



思嘉集團有限公司

SIJIA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1863



2011
Annual Report

Contents

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	6
Biography of Directors and Senior Management	12
Corporate Governance Report	17
Report of the Directors	23
Independent Auditors' Report	29
Consolidated Income Statement	31
Consolidated Statement of Comprehensive Income	32
Consolidated Statement of Financial Position	33
Consolidated Statement of Changes in Equity	34
Consolidated Statement of Cash Flows	35
Statement of Financial Position	37
Notes to the Financial Statements	38
Five-year Financial Summary	92



Corporate Information



Board of Directors

Executive Directors

Lin Shengxiong (*Chairman*)
Zhang Hongwang
Huang Wanneng

Independent Non-executive Directors

Chong Chi Wah
Cai Weican
Wu Jianhua

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Unit F, 10th Floor
China Overseas Building
139 Hennessy Road
Wanchai, Hong Kong

Chief Financial Officer and Company Secretary

Chan Wing Hang, *FCCA, CPA*

Authorised Representatives

Lin Shengxiong
Chan Wing Hang, *FCCA, CPA*

Audit Committee

Chong Chi Wah (*Chairman*)
Cai Weican
Wu Jianhua

Remuneration Committee

Wu Jianhua (*Chairman*)
Lin Shengxiong
Cai Weican
Chong Chi Wah

Nomination Committee

Cai Weican (*Chairman*)
Lin Shengxiong
Wu Jianhua
Chong Chi Wah

Auditors

Ernst & Young
Certified Public Accountants

Internal Control Review Adviser

SHINEWING Risk Services Limited

Principal Bankers

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Corporate Website

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Financial Highlights



	2011	2010
Results		
Revenue (RMB million)	1,197.1	965.3
Gross profit (RMB million)	506.1	437.2
Profit before tax (RMB million)	403.6	264.7
Profit attributable to owners of the parent (RMB million)	328.3	217.2
Basic earnings per share (RMB cents)	39.61	28.86
Gross profit margin (%)	42.3	45.3
Net profit margin (%)	27.4	22.5
Financial position		
Cash and cash equivalents (RMB million)	242.1	333.9
Total assets (RMB million)	1,731.7	1,316.9
Total debts (RMB million)	273.6	119.9
Total equity (RMB million)	1,458.2	1,197.0
Current ratio (Times)	2.9	5.4
Quick ratio (Times)	2.5	4.9
Gearing – borrowings to total assets (%)	5.2	1.1
Efficiency ratios		
Average trade receivables turnover (Days)	60	44
Average trade payables turnover (Days)	49	43
Average inventories turnover (Days)	43	29
Cash conversion (Days)	54	30

Chairman's Statement



Lin Shengxiong
Chairman

Dear Sijia Group Shareholders,

It turns two years after the shares of Sijia Group Company Limited (the "Company") and its subsidiaries (the "Group" or "Sijia Group") were listed on the main board of The Stock Exchange of Hong Kong Limited. Over the past two years, our effort was widely recognised. In January 2012, we felt honoured to be ranked 24th in the list of Top 100 Enterprises with the Highest Potential in China in 2012 by Forbes Magazine, an authoritative publication in the world.

Despite economic weakness in Europe and U.S., China's economy still well outperformed other countries, with its consumption power staying at high level, which created a favourable environment for fostering the demand of Reinforced Materials. Bravely facing the weak economic environment and continuously pursuing excellence, the Group has honoured its promises to the capital market by delivering its solid results. The Group also increased its production capacity gradually. In the fourth quarter of 2011, the plant of new materials (the "New Materials") located in Jinshan, Shanghai was topped out, and commenced installation of equipments. The second phase of Fuzhou factory completed installation of equipments, and will commence production soon. Meanwhile, we endeavour to increase existing product range, such as architectural membrane, waterproofing membrane and membrane for double membrane gas holders.

With emphasis on research and development, the Group has a strong Research and Development (the "R&D") team to develop its own innovative patent technology. During the year, our "Red mud composite coiled materials for biogas project and the relevant production method" was certified as a national innovation patent and honoured as First Prize of Patent in Fujian province. We also achieved a remarkable result in management of intellectual property as our effort was highly recognised and regarded by the People's Government of Fujian Province who named us as the Enterprise with Advantage in Intellectual Property in Fujian Province. Meanwhile, we passed the certification test in quality, environmental and occupational health and safety management system again: upgrade in ISO 9001: 2008 Quality System Standard, ISO 14001:2004 Environmental System Standard and OHSAS 18001: 2007 Occupational Health and Safety System Standard. Such certification above helps strengthen and foster the development of the Group. The Group continued to promote the technological innovation and establishment of brand name, while the Group has successfully passed the review procedure for High-Tech Enterprise in Fujian Province and Famous Brand in Fujian Province that are held every three years.



In February 2012, the Ministry of Industry and Information Technology of the People's Republic of China released "Twelfth Five-Year Development Plan for New Materials Industry" ("the Plan"), which attracted market attention. According to the Plan, gross production value of New Materials industry will amount to RMB2,000 billion during the period of Twelfth Five-Year Plan, with annual growth rate above 25%, in which 30 types of major New Materials will be promoted and certain application work of demonstrative promotion will be implemented, and therefore the group is expected to benefit definitively.

The Plan mentioned that six areas in strategic emerging industries will create huge demand for New Materials, which will revive the innovation of New Materials industry and accelerate development pace of New Materials industry. Sijia will capture the golden development opportunities and step up efforts in development in following ways. These include placing emphasis on R&D and technological innovation of New Materials products, enhancing our advantages in R&D in technology, capital, talent and patent, strengthening our leading position in new products that are high-tech-oriented and high value-added.

In particular, the Plan states that it targets by 2015 to establish a New Materials industry system which is on a larger scale and possesses certain degree of self-innovation capacity and comprehensive complementary industrial facilities; to achieve a breakthrough in developing some key materials and technologies that are urgently required by the country and shape the future development of the industry; to foster a group of key enterprises that have strong innovation capacity and core competitiveness, which will establish a New Materials production base where it demonstrates a reasonable allocation of enterprises, strong industrial features and an assemble of industries. It will further strengthen the driving force of New Materials to structural adjustment and upgrade and transformation of materials industry.

Looking forward, as the leader in New Materials industry, the Group faces huge opportunities from promising prospect of products market during the period of Twelfth Five-Year Plan, and the Plan also offers preferential policies and guideline regulations for New Materials industry, which will definitively further promote the development of the Group. Leveraging on Sijia Group's competitive advantages, the Group will not fail to meet market expectation and strives to create a better return again for shareholders in 2012. I hereby give heartfelt thanks to every shareholder who gave support to Sijia.

Thank you!
Sincerely,
LIN Shengxiong
Chairman

21 March 2012

Management Discussion and Analysis



Business Review

Corporate Profile

Sijia Group Company Limited and its subsidiaries is a recognised industry leader in the People's Republic of China (the "PRC") for providing reinforced New Materials for a wide spectrum of industries, such as modern transportation, construction, renewable energy, agriculture, healthcare, sports, outdoor leisure and daily supplies. The management team of the Group has substantial experience in proprietary technology, product innovation and marketing and insists on market-focused strategy and joint development, manufacturing, sales of novel products with R&D team and academic institutions. Various novel products and production techniques of the Group possess independent intellectual property rights and national patents on technology.

Our Reinforced Materials (the "Reinforced Materials") business, located in Fuzhou and Shanghai, utilises self-developed facilities and techniques, which has acquired national patents on innovation, to produce New Materials, including architectural membrane, waterproofing membrane, TPU materials, air tightness materials, inflatable materials, biogas tank materials, tarpaulin materials, wader and protective garment materials, etc. Such materials exhibit nine characteristics, including high tensile strength, anti-tearing, anti-stripping, flame retardancy, anti-bacteria, anti-corrosive, durable, low temperature resistance and sunlight resistance. Meanwhile, the Group has also expanded into downstream end products (the "End Products") business, with factories located in Xiamen, Wuhan and Chengdu, which develops and manufactures clean energy products such as biogas tank; and outdoor leisure sports consumer products such as wader and protective clothing, inflatable boats, and large inflatable toys.

Segments by Product

For the year under review, Sijia Group generated the most revenue from the Reinforced Materials which accounted for 53.7% (2010: 59.9%) of total revenue. Local sales continued to be our major source of revenue, representing 80.8% (2010: 98.3%) of the total revenue while export sales only accounted for 19.2% (2010: 1.7%) of the total revenue. Given the diverse applications of our Reinforced Materials and End Products, our products can be applied in eleven major markets including outdoor, sports, renewable energy, protection, construction, logistic, packaging, medical use, safety, advertising and daily supplies.

Reinforced Materials

For the year under review, revenue from Reinforced Materials amounted to RMB642.8 million which accounted for 53.7% of total revenue, with sales up 11.1%. The increase was primarily attributable to the full year contribution in production capacity through installing a new lamination production line in the second half of 2010, primarily used in the manufacturing of Reinforced Materials. In addition, there was increase in sale volume across Reinforced Materials products due to greater demand for such Reinforced Materials and also due to increase in marketing efforts. The launch of New Materials including architectural membrane, waterproofing membrane and TPU membrane contributed about RMB48.1 million, RMB24.6 million and RMB22.9 million in revenue respectively for the year under review. As at 31 December 2011, 3 calendaring, 3 coating, 5 lamination and 4 TPU facilities are in operation.

In 2011, another 18 patents were officially granted, including red mud composite membrane and its production process, architectural membrane production process and sport flooring production technique which are very important to the Group. As at 31 December 2011, our Group owns a total of 74 patents with 17 on innovations, 39 on new applications and 18 on exterior designs.



Conventional Materials

For the year under review, revenue from the conventional materials (the “Conventional Materials”) amounted to RMB141.8 million which accounted for 11.8% of total revenue, with sales up 40.1%.

End Products

For the year under review, revenue from the End Products amounted to RMB412.5 million which accounted for 34.5% of total revenue, with sales up 44.4%, due to strong overseas demand in wader and garment products. During the year, we set up 4 local sales offices mainly for the sales of our End Products in Qingdao, Nanjing, Shenzhen and Yiwu.

- **Outdoor Leisure Sports Consumer Market**

In the second half of 2011, the Group has secured over 1 million unit orders in lifeboats and wader and protective garments to fully support for Thailand flooding.

- **New Energy Market**

As to the End Products, the sale of biogas tank accounted for 6.5% of total revenue for the year under review.

Sijia Group offered both the Reinforced Materials and the End Products for the biogas tank business. As to the biogas tank business, sales amounted to RMB138.8 million or 11.6% (2010: RMB136.2 million, or 14.1%) of total revenue for the year under review. Our red-mud biogas tank Reinforced Materials was included in government procurement catalog by Fujian Provincial Economic and Trade Commission (福建省經濟貿易委員會) in second half of 2011. For 2011, the sales of biogas tank Reinforced Materials and End Products accounted for RMB60.9 million, or 5.1% and RMB77.9 million, or 6.5% (2010: RMB63.5 million, or 6.6% and RMB72.7 million, or 7.5%) of total revenue respectively. Compared with traditional biogas tanks, our biogas tank products are advantaged with the benefit of high air tightness and sustainable gas generating at low temperature. In addition, the Chinese government exerts great efforts in supporting biogas tank projects and implements specific subsidy policies, we have managed to accelerate the growth of our business in biogas tank.

