# QUALIPAK

## INTERNATIONAL HOLDINGS LIMITED

( Incorporated in Bermuda with limited liability )

**Stock Code**: 1332



# ANNUAL REPORT 2013

# CONTENTS

# CORPORATE INFORMATION

## DIRECTORS

***Executive Directors***
Ms. Poon Ho Yee Agnes *(Managing Director)*
Mr. Lam Hiu Lo
Mr. Leung Chun Cheong
Mr. Wu Hong Cho

***Non-executive Directors***
Dr. Lam How Mun Peter *(Chairman)*
Mr. Leung Wai Fai

***Independent Non-executive Directors***
Mr. Chan Sze Hung
Dr. Leung Wai Keung
Mr. Tam Kwok Fai Paul

## AUDIT COMMITTEE

Mr. Tam Kwok Fai Paul *(Chairman)*
Mr. Chan Sze Hung
Dr. Leung Wai Keung

## NOMINATION COMMITTEE

Dr. Lam How Mun Peter *(Chairman)*
Ms. Poon Ho Yee Agnes
Mr. Chan Sze Hung
Dr. Leung Wai Keung
Mr. Tam Kwok Fai Paul

## REMUNERATION COMMITTEE

Mr. Chan Sze Hung *(Chairman)*
Dr. Lam How Mun Peter
Dr. Leung Wai Keung
Mr. Tam Kwok Fai Paul

## AUTHORISED REPRESENTATIVES

Ms. Poon Ho Yee Agnes
Mr. Wu Hong Cho

## COMPANY SECRETARY

Ms. Fung Pui Ling

## WEBSITE

www.qualipakhk.com

## STOCK CODE

1332

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor
China United Centre
28 Marble Road
North Point, Hong Kong

## COMPLIANCE ADVISER

Haitong International Capital Limited

## INDEPENDENT AUDITORS

Ernst & Young
*Certified Public Accountants*

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
BNP Paribas, Hong Kong Branch

## SHARE REGISTRARS AND TRANSFER OFFICES

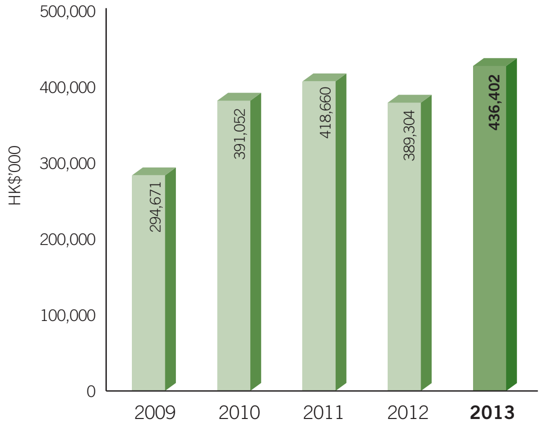
***Principal share registrar and transfer office***
MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

***Hong Kong branch share registrar and transfer office***
Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
*(Note)*

