong. The Group's emoluments policies are formulated based on industry practices and performance of individual employees.

For the year ended 31 December 2011, the total staff costs including directors' remuneration amounted to approximately RMB1,627,000 (2010: RMB1,974,000, there were no payment to directors as remuneration in 2010).

During the year ended 31 December 2011, no share option has been granted by the Company. Details of employees' remuneration are set out in note 12 to the consolidated financial statements.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Leung Heung Ying, Alvin

Mr. Leung, aged 48, has been appointed as executive director and company secretary of the Company with effect from 1 November 2011. He is also a director of a subsidiary of the Company. He is the managing director and shareholder of Proton Capital Limited. He was the managing director of Artfield Group Limited (now known as Nan Nan Resources Enterprise Limited) (stock code: 1229), formerly an industrial group with principal operations and manufacturing plants in the PRC, which principal activity was manufacturing, marketing and trading of clocks and timepieces, gift, premium and other office related products, lighting products and trading of metals with extensive sales network in the United Kingdom, Germany and the USA. He also acted as executive director, vice-chairman and deputy chief executive officer of Espco Technology Holdings Limited (now known as Grand T G Gold Holdings Limited) (stock code: 8299), which principal business was manufacturing, processing, sale and distribution of desktop personal computer components in the PRC, Hong Kong, Macau and Singapore and mining and exploration of gold in the PRC. Mr. Leung is currently an independent non-executive director of Creative Energy Solutions Holdings Limited (stock code: 8109).

Mr. Leung is a member of the Listing Committee of the Stock Exchange, a Fellow Member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountant, a Standing Committee member of the Political Consultative Committee of Wu Hua County of Guangdong Province and an arbitrator of the Panel of Arbitrators of China International Economic and Trade Arbitration Commission. Mr. Leung is also a member of the Energy Advisory Committee and the Public Affairs Forum of the Hong Kong Government. Mr. Leung graduated from the University of Bradford, United Kingdom with a Bachelor Degree. He received a Master Degree from London School of Economics and Political Science of University of London, United Kingdom and a Bachelor Degree in Chinese Laws from the Peking University, the PRC. Mr. Leung is the sole beneficial owner of BGL, being one of the Controlling Shareholders. He is therefore deemed to be interested in the securities of the Company held by BGL under the Securities and Futures Ordinance.

Mr. Wong Tat Wai, Derek

Mr. Wong, aged 42, has been appointed as executive director of the Company with effect from 1 November 2011. He is also a director of a subsidiary of the Company. He studied in York University in Canada and has over 15 years of experience in the management and operation of textile and knitting business in the PRC. He also has substantial experience in the overall corporate strategic planning and management in PRC manufacturing business. Mr. Wong is the brother-in-law of Mr. Yam Tak Cheung, who is the sole shareholder and sole director of IAM, being one of the Controlling Shareholders. Mr. Wong is currently an executive director of Fornton Group Limited (stock code: 1152), which is listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lam Andy Siu Wing, *JP*

Dr. Lam, aged 61, has been appointed as independent non-executive director of the Company with effect from 1 November 2011. He has been involving in strategic investment and planning for listed and unlisted companies for over 21 years. He holds a doctoral degree from the University of Bolton in the United Kingdom and a master degree in business administration from Oklahoma City University in the United States. Professionally, he is an American Certified Public Accountant, a Certified Fraud Examiner, a Chartered Secretary and a Chartered Marketer. Dr. Lam was the financial controller and business development manager of Whimsy Company Limited from 1984 to 1986. From 1987 to 1995, he was the managing director of an industrial group of company which was principally engaged in direct manufacturing industries investments in Hong Kong and the PRC. Dr. Lam was an executive director of Harmony Asset Limited (stock code: 428), a company dual-listed on the Stock Exchange and Toronto Stock Exchange, and has been redesignated as non-executive director since 1 January 2011. He is currently an independent non-executive director of Tanrich Financial Holdings Limited (stock code: 812). He is also a director of ChineseWorldNet.com Inc., a company the stocks of which are traded in the OTCBB of the USA. He has been appointed by Hong Kong Government as a Justice of the Peace and has sat on a number of committees, boards, and tribunals, included the Administrative Appeals Board, Urban Services Appeals Board, Board of Review (Inland Revenue Ordinance), Action Committee Against Narcotics, Immigration Tribunal, Registration of Persons Tribunal, Obscene Articles Tribunal and the Chinese Medicine Practitioner Board. Currently, Dr. Lam is a member of the Hong Kong Housing Authority, including its Finance Committee, Commercial Properties Committee and Audit Sub-Committee and a member of the Chinese Medicine Council of Hong Kong.

Mr. Siu Siu Ling, Robert

Mr. Siu, aged 59, has been appointed as independent non-executive director of the Company with effect from 1 November 2011. He is a partner of the firm, Messrs. Robert Siu & Co., Solicitors. Mr. Siu has been an executive director of China Grand Pharmaceutical and Healthcare Holdings Limited (formerly known as Maxx Bioscience Holdings Limited) (stock code: 512) until 2006 and is now an independent non-executive director of Incutech Investments Limited (stock code: 356), both of them are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Kaisun Energy Group Limited (stock code: 8203) and Finet Group Limited (stock code: 8317), both of them are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Siu holds a bachelor's degree in laws from University of London in the United Kingdom and a postgraduate certificate in laws from the University of Hong Kong. He has been admitted as a solicitor in Hong Kong since 1992 and has been admitted as a solicitor in England and Wales since 1993. His legal practice is mainly in the field of commercial and corporate finance.

Mr. Tam Tak Wah

Mr. Tam, aged 46, has been appointed as independent non-executive director of the Company with effect from 1 November 2011. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 25 years of experience in accounting, corporate finance and corporate development. He is currently an executive director of New Smart Energy Group Limited (stock code: 91) and an independent non-executive director of Siberian Mining Group Company Limited (stock code: 1142) and an independent non-executive director of Tech Pro Technology Development Limited (stock code: 3823), all of these companies are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Goldenway, Inc (CIK#0001446210), a company the common stock of which are traded in the OTCQB of the USA. He was an independent non-executive director of National Arts Holdings Limited (stock code: 8228), a company listed on the Growth Enterprise Market of the Stock Exchange, during the period from 2004 to 2009.

SENIOR MANAGEMENT

Mr. Lin Wu（林武）, aged 42, is the general manager of Shanxi Zhanpen and is responsible for the daily operation and supervision of Shanxi Zhanpen. Mr. Lin obtained over 20 years of management experiences in packaging industry. Prior to joining the Group, Mr. Lin was the deputy general manager of 福州威利金屬制品有限公司 (Fuzhou Weili Metalware Company Limited) from 2006 to 2009.

Mr. Chen Gui（陳貴）, aged 35, is the administrative manager of Shanxi Zhanpen and is responsible for the administration and human resources in Shanxi Zhanpen since April 2002. Mr. Chen gained over 14 years management experiences in administration and human resources.

Mr. Yao Gen Chen（姚根辰）, aged 50, joined the Group in 2005 and is currently the sales manager of Shanxi Zhanpen. He is responsible for the sales management and planning and maintenance of customer relationship of the Group. Mr. Yao has more than 15 years of extensive experience in sales management in packaging industry of Shanxi province.

Mr. Wang Hongjiang（王洪江）, aged 33, joined the Group in 2010, is currently the manager of the production department of Shanxi Zhanpen. He is responsible for supervising the production function and quality control of the Group. He has over 14 years of experience in tinplate cans manufacturing industry.

Report of the Directors

The directors of the Company are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding. Details of the principal activities of the principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 26.

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 88. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 31, 32 and 29 to the consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and laws of the Cayman Islands.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2011 had been reviewed by the Audit Committee of the Company before they were duly approved by the Board under the recommendation of the Audit Committee.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2011, none of the Directors had an interest in a business which competes or may compete with the business of the Group during the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 42 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 60.69% of the total sales for the year and sales to the largest customer accounted for approximately 14.39%. Purchases from the Group's five largest suppliers accounted for approximately 90.02% of the total purchases for the year and purchases from the largest supplier accounted for approximately 63.00%.

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

DIRECTORS

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

Executive Directors

Mr. Leung Heung Ying, Alvin	(appointed on 1 November 2011)
Mr. Wong Tat Wai, Derek	(appointed on 1 November 2011)
Mr. Liu Zhi Qiang	(retired on 6 October 2011)

Independent Non-Executive Directors

Dr. Lam Andy Siu Wing, *JP*	(appointed on 1 November 2011)
Mr. Siu Siu Ling, Robert	(appointed on 1 November 2011)
Mr. Tam Tak Wah	(appointed on 1 November 2011)
Mr. Chong Hoi Fung	(retired on 6 October 2011)

In accordance with Article 111 of the Company's Articles of Association, Mr. Leung Heung Ying, Alvin, Mr. Wong Tat Wai, Derek, Dr. Lam Andy Siu Wing, *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah, being directors appointed by the Shareholders at the EGM, will hold office until the forthcoming annual general meeting (the "**AGM**") and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 12 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

The Remuneration Committee had reviewed the duties and remuneration of the Directors at the meeting held on 20 March 2012 and approved to increase the monthly remuneration of (i) Dr. Lam Andy Siu Wing, being the independent non-executive director and chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee to HK$13,000; (ii) Mr. Siu Siu Ling, Robert, being the independent non-executive director and member of the Audit Committee, the Remuneration Committee and the Nomination Committee to HK$10,000; and (ii) Mr. Tam Tak Wah, being the independent non-executive director and member of the Audit Committee, the Remuneration Committee and the Nomination Committee to HK$10,000, all with effect from 1 April 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No director of the Company had a material interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

Long positions in shares and underlying shares of the Company:

Name of director	Capacity and nature of interest	Shares	Underlying Shares	Total interests	Approximate percentage of the Company's issued share capital
Mr. Leung Heung Ying, Alvin *(Note a)*	Interest in a controlled corporation	69,000,000 *(Note b)*	201,000,000 *(Note c)*	270,000,000	86.20

Notes:

a. The entire issued share capital of BGL is beneficially owned by Mr. Leung Heung Ying, Alvin. Mr. Leung Heung Ying, Alvin is therefore deemed to be interested in the Shares and underlying Shares held by BGL under the SFO.

d. BGL is holding such 69,000,000 Shares via its trustee, Market Giant Investments Limited.

c. Among the 201,000,000 underlying Shares, 156,000,000 underlying Shares represent the 156,000,000 Preference Shares owned by BGL which are convertible into 156,000,000 Shares; and the remaining 105,000,000 underlying Shares represent the Convertible Loan Notes due 2016 in the principal amount of HK$5,400,000 owned by BGL which are convertible into Shares at an initial conversion price of HK$0.12 per conversion Share.