Research and Development

For the year under review, R&D costs amounted to RMB45.3 million, or 3.8% of revenue (2010: RMB97.9 million, or 10.1% of revenue). The production and sale of our New Materials including architectural membrane, waterproofing membrane and TPU membrane have been launched in the first half of 2011.

We believe that our on-going R&D efforts are critical to the maintenance of our long-term competitiveness, customer loyalty and our ability to attract new customers and develop new markets. We plan to continue dedicating resources to the R&D activities aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, and develop high value-added New Materials.



Financial Review

Financial Results

Revenue

Revenue for the year under review was RMB1,197.1 million, an increase of RMB231.7 million, or 24.0%, compared to revenue of RMB965.3 million for last year. The increase was primarily attributable to the increase in production capacity, greater market demand, launch of the New Materials and increase in marketing effort.

During the year under review, the sales of Reinforced Materials increased RMB64.3 million, or 11.1%, to RMB642.8 million compared to RMB578.5 million for last year. The sales of Reinforced Materials increased the most in architectural membrane, followed by waterproofing membrane, TPU membrane and sport flooring materials. These increases were due primarily to the launch of new products and increase in demand on our Reinforced Materials. On the other hand, the sale of Conventional Materials increased RMB40.6 million, or 40.1%, to RMB141.8 million compared to RMB101.2 million for last year.

During the year under review, the sales of the End Products increased RMB126.9 million, or 44.4%, to RMB412.5 million compared to RMB285.6 million for last year. The increase was due primarily to increase in demand on wader and garment product, biogas tank and inflatable boat.

The split of these revenue based on products compared to 2011 and 2010, is shown below:-

	For the year ended 31 December 2011		For the year ended 31 December 2010	
	(RMB million)	%	(RMB million)	%
Reinforced Materials	642.8	53.7	578.5	59.5
Conventional Materials	141.8	11.8	101.2	10.5
End Products	412.5	34.5	285.6	29.6
	1,197.1	100.0	965.3	100.0

The split of these revenues based on geographically locations compared to 2011 and 2010, is shown below:

	For the year ended 31 December 2011		For the year ended 31 December 2010	
	(RMB million)	%	(RMB million)	%
PRC	967.5	80.8	949.2	98.3
Non-PRC	229.6	19.2	16.1	1.7
	1,197.1	100.0	965.3	100.0



Gross Profit and Gross Margin

Gross profit increased to RMB506.1 million for the year under review (2010: RMB437.2 million). Gross profit margin was 42.3% for the year under review (2010: 45.3%). The gross profit margin for Reinforced Materials was 41.9% for the year under review (2010: 42.5%) as a result of the increase in raw materials costs. For End Products, the gross profit margin was 52.3% for the year under review (2010: 61.4%). The decrease in gross profit margin of End Product was mainly due to a worsening global economic environment as we expanded our export business in the 2011.

The split of these gross profit margin based on products compared 2011 and 2010, is shown below.

	2011 %	2010 %
Reinforced Materials	41.9	42.5
Conventional Materials	15.4	16.1
End Products	52.3	61.4
	42.3	45.3

Selling and Distribution Costs

For the year under review, selling and distribution costs decreased about RMB2.7 million or about 12.9% to RMB18.0 million, or 1.5% of revenue for the year under review, from RMB20.7 million, or 2.1% of revenue for last year. The decrease in selling and distribution costs was primarily due to increases in transportation expenses and staff costs amounted to RMB5.4 million (2010: RMB2.3 million) and RMB4.9 million (2010: RMB2.5 million) respectively while the Group did not incur marketing consultant fee (2010: RMB9.5 million) for the year under review, while we stepped up our marketing efforts to promote our product and increase our market shares.

Administrative Expenses

For the year under review, administrative expenses decreased about RMB72.0 million or about 47.1% to RMB80.8 million, or 6.8% of revenue for the year under review, from RMB152.8 million, or 15.8% of revenue for last year. The decrease in administrative expenses was primarily attributable to decreased R&D expenses incurred due to the commercialisation and mass production of our New Materials which required lesser R&D effort than at R&D stage in 2010. The Group also incurred one-off legal and professional fees for the global offering and share option expenses amounted to RMB14.9 million and 13.1 million respectively in 2010 as compared to nil for the year under review.

Finance Costs

Finance cost for the year under review was RMB3.1 million (2010: RMB2.1 million). This equates to 0.3% and 0.2% of revenue for 2011 and 2010 respectively.

Interest Income

Interest income amounted to RMB2.1 million for the year under review (2010: RMB1.9 million).

Income Tax

For the year under review, the Group had an overall income tax expense of RMB75.8 million, or 18.8% of pre-tax income compared to the tax expense of RMB47.4 million, or 17.9% of pre-tax income for last year.



Net Income

The Group generated profit attributable to owners of the parent for the year under review of RMB328.3 million, or RMB39.61 cents for basic earnings per share, compared to profit attributable to owners of the parent of RMB217.2 million, or RMB28.86 cents for basic earnings per share for last year. The weighted average number of common shares outstanding at 31 December 2011 was 828,831,000 compared to 752,720,000 at 31 December 2010.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds amounted to RMB1,458.1 million, as compared to RMB1,197.0 million at 31 December 2010, an increase of 21.8%.

Financial Position

As at 31 December 2011, the Group's gearing, expressed as a percentage of total interest-bearing liabilities to total assets, was at 5.2% as compared to 1.1% as at 31 December 2010.

Bank Borrowings

As at 31 December 2011, the Group had cash and cash equivalents of RMB242.1 million (31 December 2010: RMB333.9 million), most of which were denominated in Hong Kong dollars or Renminbi. The Group had interest-bearing bank borrowings of RMB89.8 million (31 December 2010: RMB15.0 million) while total banking facilities amounted to RMB310.0 million (31 December 2010: RMB83.0 million).

Working Capital

Total inventory was at RMB107.0 million as compared to RMB55.4 million as at 31 December 2010. Average inventories turnover (days) was at 43 days (31 December 2010: 29 days).

Average trade receivables turnover (days) was at 60 days (31 December 2010: 44 days). The Group strikes to exercise due care in managing credit exposure. We generally require our customers to make full payment upon delivery of products, except that for those long-term customers who place orders of substantial amounts and who have a good payment record, we normally accept deferred payment. With our comprehensive credit control system, we seek to maintain strict control over and closely monitor our outstanding receivables to minimise credit risk. The trade receivables balances are reviewed regularly by our senior management.

Average trade payables turnover (days) was at 49 days (31 December 2010: 43 days). The increase in the average trade payable turnover (days) was attributable to the increase in purchase to cope with the increase in sales of our Group.

Overall, the Group maintained a current ratio (times) of 2.9 as at 31 December 2011 (31 December 2010: 5.4).



Notes:

The calculation of average inventories turnover (days) is based on average of opening and closing inventories balances divided by cost of sales and multiplied by the number of days of the relevant period.

The calculation of average trade receivables turnover (days) is based on average of opening and closing balances of trade receivables divided by turnover and multiplied by the number of days of the relevant period.

The calculation of average trade payables turnover (days) is based on average of opening and closing balances of trade and bills payables divided by cost of sales and multiplied by the number of days of the relevant period.

The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at the relevant period end.

Capital Expenditure

For the year under review, the Group incurred capital expenditure of approximately RMB274.8 million mainly for the purchase of production facilities and the construction of Shanghai and second phase of Fuzhou factory with workshops, warehouses, offices and staff quarters. Advanced payment for property, plant and equipment of RMB174.1 million was made mainly for the purchase of production facilities which will be delivered to Shanghai factories in the first half of 2012. All of which were financed by the Group's internal resources.

Capital Commitments and Contingent Liabilities

As at 31 December 2011, total capital commitments amounted to RMB87.7 million (31 December 2010: RMB119.6 million). There were no material contingent liabilities or off balance sheet obligations.

Human Resources

The Group employed a total of 1,022 employees (31 December 2010: 985 employees) in China and Hong Kong.

The Group regards human capital as vital for the Group's continuous growth and profitability and remains committed to improve the quality, competence and skills of all employees. It provides job related training throughout the organisation. The Group continues to offer competitive remuneration packages and bonuses to eligible staffs, based on the performance of the Group and the individual employee.

Biography of Directors and Senior Management

Directors

The board of directors (the “Board”) consists of six Directors, including three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Lin Shengxiong (林生雄), aged 49, is the Chairman and an executive Director of the Company. Mr. Lin is one of the founders of the Group and a substantial shareholder of the Company. Mr. Lin was appointed as a Director on 7 October 2009. He is responsible for all strategic planning of the Group. Mr. Lin has over 26 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and strategic and production management. Mr. Lin was elected as vice chairman of the 3rd session of the Fujian branch of China Chamber of International Commerce (中國國際商會福建商會) in June 2004. During that year, he also held the post of Committee Member of the 5th session of the Sanming City Sanyuan District Committee* (三明市三元區第五屆委員會) in January. Mr. Lin was elected as a committee member of the 4th session of the Fujian Association of Enterprises with Foreign Investment in November 2007, a committee member of the 3rd committee of the Fujian Federation of Industry & Commerce in April 2007 and the chairman of Association of Plastic Material Industry of Fuzhou City* (福州市塑膠同業公會) in 2010. Mr. Lin was also elected as a Member of the 8th Committee of the Chinese People’s Political Consultative Conference of Jinan District of Fuzhou City* (中國人民政治協商會議福州市晉安區第八屆委員會) in December 2011 and deputy chairman of Association of Environmental Protection of Jinan District of Fuzhou City* (福州市晉安區環保協會) in 2011. Mr. Lin completed certificate course for graduate students in world economics in Graduate Students’ College of Xiamen University (廈門大學研究生院) in September 2001.

Mr. Zhang Hongwang (張宏旺), aged 35, is an executive Director of the Company, who is the son-in-law of Mr. Lin Shengxiong’s elder brother. Mr. Zhang was appointed as a Director on 7 October 2009. He is responsible for the operations of the Group. Mr. Zhang has over 15 years of experience in the polymers and plastic industry. He has extensive experience in financial management and operation. Since February 2002, Mr. Zhang served as the general manager of Fujian Sijia Industrial Material Co., Ltd (“Fujian Sijia”), a subsidiary of the Company, responsible for products promotion, formulating and implementing development strategies and operation plans of the Group. Prior to joining the Group, Mr. Zhang served as the accountant and was later promoted as accounting manager of Fujian Sanming Yongfeng Plastics Co., Ltd.* (福建三明市永豐塑膠有限公司) from September 1996 to October 2000. Subsequently, Mr. Zhang acted as general manager of Fujian Fang Ya from October 2000 to December 2002 responsible for the production, sales and operation in manufacturing rain coats. Through the above work experience with these companies, Mr. Zhang gained substantial knowledge and experience in technologies, formulae and production techniques in manufacturing of polymer products. He has also completed the certificate course for senior business management chief executive seminars (高級工商管理總裁研修班) in Qinghua University in December 2007.