*Note: The Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.*

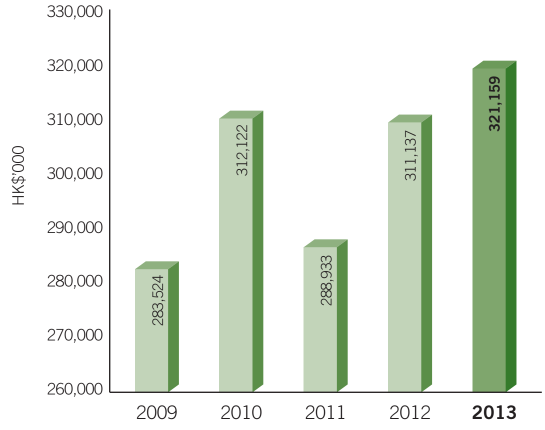
## REVENUE

Year ended 31 December



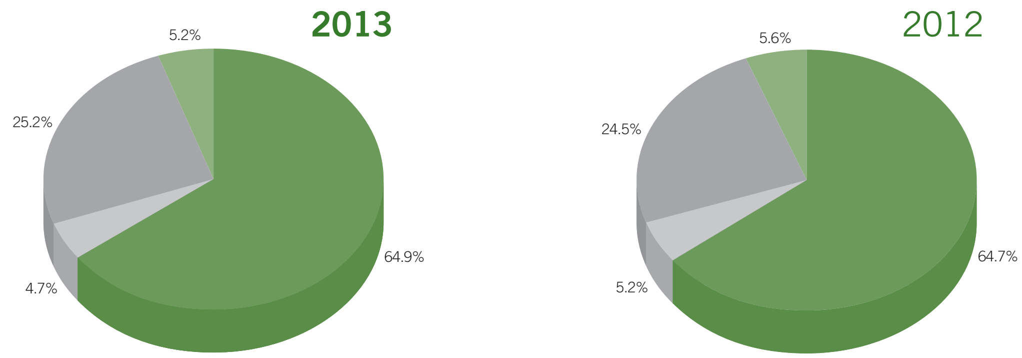

## TOTAL ASSETS

As at 31 December




## REVENUE BY PRODUCT CATEGORIES

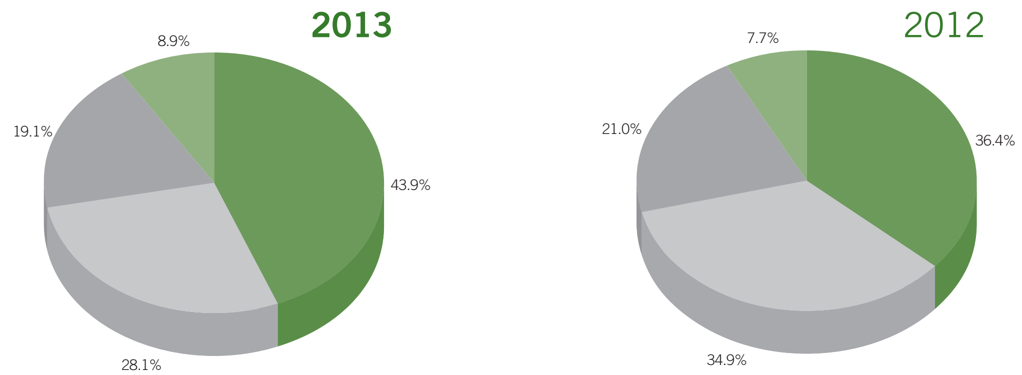
Year ended 31 December




Packaging cases | Bags and pouches | Display units | Others

## REVENUE BY GEOGRAPHICAL LOCATIONS OF CUSTOMERS

Year ended 31 December




Hong Kong and Mainland China | Europe | North and South America | Others

## EXECUTIVE DIRECTORS

**Ms. POON Ho Yee Agnes**, aged 46, was appointed Director of the Company on 28 November 2011 and was re-designated as Executive Director and appointed Managing Director both on 18 May 2012. She is a member of the Executive Committee and the Nomination Committee. She also serves as a Director of several subsidiaries of the Company. She has joined the Group since 1990. As Managing Director, Ms. Poon is mainly responsible for the day-to-day management of the Group's business, recommending strategies to the board of directors (the "Board"), and determining and implementing operational decisions. In addition, she is also in charge of sales and marketing management and manufacturing operations of the Group. Ms. Poon graduated from the University of Hong Kong with a master's degree in electronic commerce and internet computing in 2003 and from Simon Fraser University with a bachelor's degree in business administration in 1990. She also obtained a master's degree in counseling from the University of South Australia in 2006. Ms. Poon has over 20 years of extensive experience in sales and marketing within the manufacturing industry. She was an Executive Director of C C Land Holdings Limited ("CC Land"), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from June 1998 to July 2012.

**Mr. LAM Hiu Lo**, aged 52, was appointed Executive Director of the Company on 18 May 2012. He is a member of the Executive Committee and also serves as a Director of several subsidiaries of the Company. Mr. Lam has joined the Group since 2000. He is responsible for formulating PRC sales and marketing strategies and monitoring market development of the Group. He has over 25 years of extensive experience in sales and marketing in the PRC. Mr. Lam was an Executive Director of CC Land from November 2000 to July 2012. He is currently an Executive Director of Yugang International Limited ("Yugang") and an Independent Non-executive Director of EVA Precision Industrial Holdings Limited. The shares of the above companies are listed on the Stock Exchange. He is also a Director of Yugang International (B.V.I.) Limited ("Yugang-BVI"). Yugang-BVI and Yugang are companies disclosed under the section headed "Discloseable Interests and Short Positions of Shareholders under SFO" on page 24.

**Mr. LEUNG Chun Cheong**, aged 64, was appointed Director of the Company on 28 November 2011 and was re-designated as Executive Director of the Company on 18 May 2012. He is a member of the Executive Committee and also serves as a Director of several subsidiaries of the Company. Mr. Leung has joined the Group since 1995. He is responsible for overseeing the financial control of our Group. Mr. Leung is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Leung held senior positions in various companies in Hong Kong. He has over 35 years of extensive experience in professional accounting and finance. Mr. Leung is currently an Executive Director of CC Land.

**Mr. WU Hong Cho**, aged 68, was appointed Executive Director of the Company on 18 May 2012. He is a member of the Executive Committee and also serves as a Director of several subsidiaries of the Company. Mr. Wu has joined the Group since 2006. He is responsible for overseeing the legal and corporate compliance of the Group. Mr. Wu graduated from the University of Hong Kong with a bachelor's degree in laws in 1986. He became a practising solicitor in Hong Kong in 1990 and has accumulated over 10 years of experience in private practice. Prior to joining the Group, Mr. Wu held senior positions and was in charge of the financial matters in a number of companies listed on the Stock Exchange. He has more than 15 years of experience in corporate finance and management. Mr. Wu was an Executive Director of CC Land from July 2006 to May 2012.

## NON-EXECUTIVE DIRECTORS

**Dr. LAM How Mun Peter**, aged 66, was appointed Chairman and Non-executive Director of the Company both on 19 June 2012. He is also the Chairman of the Nomination Committee and a member of the Remuneration Committee. Dr. Lam was one of the founders of our Group in 1989. He also serves as a Director of two subsidiaries of the Company. As Chairman, Dr. Lam is responsible for leading the Board and managing its work to ensure that the Board effectively operates and fully discharges its responsibilities. Dr. Lam graduated from the University of Hong Kong with a bachelor's degree in medicine and surgery in 1972. He is a fellow of the Royal College of Surgeons of Edinburgh and the American College of Surgeons. In addition to his extensive experience in medical practice, Dr. Lam has over 20 years of extensive experience in corporate management, real estate and investment. Dr. Lam is currently the Deputy Chairman, Managing Director and an Executive Director of CC Land.