Save as disclosed above, as at 31 December 2011, none of the directors or chief executive of the Company had registered an interest or short positions in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" above and in the "Share Option Scheme" disclosure in note 32 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 32 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2011, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares and underlying shares of the Company:

Name of Shareholder	Capacity and nature of interest	Shares	Underlying Shares	Total interests	Approximate percentage of the Company's issued share capital
IAM	Beneficial owner	161,000,000 *(Note a)*	469,000,000 *(Note b)*	630,000,000	201.14
Mr. Yam Tak Cheung *(Note c)*	Interest in a controlled corporation	161,000,000 *(Note a)*	469,000,000 *(Note b)*	630,000,000	201.14
BGL *(Note f)*	Beneficial owner	69,000,000 *(Note d)*	201,000,000 *(Note e)*	270,000,000	86.20

Notes:

a. IAM is holding such 161,000,000 Shares via its trustee, Oriental Idea Group Ltd.

b. Among the 469,000,000 underlying Shares, 364,000,000 underlying Shares represent the 364,000,000 Preference Shares owned by IAM which are convertible into 364,000,000 Shares; and the remaining 105,000,000 underlying Shares represent the Convertible Loan Notes due 2016 in the principal amount of HK$12,600,000 owned by IAM which are convertible into Shares at an initial conversion price of HK$0.12 per conversion Share.

c. The entire issued share capital of IAM is beneficially owned by Mr. Yam Tak Cheung. Mr. Yam Tak Cheung is therefore deemed to be interested in the Shares held by IAM under the SFO.

d. BGL is holding such 69,000,000 Shares via its trustee, Market Giant Investments Limited.

e. Among the 201,000,000 underlying Shares, 156,000,000 underlying Shares represent the 156,000,000 Preference Shares owned by BGL which are convertible into 156,000,000 Shares; and the remaining 105,000,000 underlying Shares represent the Convertible Loan Notes due 2016 in the principal amount of HK$5,400,000 owned by BGL which are convertible into Shares at an initial conversion price of HK$0.12 per conversion Share.

f. The entire issued share capital of BGL is beneficially owned by Mr. Leung Heung Ying, Alvin.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2011 as required pursuant to section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the usual course of business are set out in note 35 to the consolidated financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

EMOLUMENT POLICY

The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits included provident fund scheme, share option scheme as well as discretionary bonuses. The determination of emoluments of the directors of the Company had taken into consideration of their respective experience, responsibilities in the Company and the prevailing market conditions.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued ordinary share capital was held by the public as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

At the extraordinary general meeting of the Company held on 22 February 2012, ordinary resolutions were duly passed for approving (i) the proposed general mandate to be granted to the Directors to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company; and (ii) the adoption of new share option scheme and termination of existing share option scheme. For details, please refer to the circular of the Company dated 6 February 2012.

AUDITOR

The consolidated financial statements for the year ended 31 December 2011 were audited by ZHONGLEI (HK) CPA Company Limited ("**ZHONGLEI**").

ZHONGLEI were appointed as auditor to the Group on 14 February 2011 to fill the casual vacancy occasioned by the resignation of World Link CPA Limited. The reason for the change of auditor was the Provisional Liquidators and World Link CPA Limited could not reach a mutual agreement on the level of audit fees for the audit of the consolidated financial statements of the Group for the year ended 31 December 2010. At the annual general meeting of the Company held on 6 October 2011, ZHONGLEI has been appointed as auditor of the Company for the financial year ended 31 December 2011 and will hold office until the conclusion of the next annual general meeting of the Company. Save for the aforesaid, there have been no change of auditors of the Company in the past three years.

A resolution will be proposed at the forthcoming AGM to re-appoint ZHONGLEI as auditor of the Company.

On behalf of the Board
Leung Heung Ying, Alvin
Executive Director

Hong Kong, 20 March 2012

Corporate Governance Report

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE PRACTICES

As the Company was in severe financial difficulties and had been under the control of the Provisional Liquidators, the Board cannot make any representation about the Company's compliance of the principles and the applicable provisions of the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the Listing Rules for the period from 1 January 2011 up to the discharge of the Provisional Liquidators on 1 November 2011.

Since the discharge of the Provisional Liquidators and the appointment of the new Directors became effective on 1 November 2011, the Company has adopted the principles and complied with all the applicable provisions of the Code, except for the deviations relating to code provision A.2.1 and A.4.1 with considered reasons as explained in this report:

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual.

Code provision A.4.1 of the Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Deviation

The independent non-executive Directors are not appointed for a specific term but shall retire from office by rotation at least once every three years as referred to in article 108A of the Company's articles of association which provides that at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation. The reason for the deviation is that the Company does not believe that arbitrary limits on term of non-executive directorship are appropriate given that Directors ought to be committed to representing the long time interest of the Company's shareholders and the retirement and re-election requirements of independent non-executive Directors have given the Company's shareholders the right to approve continuation of independent non-executive Directors' offices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company on 1 November 2011. Having made specific enquiry with the existing Directors, all of them confirmed that they have complied with the required standards set out in the Model Code since their appointment as a Director during the year. The Board does not make any representation to the compliance of the Model Code by Mr. Liu Zhi Qing and Mr. Chong Hoi Fung, the retired Directors, during their tenor as Directors in the year of 2011.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company. The Board reviews and approves the objectives, strategies, direction and policies of the Group, annual and interim results, the management structure of the Company as well as other significant policy and financial matters. The Board has delegated the responsibility of day-to-day operations of the Group to the management of the Company.

As at the date of this report, the Board comprises five directors, two of which are Executive Directors, namely Mr. Leung Heung Ying, Alvin and Mr. Wong Tat Wai, Derek and three are independent non-executive Directors, namely Dr. Lam Andy Siu Wing *JP*, Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 11 to 13 of this annual report.

No board meetings had been held when the Provisional Liquidators were appointed to the Company. Subsequent to the discharge of the Provisional Liquidators, three board meetings were held and the attendance of each director is set out as follows:

	Number of attendance
Executive Directors	
Mr. Leung Heung Ying, Alvin*	3/3
Mr. Wong Tat Wai, Derek*	3/3
Mr. Liu Zhi Qiang#	0
Independent Non-Executive Directors	
Dr. Lam Andy Siu Wing*	3/3
Mr. Siu Siu Ling, Robert*	3/3
Mr. Tam Tak Wah*	3/3
Mr. Chong Hoi Fung#	0

* *appointed on 1 November 2011*
\# *retired on 6 October 2011*

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the Company did not have any officer with chairman or CEO title. The roles and duties of chairman and CEO were shared by the Directors. In view of the size of operation of the Group, the Board considered that this structure is more suitable for the Company as it can promote the efficient formulation and implementation of the Company's strategies.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 1 November 2011 with specific written terms of reference as set out in the Code. As at the date of this report, the Remuneration Committee comprises three members, all of them are independent non-executive Directors, namely Dr Lam Andy Siu Wing, *JP* (Chairman of the Remuneration Committee), Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah.

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of the directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

2. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

As the Remuneration Committee was established on 1 November 2011, no remuneration committee meeting had been held during the year ended 31 December 2011.

NOMINATION COMMITTEE

As at 31 December 2011, the Company had not set up a nomination committee. The Board is responsible for selecting and recommending candidates for directorship. The Board identifies individuals suitably qualified in terms of skill, knowledge and experience to become members of the Board, taking into account of the then existing composition of the Board in terms of skill, knowledge and experience and make recommendation to the Board for approval. As all the existing Directors were appointed by the Shareholders at the EGM, no board meeting had been held to consider or nominate any director to the Company.

Subsequent to the year ended 31 December 2011, a nomination committee was established on 20 March 2012 with specific written terms of reference as set out in the Code. As at the date of this report, the Nomination Committee comprises four members, in which Dr Lam Andy Siu Wing, *JP* (Chairman of the Nomination Committee), Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah are independent non-executive Directors, Mr. Leung Heung Ying, Alvin is executive Director.

The major roles and functions of the Nomination Committee are as follows:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

3. to assess the independence of independent non-executive directors;

4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 24 to 25 of this annual report.

For the year ended 31 December 2011, remuneration payable to the Company's auditor, ZHONGLEI, for the provision of audit services was RMB414,000. During the year, RMB190,000 was payable as remuneration to ZHONGLEI for the provision of non-audit related services.

AUDIT COMMITTEE

The Audit Committee was established on 1 November 2011. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Dr Lam Andy Siu Wing, *JP* (Chairman of the Audit Committee), Mr. Siu Siu Ling, Robert and Mr. Tam Tak Wah. One of the independent non-executive Directors possesses appropriate professional qualifications, or accounting or related financial management expertise as required under the Listing Rules.

The major roles and functions of the Audit Committee are:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of auditor;

2. to discuss with the external auditor before the audit commences, the nature and scope of the audit;

3. to review the interim and annual financial statements before submission to the Board;

4. to discuss problems and reservations arising from the review of interim results and audit of final results, and any matters the external auditor may wish to discuss; and

5. to review the Group's financial and accounting policies and practices.

As the Audit Committee was established on 1 November 2011, no audit committee meeting had been held during the year ended 31 December 2011.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2011.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguard assets against unauthorised use, maintain proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material mis-statement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. During the year, the Board conducted a review of the effectiveness of the internal control system of the Group.

中磊（香港）會計師事務所有限公司
ZHONGLEI (HK) CPA Company Limited

TO THE SHAREHOLDERS OF CHINA PACKAGING GROUP COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Packaging Group Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 26 to 87, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's financial performance and cash flows. Nevertheless, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the consolidated statement of financial position at 31 December 2011.

BASIS FOR DISCLAIMER OPINION ON THE PROFIT, CASH FLOWS, OPENING BALANCES, COMPARATIVE FIGURES AND RELATED DISCLOSURES

Limitation of scope affecting the profit, cash flows, opening balances, comparative figures and related disclosures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2010 (the "2010 Consolidated Financial Statements"), which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the material uncertainty in relation to going concern, details of which are set out in our audit report dated 30 March 2011. Therefore the comparative amounts show in the consolidated financial statements may not be comparable with the amount for the current period.

Moreover, because of lack of Provisional Liquidators, director and management's representation as to the completeness and accuracy of the books and records made available to us for the year ended 31 December 2010, we cannot perform any audit procedure to assure the completeness of the disclosure of commitments, contingent liabilities and related party transactions and disclosure of event after the reporting period. Accordingly, certain comparative information might not been disclosed in these consolidated financial statements which are not in full compliance with the relevant Hong Kong Financial Reporting Standards.

In addition, the Group has a gain on restructuring of approximately RMB161,733,000 for the year ended 31 December 2011. Due to scope limitation as described in the 2010 Consolidated Financial Statements in respect of limitation of scope affecting provision for bank borrowings guarantee for a deconsolidated subsidiary, we were unable to satisfy ourselves as to the accuracy of the total liabilities of the Company released or discharged included in the calculation of the gain on restructuring during the year ended 31 December 2011 and as to whether the amount of gain on restructuring has been accurately recorded in the consolidated statement of comprehensive income.

Any adjustments found to be necessary to the opening balances as at 1 January 2011 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2011.