* For identification purpose only



Mr. Huang Wanneng (黃萬能), aged 44, is an executive Director of the Company. Mr. Huang was appointed as a Director on 7 October 2009. He is principally responsible for the research and development of the Group. Mr. Huang is a chief mechanical engineer and has about 22 years of experience in the polymer and plastic industry. He has extensive experience in on-site management, development of technology and equipments and improvement in production techniques. Mr. Huang served as deputy general manager and chief engineer of Fujian Sijia, mainly responsible for the new equipments, technology and product development, equipment management and technology reform of equipments since September 2002. Prior to joining the Group, Mr. Huang worked for Fujian Hongming Plastics Co., Ltd.* (福建省宏明塑膠股份有限公司) where he served various positions, namely, workshop technician, workshop supervisor, equipment engineer and department chief of equipment department from July 1989 to August 2002. During this period, Mr. Huang specialized in management of production automation system used in the manufacturing of polymer products. He obtained his bachelor's degree in electric engineering from Southeast University in July 1989.

Independent non-executive Directors

Mr. Chong Chi Wah (莊志華), aged 50, is an independent non-executive Director of the Company. Mr. Chong was appointed as a Director on 14 February 2011. Mr. Chong graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a Diploma in Management Studies in 1991 and graduated from University of San Francisco of the United States with a Master degree in Business Administration (MBA) in 1997. Mr. Chong is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom, an associate member of Hong Kong Institute of Certified Public Accountants, associate member of The Institute of Chartered Secretaries and Administrators and associate member of The Hong Kong Institute of Chartered Secretaries. Mr. Chong has over 25 years of experience in accounting, audit and finance. He is currently a Director of two subsidiaries of Tonic Industries Holdings Limited, a company listed on the Main Board of Hong Kong Stock Exchange. Mr. Chong was an independent non-executive director of China Solor Energy Holdings Limited (中國源暢光電能源控股有限公司) (stock code: 155), the Shares of which are listed on the Main Board of Hong Kong Stock Exchange.

Mr. Cai Weican (蔡維燦), aged 52, is an independent non-executive Director of the Company. Mr. Cai was appointed as a Director on 6 January 2010. Mr. Cai joined Sanming Vocational and Technical College (三明職業技術學院) since June 2005, holding various positions ranging from senior lecturer assistant professor, senior accountant of the Financial and Accounting Department, Second Convenor (presiding over works) of the Department of Economics and Management, party sub-committee secretary of the Department of Humanity, Economics and Management. Mr. Cai is currently the supervisor and party sub-committee secretary of the Department of Economics and Management at Sanming Vocational and Technical College (三明職業技術學院). Mr. Cai has been the vice president of the Sanming Institute of Auditors (三明市審計學會) and a member of the Expert Team of Budget Audit and Oversight of People's Congress Standing Committee of Sanming City (三明市人大常委會預算審查監督專家組). Mr. Cai obtained a number of honorary titles such as Outstanding Teacher Award by the Finance Department of Fujian Province (福建省財政廳) and Outstanding Teacher of Fujian Province. He obtained a bachelor's degree in Hunan University specializing in accounting in 2004.

* For identification purpose only



Mr. Wu Jianhua (吳建華), aged 67, is an independent non-executive Director of the Company. Mr. Wu was appointed as a Director on 14 January 2011. Mr. Wu is currently the chairman of the Agricultural Society of Fujian, the PRC. Mr. Wu was a postgraduate of Fujian Agriculture and Forestry University specialized in Agriculture Economy Management and graduated from University of North Virginia of the United States with a Master degree in Business Administration (MBA) in 2003. Mr. Wu had been a Representative of the 9th National People's Congress, a member of the 7th Provincial Party Committee and a member of 7th and 9th Provincial Political Consultative Conference. During the period from 1969 to 1988, he had worked for Fuzhou Car Manufactory and Repair Plant (福州汽車修造廠), Provincial Traffic Department (省交通廳), industry and traffic division of Executive Office of the Provincial Government (省政府辦公廳工交處), Putian City Planning Commission (莆田市計委), Bureau of Legislative Affairs of the Provincial Government (省政府法制局), served as Deputy Commissioner, Deputy Head, Head of the Planning Commission, Legal Secretary respectively. Between 1988 and 2005, Mr. Wu served as Deputy Secretary General of the Provincial Government, Putian City Mayor, Director of Provincial Agriculture Office engaging in the agricultural economic management works. Since August 2005, Mr. Wu had served as Deputy Director of the Provincial Committee of Economy, Science and Technology and continued to lead in agricultural economic management works. During this period, Mr. Wu had also chaired the formulation of "Shi•Wu (十•五)", "Shiyi•Wu (十一•五)" agricultural development planning and characteristic agricultural industry of Fujian province, and had participated in research and implementation of projects involving comprehensive law enforcement in agriculture, deepening Taiwan and Fujian agricultural cooperation, establishing 969155 agricultural information hotline. At the same time, he had: organized and implemented agricultural "Crossing Plans (跨越計劃)", "Harvest Plans (豐收計劃)", "New Farmer Training Project (新型農民培訓工程)" and "the Green Certificate Project (綠色證書工程)" and "Science and Technology for Farmers-home Project (農民科技入戶工程)"; perfected curing mechanism of agricultural science and technology innovation and achievements; organized and implemented "Digital Agriculture" project advancing the Fujian agricultural informative progress. Mr. Wu has established certain academic standards and influence in strategic research areas of agriculture and the rural economy and related subjects in the PRC. He had released more than 60 papers on the above provincial level CN publications, Guangming Daily and Fujian Daily. One of the papers, namely "Some Thoughts Related to Development of Rural Economic 《關於發展農村經濟的幾點思考》" was incorporated by the Central Party School into "Revenue Base on Deng Xiaoping Theory 《鄧小平理論研究文庫》". Mr. Wu also edited and wrote science and technology books, such as "Agricultural Science and Technology Innovation, Cycling Agriculture, Theory and Practice of Construction of new Countryside 《農業科技創新、迴圈農業與新農村建設的理論與實踐》", "Ping Shan Night Talks 《屏山夜話》", "Fujian's Three Types of Farmers Working Dictionary 《福建三農工作大典》". Mr. Wu had awarded "The Country's Helping Disabled Individuals (全國扶殘先進個人)", "Assisting Disabled Mayor (助殘市長)", "The Country's Prevention and Control of Animal Diseases Individuals (全國防治畜禽疫病先進個人)", "Against Flood and Disasters Advanced Individual (抗洪救災先進個人)" and the Department of Agriculture's "Prize for Contributions to the development of the Institute (學會發展貢獻獎)".



None of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

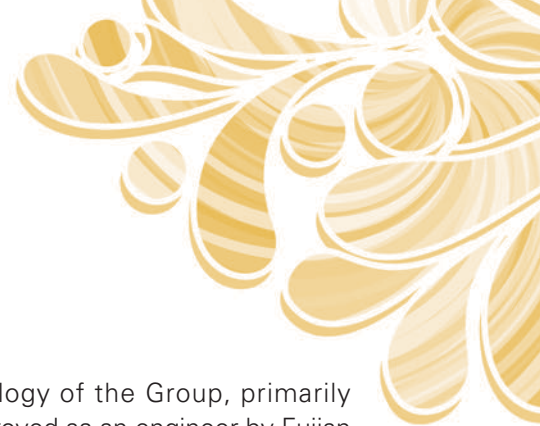
Senior Management

Mr. Chan Wing Hang (陳永恒), FCCA, CPA, aged 34, is the chief financial officer and company secretary of the Company and is responsible for the overall financial control, company secretarial, compliance and investor relation functions of the Company. Mr. Chan graduated from The University of Hull in January 2012 with a degree of Master of Business Administration (MBA) and from City University of Hong Kong (香港城市大學) in November 1999 with a degree of Bachelor of Business Administration (Honours) in Accountancy. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in October 2009, Mr. Chan was the financial controller, qualified accountant and company secretary of China National Materials Company Limited (中國中材股份有限公司) (stock code: 1893), the shares of which are listed on the Main Board of Hong Kong Stock Exchange. He has also served as the assistant financial controller, qualified accountant and company secretary of Western Mining Company Limited (西部礦業股份有限公司) (stock code: 601168), the shares of which are listed on the Shanghai Stock Exchange. Prior to that, Mr. Chan was also the qualified accountant and company secretary of Shinhint Acoustic Link Holdings Limited (成謙聲匯控股有限公司) (stock code: 2728), the shares of which are listed on the Main Board of Hong Kong Stock Exchange. Mr. Chan has 14 years of experience in accounting, finance, compliance, company secretarial, investor relations and initial public offerings.

Mr. Lai Derong (賴德榮), aged 39, is the vice president of the Group and is primarily responsible for overseeing the production management of the Group. Mr. Lai joined the Group in June 2008. Prior to joining the Group, he worked for Intex Group from July 1994 to July 2005 and served various positions as technician, team leader and division head of production and management department. From August 2005 to May 2008, he served as manager of Polytree Group, mainly responsible for the technology, production and management of the factory.

Ms. Zheng Lijuan (鄭麗娟), aged 32, is the deputy general manager and division head of the procurement department of the Group and is responsible for the procurement of the Group, cost control and the management of the Group's 7S. Ms. Zheng joined the Group in October 2005. During the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of the Group and in March 2010, the division head of the procurement department of the Group. In June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

Mr. Huang Daohuo (黃道火), aged 39, is the product technology manager and the division head of sales support of the Group, primarily responsible for overseeing the marketing of new products and the after-sale technical support service of the Group. Mr. Huang joined the Group in July 2003 and has 16 years of experience in polymer materials industry.



Mr. Jiang Shisheng (蔣石生), aged 42, is the division head of technology of the Group, primarily responsible for technological development of the Group. Mr. Jiang was approved as an engineer by Fujian Provincial Bureau of Personnel in December 1998. Prior to joining the Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd. (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelors degree in engineering from Tianjin University of Light Industry* (天津輕工業學院).

Mr. Wu Yonggui (伍永貴), aged 32, is the division head of finance of the Group, mainly responsible for accounting and audit of the Group. Mr. Wu is also an accountant and assistant economist. Before joining the Group in January 2006, Mr. Wu held various posts with Xiamen Huier-Kang Food Co., Ltd.* (廈門惠爾康食品有限公司), namely, costs analyst, production planning officer and costs accountant for the period from July 2003 to December 2004. From January 2005 to December 2005, he worked as sales accountant for Fujian Huier-Kang Dairy Co., Ltd.* (福建惠爾康乳業有限公司). Mr. Wu graduated from Jimei University majoring financial management (with human resource management).