**Mr. LEUNG Wai Fai**, aged 52, was appointed Non-executive Director of the Company on 19 June 2012. He has joined the Group since 1999. Mr. Leung graduated from the University of Wisconsin-Madison, the United States of America with a bachelor's degree in business administration in 1985. He is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He has over 20 years of extensive experience in accounting and financial reporting. Mr. Leung is currently an Executive Director of CC Land and The Cross-Habour (Holdings) Limited, the shares of which are listed on the Stock Exchange and a Group Financial Controller of Yugang.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHAN Sze Hung**, aged 61, was appointed Independent Non-executive Director of the Company on 19 June 2012. He is also the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Chan received his bachelor's degree in laws from the University of Hong Kong in 1975. He has over 30 years' working experiences in the legal profession. Mr. Chan was an Independent Non-executive Director of Heritage International Holdings Limited from December 2001 to August 2011 and a Non-executive Director of Asia Orient Holdings Limited from June 1996 to July 2012. The shares of the above companies are listed on the Stock Exchange. He is currently a consultant of Chan, Lau & Wai, a firm of solicitors in Hong Kong.

**Dr. LEUNG Wai Keung**, aged 56, was appointed Independent Non-executive Director of the Company on 19 June 2012. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Dr. Leung received his master's degree in information and computer science from Georgia Institute of Technology in 1981 and also received his master's degree in industrial engineering and degree of doctor of philosophy from the University of Wisconsin-Madison in 1985 and 1987 respectively. Dr. Leung worked as an associate professor in the department of management sciences of City University of Hong Kong from 1996 to 2001 and is currently a director of its master of business administration (executive) programme and an associate professor in the marketing department. He has over 18 years' working experiences in tertiary education and provided seminars and training courses for a number of renowned local companies.

**Mr. TAM Kwok Fai Paul**, aged 47, was appointed Independent Non-executive Director of the Company on 19 June 2012. He is also the Chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee. Mr. Tam received his bachelor's degree in accounting from Hong Kong Baptist University in 1992. He is an associate of The Institute of Chartered Accountants in England and Wales. He is also a fellow of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Tam has over 20 years' working experiences in the assurance, accounting, taxation and financial management and is currently an associate partner of a certified public accountants firm in Hong Kong.

**To our Shareholders,**

I am pleased to present the annual results of Qualipak International Holdings Limited and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

## BUSINESS REVIEW

During the year, the Group still faced a challenging business environment in spite of the slowly improving global economy, with the operating costs in China continually rising and further appreciation of the Renminbi.

While the economic conditions worldwide had stabilized, momentum of the Euro area's recovery has been weak, and growth in the United States was hindered by budgets cuts during the year and the issue of the fiscal cliff. Yet through hard work and determination, the Group succeeded in achieving an encouraging improvement in sales orders through strengthening sales and marketing strategies to expand its product portfolio to attract new customers, adding several world renowned customers to its customer base.

However, the increase in operating costs in the Mainland China operation, especially labour cost increases driven by the minimum wage requirement from the Chinese government and the shortage of skilled labour in Southern China, led to a shrinkage in the Group's profit margin, which was aggravated by the still feeble demand for luxury items produced by the Group's industrial customers.

Through strategic efforts of the marketing team, the Group recorded a growth in revenue by 12.1% to HK$436.4 million (2012: HK$389.3 million). In terms of product categories, packaging cases and display units accounted for 64.9% and 25.2%, respectively of the Group's revenue. Geographically, with dedicated efforts in strengthening communication with existing customers and reacting to changing demand of customer's products in the local market, sales in Hong Kong and Mainland China increased noticeably by 35.2% to HK$191.3 million, representing 43.9% of the Group's revenue.

Conversely, owing to rising material and labour costs, the net profit and net profit margin decreased to HK$16.9 million (2012: HK$22.9 million) and 3.9% (2012: 5.9%), respectively.

In line with its long term business strategy to expand its business opportunities in the Mainland China domestic market, the Group completed the transformation of the processing factory in Guanlan from a processing arrangement to the legal status of a wholly foreign owned enterprise in early 2013.

## PROSPECTS

Looking ahead, with the foreseeable reduction of quantitative easing monetary policy adopted by the major developed countries, the still weak economy of major European countries, and significant slower GDP growth in emerging economies, the packaging business remains in a challenging operating environment. The global market is now experiencing a contraction in demand for consumable and luxury products, which in turn has impacted the demand for packaging products. Therefore, sales orders for the first half of year 2014 have been conservative and are subject to tighter prices. The Group will continue its effort to maintain the existing customer base, but will have to patiently wait for the orders to increase in number and quantities in sync with economy recovery. Faced with the challenge of rising labour, material costs and competition, the Group foresees that profit margins will be eroded in the first half of year 2014. To tackle the difficult market conditions, the Group will seek to develop closer and more stable relationships with its existing customers, and keep abreast of changing trends and market situations.

## APPRECIATION

The management team and the Group's staff have remained our valuable asset in these challenging times. I would like to express my sincere appreciation to them for their enthusiasm, diligence and loyalty. I am grateful to our shareholders, strategic partners and bankers for their support which has contributed towards the Group's success.