DISCLAIMER OF OPINION ON THE PROFIT, CASH FLOWS, OPENING BALANCES, COMPARATIVE FIGURES AND RELATED DISCLOSURES

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OPINION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In our opinion, the consolidated statement of financial position gives a true and fair view of the state of the Group's affairs as at 31 December 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ZHONGLEI (HK) CPA Company Limited
Certified Public Accountants (Practising)
Ho Yiu Hang, Ricky
Practising Certificate Number: P05494

Hong Kong
20 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
Revenue	6	**142,311**	124,812
Cost of sales		**(115,690)**	(101,917)
Gross profit		**26,621**	22,895
Other revenue	7	**56**	7,620
Selling and distribution expenses		**(6,932)**	(5,605)
Administrative expenses		**(3,439)**	(2,966)
Operating profit		**16,306**	21,944
Gain on restructuring	8	**161,733**	–
Restructuring costs and expenses		**(8,389)**	(3,507)
Waived of other financial liabilities	25	**–**	1,671
Finance costs	9	**(6,186)**	(5,460)
Profit before tax		**163,464**	14,648
Income tax expense	10	**(5,946)**	(5,401)
Profit for the year attributable to owners of the Company	11	**157,518**	9,247
Other comprehensive income			
Exchange differences arising on translation		**150**	–
Total comprehensive income for the year attributable to owners of the Company		**157,668**	9,247
Earnings per share attributable to owners of the Company	14		
– Basic		**RMB1.29**	RMB0.11 (Restated)
– Diluted		**RMB0.19**	RMB0.11 (Restated)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**59,981**	64,247
Deposit paid for acquisition of property, plant and equipment		**6,102**	–
		66,083	64,247
CURRENT ASSETS			
Inventories	17	**3,294**	3,173
Trade and other receivables	18	**64,990**	48,825
Escrow money	19	**–**	888
Bank balances and cash	20	**21,877**	2,649
		90,161	55,535
CURRENT LIABILITIES			
Trade and other payables	21	**11,961**	13,490
Tax payable		**4,657**	4,303
Bank borrowings	22	**–**	61,146
Other borrowings	23	**–**	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary	24	**–**	29,000
Loan from an investor	26	**–**	5,078
Amount due to an investor	27	**–**	265
Other financial liabilities	28	**–**	67,575
		16,618	229,483
NET CURRENT ASSETS (LIABILITIES)		**73,543**	(173,948)
NON-CURRENT LIABILITIES			
Convertible loan notes	29	**7,405**	–
Deferred tax liabilities	30	**2,588**	1,213
		9,993	1,213
NET ASSETS (LIABILITIES)		**129,633**	(110,914)

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	**2011 RMB'000**	2010 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**698**	67,399
Reserves		**128,935**	(178,313)
		129,633	(110,914)

The consolidated financial statements on the pages from 26 to 87 were approved and authorised for issue by the board of directors on 20 March 2012 and are signed on its behalf by:

Leung Heung Ying, Alvin
Director

Wong Tat Wai, Derek
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000 *(Note 31)*	Share premium RMB'000 *(Note a)*	Share options reserve RMB'000 *(Note b)*	Convertible loan notes equity reserve RMB'000 *(Note 29)*	Translation reserve RMB'000	Surplus reserve fund RMB'000 *(Note c)*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	67,399	215,765	13,699	–	–	9,222	(426,246)	(120,161)
Profit for the year, representing total comprehensive income for the year	–	–	–	–	–	–	9,247	9,247
Lapsed of share options	–	–	(12,761)	–	–	–	12,761	–
At 31 December 2010	67,399	215,765	938	–	–	9,222	(404,238)	(110,914)
Profit for the year	–	–	–	–	–	–	157,518	157,518
Exchange differences arising on translating foreign operations	–	–	–	–	150	–	–	150
Total comprehensive income for the year	–	–	–	–	150	–	157,518	157,668
Capital Reduction	(67,314)	–	–	–	–	–	67,314	–
Subscription of New Shares by Investors	187	22,357	–	–	–	–	–	22,544
Subscription of Convertible Preference Shares by investors	425	50,546	–	–	–	–	–	50,971
Bonus Issue	1	(1)	–	–	–	–	–	–
Issuance of Scheme Creditors Options	–	–	1,735	–	–	–	–	1,735
Issuance of Convertible Loan Notes	–	–	–	7,629	–	–	–	7,629
At 31 December 2011	698	288,667	2,673	7,629	150	9,222	(179,406)	129,633

Notes:

a) Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

b) Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised Creditors Options granted under the Debt Re-structuring as mentioned in Note 2 to the consolidated financial statement adopted by the Company.

c) According to the relevant enterprises regulations in the People's Republic of China (the "**PRC**"), Shanxi Zhanpen Metal Products Co., Ltd. ("**Zhanpen**"), a subsidiary established in the PRC is required to transfer not less than 10% of their profit after taxation to surplus reserve until the balance reaches 50% of its registered capital, as determined under accounting principles generally accepted in the PRC. The surplus reserve fund can be used to make up for previous year's losses, expand the existing operations or convert into additions capital of the subsidiary.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**163,464**	14,648
Adjustments for:		
Finance costs	**6,186**	5,460
Interest income	**(56)**	–
Depreciation of property, plant and equipment	**7,294**	6,220
Net foreign exchange gain	**–**	(7,415)
Waived of other financial liabilities	**–**	(1,671)
Gain on disposal of property, plant and equipment	**–**	(11)
Gain on restructuring	**(161,733)**	–
Operating cash flows before movements in working capital	**15,155**	17,231
(Increase) decrease in inventories	**(121)**	384
Increase in trade and other receivables	**(16,165)**	(20,179)
Decrease in escrow money	**888**	3,385
Increase in trade and other payables	**891**	7,075
Cash generated from operations	**648**	7,896
Income tax paid	**(4,217)**	(1,856)
Interest paid	**(55)**	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(3,624)**	6,040
INVESTING ACTIVITIES		
Interest received	**56**	–
Purchase of property, plant and equipment	**(3,028)**	(5,385)
Proceeds from disposals of property, plant and equipment	**–**	458
Deposit paid for acquisition of property, plant and equipment	**(6,102)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(9,074)**	(4,927)
FINANCING ACTIVITIES		
Advancement of loan from Investors	**9,097**	857
Increase in amount due to an investor	**222**	268
Cash inflow from restructuring, net	**22,457**	–
NET CASH FROM FINANCING ACTIVITIES	**31,776**	1,125
NET INCREASE IN CASH AND CASH EQUIVALENTS	**19,078**	2,238
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**2,649**	411
Effect of foreign exchange rates changes, net	**150**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**21,877**	2,649

1. GENERAL

China Packaging Group Company Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is Suite 06-07, 28th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Pursuant to a petition seeking the Company's winding up presented by Deutsche Bank Aktiengesellschaft on 8 July 2009, and a subsequent application on 2 October 2009, by DBS Bank (Hong Kong) Limited for a provisional liquidation order to be made against the Company, the High Court of Hong Kong (the "**HK Court**") appointed Mr. Roderick John Sutton and Mr. Fok Hei Yu, both of FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited) ("**Escrow Agent**"), to act as joint and several provisional liquidators (the "**Provisional Liquidators**") to the Company on the same day. At the HK Court hearing for petition for the sanction of the scheme of arrangement of the Company in Hong Kong (the "**Hong Kong Scheme**") held on 25 October 2011, the Hong Kong Scheme was sanctioned by the HK Court. On 1 November 2011, the HK Court granted order for the withdrawal of the winding-up petition against the Company presented by Deutsche Bank Aktiengesellschaft on 8 July 2009 and for the discharge of the Provisional Liquidators.

As all of the resumption conditions as set out in the Stock Exchange's letter dated 26 May 2011 ("**Resumption Conditions**") have been satisfied and fulfilled on 1 November 2011, trading of the Company's shares on the Stock Exchange resumed on 4 November 2011 accordingly. The Company's shares have been suspended from trading since 28 April 2009.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, the People's Republic of China (the "**PRC**").

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2. RESTRUCTURING OF THE COMPANY

In order to satisfy the Resumption Conditions, the Company, the Provisional Liquidators, Integrated Asset Management (Asia) Limited and Business Giant Limited (hereinafter collectively known as the "**Investors**") and the Escrow Agent entered into the restructuring agreement dated 17 June 2011 (the "**Restructuring Agreement**"). Details of the Restructuring Agreement were set out in the circular of the Company dated 12 September 2011 (the "**Circular**"). The Hong Kong Scheme and Cayman Scheme ("**Schemes**") were passed by the creditors with an admitted claims (the "**Scheme Creditors**") on 21 September 2011 and the resolutions as set out in the notice of the extraordinary general meeting dated 12 September 2011 has been duly passed by way of poll on 6 October 2011. The Restructuring Agreement principally involved the following:

a) Capital Reorganisation

i) Capital Consolidation

Every eight shares of HKD0.10 each in the issued share capital of the Company was consolidated into one consolidated share with par value of HKD0.80 each ("**Consolidated Share**").

2. RESTRUCTURING OF THE COMPANY *(Continued)*

a) Capital Reorganisation *(Continued)*

ii) Capital Reduction

Upon the Capital Consolidation becoming effective, the par value of each issued Consolidated Share was reduced from HKD0.80 to HKD0.001 by cancellation of HKD0.799 of the paid-up capital of each issued Consolidated Share.

The Capital Reduction was implemented in accordance with the Cayman Companies Law, with the sanction of the Cayman Court.

iii) Partial Accumulated Loss Set-Off

Upon the Capital Consolidation and the Capital Reduction becoming effective, the credit generated therefrom was applied in a manner consistent with the Cayman Companies Law, including but not limiting to setting off against part of the accumulated losses of the Company of approximately RMB67,314,000 (or equivalent to approximately HKD65,630,000).

iv) Share Split

Following the Capital Consolidation and the Capital Reduction, the authorised unissued share capital of the Company of HKD134,287,891.9, comprised 1,342,878,919 shares each with a nominal value of HKD0.10, was altered so as to be comprised 134,287,891,900 new shares of HKD0.001 each ("**New Shares**")

b) The Subscription

Subject to the fulfillment of the conditions stated in the Restructuring Agreement ("**Conditions Precedent**"), the Investors subscribed for and the Company had on the completion of the transactions contemplated under the Restructuring Agreement ("**Completion**") alloted and/or issued:

i) 230,000,000 subscription shares with par value of HKD0.001 each at a subscription price of HKD0.12 per subscription share ("**Subscription Shares**") *(Note 31(f))*

ii) 520,000,000 preference shares with par value of HKD0.001 each at a subscription price of HKD0.12 per preference share ("**Convertible Preference Shares**") *(Note 31(g))*

iii) 2% convertible loan notes in the aggregate principal amount of HKD18 million which are convertible into ordinary shares of the Company at a conversion price of HKD0.12 per conversion share ("**Convertible Loan Notes**") *(Note 29)*

2. RESTRUCTURING OF THE COMPANY *(Continued)*

c) Debt Restructuring

i) The Schemes

The Schemes were passed by Scheme Creditors of the Company on 21 September 2011, pursuant to which:

- all claims against the Company would be compromised, discharged and/or settled;

- the Scheme Creditors would receive pro rata distribution of the cash consideration of HKD62,000,000 ("**Cash Consideration**");

- the Company would grant the 56,000,000 options ("**Creditors Options**") to Mr. Fok Hei Yu and Mr. Roderick John Sutton (collectively known as the "**Scheme Administrators**") to hold for the benefit of the Scheme Creditors pursuant to which, the Scheme Creditors were entitled to subscribe for 56,000,000 New Shares of the Company with an exercise price of HKD0.15 per New Shares ("**Option Shares**");

- the Investors would grant the put options ("**Put Options**") for purchasing the Creditors Options to the Scheme Administrators to hold for the benefit of the Scheme Creditors pursuant to which the Scheme Creditors were entitled to put the Creditors Options to the Investors in the ratio of 70% to 30% between Integrated Asset Management (Asia) Limited and Business Giant Limited ("**Relevant Ratio**") at the put option price of HKD0.02 per Creditors Options within two months from the date of granting the Creditors Options; and

- the Scheme Creditors were entitled to receive ratably all rights, title and interest in the Company's subsidiaries and associated companies which do not form part of the Restructuring Agreement ("**Non-Core Subsidiaries**") transferred to Sino Gather Limited ("**Sino Gather**") by the Company on or about 23 March 2010 pursuant to the deed entered into between the Company and Sino Gather dated 23 March 2010 for disposal of the entire issued share capital of the Non-Core Subsidiaries, and any assets transferred by the Company to Sino Gather under the Schemes with effect from the 1 November 2011 ("**Completion Date**") which will be dealt with by the Scheme Administrators. Details of the Non-Core Subsidiaries are set out in the announcement of the Company dated 23 March 2010.

d) Bonus Issue

After Completion and on 2 November 2011, the Company effected the bonus issue to the qualifying shareholders whose names appear on the original register of members of the Company ("**Qualifying Shareholders**") on 20 October 2011 ("**Bonus Issue**"). The terms of the Bonus Issue was made by way of bonus on the basis of 13 bonus shares for every 1,000 New Shares held on 20 October 2011 by the Qualifying Shareholders.