Company Secretary

Mr. Chan Wing Hang (陳永恒), for further details, please see the sub-section headed "Senior Management" above.

* For identification purpose only

Corporate Governance Report



The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the Code. In respect of the year ended 31 December 2011, save as disclosed below, all the code provisions set out in the Code were met by the Company.

(A) The Board of Directors

The overall management of the Company’s operation is vested in the Board.

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors make decisions objectively in the interests of the Company. Currently, the Board comprises 6 Directors, including 3 executive Directors and 3 independent non-executive Directors. Their names, biographical details and relationships (some of the Directors are related to each other) are set out in the section entitled “Biography of Directors and Senior Management” in the annual report.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group’s businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

Compliance with the Model Code for 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 to the Listing Rules as the standard for securities transactions by Directors. The Company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code during the financial year.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. During the financial year, the role of the Chairman is performed by Mr. Lin Shengxiong and the role of Chief Executive Officer of the Company are performed by our General Manager Mr. Zhang Hongwang. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises 3 executive Directors and 3 independent non-executive Directors and therefore has a strong independence element in its composition.



Appointments, Re-election and Removal of Directors

Each of the executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term. Such term is subject to his re-appointment by the Company at an annual general meeting (the “AGM”) upon retirement. The articles of association of the Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next AGM of the Company and shall then be eligible for re-election.

Independent Non-Executive Directors

Independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board’s decision. In particular, they bring an impartial view to bear on issues of the Company’s strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The Board also considers that independent non-executive Directors can provide independent advice on the Company’s business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

All of the independent non-executive Directors are appointed for a term of 2 years and are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Newly appointed Director would receive an induction package covering the Group’s businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors’ knowledge and skills.

Directors’ and Officers’ Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Board Committees

The Board has established Audit Committee, Remuneration Committee and Nomination Committee (collectively “Board Committees”) with defined terms of reference. The terms of reference of the Board Committees are available upon request. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company’s expenses.



Audit Committee

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process, internal controls and review of the consolidated financial statements. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues (and in the absence of management if appropriate). Their written terms of reference are in line with the Code provisions. Members of the Audit Committee comprise Mr. Chong Chi Wah (Chairman), Mr. Cai Weican and Mr. Wu Jianhua, all of whom are independent non-executive Directors.

The Audit Committee met 4 times during the financial year. During the meetings, the Audit Committee has considered the annual results of the Group for the year ended 31 December 2011 and the interim results of the Group for the 6 months ended 30 June 2011 as well as the reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review. All members of the Audit Committee attended the meetings.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that their remuneration and compensation are reasonable. Their written terms of reference are in line with the Code provisions. Members of the Remuneration Committee comprise Mr. Wu Jianhua (Chairman), Mr. Lin Shengxiong, Mr. Chong Chi Wah and Mr. Cai Weican.

The Remuneration Committee met twice during the financial year. During the meeting, the Remuneration Committee reviewed and approved the new remuneration scheme for the financial year on behalf of the Board. All members of the Remuneration Committee attended the meetings.

Nomination Committee

The Nomination Committee is primarily responsible to consider and recommend to the Board suitably qualified persons to become the member of the Board and is also responsible for reviewing the structure, size and composition of the Board on a regular basis and as required. Members of the Nomination Committee comprise Mr. Cai Weican (Chairman), Mr. Chong Chi Wah and Mr. Wu Jianhua.

During the financial year, one meeting was held by the Nomination Committee. The Committee considers that the size and composition of the Board is sufficient to meet the Company's business needs in respect of the financial year. All members of the Nomination Committee attended the meeting.



Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications. The attendance of individual Directors at these meetings is set out below:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held for the year ended 31 December 2011	6	4	2	1
<i>Executive Directors</i>				
Mr. Lin Shengxiong	6	N/A	2	N/A
Mr. Zhang Hongwang	6	N/A	N/A	N/A
Mr. Huang Wanneng	6	N/A	N/A	–
<i>Independent non-executive Directors</i>				
Mr. Chong Chi Wah	6	4	2	1
Mr. Cai Weican	6	4	2	1
Mr. Wu Jianhua	6	4	2	1

All Directors are provided with notice and agenda of meeting at least 14 days in advance, while relevant materials relating to the matters brought before the meetings at least three days in advance. All Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have access to the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Reasonable notices of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.

Conflict of Interest

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and to abstain from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction.



(B) Financial Reporting and Internal Control

Financial Reporting

The Board, supported by the Chief Financial Officer and the finance department, is responsible for the preparation of the financial statements of the Group and the Company. In the preparation of financial statements, the Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance have been adopted, the appropriate accounting policies have been consistently used and applied, and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner.

The work scope and responsibilities of Ernst & Young, the Company's external auditor, are stated in the section entitled "Independent Auditor's Report" in the annual report.

External Auditor's Remuneration

During the financial year, the fee payable to Ernst & Young in respect of its statutory audit services provided to the Company was RMB2,550,000 (2010: RMB2,400,000).

No non-audited service was provided by our external auditor.

Internal Control

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The Group conducted general review and monitor of the Group's internal management and operation during the financial year.

In addition to the above, the Board and the Audit Committee have reviewed the effectiveness of its internal control systems on all major operations of the Group on a rotational basis by appointing Shinewing Risk Services Limited on their behalf. The scope of review by the professional accounting firm has been determined and approved by the Audit Committee. The professional accounting firm has reported major internal control review findings to the Board and the Audit Committee. No major issue but areas for improvement have been identified. All recommendations from the professional accounting firm will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has substantially complied with the Code provisions regarding internal control systems.



(C) Communications with Shareholders and Investor Relations

The management believes that effective communication with the investment community in a timely manner through various media is essential. We held regular briefings, attended investor conferences and participated in roadshows to meet institutional investors and financial analysts in Hong Kong, the PRC and overseas countries to keep them abreast of the Company's business and development.

AGM proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of AGM is distributed to all shareholders at least 21 days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the articles of association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on the Group's website on the day of the AGM.

By order of the Board

Lin Shengxiong

Executive Director

Hong Kong, 21 March 2012

Report of the Directors



The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements. The Group is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

Results and Dividends

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 91.

The board of Directors recommends the payment of a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2011 (2010: 10 cents). The proposed final dividend will be payable in cash with a scrip dividend alternative.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92.

Share Capital and Share Options

Details of movements of the Company's share capital and share options are set out in notes 28 and 29 to the financial statements, respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Sale or Redemption of Listed Shares of the Company

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

Reserves

The distributable reserves of the Company, calculated in accordance with the Companies Laws (Revised) Chapter 22 of the Cayman Islands, as at 31 December 2011 amounted to RMB1,385.5 million.

The share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Movements in the reserves of the Group and of the Company during the year are set out in Note 30 to the financial statements.



Major Customers

During the year, the five largest customers of the Group accounted for less than 25% of the total turnover of the Group.

Directors

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

Executive Directors

Lin Shengxiong (*Chairman*)

Zhang Hongwang

Huang Wanneng

Independent non-executive Directors

Chong Chi Wah

Wu Jianhua

Cai Weican

In accordance with Articles 84 of the Company's articles of association, Zhang Hongwang and Cai Weican retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The terms of directorship of all the executive Directors and all the independent non-executive Directors are three-year and two-year respectively unless terminated by either party giving not less than three months' notice to the other party.

All the independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and based on such confirmation, the Company is of the opinion that the independence status of the independent non-executive Directors remains intact as at 31 December 2011.

Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting 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' Interests in Contracts

No director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.



Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company

As at 31 December 2011, the interests of each Director and chief executive in the shares and underlying shares of the Company and 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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in shares of the Company

Name of Director	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the Company
Lin Shengxiong	Interests in controlled corporation (Note)	Long position	491,786,000	59.33%
Zhang Hongwang	Beneficial owner	Long position	30,000	0.004%
Huang Wanneng	Beneficial owner	Long position	30,000	0.004%

Note: These shares are held by Hopeland International Holdings Company Limited, which is wholly-owned by Lin Shengxiong. Therefore, Lin Shengxiong is deemed to be interested in these shares under the SFO.

Interest in shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares held	Approximate percentage of shareholding in the associated corporation
Lin Shengxiong	Hopeland International Holdings Company Limited	Beneficial owner	Long position	1	100.00%

Save as disclosed above and the section "Share Option Scheme", as at 31 December 2011, none of the Directors or chief executive had any interests in or short positions in the shares, underlying shares and debentures of the Company or any associated corporation or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in shares or underlying shares in, or debentures of, the Company or its associated corporations.



Share Option Scheme

The Company has adopted its share option scheme (the "Share Option Scheme") on 8 April 2010 to provide incentives to the employees, including any executive and non-executive Directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees and attract and retain human resources that are valuable to the Group. Pursuant to the Share Option Scheme, the Directors may, at their discretion, invite eligible participants including employees, executive and non-executive Directors, officers, agents or consultants of the Group to take up options to subscribe for the Company's shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for ten years.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue on 29 April 2010, the date of completion of the global offering and capitalisation issue. No options may be granted under the Share Option Scheme if this will result in such limit exceeded unless another shareholders' approval is obtained. As at 31 December 2011, the number of shares available for issue under the Share Option Scheme is 80,000,000, representing 9.65% of the total number of shares of the Company in issue. The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 22 July 2010, the following share options were granted and exercisable from 22 July 2010 to 21 July 2015 at an exercise price of HK\$3.30 per share:

Executive Directors

Zhang Hongwang	8,000,000
Huang Wanneng	6,000,000

As at 30 September 2010, the following share options were granted and exercisable from 30 September 2010 to 29 September 2015 at an exercise price of HK\$3.50 per share:

Other participants

Employees	36,000,000
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As at 31 December 2011, all options granted had not been exercised.



Non-listed Warrants

On 17 November 2010, the Company issued 35,000,000 non-listed warrants at HK\$0.01 each, the net proceeds of approximately HK\$170,000 was raised as general working capital of the Group. Each warrant has subscription right to subscribe for one new share of the Company at subscription price of HK\$4.50 per new share, subject to adjustment, for a period of 30 months commencing from the date immediately after the expiry date of 6 months after the date of the issue of the warrants.

None of such warrants was ever exercised since the date of issue. At 31 December 2011, the Company had outstanding 35,000,000 non-listed warrants to be exercised before 16 November 2013. Exercised in full of such warrants would result in the issue of 35,000,000 additional ordinary shares.

Substantial Shareholders' Interests in Shares and Underlying Shares of the Company

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 31 December 2011, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed under the section "Directors' and Chief Executives' Interests in Shares and Underlying Shares of the Company".