**Lam How Mun Peter**
*Chairman*

Hong Kong, 25 March 2014

## OVERVIEW

During the year under review, the world economy has shown some signs of recovery. The US economy remained on track towards a sustainable recovery while the Euro area appears to be coming out of a prolonged recession. However the growth trend remained fragile and, with the exception of the US, there were only marginal increases in overall consumer spending in other developed economies. Under this somewhat still stagnated business climate, the global demand for luxury goods was generally weak. The Group's customers had shown great caution in placing orders, being more sensitive to pricing and less tolerant to price increases.

In the meantime, the operating environment had been particularly challenging for manufacturers in China. Rising statutory minimum wages in Southern China and component costs had imposed heavy burden on the Group, while it was difficult to pass on all the cost increments to its customers.

To tackle the challenges ahead, the Group kept abreast of the market situation by staying vigilant and reacting promptly to the changing trends and environment. Through effective sales and marketing strategies in expanding its product ranges to attract new customers in Hong Kong and nearby Asia Pacific regions, and cautiously managing its product portfolios to capture the middle class market in these regions, the Group managed to record a growth in the overall revenue for the year ended 31 December 2013.

## BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of packaging products and point-of-sales display units. Its product portfolio includes watches boxes, jewellery boxes, eyewear cases, bags and pouches, and display units. These are mainly manufactured in its production plant in Guanlan, the PRC and its processing factory located in Zhongshan, the PRC. The Group sells its products principally to owners or carriers of internationally renowned brands for watches, jewellery, and eyewear products and other customers such as traders of packaging products, who ultimately trade in the retail market worldwide. The Group has over 20 years of experience in the packaging industry and has long business relationship with its customers, some of which for over 15 years.

In accordance with the Group's plan to penetrate the PRC market, the processing factory in Guanlan (the "Guanlan Processing Factory") was transformed from a processing arrangement to the legal status of a wholly foreign owned enterprise in early 2013. The transformation enabled the Guanlan wholly foreign owned enterprise to enter into sales contracts as a principal party for sales in Mainland China. This is in line with the Group's long term business strategy to explore and broaden the customer base in the Mainland China domestic market, particularly to serve the Mainland China branches of the Group's internationally renowned customers. However, as certain employees at the Guanlan Processing Factory had treated the transformation of the legal status of the processing arrangement as a cessation of their employment, a one-off settlement payment amounting in aggregate to approximately HK$3.9 million had to be made to these employees during the period.

Despite the global economy being clouded with challenges and uncertainties, the sales revenue for 2013 reported a growth of 12.1% to HK$436.4 million (2012: HK$389.3 million). However, in view of the continuous increase in manufacturing costs and the recognition of the above one-off settlement payment, the Group's net profit and net profit margin decreased to HK$16.9 million (2012: HK$22.9 million) and 3.9% (2012: 5.9%) respectively. Excluding the above one-off settlement payment, the Group's net profit and net profit margin generated from the ordinary activities would be HK$20.8 million and 4.8%, respectively.

## FINANCIAL REVIEW

### Revenue

The Group primarily engages in the sale of packaging cases, bags and pouches and display units for watches, jewellery, and eyewear products. Its customers include internationally renowned brands of watches, jewellery, and eyewear products and other traders of packaging and display products. The revenue of the Group increased by 12.1% to HK$436.4 million (2012: HK$389.3 million). This was primarily attributable to an increase of HK$31.3 million and HK$14.5 million in its revenue generated by sales of packaging cases and display units respectively as a result of the improvement in market demand in Hong Kong and the United States.

The following tables set forth the breakdown of the Group's revenue by product categories and by geographical locations of its customers during the year:

| | For year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **Revenue** | **Percentage of total revenue** | Revenue | Percentage of total revenue |
| | **HK$'000** | **%** | HK$'000 | % |
| Packaging cases | **283,132** | **64.9** | 251,860 | 64.7 |
| Bags and pouches | **20,712** | **4.7** | 20,213 | 5.2 |
| Display units | **110,037** | **25.2** | 95,579 | 24.5 |
| Others | **22,521** | **5.2** | 21,652 | 5.6 |
| | **436,402** | **100.0** | 389,304 | 100.0 |

| | For year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **Revenue** | **Percentage of total revenue** | Revenue | Percentage of total revenue |
| | **HK$'000** | **%** | HK$'000 | % |
| Hong Kong and Mainland China | **191,304** | **43.9** | 141,474 | 36.4 |
| Europe | **122,753** | **28.1** | 136,015 | 34.9 |
| North and South America | **83,432** | **19.1** | 81,933 | 21.0 |
| Others | **38,913** | **8.9** | 29,882 | 7.7 |
| | **436,402** | **100.0** | 389,304 | 100.0 |

During the year ended 31 December 2013, packaging cases sales still contributed to the Group's main revenue stream, and accounted for 64.9% of total revenue (2012: 64.7%). Another product line, display units, accounted for 25.2% of the total revenue (2012: 24.5%). The sales of packaging cases and display units had shown an increase of 12.4% and 15.1%, respectively over the last year, primarily attributable to the improvement in demand for packaging products from customers in Hong Kong and nearby Asia Pacific regions. Europe, Hong Kong and Mainland China, and North and South America are the major markets of the Group's products. With higher sales and more intense marketing strategies adopted in the local market, Hong Kong became the largest market for the year ended 31 December 2013. The revenue generated from sales in Hong Kong and Mainland China was HK$191.3 million, an increase of HK$49.8 million over the last year, as compared with the revenue generated from sales in Europe of HK$122.8 million, a decrease of HK$13.3 million over the last year.