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

In the current year, the Group has applied the following new and revised Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

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

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the statement of changes in equity. The revised standard has no impact on the consolidated financial statement of the Group.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has no material impact on the Group's consolidated financial statement.

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation gives guidance on the accounting for the extinguishment of financial liabilities with equity instruments. Specifically, under HK(IFRIC) – Int 19, equity instruments issued in order to extinguish financial liabilities are recognised initially at their fair values, with any difference between the carrying amount of the financial liability extinguished and the consideration paid being recognised in profit or loss.

In the current year, the Company has issued several equity instruments to extinguish its financial liabilities with its Scheme Creditors and Investors, details are set out in the Note 8 to the consolidated financial statement of the Company's circular dated 12 September 2011 and the announcement of the Company dated 3 November 2011.

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

HK(IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments *(Continued)*

HK(IFRIC) – Int 19 requires retrospective application. However, the application of HK(IFRIC) – Int 19 has had no impact on the Group's financial performance and positions for the prior years because the Group had not previously entered into any transactions of this nature.

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

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised in 2011)	Employee Benefits[2]
HKAS 27 (Revised in 2011)	Separate Financial Statements[2]
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 *Effective for annual periods beginning on or after 1 July 2011*
2 *Effective for annual periods beginning on or after 1 January 2013*
3 *Effective for annual periods beginning on or after 1 January 2015*
4 *Effective for annual periods beginning on or after 1 January 2012*
5 *Effective for annual periods beginning on or after 1 July 2012*
6 *Effective for annual periods beginning on or after 1 January 2014*

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided re-trospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

– HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities.* HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers.* HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that the application of these five standards would not have significant impact on amounts reported in the consolidated financial statements.

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statement have been prepared on the historical cost basis, as explained in accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write-off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Impairment losses on tangible assets

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, escrow money and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below).

Impairment of financial assets

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

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

– significant financial difficulty of the issuer or counterparty; or

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

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

– disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, when the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate de-rivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities including (trade and other payables, bank borrowings, other borrowings, provision for bank loans guarantee for a deconsolidated subsidiary, loan from an investor, amount due to an investor, other financial liabilities and liabilities portion of Convertible Loan Notes) are subsequently measured at amortised cost, using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible Loan Notes

Convertible Loan Notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the Convertible Loan Notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in convertible loan notes equity reserve.

In subsequent periods, the liability component of the Convertible Loan Notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the Convertible Loan Notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Loan Notes using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, and (ii) the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with the revenue recognition policy.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Cash and cash equivalents

Bank and cash equivalents include cash at bank, cash in hand, time deposits with original maturities of three months or less.

Convertible preference shares

Convertible preference shares issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity.

In subsequent periods, the liability component of the convertible preference shares is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in reserves until the embedded option is exercised (in which case the balance stated in reserves will be transferred to share premium).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible preference shares *(Continued)*

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

Taxation

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

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

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

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 difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Lease

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

The Group as lessee

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expenses in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(i) Prepaid lease payments and ownership of buildings

Despite the Group has paid the first installment of RMB12,400,000 for acquiring the land use right from Fen Yang Wen Feng Street Nanguan Villagers' Committee (汾陽市文峰街道南關村民委員會 "Villagers' Committee") as detailed in Notes 15 and 16 to the consolidated financial statements, the relevant government authorities have not yet issued the land and building ownership certificates to the Group.

Although the Group has not yet obtained the relevant legal titles of land and building, the directors of the Company determine to recognise these land and buildings on the grounds that i) Villagers' Committee confirmed that the application for changing the collectively owned land to industrial granted land is in process and the Villagers' Committee allowed the Group to occupy the subject land parcel gratuitously for its normal business operations; ii) pursuant to a legal opinion issued by 山西汾州律師事務所 dated 30 August 2011, provided that the Group comply with the requirements of State and Local Government to submit the town planning master plan and all necessary information, there is no legal impediments in completing necessary applications and obtaining building ownership certificate.

The directors of the Company considered that the legal titles would be obtained in future and the Group is in substance controlling the usage of these land and buildings. The absence of formal titles of these land use rights does not impair the value of the relevant buildings to the Group.

(ii) Valuations of share options granted

The fair value of share options granted was calculated using the Binomial Option Pricing Model which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 32 to the consolidated financial statements.

(iii) Valuation of Convertible Loan Notes

The management uses their judgement in selecting an appropriate valuation technique for the Group's Convertible Loan Notes at initial recognition which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied.

The fair value of Convertible Loan Notes at initial recognition is estimated based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value. The fair value of convertible notes at initial recognition varies with different variable and certain subjective assumptions. Any changes in these variables so adopted may materially affect the estimation of the fair value of Convertible Loan Notes. Details of the fair value of Convertible Loan Notes at initial recognition are set out in Note 29 to the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(iv) Estimated useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The management of the Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation for future periods is adjusted if there are material changes from previous estimates.

(v) Net realisable value of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at the end of the reporting period.

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slowing-moving inventory items identified that are no longer suitable for sales.

(vi) Impairment loss recognised in respect of trade receivables

The management of the Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customers' current credit-worthiness, as determined by the review of their current credit information. The management of the Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

(vii) Impairment loss recognised in respect of property, plant and equipment

Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value of the property, plant and equipment less costs to sell. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. No impairment has been recognised for the property, plant and equipment during the year ended 31 December 2011 (2010: Nil).

(viii) Gain on restructuring

Due to scope limitation as described in the 2010 Consolidated Financial Statements in respect of limitation of scope affecting provision for bank borrowings guarantee for a deconsolidated subsidiary, the accuracy of the total liabilities of the Company released or discharged included in the calculation of the gain on restructuring of approximately RMB161,733,000 may not accurately recorded in the consolidated statement of comprehensive income for the year ended 31 December 2011.

6. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold during the year.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided.

The chief operating decision maker assesses the performance of the Group's manufacture and sale of tinplate cans packaging business on both geographic and product perspectives. Geographically, chief operating decision maker considers the Group's business is primarily operated in the PRC and the Group's revenue from external customers is derived solely from the manufacture and sale of tinplate cans packaging in the PRC. All of the Group's business activities are included in a single reportable segment in accordance with HKFRS 8 "Operating segments". As such, no segment information is presented.

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

Customer	Revenue generated from	2011 RMB'000	2010 RMB'000
A	Sale of tinplate cans	20,479	12,928
B	Sale of tinplate cans	16,819	13,663
C	Sale of tinplate cans	16,589	N/A[1]
D	Sale of tinplate cans	16,508	14,323
E	Sale of tinplate cans	15,981	N/A[1]
F	Sale of tinplate cans	15,897	N/A[1]

[1] *The corresponding revenue did not contribute over 10% of the total revenue of the Group in the respective year.*

7. OTHER REVENUE

	2011 RMB'000	2010 RMB'000
Interest income on bank deposits	6	–
Interest income on time deposit	50	–
Net foreign exchange gain	–	7,415
Sundry income	–	194
Gain on disposal of property, plant and equipment	–	11
	56	7,620

8. GAIN ON RESTRUCTURING

As part of the restructuring as detail in Note 2 to the consolidated financial statement, all the claims by the Scheme Creditors against the Company were discharged and waived by way of the Schemes under Section 166 of the Hong Kong Companies Ordinance (Cap 32) and Section 86 of the Companies Law of Cayman Islands. The Cayman Scheme was sanctioned by the Cayman Court on 11 October 2011 whereas the Hong Kong Scheme was sanctioned by the HK Court on 25 October 2011.

Pursuant to terms of the Schemes as included in the Restructuring Agreement, on the Completion Date, the Scheme indebtedness, indebtedness and liabilities (actual and contingent) of the Company was compromised, discharged and/or settled. For the details of the Schemes, please refer to Note 2 to the consolidated financial statement. The excess of the amount of liabilities over the amount of assets transferred to the Schemes was recognised as gain on restructuring in the profit or loss for the year ended 31 December 2011.

	2011 **RMB'000**
Liabilities of the Company released or discharged:	
Trade and other payables	**2,420**
Bank borrowings	**64,144**
Other borrowings	**50,643**
Provision for bank loans guarantee for a deconsolidated subsidiary	**29,000**
Other financial liabilities	**68,533**
Total liabilities of the Company released or discharged *(Note a)*	**214,740**
Satisfied by:	
Cash consideration *(Note b)*	**(51,272)**
Fair value of Creditors Options *(Note c)*	**(1,735)**
	(53,007)
Gain on restructuring	**161,733**

8. GAIN ON RESTRUCTURING *(Continued)*

Net cash inflow from Restructuring is set out below:

	2011 RMB'000
Inflow from Restructuring:	
Subscription of New Shares by Investors *(Note 31(f))*	**22,544**
Subscription of Convertible Preference Shares by Investors *(Note 31(g))*	**50,971**
Issuance of the Convertible Loan Notes to the Investors *(Note 29)*	**14,876**
	88,391
Less: Outflow from Restructuring	
Cash Consideration for Scheme Creditors *(Note b)*	**(51,272)**
Set-off against the loan from an investor *(Note 26)*	**(14,175)**
Set-off against the amount due to an investor *(Note 27)*	**(487)**
Cash inflow to the Group from restructuring, net	**22,457**

Notes:

a) The amount represents the aggregate Scheme indebtedness, indebtedness and liabilities (actual and contingent) of the Company compromised, discharged and/or settled at the Completion Date.

b) It represents the cash consideration of HKD62,000,000 (equivalent to RMB51,272,000) received by the Scheme Creditors.

c) It represents the fair value of 56,000,000 Creditors Options to the Scheme Administrators to hold for the benefits of the Scheme Creditors pursuant to which, the Scheme Creditors were entitled to subscribe for 56,000,000 New Shares of the Company with an exercise price of HKD0.15 per New Shares. For details, please refer to Note 32(b) to the consolidated financial statement.

9. FINANCE COSTS

	2011 **RMB'000**	2010 RMB'000
Interests on:		
Overdue bank borrowings *(Note a)*	**2,998**	2,322
Overdue other borrowings *(Note a)*	**2,017**	2,396
Overdue other financial liabilities *(Note a)*	**958**	740
	5,973	5,458
Effective interest expense on Convertible Loan Notes	**208**	–
Bank charges	**5**	2
	6,186	5,460

Note:

a) Upon the sanction of the Schemes, the finance costs of bank borrowings, other borrowings and other financial liabilities incurred for the year have been discharged. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011.