Name of shareholder	Long/Short position	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Hopeland International Holdings Company Limited (Note 1)	Long position	Beneficial owner	491,786,000	59.33%
Lin Hongting (Note 2)	Long position	Interests of spouse	491,786,000	59.33%
Glory Bright Investments Enterprise Limited (Note 3)	Long position	Beneficial owner	59,011,000	7.11%
Lin Wanpeng (Note 3)	Long position	Interests in controlled corporation	59,011,000	7.11%
Wang Huiqing (Note 4)	Long position	Interests of spouse	59,011,000	7.11%

Notes:

1. The entire issued share capital of Hopeland International Holdings Company Limited is beneficially owned by Lin Shengxiong who is deemed to be interested in the shares of the Company held by Hopeland International Holdings Company Limited pursuant to the SFO.
2. Lin Hongting is the spouse of Lin Shengxiong. Therefore, Lin Hongting is deemed to be interested in the shares of the Company in which Lin Shengxiong is interested for the purposes of the SFO.
3. The entire issued share capital of Glory Bright Investments Enterprise Limited is beneficially owned by Lin Wanpeng who is deemed to be interested in the shares of the Company held by Glory Bright Investments Enterprise Limited pursuant to the SFO.
4. Wang Huiqing is the spouse of Lin Wanpeng. Therefore, Wang Huiqing is deemed to be interested in the shares of the Company in which Lin Wanpeng is interested for the purposes of the SFO.



Save as disclosed above, no other interest or short position in the shares and underlying shares of the Company was recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2011.

Corporate Governance

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 17 to 22 in the annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Lin Shengxiong

Director

Hong Kong

21 March 2012

Independent Auditors' Report



To the shareholders of Sijia Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sijia Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

22nd Floor

CITIC Tower


1 Tim Mei Avenue, Central

Hong Kong

21 March 2012

Consolidated Income Statement

Year ended 31 December 2011




	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	1,197,085	965,338
Cost of sales		(690,964)	(528,092)
Gross profit		506,121	437,246
Other income and gains	5	4,776	6,367
Selling and distribution costs		(18,024)	(20,694)
Administrative expenses		(80,812)	(152,791)
Other expenses		(5,351)	(3,359)
Finance costs	7	(3,130)	(2,112)
PROFIT BEFORE TAX	6	403,580	264,657
Income tax expense	10	(75,790)	(47,411)
PROFIT FOR THE YEAR		327,790	217,246
Attributable to:			
Owners of the parent	11	328,277	217,246
Non-controlling interests		(487)	–
		327,790	217,246
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic:			
– For profit for the year		39.61 cents	28.86 cents
Diluted:			
– For profit for the year		39.61 cents	28.67 cents

Details of the dividend proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011



	Notes	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		327,790	217,246
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		(1,752)	(9,861)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(1,752)	(9,861)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		326,038	207,385
Attributable to:			
Owners of the parent	11	326,525	207,385
Non-controlling interests		(487)	–
		326,038	207,385

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	776,389	376,205
Prepaid land lease payments	15	30,661	5,305
Intangible assets	16	5,761	5,058
Advance payments for property, plant and equipment		174,065	329,725
Available-for-sale investment	17	4,140	4,140
Deferred tax assets	27	3,754	787
Total non-current assets		994,770	721,220
CURRENT ASSETS			
Inventories	19	106,989	55,370
Trade receivables	20	245,962	147,118
Prepayments, deposits and other receivables	21	115,984	37,220
Pledged deposits	22	25,956	22,109
Cash and cash equivalents	22	242,070	333,857
Total current assets		736,961	595,674
CURRENT LIABILITIES			
Trade and bills payables	23	104,635	80,318
Other payables and accruals	24	38,557	12,992
Interest-bearing bank borrowings	25	89,766	15,000
Deferred income	26	360	360
Tax payable		22,997	1,681
Due to a related party	35	119	80
Total current liabilities		256,434	110,431
NET CURRENT ASSETS		480,527	485,243
TOTAL ASSETS LESS CURRENT LIABILITIES		1,475,297	1,206,463
NON-CURRENT LIABILITIES			
Deferred income	26	2,850	3,210
Deferred tax liabilities	27	14,293	6,267
Total non-current liabilities		17,143	9,477
Net assets		1,458,154	1,196,986
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	728	728
Reserves	30(a)	1,385,504	1,126,388
Proposed final dividend	12	67,409	69,870
Non-controlling interests		1,453,641	1,196,986
Total equity		4,513	–
		1,458,154	1,196,986

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent											Total equity RMB'000
	Issued capital RMB'000 (note 28)	Capital surplus/ share premium* RMB'000 (note 28)	Capital reserve* RMB'000	Share option reserve* RMB'000 (note 28)	Warrant reserve* RMB'000 (note 28)	Statutory surplus funds* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000 (note 12)	Total RMB'000	Non- controlling interests RMB'000	
At 1 January 2010	88	40,158	28,994	-	-	31,745	2,721	247,294	-	351,000	-	351,000
Profit for the year	-	-	-	-	-	-	-	217,246	-	217,246	-	217,246
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(9,861)	-	-	(9,861)	-	(9,861)
Total comprehensive income for the year	-	-	-	-	-	-	(9,861)	217,246	-	207,385	-	207,385
Issue of shares	201	659,130	-	-	-	-	-	-	-	659,331	-	659,331
Share issue expenses	-	(33,992)	-	-	-	-	-	-	-	(33,992)	-	(33,992)
Capitalisation of share premium	439	(439)	-	-	-	-	-	-	-	-	-	-
Issue of warrants	-	-	-	-	300	-	-	-	-	300	-	300
Warrant issue expenses	-	-	-	-	(139)	-	-	-	-	(139)	-	(139)
Equity-settled share option arrangements	-	-	-	13,101	-	-	-	-	-	13,101	-	13,101
Proposed final 2010 dividend	-	(69,870)	-	-	-	-	-	-	69,870	-	-	-
Transfer from retained profits	-	-	-	-	-	25,347	-	(25,347)	-	-	-	-
At 31 December 2010	728	594,987	28,994	13,101	161	57,092	(7,140)	439,193	69,870	1,196,986	-	1,196,986
At 1 January 2011	728	594,987	28,994	13,101	161	57,092	(7,140)	439,193	69,870	1,196,986	-	1,196,986
Profit for the year	-	-	-	-	-	-	-	328,277	-	328,277	(487)	327,790
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,752)	-	-	(1,752)	-	(1,752)
Total comprehensive income for the year	-	-	-	-	-	-	(1,752)	328,277	-	326,525	(487)	326,038
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	5,000	5,000
Final 2010 dividend declared	-	-	-	-	-	-	-	-	(69,870)	(69,870)	-	(69,870)
Proposed final 2011 dividend	-	(67,409)	-	-	-	-	-	-	67,409	-	-	-
Transfer from retained profits	-	-	-	-	-	35,381	-	(35,381)	-	-	-	-
At 31 December 2011	728	527,578	28,994	13,101	161	92,473	(8,892)	732,089	67,409	1,453,641	4,513	1,458,154

[#] These reserve accounts comprise the consolidated reserves of RMB1,385,504,000 (2010: RMB1,126,388,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		403,580	264,657
Adjustments for:			
Finance costs	7	3,130	2,112
Bank interest income	5	(2,067)	(1,904)
Foreign exchange differences, net		479	–
Depreciation	6	28,677	10,823
(Gain)/loss on disposal of items of property, plant and equipment	6	(11)	572
Amortisation of prepaid land lease payments	6	339	96
Amortisation of intangible assets	6	1,125	471
Dividend income from available-for-sale unlisted investment	5	(4)	–
Equity-settled share option expense	29	–	13,101
		435,248	289,928
Increase in inventories		(51,619)	(25,922)
Increase in trade receivables		(98,844)	(60,754)
Increase in prepayments, deposits and other receivables		(78,764)	(3,275)
Increase in trade and bills payables		24,317	34,952
Increase/(decrease) in other payables and accruals		25,565	(3,771)
(Decrease)/increase in deferred income	26	(360)	3,570
Decrease in an amount due to a director		–	(624)
Increase/(decrease) in an amount due to a related party		39	(4,371)
Exchange difference on consolidation		(1,752)	(9,861)
Cash generated from operations		253,830	219,872
Tax paid		(49,415)	(53,031)
Interest paid	7	(3,130)	(2,112)
Net cash flows from operating activities		201,285	164,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	2,067	1,904
Dividend received		4	–
Purchases of items of property, plant and equipment		(274,798)	(587,378)
Additions to prepaid land lease payments		(25,695)	–
Additions to intangible assets	16	(1,828)	(5,231)
Proceeds from disposal of items of property, plant and equipment		1,608	(530)
Purchase of an available-for-sale investment	17	–	(4,140)
Increase in pledged time deposits	22	(3,847)	(11,080)
Net cash flows used in investing activities		(302,489)	(606,455)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		94,766	25,000
Repayment of bank loans		(20,000)	(48,875)
Proceeds from issue of shares		–	659,331
Contribution from a non-controlling shareholder		5,000	–
Dividend paid		(69,870)	–
Share issue expenses		–	(33,992)
Proceeds from issue of warrants		–	300
Warrant issue expenses		–	(139)
Net cash flows from financing activities		9,896	601,625
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(91,308)	159,899
Cash and cash equivalents at beginning of year		333,857	173,958
Effect of foreign exchange rate changes, net		(479)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		242,070	333,857
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	231,295	255,785
Non-pledged time deposits with original maturity of less than three months when acquired	22	10,775	78,072
Cash and cash equivalents as stated in the statement of financial position		242,070	333,857

Statement of Financial Position

31 December 2011



	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	351,000	351,000
Total non-current assets		351,000	351,000
CURRENT ASSETS			
Due from a subsidiary	18	488,324	569,988
Prepayments, deposits and other receivables	21	132	138
Cash and cash equivalents	22	4,008	23,128
Total current assets		492,464	593,254
CURRENT LIABILITIES			
Other payables and accruals	24	107	61
Total current liabilities		107	61
NET CURRENT ASSETS		492,357	593,193
TOTAL ASSETS LESS CURRENT LIABILITIES		843,357	944,193
Net assets		843,357	944,193
EQUITY			
Issued capital	28	728	728
Reserves	30(b)	775,220	873,595
Proposed final dividend	12	67,409	69,870
Total equity		843,357	944,193

Notes to the Financial Statements

31 December 2011



1. Corporate Information

Sijia Group Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 7 October 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Pursuant to the group reorganisation (the “Reorganisation”) as more fully described in the section headed “Corporate Reorganisation” in Appendix V “Statutory and General Information” in the prospectus of the Company dated 16 April 2010 (the “Prospectus”), the Company became the holding company of the subsidiaries now comprising the Group on 15 December 2009.

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

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 29 April 2010.

The Group is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite materials, (ii) conventional materials and (iii) downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.



2.1 Basis of Preparation *(continued)*

Basis of consolidation *(continued)*

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19 <i>Improvements to HKFRSs 2010</i>	<i>Extinguishing Financial Liabilities with Equity Instruments</i> Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.



2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> ⁴
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ³
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ⁴
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ⁵
HKAS 19 (2011)	<i>Employee Benefits</i> ⁴
HKAS 27 (2011)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ⁴
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 which may result in changes in accounting policies, the other revised standards, amendments or interpretations are unlikely to have a significant impact on the Group's results of operations and financial position.