## Cost of Sales

During the fiscal year, the cost of sales of the Group increased by 15.4% to HK$366.9 million (2012: HK$318.1 million). The percentage of the cost of sales to total revenue was 84.1% (2012: 81.7%), representing an increase of 2.4% as compared to the corresponding period last year. The upsurge in the cost of sales was mainly led by the increase in average costs of production materials and procurement, the continuous rise in average labour costs and the one-off settlement payment to certain employees arising from the cessation of their employment due to the transformation of the Guanlan Processing Factory.

## Gross Profit and Gross Profit Margin

In 2013, the Group's gross profit was HK$69.5 million (2012: HK$71.2 million), representing a decrease of HK$1.7 million or 2.4% over the last year. During the year under review, the gross profit margin decreased by 2.4% to 15.9% (2012: 18.3%). The decrease in gross profit margin was mainly attributable to the increase in average costs of production materials and procurement, the continuous rise in average labour costs and the one-off settlement payment to certain employees arising from the cessation of their employment due to the transformation of the Guanlan Processing Factory. Excluding the above one-off settlement payment, the Group's gross profit and gross profit margin generated from the normal activities would be HK$73.3 million and 16.8%, respectively.

## Other Operating Expenses

The Group's selling and distribution expenses increased by 9.3% to HK$16.0 million for the year ended 31 December 2013 (2012: HK$14.7 million). The increase was mainly attributable to the increase in salaries of the sales and marketing staff.

The Group's administrative expenses increased by 12.9% to HK$37.1 million for the year ended 31 December 2013 (2012: HK$32.8 million). The increase was mainly attributable to the increase in salaries of the administrative staff, increase in provision of directors' remuneration and rise in statutory expenses.

## Other Businesses

Owing to the declining market demand for kitchenware products, the share of profit from the 30% owned associated company, Technical International Holdings Limited, for the year ended 31 December 2013 amounted to HK$24,000 (2012: HK$0.5 million).

## Net Profit

For the year ended 31 December 2013, the profit attributable to owners of the parent amounted to HK$13.4 million (2012: HK$20.3 million), representing a decrease of 34.0%. The decrease in net profit was primarily due to the increase in average costs of production materials and procurement, the increase in average labour costs and the one-off settlement payment to certain employees arising from the cessation of their employment due to the transformation of the Guanlan Processing Factory.

## Liquidity and Financial Resources

The Group has maintained a healthy liquidity and financial resources position. As at 31 December 2013, the Group had no outstanding borrowings and had net cash of HK$88.0 million (31 December 2012: HK$81.5 million), which included HK$7.5 million (31 December 2012: HK$7.5 million) of time deposits pledged to banks.

### Gearing Ratio

Gearing ratio is measured by net bank borrowings (bank borrowings less available bank balances) as a percentage of equity. As the Group had no outstanding bank borrowings as at 31 December 2013 (31 December 2012: Nil), the gearing ratio was zero as at 31 December 2013 (31 December 2012: Nil).

### Pledged of Assets

As at 31 December 2013, the Group had pledged certain of its leasehold properties and deposits with aggregated amounts of HK$35.2 million (31 December 2012: HK$36.1 million) and HK$7.5 million (31 December 2012: HK$7.5 million) respectively, as security for general banking facilities granted to its subsidiary and associates, as appropriate.

### Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2013.

### Foreign Exchange Risk

The majority of sale and purchase transactions were conducted in US dollars and Hong Kong dollars. Therefore, the foreign exchange exposure was considered minimal. However, the Group was indirectly exposed to currency risk of RMB, which arose from the payment of the production costs to the production plant and processing factory and other cost items denominated in RMB. The Group continued to adopt prudent policies to enter into non-deliverable forward currency contracts to hedge against its foreign currency risk during the year.

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There was no significant investment held as at 31 December 2013, nor acquisition and disposal of subsidiaries during the period.

## EMPLOYEES

As at 31 December 2013, the Group had a workforce of 76 employees in Hong Kong and 1,172 employees in Mainland China. The Group remunerates its staff based on their merit, qualification, competence and prevailing market salaries level. The Group has also established an incentive bonus scheme to reward employees based on their performance. Employees are also eligible to be granted share options under the Company's share option scheme at the discretion of the Board. Other benefits include contributions to the provident fund scheme, mandatory provident fund, and medical insurance.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Stock Exchange on 12 July 2012 and raised net proceeds of HK$20.2 million. As at 31 December 2013, the unused proceeds of HK$7.6 million were deposited into licensed banks in Hong Kong.

As at 31 December 2013, the net proceeds had been utilised as follows:

| | Actual net proceeds HK$ million | Amount utilised up to 31 December 2013 HK$ million | Balance as at 31 December 2013 HK$ million |
|---|---|---|---|
| Acquisition and replacement of machinery and equipment | 8.1 | 4.6 | 3.5 |
| Explore new business opportunities and enhance market awareness of the Group's products | 8.1 | 5.9 | 2.2 |
| Enhance the Group's product design and development capability | 2.0 | 0.1 | 1.9 |
| Working capital and other general corporate purposes | 2.0 | 2.0 | – |
| | 20.2 | 12.6 | 7.6 |

## PROSPECTS

Looking forward the global economy, and hence the Group's operating environment, is likely to be affected by the US Government's time line to scale back the size of its asset purchase program. Under the backdrop of weak consumer spending in Europe, the slowdown of the forecast economic growth in China may further translate into additional challenges and uncertainties that would hit global demands for packaging products.