10. INCOME TAX EXPENSE

	2011 **RMB'000**	2010 RMB'000
Current tax:		
– PRC Enterprises Income Tax ("**EIT**")	**4,571**	4,188
Deferred tax *(Note 30):*		
– Mainland China withholding tax *(Note d)*	**1,375**	1,213
	5,946	5,401

Other than the deferred tax provided for as above, the Group did not have any significant unprovided deferred tax as at 31 December 2011.

Notes:

(a) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong profits tax has been provided for as the Group did not generate any assessable profits in Hong Kong for both years. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

(b) At 31 December 2011, the Group has unused tax losses of approximately HKD4,165,000 (2010: HKD4,165,000) available for offset against future profits.

(c) Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

(d) Pursuant to the PRC EIT Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

10. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income, based on the income tax rate of most of the Group's profit or loss under assessment, as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	163,464	14,648
Tax at PRC corporate income tax rate of 25% (2010: 25%)	40,866	3,662
Tax effect of expenses not deductible for tax purpose	2,771	2,109
Tax effect of income not taxable for tax purpose	(54,528)	(1,725)
Effect of withholding tax at 10% on the distributable profits of the subsidiary in Mainland China	1,375	1,213
Effect of different tax rates of subsidiaries in other jurisdictions	15,462	142
Income tax expense for the year	5,946	5,401

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2011 RMB'000	2010 RMB'000
Directors' emoluments *(Note 12(a))*	368	–
Other staff costs	965	1,602
Contributions to retirement benefits scheme, other than directors	294	372
Total staff costs	1,627	1,974
Auditor's remuneration		
– Audit services	414	428
– Other services	190	–
Cost of inventories recognised as an expense	104,789	92,287
Depreciation of property, plant and equipment	7,294	6,220
Bad debts written-off on other receivables	–	413
Minimum lease payments in respect of operating lease of:		
– Property, plant and machinery	2,050	2,000
– Premises	288	–

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

a) Directors' emoluments

The emoluments paid or payable to each of seven (2010: two) directors were as follow:

	Fees RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
2011				
Executive directors				
Mr. Leung Heung Ying, Alvin *(Note a)*	–	298	2	300
Mr. Wong Tat Wai, Derek *(Note a)*	–	28	1	29
Mr. Liu Zhi Qiang *(Note b)*	–	–	–	–
Sub-total	–	326	3	329
Independent non-executive directors				
Dr. Lam Andy Siu Wing *(Note a)*	13	–	–	13
Mr. Siu Siu Ling, Robert *(Note a)*	13	–	–	13
Mr. Tam Tak Wah *(Note a)*	13	–	–	13
Mr. Chong Hoi Fung *(Note b)*	–	–	–	–
Sub-total	39	–	–	39
Total	39	326	3	368
	Fees RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
2010				
Executive directors				
Mr. Chong Hoi Fung *(Note b)*	–	–	–	–
Independent non-executive director				
Mr. Liu Zhi Qiang *(Note b)*	–	–	–	–
Total	–	–	–	–

No director waived or agreed to waive any emoluments paid by the Group during the two years ended 31 December 2011 and 2010.

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

a) Directors' emoluments *(Continued)*

During the year ended 31 December 2011 and 2010, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Notes:

a) Appointed on 1 November 2011

b) Retired on 6 October 2011

b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2010: Nil) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2010: five) individuals were as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries, allowances and other benefits in kind	**338**	367
Contributions to retirement benefits scheme	**18**	14
	356	381

Their emoluments were within the following bands:

	Number of individuals **2011**	2010
Nil to RMB1,000,000	**3**	5

During the two years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. DIVIDEND

No dividend was proposed or paid during the year ended 31 December 2011 nor any dividend has been proposed since the end of the reporting period (2010: Nil).

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the consolidated profit for the year attributable to the owners of the Company of approximately RMB157,518,000 (2010: RMB9,247,000) and the weighted average number of ordinary shares of the Company in issue during the year of 121,646,000 (2010: 83,208,000 (restated) *(Note a)*).

Trading in the shares of the Company was suspended since 28 April 2009 and no information of the average market price per share for the year ended 31 December 2010 is available. As the exercise price of the options is higher than the market price for shares immediately before the suspension of trading in the Company's shares, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options. The calculation of the diluted earnings per share attributable to owners of the Company for the year ended 31 December 2011 is based on the following data:

Earnings

	2011 RMB'000
Profit for the year attributable to owners of the Company, used in the basic earnings per share calculation	157,518
Effect of dilutive potential ordinary shares:	
– Interest on Convertible Loan Notes (net of income tax)	208
Earnings for the purpose of diluted earnings per share	157,726

Number of shares

	2011 '000
Weighted average number of ordinary shares for the purpose of the basic earnings per share	121,646
Effect of dilutive potential ordinary shares:	
Options	39,735
Convertible preference shares	520,000
Convertible Loan Notes	150,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	831,381

Notes:

a) The weighted average number of ordinary shares for the year ended 31 December 2010 for the purpose of basic earnings per share has been restated for share consolidation and bonus issue during the year ended 31 December 2011 as detailed in Note 31.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
COST						
At 1 January 2010	43,269	637	35,890	1,057	307	81,160
Additions	–	–	5,385	–	–	5,385
Disposals	–	(110)	–	(596)	(188)	(894)
At 31 December 2010	43,269	527	41,275	461	119	85,651
Additions	–	–	3,026	–	2	3,028
At 31 December 2011	43,269	527	44,301	461	121	88,679
ACCUMULATED DEPRECIATION						
At 1 January 2010	6,085	394	8,601	291	260	15,631
Provided for the year	2,590	14	3,538	66	12	6,220
Disposals	–	(110)	–	(168)	(169)	(447)
At 31 December 2010	8,675	298	12,139	189	103	21,404
Provided for the year	2,590	14	4,636	46	8	7,294
At 31 December 2011	11,265	312	16,775	235	111	28,698
CARRYING VALUES						
At 31 December 2011	32,004	215	27,526	226	10	59,981
At 31 December 2010	34,594	229	29,136	272	16	64,247

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

Buildings	5-10%
Leasehold improvements	5-20%
Plant and machinery	10-20%
Motor vehicles	10-20%
Office equipment	20%

Buildings as at 31 December 2011 of approximately RMB32,004,000 (2010: RMB34,594,000) represented buildings situated in Shanxi, the PRC. The Group is in the process of obtaining the building ownership certificates in respect of the buildings. For details, please refer to Note 16 to the consolidated financial statement.

16. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2010, 31 December 2010 and 2011	12,400
ACCUMULATED IMPAIRMENT	
At 1 January 2010, 31 December 2010 and 2011	12,400
CARRYING VALUES	
At 31 December 2010 and 2011	–

The cost of RMB12,400,000 represented the first installment paid to Villagers' Committee for acquiring the land use right of a piece of land situated in Fenyang City, Shanxi Province ("**Land**") by a subsidiary of the Company, Zhanpen, in 2007.

Pursuant to the Land Use Compensation Agreement (土地征用補償協議) entered between Zhanpen and Villagers' Committee dated 25 October 2007, the total consideration for the Land would be RMB24,800,000, in which the deposit of RMB12,400,000 shall be settled upon signing the Land Use Compensation Agreement and the balance of RMB12,400,000 shall be settled upon Zhanpen has obtained the ownership certificates from the relevant government authorities.

Pursuant to the letter issued by Villagers' Committee dated 25 August 2011, it is now in the process of changing the usage of land from collectively owned to industrial use and Zhanpen has no unsettled balances with Villagers' Committee. As the approval procedures are complicated, the relevant government authorities have not issued the ownership certificate to Zhanpen yet up to the date of this report. According to the legal opinion issued by 山西汾州律師事務所 dated 23 February 2012, as Zhanpen has not obtained the ownership certificates from the relevant government authorities yet, Zhanpen do not have any outstanding obligation to settle the balance of RMB12,400,000 to Villagers' Committee as at 31 December 2011.

During the year ended 31 December 2008, the Provisional Liquidators considered that it is uncertain about the recoverability of the deposit, impairment of RMB12,400,000 have been recognised accordingly.

17. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Raw materials	**2,465**	2,424
Packing materials	**77**	51
Finished goods	**752**	698
	3,294	3,173

At 31 December 2011, none of the inventories was stated at net realisable value (2010: Nil).

18. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**62,793**	46,857
Other receivables, deposits and prepayments	**2,197**	1,968
	64,990	48,825

The movements in allowance for doubtful debts of other receivables are as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**–**	413
Written off as uncollectible during the year	**–**	(413)
At 31 December	**–**	–

At the end of each reporting period, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific provision for impairment was recognised. The Group does not hold any collateral over these balances.

The Group generally allows an average credit period of 120 days to its customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
0 – 30 days	**16,524**	10,869
31 – 60 days	**16,239**	13,185
61 – 90 days	**13,215**	12,655
91 – 120 days	**11,539**	10,148
Over 120 days	**5,276**	–
	62,793	46,857

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Aged analysis of trade receivables which are not impaired is as follows:

	2011 **RMB'000**	2010 RMB'000
Neither past due nor impaired	**57,517**	46,857
Past due but not impaired	**5,276**	–
	62,793	46,857

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19. ESCROW MONEY

	2011 **RMB'000**	2010 RMB'000
Escrow money denominated in HKD	**–**	888

On 28 December 2009, the Provisional Liquidators, on behalf of the Company, and the Escrow Agent entered into an escrow agreement with the Business Giant Limited ("**Investor**") ("**Escrow Agreement**"). The Escrow Agreement granted a 12-month exclusivity to negotiate the restructuring of the Company, certain subsidiaries and associated companies, if any, in the Group. On 24 December 2010, the Provisional Liquidators, on behalf of the Company, the Escrow Agent and the Investor entered into a supplementary agreement to extend the exclusivity period to 24-month up to 27 December 2011.

During the year ended 31 December 2011, the Investors have provided HKD11,000,000 (equivalent to approximately RMB9,097,000) (2010: HKD1,000,000, equivalent to approximately RMB846,000) as an escrow money to the Provisional Liquidators for the cost and expenses of the Company to proceed with the restructuring. The loan from the Investor is unsecured, non-interest bearing and repayable upon the termination of Escrow Agreement. During the year ended 31 December 2011, there is approximately RMB8,389,000 (equivalent to HKD10,543,000) (2010: approximately RMB3,507,000, equivalent to HKD4,021,000) had been used for the restructuring from the escrow money. Upon the completion of restructuring, the remaining balance of the escrow money applied towards the set-off against part of the subscription monies payable by the Investors for the New Shares, Convertible Preference Shares and Convertible Loan Notes subscribed.

20. BANK BALANCES AND CASH

Bank balances and cash include the following components

	2011 **RMB'000**	2010 RMB'000
Cash at banks and on hand *(Note a)*	**1,592**	2,649
Short-term time deposit *(Note b)*	**20,285**	–
	21,877	2,649

Notes:

a) Bank balances carry interest at floating rates based on daily bank deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

b) The amounts represented short-term deposits with a maturity of three months or less. The deposits carried interest rate from 2% (2010: Nil) per annum for the year ended 31 December 2011.