2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Impairment of non-financial assets

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

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

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



2.4 Summary of Significant Accounting Policies *(continued)*

Related parties

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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.



2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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



2.4 Summary of Significant Accounting Policies *(continued)*

Intangible assets (other than goodwill)

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

Software

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

Patent

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

Research and development costs

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

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

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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



2.4 Summary of Significant Accounting Policies *(continued)*

Leases *(continued)*

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade receivables, deposits and other receivables, and available-for-sale financial investment.

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.



2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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



2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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



2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

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



2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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



2.4 Summary of Significant Accounting Policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.



2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (d) dividend income, when the shareholders' right to receive payment has been established.



2.4 Summary of Significant Accounting Policies *(continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.



2.4 Summary of Significant Accounting Policies *(continued)*

Retirement benefits

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the People's Republic of China (the "PRC"). Pension scheme contributions are provided at rates stipulated by the PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement as incurred.

Borrowing costs

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

Dividends

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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



2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation of foreign operations. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Estimation uncertainty

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

Impairment of non-financial assets other than goodwill

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

Deferred tax assets

Deferred tax assets are recognised for certain temporary differences to the extent that it is probable that taxable profit will be available against which the temporary tax differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on deferred tax assets are disclosed in note 27 to these financial statements.



3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 10 to these financial statements.

Impairment of trade and other receivables

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

Useful lives and residual values of property, plant and equipment

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

Share-based payment transactions

The cost of equity-settled share options granted with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model. The option pricing model takes into account, as a minimum, the following factors in estimating the fair value of the cost of equity-settled transactions:

- (a) the exercise price of the option;
- (b) the life of the option;
- (c) the current price of the underlying shares;
- (d) the expected volatility of the share price;
- (e) the dividends expected on the shares; and
- (f) the risk-free rate for the life of the option.



3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Share-based payment transactions *(continued)*

The cost of equity-settled share options is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. Should the estimates including other relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve. No share option expense recognised for the year ended 31 December 2011 (2010: RMB13,101,000).

4. Operating Segment Information

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

Geographical information

	PRC RMB'000	Non-PRC RMB'000	Total RMB'000
Year ended 31 December 2011			
Revenue from external customers	967,510	229,575	1,197,085
Non-current assets	986,876	–	986,876
Year ended 31 December 2010			
Revenue from external customers	949,207	16,131	965,338
Non-current assets	716,293	–	716,293

The revenue information is based on the location of the customers.

All of the non-current assets of the Group are located in the PRC and exclude financial instruments and deferred tax assets.

Information about a major customer

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue for the year (2010: Nil).



5. Revenue, Other Income and Gains

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

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	1,197,085	965,338
Other income and gains		
Bank interest income	2,067	1,904
Government subsidies	2,319	4,288
Gains on disposal of items of property, plant and equipment	11	–
Gross rental income	136	174
Dividend income from available-for-sale unlisted investment	4	–
Others	239	1
	4,776	6,367



6. Profit Before Tax

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		619,054	488,500
Depreciation	14	28,677	10,823
Amortisation of prepaid land lease payments	15	339	96
Amortisation of intangible assets	16	1,125	471
Research and development costs		45,339	97,909
Operating lease expenses		3,643	1,784
(Gain)/loss on disposal of items of property, plant and equipment		(11)	572
Auditors' remuneration		2,699	2,358
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		30,581	22,993
Pension scheme contributions		6,747	952
Equity-settled share option expense	29	–	13,101
Staff welfare expenses		2,416	3,558
		39,744	40,604
Foreign exchange differences, net		5,092	2,450
Bank interest income	5	(2,067)	(1,904)
Dividend income from available-for-sale unlisted investment	5	4	–

7. Finance Costs

An analysis of finance costs is as follows:

	Group 2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years	3,130	2,112



8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2011 RMB'000	2010 RMB'000
Fees	405	292
Other emoluments:		
Salaries, allowances and benefits in kind	1,473	1,311
Equity-settled share option expense	–	4,314
Pension scheme contributions	39	23
	1,512	5,648
	1,917	5,940

During the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000
Mr. Chong Chi Wah	131	–
Mr. Wu Jianhua	131	–
Mr. Chan Tsz Fu, Jacky	52	127
Mr. Cai Weican	61	38
Mr. Choi Tze Kit, Sammy	30	127
	405	292

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).



8. Directors' Remuneration (continued)

(b) Executive directors

	Salaries, allowances and benefits in kind RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011				
Mr. Lin	744	–	13	757
Mr. Zhang Hongwang	421	–	13	434
Mr. Huang Wanneng	308	–	13	321
	1,473	–	39	1,512
2010				
Mr. Lin	597	–	8	605
Mr. Zhang Hongwang	402	2,465	8	2,875
Mr. Huang Wanneng	312	1,849	7	2,168
	1,311	4,314	23	5,648

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

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2010: two) directors and one independent non-executive director (2010: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2010: three) non-director, highest paid employee for the year are as follows:

	Group 2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	698	386
Equity-settled share option expense	–	4,395
Pension scheme contributions	10	3
	708	4,784



9. Five Highest Paid Employees *(continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to RMB1,000,000	1	–
RMB1,000,001 to RMB2,000,000	–	3
	1	3

During the prior year, share options were granted to non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in the income statement, was determined as at the date of grant and the amount included in the financial statements for the prior year was included in the above non-director, highest paid employees' remuneration disclosures.

10. Income Tax

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

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is subject to corporate income tax ("CIT") at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as Sijia International Holding Limited ("HK Sijia") had no taxable income during the year (2010: Nil).



10. Income Tax (continued)

In accordance with the Corporate Tax Law of the PRC, the profits of the following PRC subsidiaries are subject to the following tax rates:

	Notes	2011	2010
Xiamen Grandsoo Industrial & Trade Co., Ltd. ("Xiamen Grandsoo")	(a)	12.5%	12.5%
Fujian Sijia Industrial Material Co., Ltd. ("Fujian Sijia")	(b)	15%	15%
Fujian Hausa Import and Export Co., Ltd. ("Fujian Hausa")	(c)	25%	25%
Hubei Sijia Industrial Material Co., Ltd. ("Hubei Sijia")	(c)	25%	25%
Sichuan Jiajie Environmental Protection Technology Co., Ltd. ("Sichuan Jiajie")	(c)	25%	25%
Sijia New Material (Shanghai) Co., Ltd. ("Sijia Shanghai")	(c)	25%	25%
Hubei Sijia Outdoor Products Co., Ltd. ("Hubei Outdoor")	(c)	25%	Nil

- (a) Xiamen Grandsoo was registered as a foreign-invested enterprise on 26 May 2006. Pursuant to the approval of the tax bureau, Xiamen Grandsoo is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the PRC Corporate Income Tax Law which has been effective on 1 January 2008 (the "New Corporate Income Tax Law"), a company is still able to enjoy the above mentioned tax holiday within a five-year transitional period from 1 January 2008. A company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy tax holiday at that time. As Xiamen Grandsoo only has taxable profit in 2011, its tax holiday was deemed to have started in 2008. Therefore, Xiamen Grandsoo is entitled to a 50% tax reduction (12.5%) during the year (2010: 12.5%).
- (b) Pursuant to the approval of the tax bureau, Fujian Sijia, being a high-tech enterprise, was levied at the tax rate of 15% for the year (2010: 15%) according to the New Corporate Income Tax Law.
- (c) Fujian Hausa, Hubei Sijia, Sichuan Jiajie, Sijia Shanghai and Hubei Outdoor, being entities set up on 28 July 2010, 30 July 2010, 20 August 2010, 22 November 2010 and 10 March 2011, respectively, are subject to a corporate income tax rate of 25% during the year according to the New Corporate Income Tax Law (2010: 25%).

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



10. Income Tax (continued)

The income tax expenses of the Group during the year are analysed as follows:

	Group 2011 RMB'000	2010 RMB'000
Current – Mainland China		
Charge for the year	70,731	45,112
Deferred (note 27)	5,059	2,299
Total tax charge for the year	75,790	47,411

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

	Group 2011 RMB'000	2010 RMB'000
Profit before tax	403,580	264,657
Tax at the statutory tax rate of 25% (2010: 25%)	100,895	66,164
Lower tax rate for specific province or enacted by local authority	(40,320)	(23,779)
Expenses not deductible for tax	7,316	384
Effect of withholding tax at 5% on the distributable profits of the Group's Mainland China subsidiaries	8,026	3,086
Effect on opening deferred tax of increase in rates	(294)	–
Tax losses utilised from previous years	(618)	–
Tax losses not recognised	785	1,556
Tax charge at the Group's effective rate	75,790	47,411

11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB6,220,000 (2010: RMB25,232,000) which has been dealt with in the financial statements of the Company (note 30(b)).



12. Dividend

	2011 RMB'000	2010 RMB'000
Proposed final – HK10.0 cents (approximately RMB8.1 cents) (2010: HK10.0 cents (approximately RMB8.4 cents)) per ordinary share	67,409	69,870

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend will be payable in cash with a scrip dividend alternative.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 828,831,000 (2010: 752,720,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the prior year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.



13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent *(continued)*

The calculations of basic and diluted earnings per share are based on:

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	328,277	217,246
	Number of shares 2011 '000	2010 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	828,831	752,720
Effect of dilution – weighted average number of Ordinary shares:		
Share options	–	4,012
Warrants	–	982
	828,831	757,714



14. Property, Plant and Equipment

Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011							
At 1 January 2011:							
Cost	28,138	224,207	4,502	2,097	4,648	150,891	414,483
Accumulated depreciation	(5,446)	(29,655)	(1,294)	(480)	(1,403)	–	(38,278)
Net carrying amount	22,692	194,552	3,208	1,617	3,245	150,891	376,205
At 1 January 2011, net of accumulated depreciation	22,692	194,552	3,208	1,617	3,245	150,891	376,205
Additions	236	39,887	222	1,498	1,165	387,450	430,458
Disposals	–	(1,588)	–	(2)	(7)	–	(1,597)
Depreciation provided during the year	(1,301)	(24,774)	(1,483)	(440)	(679)	–	(28,677)
Transfers	99,365	211,210	–	28	–	(310,603)	–
At 31 December 2011, net of accumulated depreciation	120,992	419,287	1,947	2,701	3,724	227,738	776,389
At 31 December 2011:							
Cost	127,739	473,221	4,424	3,598	5,742	227,738	842,462
Accumulated depreciation	(6,747)	(53,934)	(2,477)	(897)	(2,018)	–	(66,073)
Net carrying amount	120,992	419,287	1,947	2,701	3,724	227,738	776,389



14. Property, Plant and Equipment (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010							
At 1 January 2010:							
Cost	27,113	68,010	1,018	1,003	2,991	6,949	107,084
Accumulated depreciation	(4,076)	(22,212)	(435)	(241)	(916)	–	(27,880)
Net carrying amount	23,037	45,798	583	762	2,075	6,949	79,204
At 1 January 2010, net of accumulated depreciation	23,037	45,798	583	762	2,075	6,949	79,204
Additions	–	154,728	3,484	1,094	1,738	146,822	307,866
Disposals	–	(34)	–	–	(8)	–	(42)
Depreciation provided during the year	(1,370)	(7,795)	(859)	(239)	(560)	–	(10,823)
Transfers	1,025	1,855	–	–	–	(2,880)	–
At 31 December 2010, net of accumulated depreciation	22,692	194,552	3,208	1,617	3,245	150,891	376,205
At 31 December 2010:							
Cost	28,138	224,207	4,502	2,097	4,648	150,891	414,483
Accumulated depreciation	(5,446)	(29,655)	(1,294)	(480)	(1,403)	–	(38,278)
Net carrying amount	22,692	194,552	3,208	1,617	3,245	150,891	376,205

At 31 December 2011, certain of the Group's buildings and plant and machinery with an aggregate net carrying amount of approximately RMB10,681,000 (2010: RMB19,557,000), were pledged to secure bank loan facilities granted to the Group (note 25).