Packaging manufacturers in China are burdened with continuous rising operating costs, primarily from rising statutory minimum wages, rising material costs and appreciation of the RMB. To cope with pricing pressure triggered by end customers and to achieve continued sustainable growth in the future, the Group will enhance its product quality and maintain rigorous operating control measures so as to sharpen its competitiveness.

To maintain the Group's position as one of the market leaders, the Group will continuously adopt customer oriented marketing strategy, by developing closer and more stable relationships with its existing customers, cultivating new relationships, and keeping abreast of industry trends.

Additionally, the Group will proactively explore semi-automated production processes to improve its operational efficiency.

The Company is committed to maintaining a high standard of corporate governance. The board of directors of the Company (the "Board") considers that sound corporate management and governance practices are essential to the Company's healthy growth under all business environments.

## CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 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 its own code of conduct regarding securities transactions by directors. Specific enquiries have been made of all directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

## BOARD OF DIRECTORS

Currently, the Board is chaired by Dr. Lam How Mun Peter. It consists of four executive directors and five non-executive directors, three of whom are independent. Names and other details of the members of the Board are set out under the heading of "Directors' Profiles" on pages 4 to 5. The Board determines and keeps under review the objectives of the Group. It makes decisions on overall strategies and actions necessary for achieving these objectives, monitors and controls financial and operating performance, formulates appropriate policies, and identifies and ensures best practices of corporate governance. The current structure and composition of the Board have provided it with an appropriate mix of skills, knowledge, experience and diversity. The Board reviews its structure and composition from time to time to ensure that appropriate expertise and independence are maintained.

The Company has received confirmation from each director that he has given sufficient time and attention to the affairs of the Company during the year. Directors have also disclosed to the Company the number and nature of offices they held in public companies or organizations and other significant commitment, including the identity of the public companies or organizations and an indication of the time involved.

Set out below are details of directors' attendance of board, committees and general meetings in 2013:

| | **Attendance/Number of meetings held** | | | | |
|---|---|---|---|---|---|
| **Name of directors** | **Regular board meeting** | **Audit committee meeting** | **Remuneration committee meeting** | **Nomination committee meeting** | **Annual general meeting** |
| *Executive Directors* | | | | | |
| Poon Ho Yee Agnes *(Managing Director)* | 4/4 | – | – | 1/1 | 1/1 |
| Lam Hiu Lo | 4/4 | – | – | – | 1/1 |
| Leung Chun Cheong | 4/4 | – | – | – | 1/1 |
| Wu Hong Cho | 4/4 | – | – | – | 0/1 |
| *Non-executive Directors* | | | | | |
| Lam How Mun Peter *(Chairman)* | 4/4 | – | 1/1 | 1/1 | 1/1 |
| Leung Wai Fai | 4/4 | – | – | – | 1/1 |
| *Independent Non-executive Directors* | | | | | |
| Chan Sze Hung | 4/4 | 3/3 | 1/1 | 1/1 | 0/1 |
| Leung Wai Keung | 4/4 | 3/3 | 1/1 | 1/1 | 0/1 |
| Tam Kwok Fai Paul | 4/4 | 3/3 | 1/1 | 1/1 | 1/1 |

During the year, the non-executive directors (including independent non-executive directors) have met once with the Chairman without the presence of the executive directors, to consider and discuss various matters in respect of the management of the Company.

The Chairman sets the agenda for the Board and takes the lead in the formulation of objectives, strategies and actions at the directorate level. He ensures that members of the Board receive accurate, timely and clear information, and that matters to be taken into consideration are given their due weight, so that sound decisions can be made. With the assistance of the Company Secretary, the Chairman ensures that the Board properly exercises its powers, its meetings and procedures comply with all rules and requirements, and full and proper records are maintained. Procedures are also put in place for each director to have access to supporting papers and relevant information for each scheduled meeting. All directors also have access to the services of the Company Secretary and her team, and may take independent professional advice upon request, at the Company's expense.

The day-to-day management of the Group is delegated by the Board to the Managing Director who is supported by the various committees of the Board and management of the Company for recommending strategies to the Board, and determining and implementing operational decisions. The Managing Director assumes full accountability for the day-to-day management of the Group. All committees of the Board have specific terms of reference clearly defining their respective powers and responsibilities. All committees are required by their terms of reference to report to the Board in relation to their decisions or recommendations. Through participating in the Company's board meetings and committees meetings, attending general meetings, and participating in continuous professional development, all directors are able to make contribution required from them to the Board and to the development of the Company.

The Company provides directors with regular updates on changes to and developments of the Group's business, and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities to help them make informed decisions and discharge their duties and responsibilities as directors of the Company.