Included in bank balances and cash are the following amounts denominated in a currency other than functional currency of the entities:

	2011 **'000**	2010 '000
United State Dollars ("**USD**")	**106**	–
Hong Kong Dollars ("**HKD**")	**18,994**	2

At 31 December 2011, there was approximately RMB2,777,000 (2010: RMB2,647,000) denominated in RMB and deposited with banks in the PRC. The RMB is not freely convertible into other currencies; however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

21. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	**8,561**	8,052
Other payables and accrued charges	**3,400**	5,438
	11,961	13,490

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
0 – 30 days	**8,561**	8,052

The average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all trade payables would be settled within the credit timeframe.

22. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Overdue unsecured bank borrowings	**–**	54,751
Overdue accrued interests	**–**	6,395
	–	61,146

At 31 December 2010, bank borrowings of approximately RMB61,146,000 are denominated in HKD and carry interests at floating rates from 2% to 3.5% over HIBOR per annum.

At 31 December 2010, bank borrowings from DBS Bank (China) Company Limited of approximately RMB19,747,000 and DBS Bank (Hong Kong) Limited of approximately RMB24,765,000 had not been repaid in accordance with the relevant terms and bank borrowings from PT. Bank Mandiri (Persero) TBK, Hong Kong Branch of approximately RMB10,239,000 has been called on demand according to the respective loan agreements.

These bank borrowings together with its accrued interests were admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

23. OTHER BORROWINGS

	2011 RMB'000	2010 RMB'000
Debts assigned	–	45,433
Accrued interests	–	3,193
As at 31 December	–	48,626

Pursuant to a debt assignment agreement dated 21 September 2009 entered into between Fu Teng Global Limited ("**Fu Teng**") and Banyan Capital Management Inc ("**Banyan Capital**"), the amounts due from the Company to Fu Teng of HKD50,220,000 (equivalent to approximately RMB42,249,000) was assigned to Banyan Capital at consideration of HKD2,700,000.

Pursuant to another debt assignment agreement dated 21 September 2009 entered into between Mr. Yang Zongwang ("**Mr. Yang**) (a former executive director of the Company and the beneficial owner of Fu Teng) and Banyan Capital, the amount due from the Company to Mr. Yang of HKD3,763,100 (equivalent to approximately RMB3,184,000) were assigned to Banyan Capital at consideration of HKD300,000.

Other borrowings are overdue, unsecured and interest bearing at Hong Kong Prime Rate per annum.

These other borrowings together with its accrued interests were admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

24. PROVISION FOR BANK LOANS GUARANTEE FOR A DECONSOLIDATED SUBSIDIARY

	2011 RMB'000	2010 RMB'000
Provision for bank loans guarantee for Fujian Fuwang Metal Products Co Ltd (福建福旺金屬製品有限公司) ("**Fuwang**")	–	29,000

24. PROVISION FOR BANK LOANS GUARANTEE FOR A DECONSOLIDATED SUBSIDIARY *(Continued)*

Details of the guarantee are set out below:

Bank	Guarantee for	Guaranteed amount RMB'000
Bank of China Fuqing Branch	Fuwang	29,000

On 3 November 2008, the Company has entered into a corporate guarantee agreement with Bank of China Fuqing Branch, in which the Company has agreed to provide a guarantee of RMB29,000,000 in relation of the bank borrowing of Fuwang, a former subsidiary of the Company, for the period from 3 November 2008 to 11 November 2011. Pursuant to a legal opinion issued by Trust Law Firm (廣東卓信律師事務所) dated 4 August 2010, the above corporate guarantee provided by the Company would be released on 11 November 2011.

During the year ended 31 December 2008, although the Provisional Liquidators have not received any notice of repayment for the guarantee, the Company did not have sufficient information to assess the liabilities which will be borne by the Company under the guarantee either. A maximum obligation of RMB29,000,000 has been provided as provision during the year ended 31 December 2008.

In addition, since the books and records of certain subsidiaries available to the Provisional Liquidators were incomplete and the Provisional Liquidators have lost control of certain subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the above mentioned corporate guarantee for the three years ended 31 December 2008, 2009 and 2010.

During the year ended 31 December 2011, these provision for bank loans guarantee for a deconsolidated subsidiary were discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

25. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2007, the Company entered into two structured five-year interest rate swaps (the "**Swaps**") as a part of its financial management strategy with a commercial bank (the "**Bank**"). On effective date of respective Swaps, the Company received total upfront payments of approximately HKD78,000,000 from the Bank. The fair value of the Swaps at the end of the reporting period is provided by the counterparty bank. Major terms of the Swaps are set out in below:

Notional amount	Upfront payments	Effective date	Maturity date	Swaps
HKD390,000,000	HKD39,000,000	28 February 2007	28 February 2012	The Company receives: 7.0% semi-annually for first 6 months; thereafter: 7.0%* n/m *(Note i)* The Company pays: 9.0% semi-annually
USD50,000,000	USD5,000,000	23 April 2007	23 April 2012	The Company receives: 8.0% semi-annually The Company pays: 10.0% semi-annually for first 6 months; thereafter: 10.0% minus 5* (Index of YoY Return – 1.0%) *(Note ii)* coupon capped at 13.0% and floored at 0%

25. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notes:

(i) n: Number of business days in the calculation period that HKD 10-years CMS# minus HKD 2-years CMS^≥0%

m: Total number of business days in the calculation period

Mid-market quarterly swap rate expressed as a percentage for a HKD interest rate swap transaction with a term equal to 10 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the accrual period.

^ Mid-market quarterly swap rate expressed as a percentage for a HKD interest rate swap transaction with a term equal to 2 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the accrual period.

(ii) Index* of YoY Return: The closing level of the Index five business days prior to the end of the relevant coupon payment period/closing level of the Index five business days prior to the payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in cash of the second coupon payment period) – 1.

* Index means the "Deutsche Bank Pan-Asian Forward Rate Bias Index" (the "**Index**") as published on Bloomberg Page DBFRASI3 <Index>

On 13 May 2009, the Swaps were early terminated by the Bank as a result of the Company not paying the interest payment under the Swaps on the due dates. The Company received a statement of demand dated 15 May 2009 for an early termination amount (the "**Termination Amount**") of USD10,319,033 (equivalent to approximately RMB70,830,000) and a gain of RMB23,340,000 was recognised upon termination of the Swaps during the year ended 31 December 2009. The Termination Amount is then reclassify as "Other financial liabilities" (Note 28) in the consolidated statement of financial position upon termination of the Swaps. The Provisional Liquidators had negotiated with the Bank on the basis for calculation of the Termination Amount. In August 2010, both parties agreed the revised termination amount (the "**Revised Termination Amount**") of USD10,069,033 (equivalent to approximately RMB66,250,000). The difference between the Termination Amount and the Revised Termination Amount of USD250,000 (equivalent to approximately RMB1,671,000) was recognised as gain on waived of other financial liabilities during the year ended 31 December 2010.

26. LOAN FROM AN INVESTOR

The loan from an Investor is unsecured, non-interest bearing and repayable upon the termination of Escrow Agreement. The balances represent an advances provided by an Investor for the resumption cost of the Group. The amount due to an Investor applied towards the set-off against part of the subscription monies payable by an Investor for the New Shares, Convertible Preference Shares and Convertible Loan Notes under the Restructuring Agreement during the year ended 31 December 2011.

27. AMOUNT DUE TO AN INVESTOR

The amount due to an Investor is unsecured, non-interest bearing and repayable on completion of Restructuring Agreement. The balances represent an advances provided by an Investor as the working capital of the Group. The amount due to an Investor applied towards the set-off against part of the subscription monies payable by an Investor for the New Shares, Convertible Preference Shares and Convertible Loan Notes under the Restructuring Agreement during the year ended 31 December 2011.

28. OTHER FINANCIAL LIABILITIES

	2011 **RMB'000**	2010 RMB'000
Revised Termination Amount *(Note a)*	–	66,250
Accrued interests *(Note b)*	–	1,325
	–	67,575

Included in other financial liabilities are the following amounts denominated in a currency other than functional currency of the entities:

	2011 **'000**	2010 '000
USD	–	10,270

Notes:

a) It represented the Revised Termination Amount demanded by the Bank as a result of the early termination of the Swaps as set out in Note 25 to the consolidated financial statements.

b) Interest is accrued on the Termination Amount for the period from 13 May 2009 to 3 August 2010 and Revised Termination Amount for the period from 3 August 2010 to 25 October 2011 (date of the HK Court hearing of the petition for the sanction of the Hong Kong Scheme) at a rate per annum equal to the cost to the Bank if it were to fund the relevant amount plus 1% per annum in accordance with the ISDA 2002 Master Agreement dated 14 February 2007. Interest rate of overnight USD London Interbank Offered Rates plus 1% per annum has been used to estimate the accrued interests.

c) The Revised Termination Amount together with its accrued interests was admitted, discharged and released by way of Restructuring. The discharged amount formed part of the gain on restructuring for the year ended 31 December 2011. Details of the Restructuring are set out in Notes 2 and 8 to the consolidated financial statement.

29. CONVERTIBLE LOAN NOTES

On 1 November 2011, the Company issued 2% Convertible Loan Notes with a principal amount of HKD18,000,000 to the Investors upon the Completion of Restructuring. Since the issuance of the Convertible Loan Notes formed part of the Restructuring, transaction costs relating to the issue of the Convertible Loan Notes are recognised in the restructuring cost and expenses for the year ended 31 December 2011.

The Convertible Loan Notes are unsecured and denominated in HKD. Pursuant to a board of directors meeting held on 1 November 2011 and a confirmation from the holders of the Convertible Loan Notes, all the interests and repayment of the principal of the Convertible Loan Notes in future shall be settled in RMB (ie: the functional currency of the Group) and notwithstanding any change in exchange rate between HKD and RMB in future, the exchange rate for conversion of any payment under the Convertible Loan Notes from HKD to RMB has been fixed at 1.21, which is the exchange rate as at 1 November 2011. As a result, although the Convertible Loan Notes are not denominated in the functional currency of the Group, the conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

The Convertible Loan Notes entitle the Investors to convert them into ordinary shares of the Company at any time between the date of issue of the Convertible Loan Notes and before 7 business days of their settlement date on 31 October 2016 at a conversion price of HKD0.12 per Share, subject to adjustment. If the Convertible Loan Notes have not been converted, they will be redeemed on 31 October 2016 at par.

The Convertible Loan Notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan notes equity reserve". The effective interest rate of the liability component is 17% per annum.