At 31 December 2011, certificates of ownership in respect of certain buildings of the Group in the PRC with an aggregate net carrying amount of approximately RMB101,472,000 (2010: RMB2,279,000), had not been issued by the relevant PRC authorities. The Group is in the process of obtaining the relevant certificates of ownership.



15. Prepaid Land Lease Payments

	Group 2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	5,401	5,497
Additions	26,242	–
Recognised during the year	(339)	(96)
Carrying amount at 31 December	31,304	5,401
Current portion included in prepayments, deposits and other receivables	(643)	(96)
Non-current portion	30,661	5,305

The leasehold lands are situated in Mainland China and are held under a long term lease.

At 31 December 2011, certain of the Group's leasehold lands with an aggregate carrying amount of approximately RMB4,282,000 (2010: RMB4,378,000) were pledged to secure bank loan facilities granted to the Group (note 25).

16. Intangible Assets

	Software RMB'000	Group Patent RMB'000	Total RMB'000
31 December 2011			
Cost at 1 January 2011, net of accumulated amortisation	5,030	28	5,058
Additions	1,828	–	1,828
Amortisation provided during the year	(1,115)	(10)	(1,125)
At 31 December 2011	5,743	18	5,761
At 31 December 2011:			
Cost	7,437	50	7,487
Accumulated amortisation	(1,694)	(32)	(1,726)
Net carrying amount	5,743	18	5,761



16. Intangible Assets (continued)

	Software RMB'000	Group Patent RMB'000	Total RMB'000
31 December 2010			
At 1 January 2010:			
Cost	378	50	428
Accumulated amortisation	(118)	(12)	(130)
Net carrying amount	260	38	298
Cost at 1 January 2010, net of accumulated amortisation	260	38	298
Additions	5,231	–	5,231
Amortisation provided during the year	(461)	(10)	(471)
At 31 December 2010	5,030	28	5,058
At 31 December 2010:			
Cost	5,609	50	5,659
Accumulated amortisation	(579)	(22)	(601)
Net carrying amount	5,030	28	5,058

17. Available-for-sale Investment

	Group 2011 RMB'000	2010 RMB'000
Unlisted equity investment	4,140	4,140

At 31 December 2011, the unlisted equity investment with a carrying amount of RMB4,140,000 (2010: RMB4,140,000) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose it of in the near future.



18. Investments in Subsidiaries

	Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	351,000	351,000

The amount due from a subsidiary included in the Company's current assets of approximately RMB488,324,000 (2010: RMB569,988,000) is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place and date of registration and operations	Nominal value of issued ordinary/registered paid-up share capital	Percentage of equity directly attributable to the Company	Principal activities
China Grandsoo Holdings Company Limited ("China Grandsoo")	British Virgin Islands 7 September 2009	US\$3	100%	Investment holding
HK Sijia	Hong Kong 15 April 2002	HK\$10,000	100%	Investment holding
Fujian Sijia	Mainland China 25 September 2002	HK\$390,000,000	100%	Manufacturing and selling materials and end products
Xiamen Grandsoo	Mainland China 26 May 2006	HK\$300,000,000	100%	Manufacturing and selling end products
Fujian Hausa	Mainland China 28 July 2010	RMB20,000,000	100%	Exporting products and trade agent
Hubei Sijia	Mainland China 30 July 2010	HK\$31,150,000	100%	Manufacturing and selling special functional composites
Sichuan Jiajie	Mainland China 20 August 2010	RMB1,000,000	100%	Production and sale of environmental protection products and others
Sijia Shanghai	Mainland China 22 November 2010	HK\$100,000,000	100%	Manufacturing and selling special functional composites
Hubei Outdoor	Mainland China 10 March 2011	HK\$12,059,500	51%	Manufacturing and selling outdoor leisure, recreation and sports products



19. Inventories

	Group 2011 RMB'000	2010 RMB'000
Raw materials	70,247	29,027
Work in progress	7,429	2,280
Finished goods	29,313	24,063
	106,989	55,370

20. Trade Receivables

	Group 2011 RMB'000	2010 RMB'000
Trade receivables	245,962	147,118

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to four months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	Group 2011 RMB'000	2010 RMB'000
Within 1 month	143,204	83,594
1 to 2 months	57,109	40,040
2 to 3 months	19,725	13,219
Over 3 months	25,924	10,265
	245,962	147,118



20. Trade Receivables (continued)

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

	Group 2011 RMB'000	2010 RMB'000
Neither past due nor impaired	222,058	144,745
Less than 1 month past due	17,397	1,343
1 to 3 months past due	5,310	921
Over 3 months past due	1,197	109
	245,962	147,118

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

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

21. Prepayments, Deposits and Other Receivables

	Group 2011 RMB'000	2010 RMB'000
Other receivables	19,294	2,544
Prepaid sales tax and government surcharges	20,056	2,611
Prepayments	74,632	29,446
Prepaid expense	2,002	2,619
	115,984	37,220



21. Prepayments, Deposits and Other Receivables (continued)

	Company 2011 RMB'000	2010 RMB'000
Prepayments	–	138
Prepaid expense	132	–
	132	138

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. Cash and Cash Equivalents

	Note	Group 2011 RMB'000	2010 RMB'000
Cash and bank balances		231,295	255,785
Time deposits		36,731	100,181
		268,026	355,966
Less: Pledged time deposits for bills payable	23(a)	(25,956)	(22,109)
Cash and cash equivalents		242,070	333,857

	Company 2011 RMB'000	2010 RMB'000
Cash and cash equivalents	4,008	23,128

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were RMB221,631,000 (2010: RMB54,828,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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



23. Trade and Bills Payables

	Group 2011 RMB'000	2010 RMB'000
Trade payables	20,457	16,079
Bills payable	84,178	64,239
	104,635	80,318

At 31 December 2011, bills payable of approximately RMB84,178,000 (2010: RMB64,239,000) were secured by time deposits amounting to approximately RMB25,956,000 (2010: RMB22,109,000) as set out in note 22.

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

	Group 2011 RMB'000	2010 RMB'000
Within 1 month	39,764	23,321
1 to 2 months	20,490	16,143
2 to 3 months	14,284	17,476
Over 3 months	30,097	23,378
	104,635	80,318

The trade payables are non-interest-bearing and are normally settled on 60 days' terms.

24. Other Payables and Accruals

	Group 2011 RMB'000	2010 RMB'000
Other payables	4,036	2,004
Advances from customers	13,234	6,265
Payroll payable	9,792	3,752
Accrued liabilities	11,495	971
	38,557	12,992



24. Other Payables and Accruals (continued)

	Company 2011 RMB'000	2010 RMB'000
Other payables	–	46
Payroll payable	48	15
Accrued liabilities	59	–
	107	61

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

25. Interest-bearing Bank Borrowings

	Effective interest rate (%)	Maturity	2011 RMB'000	2010 RMB'000
Current				
Bank loans – secured*	6.696–7.544	2012	60,000	–
Bank loans – secured*	3.3918	2012	10,766	–
Bank loans – unsecured**	7.544	2012	19,000	–
Bank loans – secured*	5.84	2011	–	15,000
			89,766	15,000
Repayable:				
Within one year or on demand			89,766	15,000
In the second year			–	–
In the third to fifth years, inclusive			–	–
Beyond five years			–	–
			89,766	15,000

Notes:

* The Group's bank borrowings are secured by:

- (i) mortgages over the Group's buildings and plant and machinery situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of approximately RMB10,681,000 (2010: RMB19,557,000) (note 14); and
- (ii) mortgage over the Group's leasehold land situated in Mainland China, which has an aggregate carrying value at the end of the reporting period of approximately RMB4,282,000 (2010: RMB4,378,000) (note 15).

** The Group's other loans are unsecured, bear interest at 7.544% and are repayable within the 12 months commencing on 1 January 2012.



26. Deferred Income

	Group 2011 RMB'000	2010 RMB'000
At 1 January	3,570	–
Government grants recognised as deferred income	–	3,600
Released during the year	(360)	(30)
At 31 December	3,210	3,570
Current	360	360
Non-current	2,850	3,210
	3,210	3,570

Government grants received are for the technical development of machinery and equipment. The government grants received are accounted for as deferred income and are released to profit or loss over the expected useful lives of the underlying items of machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

27. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Group Withholding tax on subsidiaries' distributable profits RMB'000
At 1 January 2010	3,181
Deferred tax charged to the consolidated income statement during the year (note 10)	3,086
At 31 December 2010 and 1 January 2011	6,267
Deferred tax charged to the consolidated income statement during the year (note 10)	8,026
At 31 December 2011	14,293



27. Deferred Tax (continued)

Deferred tax assets

	Group					
	Unrealised profit attributable to intra-group transactions RMB'000	Deferred income RMB'000	Accrued social fund RMB'000	Accrued sales debate RMB'000	Unapproved accelerated depreciation and amortisation RMB'000	Total RMB'000
At 31 December 2009 and 1 January 2010	–	–	–	–	–	–
Deferred tax credited to the consolidated income statement during the year (note 10)	251	536	–	–	–	787
At 31 December 2010 and 1 January 2011	251	536	–	–	–	787
Deferred tax credited/(charged) to the consolidated income statement during the year (note 10)	278	(55)	775	1,500	469	2,967
At 31 December 2011	529	481	775	1,500	469	3,754

Deferred tax assets have not been recognised in respect of the following items:

	Group 2011 RMB'000	2010 RMB'000
Tax losses	7,064	8,520

The Group has tax losses arising in Hong Kong of HK\$3,985,000 (2010: HK\$3,126,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB3,049,000 (2010: RMB5,218,000) that will expire in one to five years for offsetting against future taxable profits.



27. Deferred Tax (continued)

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% so long as HK Sijia is the beneficial owner. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its subsidiaries established in Mainland China since 1 January 2008 to the extent of the earnings expected to be distributed as of 31 December 2011, no matter whether such earnings have been declared or not by the subsidiaries at the reporting date.