During the year under review, all directors have participated in continuous professional development to develop and refresh their knowledge and skills as listed company directors. All directors have provided the Company with their records of the training they received for the year. A summary of the records of their training is as follows:

| **Name of directors** | **Type of continuous professional development programmes** |
|---|---|
| *Executive Directors* | |
| Poon Ho Yee Agnes *(Managing Director)* | A, B |
| Lam Hiu Lo | A, B |
| Leung Chun Cheong | A, B |
| Wu Hong Cho | A, B |
| *Non-executive Directors* | |
| Lam How Mun Peter *(Chairman)* | A, B |
| Leung Wai Fai | A, B |
| *Independent Non-executive Directors* | |
| Chan Sze Hung | A, B |
| Leung Wai Keung | A, B, C |
| Tam Kwok Fai Paul | A, B |

Notes:

A. Attending face-to-face courses, seminars or conferences
B. Reading materials regarding updates on the Group's business, operation and corporate governance matters
C. Providing seminars and training courses for local companies in Hong Kong

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate. The main responsibility of Chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of the committees of the Board, Managing Director is responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions.

## NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has reviewed their independence based on such confirmation and considers all of them remaining independent.

All non-executive directors are appointed for a specific term of not more than three years and are subject to retirement by rotation and re-election at the annual general meeting at least once every three years pursuant to the Company's Bye-laws.

## BOARD COMMITTEES

The Board has set up the Executive Committee which comprises all executive directors on the Board. Under its terms of reference, the Executive Committee is responsible for overseeing the management and daily operations of the Group and any other matters delegated by the Board. In addition to the Executive Committee, the Board has set up the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board does not have a Corporate Governance Committee and its functions would be carried out by the Board as a whole.

## AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, Mr. Chan Sze Hung, Dr. Leung Wai Keung and Mr. Tam Kwok Fai Paul. It is chaired by Mr. Tam Kwok Fai Paul. The major roles and functions of the Audit Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

The Audit Committee has reviewed together with the management and external auditors the accounting policies and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including reviewing the Group's consolidated results for the year ended 31 December 2013. When reviewing the Company's interim and annual reports, the Audit Committee has focused not only on the impact of the changes in accounting policies and practices, but also on the compliance with applicable accounting standards, the Listing Rules and relevant legal requirements. It has also reviewed the financial statements before submission to the Board.

The Audit Committee has reviewed with the management the system of internal control covering all material controls, including financial, operational and compliance controls and risk management functions and the arrangements for employees to raise concerns in confidence about possible improprieties in financial reporting, internal control and other matters. It has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Audit Committee has reviewed the engagement of external auditors and the effectiveness of the audit process.

## REMUNERATION COMMITTEE

The Remuneration Committee currently comprises one non-executive director, Dr. Lam How Mun Peter, and three independent non-executive directors, Mr. Chan Sze Hung, Dr. Leung Wai Keung and Mr. Tam Kwok Fai Paul. It is chaired by Mr. Chan Sze Hung. The major roles and functions of the Remuneration Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

The Remuneration Policy for executive directors of the Company is determined with reference to the Group's operating results, duties and level of responsibility of the executive directors and the prevailing market conditions which are reviewed annually in order to provide remuneration and compensation packages competitive to attract, retain and motivate high quality executives to serve the Group. The fee for non-executive directors is determined with reference to their duties and level of responsibility with the Company and is reviewed on an annual basis.

During 2013, the Remuneration Committee has assessed the performance of the executive directors, reviewed and discussed, among other matters, the remuneration packages (including the annual performance bonus policy) of the executive directors, the remuneration of the non-executive directors, the existing share option scheme, the retirement benefit schemes and the long-term incentive arrangement. Being given the delegated responsibility, the Remuneration Committee has also determined the remuneration packages of the executive directors of the Company. The Remuneration Committee has also reviewed the Remuneration Policy and its implementation.

## NOMINATION COMMITTEE

The Nomination Committee currently comprises one executive director, Ms. Poon Ho Yee Agnes, one non-executive director, Dr. Lam How Mun Peter, and three independent non-executive directors, Mr. Chan Sze Hung, Dr. Leung Wai Keung and Mr. Tam Kwok Fai Paul. It is chaired by Dr. Lam How Mun Peter. The major roles and functions of the Nomination Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

The Nomination Policy for directors is formulated with reference to the skills and experience of the Board appropriate for the requirements of the Group's business. The Nomination Committee will review the Board's structure, size and composition (including the skills, knowledge and experience) and diversity. It will assess the independence of independent non-executive directors. It will also make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and make recommendations on the appointment or re-appointment of directors and succession planning for directors, including the Chairman. It is responsible for identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

The Company has adopted a Board Diversity Policy setting out the approach to achieve a diverse Board. Taking into account factors including the size of the Board, its composition of executive and non-executive directors, and the Company's principal activities and needs, selection of candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During 2013, the Nomination Committee has reviewed and discussed, among other matters, the structure, size and composition including the skills, knowledge, experience and the diversity of the Board and also assessed the independence of independent non-executive directors of the Board. It has also reviewed the Nomination Policy and the Board Diversity Policy and their implementation.

## CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the CG Codes and disclosure in the Corporate Governance Report.

The Corporate Governance Policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its Corporate Governance Policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year, members of the Board have discussed and reviewed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

## INDEPENDENT AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's independent auditors, Messrs. Ernst & Young amounted to a total of HK$1,751,000, of which HK$1,350,000 was for audit services and HK$401,000 for non-audit services including review, tax and consultancy services.

In addition, the remuneration paid/payable to the independent auditors of subsidiaries of the Company amounted to a total of HK$107,000, of which HK$101,000 for audit services and HK$6,000 for non-audit services including tax services.