The movement of the liability component of the Convertible Loan Notes during the year is set out below:

	RMB'000
Nominal value of the Convertible Loan Notes (equivalent to HKD18,000,000)	14,876
Less: Equity component at the date of issuance	(7,629)
Liability component at the date of issuance	7,247
Interest charged	208
Interest paid	(50)
Liability component at 31 December 2011	7,405

30. DEFERRED TAX LIABILITIES

The movements on the major deferred tax liabilities recognised by Group during the year are as follow:

	RMB'000
At 1 January 2010	–
Withholding tax for year 2010	1,213
At 31 December 2010	1,213
Withholding tax for year 2011	1,375
At 31 December 2011	2,588

31. SHARE CAPITAL

	Par value per share HKD	Number of ordinary shares *(Note a)*	Number of convertible preference shares *(Note b)*	Amount HKD'000
Authorised:				
At 1 January 2010 and 31 December 2010	0.10	2,000,000,000	–	200,000
At 31 December 2011 *(Note c)*	0.001	249,480,000,000	520,000,000	250,000

31. SHARE CAPITAL *(Continued)*

	Par value per share HKD	Number of ordinary shares *(Note a)*	Number of convertible preference shares *(Note b)*	Amount HKD'000	Equivalent to RMB'000
Issued and fully paid:					
At 1 January 2010 and 31 December 2010	0.1	657,121,081	–	65,712	67,399
Capital Consolidation *(Note d)*	N/A	(574,980,946)	–	–	–
	0.8	82,140,135	–	65,712	67,399
Capital Reduction *(Note e)*	N/A	–	–	(65,630)	(67,314)
	0.001	82,140,135	–	82	85
Subscription of New Shares by Investors *(Note f)*	0.001	230,000,000	–	230	187
Subscription of Convertible Preference Shares by Investors *(Note g)*	0.001	–	520,000,000	520	425
Bonus Issue *(Note h)*	0.001	1,067,822	–	1	1
At 31 December 2011	0.001	313,207,957	520,000,000	833	698

Notes:

a) All the ordinary shares which were issued by the Company rank pari passu with each other in all respects.

b) All the Convertible Preference Shares which were issued by the Company rank pari passu with each other in all respects. The principal terms of the Convertible Preference Shares on the date of issue include the following:

i) **Dividend**

The holders of the Convertible Preference Shares of HKD0.001 each shall not be entitled to any dividend or distribution.

ii) **Capital**

On a return of capital on liquidation, the assets of the Company available for distribution among the members shall be applied in repaying to the holders of the preference shares the nominal amount paid up on the preference shares. The paid-up preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue while the non-paid-up preference shares shall rank pari passu with the New Shares for the time being in issue.

iii) **Redemption**

The preference shares are non-redeemable.

iv) **Conversion rights**

The Convertible Preference Shares of HKD0.001 each are convertible into New Shares of HKD0.001 each after the date of their issuance, subject to an adjustment, at a conversion price of HKD0.12 per New Shares, subject to adjustment provisions which are standard terms for convertible securities of similar type.

31. SHARE CAPITAL *(Continued)*

Notes: (Continued)

b) *(Continued)*

v) Transferability

The Convertible Preference Shares are freely transferable by the holders thereof after the date of issue of the preference shares, subject to the requirement of the Listing Rules.

vi) Voting

The Convertible Preference Shares holders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if pass would vary or abrogate the rights or privileges of the Convertible Preference Shares.

c) Following the Capital Consolidation and the Capital Reduction as stated in Notes d and e below, the authorised unissued share capital of the Company of HKD134,287,891.90, comprised 1,342,878,919 shares each with a nominal value of HKD0.10, shall be altered so as to be comprised 134,287,891,900 New Shares of HKD0.001 each. At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the authorised share capital of the Company be increased from HKD134,370,032.04, divided into 134,370,032,035 shares of HKD0.001 each to HKD250,000,000 divided into 250,000,000,000 shares of HKD0.001 each (consisted with 249,480,000,000 ordinary shares of HKD0.001 each and 520,000,000 preference shares of HKD0.001 each) by the creation of an additional 115,629,967,965 shares of HKD0.001 each.

d) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving the Capital Consolidation that every eight shares of HKD0.10 each in the issued share capital of the Company will be consolidated into one consolidated share with par value of HKD0.80 each.

e) At the extraordinary general meeting of the Company held on 6 October 2011, special resolution was passed approving upon the Capital Consolidation becoming effective, the par value of each issued Consolidated Share will be reduced from HKD0.80 to HKD0.001 by cancellation of HKD0.799 of the paid-up capital of each issued Consolidated Share. The credit arising as a result of the Capital Consolidation and the Capital Reduction of approximately RMB67,314,000 (equivalent to approximately HKD65,630,000) has been applied to reduce the accumulated losses of the Company as permitted by Cayman Companies Law.

f) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolution was passed approving the allotment and issue of 230,000,000 New Shares to the Investors at a subscription price of HKD0.12 per subscription share to raise a total of HKD27,600,000 (approximately RMB22,544,000) pursuant to the terms of the Restructuring Agreement. The allotment has been made on 1 November 2011.

31. SHARE CAPITAL *(Continued)*

Notes: (Continued)

g) On 1 November 2011, the Company issued 520,000,000 Convertible Preference Shares with a par value of HKD0.001 each at a price of HKD0.12 each to raise a total of HKD62,400,000 (approximately RMB50,971,000). The directors of the Company considered that as the Convertible Preference Share is not entitled to any dividend and it is non-redeemable, the Convertible Preference Shares are equity instrument containing equity element only and are presented in equity. During the year ended 31 December 2011, none of the ordinary shares were issued pursuant to the conversion of the Convertible Preference Shares.

h) At the extraordinary general meeting of the Company held on 6 October 2011, ordinary resolutions approving the Bonus Issue, credited as fully paid at par, to the shareholders of the Company whose names appear on the registers of members of the Company on 20 October 2011 on the basis of 13 Bonus Shares for every 1,000 New Shares of the Company. The allotment has been made on 2 November 2011.

32. SHARE OPTION SCHEME

a) Incentives Share Option Scheme

Pursuant to the written resolutions passed by all of the shareholders of the Company on 2 June 2003, the Company adopted a share option scheme (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Share Option Scheme, the directors may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive director), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HKD5,000,000 must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors and will be not less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

32. SHARE OPTION SCHEME *(Continued)*

a) Incentives Share Option Scheme *(Continued)*

The following table discloses details and movements of the Company's share options held by senior management and employees under the Share Option Scheme during both years:

	Date of grant	2010 Exercise price HKD	2011 Exercise price* HKD	Exercisable period	Outstanding at 1.1.2010	Lapsed during the year ended 31.12.2010	Outstanding at 31.12.2010	Adjusted during the year ended 31.12.2011*	Outstanding at 31.12.2011
Senior management	10 February 2004	0.810	N/A	10 February 2004 to 9 February 2014	3,800,000	(3,800,000)	–	–	–
	2 May 2007	0.912	7.2024	2 May 2007 to 1 May 2017	2,500,000	(1,000,000)	1,500,000	(1,310,063)	189,937
	17 July 2007	1.316	N/A	17 July 2007 to 16 July 2017	5,800,000	(5,800,000)	–	–	–
	30 January 2008	0.632	N/A	30 January 2008 to 29 January 2018	4,000,000	(4,000,000)	–	–	–
Employees	10 February 2004	0.810	6.3968	10 February 2004 to 9 February 2014	7,600,000	(3,800,000)	3,800,000	(3,318,825)	481,175
	25 May 2006	0.800	N/A	25 May 2006 to 24 May 2016	2,280,000	(2,280,000)	–	–	–
	2 January 2007	0.670	N/A	2 January 2007 to 1 January 2017	700,000	(700,000)	–	–	–
	2 May 2007	0.912	7.2024	2 May 2007 to 1 May 2017	8,000,000	(7,000,000)	1,000,000	(873,375)	126,625
	17 July 2007	1.316	N/A	17 July 2007 to 16 July 2017	38,870,000	(38,870,000)	–	–	–
	30 January 2008	0.632	4.9911	30 January 2008 to 29 January 2018	6,000,000	(1,000,000)	5,000,000	(4,366,875)	633,125
					79,550,000	(68,250,000)	11,300,000	(9,869,138)	1,430,862

* *As a result of the Restructuring which includes, inter alias, the Capital Consolidation and the Bonus Issue, the number of outstanding share options and the exercise price adjusted (the "**Adjustments**") on 12 October 2011 and 3 November 2011 in accordance with the terms of the Share Option Scheme and in compliance with the requirements set out in Rule 17.03(13) of the Listing Rules and the supplementary guidance (the "**Supplementary Guidance**") thereto.*

32. SHARE OPTION SCHEME *(Continued)*

b) Creditors Options

On 1 November 2011, as part of the Company's debt restructuring, the Company granted a total of 56,000,000 Creditors Options to the Scheme Administrators for the benefits of the Scheme Creditors. The Creditors Options are exercisable for a period of one year commencing from the date of grant at an initial exercise price of HKD0.15 per Creditors Options, subject to adjustment.

The fair value of the Creditors Options was approximately RMB1,735,000 (equivalent to approximately HKD2,099,000. The fair value of the Creditors Options have been arrived at on the basis of a valuation carried out on that date by Asia Asset Limited, an independent qualified professional valuers not connected with the Group. The valuation was arrived at using the Binominal Option Pricing Model. The inputs into the model were as follows:

Date of grant	1 November 2011
Maturity date	31 October 2012
Share price at the date of grant	HKD0.1861 *(Note i)*
Exercise price	HKD0.15
Volatility (%)	36.91 *(Note ii)*
Risk free rate (%)	0.14
Expected dividend yield	Nil

Notes:

i) Pursuant to the valuation report issued by Asia Asset Limited, because the shares of the Company had been suspended trading for over 2.5 years due to insolvency issue and was resumed trading at 4 November 2011, no indicative value from the exchange traded share price was available as at the grant date although trading was resumed after the valuation date (with a closing price of HKD1.02 on resumption date of 4 November 2011 and HKD0.28 on 30 December 2011), it is inappropriate to measure the fair value using market price information on hindsight basis. The Scheme Creditors of the Company were only informed of their respective allocation of options by the Scheme Administrators in mid-December, 2011. For a company in distress condition, it is considered reasonable to reflect its share price based on the net asset value of the Company. The share price used in the valuation represented net asset value divided by total number of ordinary shares and preference shares as stated in unaudited proforma consolidated statement of financial position of the Group as at 31 December 2010 in the Circular.

ii) Volatility is based on the average of the historical volatilities of daily return of such comparable companies engaging in business operations similar to that of the Company.

During the year ended 31 December 2011, no Creditors Options was exercised, forfeited or expired. At 31 December 2011, the Company has 56,000,000 Creditors Options outstanding. The exercise in full of the remaining Creditors Options would result in issue of 56,000,000 additional ordinary shares of the Company, additional share capital of HKD56,000 and additional share premium of HKD8,344,000 (before the issue expenses).

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	2011 RMB'000	2010 RMB'000
Minimum lease payments paid under operating leases during the period:		
– Premises	**288**	–
– Property, plant and machinery	**2,050**	2,000
	2,338	2,000

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

	2011 RMB'000	2010 RMB'000
Within one year	**2,589**	1,166
In the second to the fifth year inclusive	**6,626**	–
	9,215	1,166

Operating lease payments represent rentals payable by the Group for certain of its premises, plant and machinery, and office equipment. Leases are negotiated for an average term of 5 years (2010: 2 years) and no arrangements have been entered into for contingent rental payments.

34. CONTINGENT LIABILITIES

On 8 July 2009, a winding up petition was served on the Company by Deutsche Bank Aktiengesellschaft. On 2 October 2009, an application was made by DBS Bank (Hong Kong) Limited and an order was granted by the HK Court appointing the Provisional Liquidators as provisional liquidators to the Company. Upon the appointment of Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the HK Court, and subject to such terms as the HK Court may impose. During the year ended 31 December 2011, all claims and potential claims against the Company have been compromised under the Schemes and sanctioned by the HK Court and the Cayman Court. For the details of the Schemes, please refer to Note 2 to the consolidated financial statement.