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

28. Share Capital

Shares

	2011 RMB'000	2010 RMB'000
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK\$0.001 each	1,760	1,760
Issued and fully paid:		
828,831,000 (2010: 828,831,000) ordinary shares of HK\$0.001 each	728	728



28. Share Capital *(continued)*

Notes:

- (i) On 7 October 2009, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands and was authorised to issue up to 380,000,000 shares of HK\$0.001 each. On the same date, one subscriber share with a par value of HK\$0.001 was transferred to Hopeland International and 9,999 shares with a par value of HK\$0.001 were further allotted and issued to Hopeland International.
- (ii) Pursuant to the written resolutions of all the shareholders passed on 15 January 2010, the authorised share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of additional 1,620,000,000 shares.
- (iii) Pursuant to a resolution passed on 15 December 2009, the Company allotted and issued 99,990,000 shares with a par value of HK\$0.001 each, credited as fully paid, to Hopeland International in consideration of Hopeland International transferring the entire issued share capital of China Grandsoo to the Company as part of the Reorganisation.
- (iv) Pursuant to a resolution passed on 8 April 2010, a total of 500,000,000 new ordinary shares of HK\$0.001 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK\$500,000 (equivalent to approximately RMB439,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.
- (v) In connection with the Company's initial public offering, 200,000,000 ordinary shares of HK\$0.001 each were issued at a price of HK\$3.28 on 28 April 2010 for a total cash consideration, before related issue expenses, of HK\$656,000,000 (equivalent to approximately RMB576,558,000).

On 26 May 2010, 28,831,000 ordinary shares of HK\$0.001 each were allotted and issued upon the exercise of the over-allotment option at a price of HK\$3.28 for a total cash consideration, before related issue expenses, of HK\$94,566,000 (equivalent to approximately RMB82,773,000).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

Issuance of unlisted warrants

On 17 November 2010, 35,000,000 unlisted warrants of HK\$0.01 each for cash had been issued. The total proceeds and net proceeds from the placing of warrants after deducting all related expenses, were approximately HK\$350,000 (equivalent to approximately RMB300,000) and approximately HK\$188,000 (equivalent to approximately RMB161,000), respectively. The Company has utilised the net proceeds as general working capital. During the year, no warrant was exercised.



29. Share Option Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include executive directors, non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Scheme became effective on 8 April 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commenced on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.



29. Share Option Scheme (continued)

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January 2011	3.44	50,000
Granted during the year	–	–
At 31 December 2011	3.44	50,000

No share options were exercised during the year.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options '000	Exercise price HK\$ per share*	Exercise period
14,000	3.3	22-07-2010 to 21-07-2015
36,000	3.5	30-09-2010 to 29-09-2015
50,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 50,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 50,000,000 additional ordinary shares of the Company and additional share capital of HK\$50,000 and share premium of HK\$172,150,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 50,000,000 share options outstanding under the Scheme, which represented approximately 6.03% of the Company's shares in issue as at that date.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 to 8 of the financial statements.

(b) Company

	Share premium RMB'000	Share option reserve RMB'000 (note 28)	Warrant reserve RMB'000 (note 28)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	350,912	–	–	–	–	350,912
Loss for the year	–	–	–	–	(25,232)	(25,232)
Exchange realignment	–	–	–	(20,176)	–	(20,176)
Total comprehensive income for the year	–	–	–	(20,176)	(25,232)	(45,408)
Issue of shares	659,130	–	–	–	–	659,130
Share issue expenses	(33,992)	–	–	–	–	(33,992)
Capitalisation of share premium	(439)	–	–	–	–	(439)
Issue of warrants	–	–	300	–	–	300
Warrant issue expenses	–	–	(139)	–	–	(139)
Equity-settled share option arrangements	–	13,101	–	–	–	13,101
Proposed final 2010 dividend	(69,870)	–	–	–	–	(69,870)
At 31 December 2010	905,741	13,101	161	(20,176)	(25,232)	873,595
Loss for the year	–	–	–	–	(6,220)	(6,220)
Exchange realignment	–	–	–	(24,746)	–	(24,746)
Total comprehensive income for the year	–	–	–	(24,746)	(6,220)	(30,966)
Proposed final 2011 dividend	(67,409)	–	–	–	–	(67,409)
At 31 December 2011	838,332	13,101	161	(44,922)	(31,452)	775,220



31. Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

32. Pledge of Assets

Details of the Group's interest-bearing bank borrowings and bills payable which are secured by the assets of the Group are included in notes 14, 15, 22, 23 and 25 to these financial statements.

33. Operating Lease Arrangements

As lessee

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group 2011 RMB'000	2010 RMB'000
Within one year	2,698	1,679
In the second to fifth years, inclusive	2,912	2,645
	5,610	4,324

34. Commitments

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	Group 2011 RMB'000	2010 RMB'000
Contracted, but not provided for: Plant and machinery	87,705	119,649
Authorised, but not contracted for: Plant and machinery	4,565	–



35. Related Party Transactions

- (a) The Group had no material transactions with related parties during the reporting period.
- (b) Outstanding balances with a related party:

	Group 2011 RMB'000	2010 RMB'000
Due to a related party: Xiamen Daxiang Protective Sheet Co., Ltd.	(119)	(80)

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

- (c) Compensation of key management personnel of the Group:

	Group 2011 RMB'000	2010 RMB'000
Short term employee benefits	3,414	3,331
Pension scheme contributions	95	44
Equity-settled share option expense	–	13,101
Total compensation paid to key management personnel	3,509	16,476

Further details of directors' remuneration are included in note 8 to these financial statements.



36. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011

Financial assets	Loans and receivables RMB'000	Group Available-for- sale financial assets RMB'000	Total RMB'000
Trade receivables (note 20)	245,962	–	245,962
Available-for-sale investment (note 17)	–	4,140	4,140
Financial assets included in prepayments, deposits and other receivables (note 21)	19,294	–	19,294
Pledged deposits (note 22)	25,956	–	25,956
Cash and cash equivalents (note 22)	242,070	–	242,070
	533,282	4,140	537,422

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade and bills payables (note 23)	104,635
Financial liabilities included in other payables and accruals (note 24)	25,323
Interest-bearing bank and other borrowings (note 25)	89,766
Due to a related party	119
	219,843



36. Financial Instruments by Category (continued)

2010

Financial assets	Loans and receivables RMB'000	Group Available-for- sale financial assets RMB'000	Total RMB'000
Trade receivables (note 20)	147,118	–	147,118
Available-for-sale investment (note 17)	–	4,140	4,140
Financial assets included in prepayments, deposits and other receivables (note 21)	2,544	–	2,544
Pledged deposits (note 22)	22,109	–	22,109
Cash and cash equivalents (note 22)	333,857	–	333,857
	505,628	4,140	509,768

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade and bills payables (note 23)	80,318
Financial liabilities included in other payables and accruals (note 24)	6,727
Interest-bearing bank and other borrowings (note 25)	15,000
Due to a related party	80
	102,125

Financial assets	Company 2011 Loans and receivables RMB'000	2010 Loans and receivables RMB'000
Investments in subsidiaries (note 18)	351,000	351,000
Due from subsidiaries (note 18)	488,324	569,988
Cash and cash equivalents (note 22)	4,008	23,128
	843,332	944,116



36. Financial Instruments by Category *(continued)*

Financial liabilities	Company 2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals (note 24)	107	61
	107	61

37. Fair Values of Financial Instruments

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

38. Financial Risk Management Objectives and Policies

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 31 December 2011 were at fixed interest rates.

38. Financial Risk Management Objectives and Policies *(continued)***Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 1.25% (2010: 1.7%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst all costs for the reporting periods were denominated in the units' functional currency. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2011		
If RMB weakens against the United States dollar	5	1,682
If RMB strengthens against the United States dollar	(5)	(1,682)
If RMB weakens against the Hong Kong dollar	5	482
If RMB strengthens against the Hong Kong dollar	(5)	(482)
If RMB weakens against the Euro	5	–
If RMB strengthens against the Euro	(5)	–
2010		
If RMB weakens against the United States dollar	5	(184)
If RMB strengthens against the United States dollar	(5)	184
If RMB weakens against the Hong Kong dollar	5	14,335
If RMB strengthens against the Hong Kong dollar	(5)	(14,335)
If RMB weakens against the Euro	5	1,035
If RMB strengthens against the Euro	(5)	(1,035)

38. Financial Risk Management Objectives and Policies *(continued)*

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in note 20 and note 21, respectively, to the financial statements.

Liquidity risk

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

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

Group

	31 December 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,924	84,162	18,549	–	–	104,635
Other payables and accruals	25,323	–	–	–	–	25,323
Interest-bearing bank borrowings	–	7,000	82,766	–	–	89,766
Due to a related party	119	–	–	–	–	119
	27,366	91,162	101,315	–	–	219,843



38. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Group (continued)

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	4,569	55,471	20,278	–	–	80,318
Other payables and accruals	6,277	450	–	–	–	6,727
Interest-bearing bank borrowings	–	–	15,000	–	–	15,000
Due to a related party	80	–	–	–	–	80
	10,926	55,921	35,278	–	–	102,125

Company

	31 December 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	48	59	–	–	–	107
	48	59	–	–	–	107

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	15	46	–	–	–	61
	15	46	–	–	–	61



38. Financial Risk Management Objectives and Policies *(continued)*

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

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

	Group 2011 RMB'000	2010 RMB'000
Trade and bills payables	104,635	80,318
Other payables and accruals	38,557	12,992
Interest-bearing bank borrowings	89,766	15,000
Due to a related party	119	80
Less: Cash and cash equivalents	(242,070)	(333,857)
Net assets	(8,993)	(225,467)
Equity attributable to owners of the parent	1,453,641	1,196,986
Capital and net debt	1,444,648	971,519
Gearing ratio	(1%)	(23%)

39. Event After the Reporting Period

On 21 March 2012, the board of directors of the Company proposed a final dividend of HK10.0 cents per ordinary share totalling approximately HK\$82,883,000 (equivalent to RMB67,409,000) for the year ended 31 December 2011, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 12). The proposed final dividend will be payable in cash with a scrip dividend alternative.

40. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

Five-year Financial Summary



	2011 RMB'000	Year ended 31 December			
		2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
REVENUE	1,197,085	965,338	570,492	299,644	148,715
Gross profit	506,121	437,246	258,868	119,164	45,997
PROFIT BEFORE TAX	403,580	264,657	204,558	94,760	29,697
PROFIT FOR THE YEAR	327,790	217,246	171,212	81,177	39,384
Attributable to:					
Owners of the parent	328,277	217,246	171,212	61,266	36,783
Non-controlling interests	(487)	–	–	19,911	2,601
	327,790	217,246	171,212	81,177	39,384
Basic earnings per share (RMB cents)	39.61	28.86	28.54	10.21	6.13

	2011 RMB'000	As at 31 December			
		2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	1,731,731	1,316,894	469,860	269,043	195,677
Equity and liabilities					
Total liabilities	273,577	119,908	118,860	125,147	104,983
Total equity	1,458,154	1,196,986	351,000	143,896	90,694