At 31 December 2011, the Group did not have any significant contingent liabilities.

For the year ended 31 December 2010, the Provisional Liquidators make no representation as to the completeness and accuracy of the contingent liabilities.

35. RELATED PARTY TRANSACTIONS AND DISCLOSURES

Related party transactions

a) In addition to the balances with related parties at the end of reporting period which disclosed in the consolidated financial statements, the Group entered into the following significant transactions with related parties during the year ended 31 December 2011.

Name	Nature of transaction	RMB'000
Business Giant Limited	– Issuance of Convertible Loan Notes *(Note i)*	4,463
("**Business Giant**")	– Issuance of Convertible Preference Shares *(Note ii)*	15,290
	– Interest paid for Convertible Loan Notes *(Note iii)*	15

Notes:

i) Business Giant has subscribed for HKD5,400,000 (equivalent to approximately RMB4,463,000) Convertible Loan Notes of the Company during the year ended 31 December 2011, in which Mr. Leung Heung Ying Alvin, the director of the Company, is the sole director and shareholder.

ii) Business Giant has subscribed for 156,000,000 Convertible Preference Shares at HKD0.12 per Convertible Preference Shares during the year ended 31 December 2011. The proceed is approximate HKD18,720,000 (equivalent to RMB15,290,000).

iii) An interest expenses of approximately HKD18,000 (equivalent to RMB15,000) on Convertible Loan Notes has been paid to Business Giant during the year ended 31 December 2011.

b) *Compensation to key management personnel*

The remuneration of directors and other members of key management during the year were as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries, allowances and other benefits in kind	**544**	–
Contributions to retirement benefits scheme	**19**	–
	563	–

For the year ended 31 December 2010, the Provisional Liquidators considered that the directors of the Company are the only key management personnel of the Group and there was no emoluments paid to all of the directors for the year ended 31 December 2010.

In addition, the Provisional Liquidators make no representation as to the completeness and accuracy of the related party transactions, connected transactions and continuing connected transactions entered into by the Group as defined under HKAS 24 and the Listing Rules for the year ended 31 December 2010.

36. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Commitments contracted for but not provided in the consolidated financial statements – Property, plant and equipment	**4,068**	–

The Provisional Liquidators make no representation as to the completeness and accuracy of the capital commitments as at 31 December 2010.

37. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the respective employees' monthly salaries (up to a maximum contribution of HKD1,000 (equivalent to approximately RMB827) to the Mandatory Provident Fund Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 20% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated statement of comprehensive income of approximately RMB294,000 (2010: RMB372,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Paid-up share capital/ registered capital	Proportion of nominal value of ordinary issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bloxworth Enterprise Limited	British Virgin Islands	USD1,000	100%	–	Investment holding
Shanxi Zhanpen Metal Products Co., Ltd 山西展鵬金屬製品有限公司	PRC, wholly owned foreign enterprise	USD8,100,000	–	100%	Manufacture and sale of tinplate cans for the packaging of beverage in the PRC

None of the subsidiaries had issued any debt securities at the end of the year.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group can support the Group's stability and growth and can provide capital for the purpose of strengthening the Group's risk management capability.

The capital structure of the Group consists of net debt, which includes the bank borrowings, other borrowings, loan from investor, other financial liability, Convertible Loan Notes, net of cash and cash equivalents and equity attributable to owners of the Group, comprising issued share capital, reserves and retained earnings.

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

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

(i) Financial assets

	2011 RMB'000	2010 RMB'000
Loans and receivables (including cash and cash equivalents):		
Trade and other receivables	**62,893**	47,325
Escrow money	**–**	888
Bank balance and cash	**21,877**	2,649
	84,770	50,862

(ii) Financial liabilities

	2011 RMB'000	2010 RMB'000
Financial liabilities at amortised cost:		
Trade and other payables	**11,961**	13,490
Other financial liabilities:		
Bank borrowings	**–**	61,146
Other borrowings	**–**	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary	**–**	29,000
Loan from an investor	**–**	5,078
Amount due to an investor	**–**	265
Other financial liabilities	**–**	67,575
Liability component of Convertible Loan Notes	**7,405**	–
	19,366	225,180

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments including trade and other receivables, escrow money, bank balances and cash, trade and other payables, bank borrowings, other borrowings, provision for bank loans guarantee for a deconsolidated subsidiary, loan from an investor, amount due to an investor, other financial liabilities and liability component of Convertible Loan Notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The Group has written risk management policies and guidelines. The management meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

Market risk

(i) Currency risk

The Group's exposure to currency risk is attributable to the bank balances and cash and other financial liabilities of the Group which are denominated in foreign currencies of USD and HKD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	2011 **RMB'000**	2010 RMB'000
USD		
Monetary asset:		
Bank balance and cash	**106**	–
USD		
Monetary liability:		
Other financial liabilities	**–**	67,575
HKD		
Monetary asset:		
Bank balance and cash	**9**	–

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to USD and HKD. The following table details the Group's sensitivity analysis, the analysis assumes a 5% increase and decrease in USD and HKD against the RMB, with all other variable held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates until the next reporting period. The sensitivity analysis includes only outstanding items denominated in foreign currencies other than the functional currencies of the group entities and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in the post-tax profit where RMB strengthen 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on the post-tax profit.

	2011	2010
	RMB'000	RMB'000
Impact on profit before tax		
HKD	**1**	–
USD	**5**	3,379

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variablerate borrowings. To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would remain unchanged (in year 2010: increase/decrease by RMB616,000).

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

Credit risk

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

The Group's concentration of credit risk by geographical locations is only in the PRC, which accounted for 100% (31 December 2010: 100%) of the total trade receivables as at 31 December 2011.

The carrying amounts of trade and other receivables, escrow money and bank balances and cash represents the Group's maximum exposure to credit risk in relation to financial assets. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any. At 31 December 2011, the Group has concentration of credit risk as 16% and 65% (2010: 16% and 76%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group monitors trade and other receivables and only trades and deals with creditworthy third parties. Accordingly, the Group's exposure to bad debt is not significant.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 18 to the consolidated financial statements.

The credit risk on liquid fund is limited because the counterparties are bank with high credit rating assigned by international creditrating agencies.

Liquidity risk

Liquidity management

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

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

Liquidity risk *(Continued)*

	Weighted averaged interest rate (%)	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or within one year RMB'000	One to five years RMB'000
2011					
Trade and other payables	–	11,961	11,961	11,961	–
Liability component of Convertible loan notes	17.69	7,405	16,314	298	16,016
		19,366	28,275	12,259	16,016

	Weighted averaged interest rate (%)	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or within one year RMB'000	One to five years RMB'000
2010					
Trade and other payables	–	13,490	13,490	13,490	–
Bank borrowings	5.94	61,146	64,778	64,778	–
Other borrowings	5.00	48,626	51,057	51,057	–
Provision for bank loans guarantee for a deconsolidated subsidiary	–	29,000	29,000	29,000	–
Loan from an investor	–	5,078	5,078	5,078	–
Amount due to an investor	–	265	265	265	–
Other financial liabilities	1.77	67,575	68,771	68,771	–
		225,180	232,439	232,439	–

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSET			
Investment in a subsidiary		**8**	8
CURRENT ASSETS			
Other receivables		**385**	–
Amount due from a subsidiary	a	**21,282**	326,998
Escrow money		**–**	888
Bank balances and cash		**–**	2
		21,667	327,888
CURRENT LIABILITIES			
Other payables and accrued expenses		**405**	3,576
Bank borrowings		**–**	61,146
Other borrowings		**–**	48,626
Provision for bank loans guarantee for a deconsolidated subsidiary		**–**	29,000
Loan from an investor		**–**	5,078
Amount due to an investor		**–**	265
Other financial liabilities		**–**	67,575
		405	215,266
NET CURRENT ASSETS		**21,262**	112,622
NON-CURRENT LIABILITY			
Convertible Loan Notes		**7,405**	–
NET ASSETS		**13,865**	112,630
CAPITAL AND RESERVES			
Share capital		**698**	67,399
Reserves	b	**13,167**	45,231
		13,865	112,630

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) Amount due from a subsidiary is unsecured, interest free and repayable on demand.

(b) Reserves

	Share premium RMB'000 *(Note i)*	Share options reserve RMB'000 *(Note ii)*	Convertible loan notes equity reserve RMB'000 *(Note 29)*	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	215,765	13,699	–	–	(182,564)	46,900
Profit for the year, representing total comprehensive income for the year	–	–	–	–	(1,669)	(1,669)
Lapsed of share options	–	(12,761)	–	–	12,761	–
At 31 December 2010	215,765	938	–	–	(171,472)	45,231
Profit for the year	-	-	-	-	(181,913)	(181,913)
Exchange differences arising on translating foreign operations	–	–	–	269	–	269
Total comprehensive income for the year	–	–	–	269	(181,913)	(181,644)
Capital Reduction	-	-	-	-	67,314	67,314
Subscription of New Shares by Investors	22,357	–	–	–	–	22,357
Subscription of Convertible Preference Shares by investors	50,546	–	–	–	–	50,546
Bonus Issue	(1)	–	–	–	–	(1)
Issuance of Scheme Creditors Options	–	1,735	–	–	–	1,735
Issuance of Convertible Loan Notes	–	–	7,629	–	–	7,629
At 31 December 2011	**288,667**	**2,673**	**7,629**	**269**	**(286,071)**	**13,167**

Notes:

i) Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

ii) Share options reserve represents the portion of the grant date fair value of unexercised share options granted under the share option scheme or unexercised Creditors Options granted under the Debt Restructuring as mentioned in Note 2 to the consolidated financial statement adopted by the Company.

43. EVENTS AFTER THE REPORTING PERIOD

At the extraordinary general meeting of the Company held on 22 February 2012, ordinary resolutions were duly passed for approving (i) the proposed general mandate to be granted to the Directors to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company; and (ii) the adoption of the new share option scheme and termination of existing share option scheme. For details, please refer to the circular of the Company dated 6 February 2012.

44. MAJOR NON-CASH TRANSACTIONS

i) Part of the liabilities of Scheme Creditors were compromised, discharged and/or settled by issuance of Creditors Options. For details, please refer to Notes 2 and 8 to the consolidated financial statement.

ii) Loan from an investor and amount due to an investor is applied to set-off part of the subscription monies payable by the Investors for the New Shares under the Restructuring Agreement during the year ended 31 December 2011.

Five-year Financial Summary

RESULTS

	For the Year Ended 31 December					
	2011	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**142,311**	124,812	74,066	193,354	668,641	518,093
Profit/(loss) before taxation	**163,464**	14,648	(8,608)	(831,170)	120,641	114,096
Income tax expense	**(5,946)**	(5,401)	–	(5,243)	(28,141)	(17,594)
Profit/(loss) for the year	**157,518**	9,247	(8,608)	(836,413)	92,500	96,502

ASSETS AND LIABILITIES

	31 December					
	2011	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**156,244**	119,782	102,543	170,006	1,071,338	756,928
Total liabilities	**(26,611)**	(230,696)	(222,704)	(297,828)	(289,860)	(178,795)
Total (deficit)/equity	**129,633**	(110,914)	(120,161)	(127,822)	781,478	578,133

The Directors make no representation as to the completeness and accuracy of financial summary up to 31 December 2010.