## COMPANY SECRETARY

The Company Secretary has undertaken not less than 15 hours of relevant professional training during 2013.

## SHAREHOLDERS' RIGHTS

The following is a brief summary of certain rights of shareholders, which are subject to applicable laws and regulations, including without limitation, the Companies Act 1981 of Bermuda (as amended from time to time), the Listing Rules and the Bye-laws.

1. **Convening special general meeting**
   Members may by a written requisition require the directors to convene an special general meeting ("SGM"). A valid requisition may be made by a member or members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which at that date carries the right to vote at general meetings of the Company. The requisition must state the purposes of the requisitioned SGM, and must be signed by the requisitionists. The requisition may consist of several documents in like form each signed by one or more requisitionists, which must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong, for the attention of the Board or the Company Secretary.

If directors do not duly convene an SGM within 21 days from the date of deposit of the requisition, the requisitionists (or any of them representing more than one-half of their total voting rights) may themselves convene an SGM, which must be held within three months of the date of deposit of the requisition. The SGM must be convened by the requisitionists in the same manner as nearly as possible as that in which SGM is to be convened by directors. The requisitionists are entitled to be repaid any reasonable expenses they incur as a result of the failure of directors duly to convene an SGM. These expenses will be payable by the Company and any sum so repaid shall be retained by the Company out of any fees or other remuneration payable by the Company to the defaulting directors in respect of their services.

**2. Putting forward proposals at shareholders' meetings**

In addition to the right to requisition an SGM, members of the Company may by a written requisition and at their expense (unless the Company otherwise resolves) require the Company to:

(a) give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company; and
(b) circulate to members of the Company entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A valid requisition may be made by either:

(a) any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition the right to vote at the meeting to which the requisition relates; or
(b) not less than 100 members of the Company.

The requisition signed by the requisitionists (or two or more copies which between them bear the signatures of all the requisitionists) must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong, for the attention of the Board or the Company Secretary and,

(a) in the case of a requisition requiring notice of a resolution to be moved at an annual general meeting, not less than six weeks before the annual general meeting; and
(b) in the case of any other requisition, not less than one week before the general meeting.

The requisitionists must deposit or tender with the requisition a sum which is reasonably sufficient to meet the Company's expenses in giving effect to the requisition.

**3. Proposing a person for election as director**

Shareholders may propose a person for election as director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

**4. Sending enquiries to the Board**

Shareholders may send any enquiries to the Board by mail, email or telephone to the Company Secretary, whose contact details are as follows:

| | |
|---|---|
| Address: | 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong |
| Email: | qualipak@qualipakhk.com |
| Telephone: | +852 2529 6196 |

## INVESTOR RELATIONS

The Company has adopted a Shareholders Communication Policy. The use and effectiveness of such policy are monitored and reviewed regularly by the Board. The Company recognises the importance of shareholders' privacy and therefore will not disclose shareholders' information without their consent, unless required by law to do so. To achieve equal access to information on the Company's latest major developments, measures have been taken to ensure all necessary information and appropriate updates are made available to investors in a timely manner through the Company's website under the column of "Investor Relations". In addition to financial reports, all announcements and circulars of the Company including results announcements, notices of general meetings and associated explanatory documents released by the Company to The Stock Exchange of Hong Kong Limited are posted on the Company's website. Shareholders should direct their questions about their shareholdings to the Company's share registrars. For enquiries about the information of the Company, shareholders may contact the Company Secretary, whose contact details are set out under the heading of "Sending enquiries to the Board" above. Shareholders are encouraged to participate in the Company's general meetings where members of the Board will be available to answer their questions.

The Company's constitutional documents are made available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations". There was no significant change in them during the year under review.

## INTERNAL CONTROLS

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. The Company has maintained an internal audit function which forms part of the permanent establishment of the Group and is internally resourced and staffed by qualified accounting personnel with suitable experience.

The internal audit function monitors the adequacy and effectiveness of the internal control system established within the Company and its subsidiaries for safeguarding assets against unauthorized use, for maintaining proper accounting records, and for ensuring the reliability of financial information. Functional reporting and financial reporting procedures appropriate to the business of the Company's subsidiaries are established for application within the Group. These procedures are designed to enable timely and reliable functional and financial reporting by subsidiaries of the Group and to provide reasonable assurance against material misstatement, errors, losses or fraud. The work of the internal audit function is generally focused on identifying, monitoring and reporting on major risks faced by the Group, including those related to business operations, compliance with laws and regulations and financial reporting. The Board is responsible for ensuring that recommendations made by the internal audit function are properly implemented.

The Board recognizes that the Group's internal control system plays a key role in both the management of risks and the assurance of continued compliance with laws and regulations by the Group. The Audit Committee has kept under review the Group's internal control system. The Board has also conducted an annual review of the effectiveness of the Group's internal control system. Based on its review, the Audit Committee will advise the Board on the adequacy of the Group's internal control system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

During the year under review, the Board considers that the Group has complied with the provisions on internal controls as stipulated in the CG Code. The Board is satisfied that the Group's internal control system including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and that no significant areas of improvement which are required to be brought to the attention of the Audit Committee have been revealed.

## INSIDE INFORMATION

The Company has adopted a Disclosure of Inside Information Policy. It sets out a framework for the release and control of inside information to ensure that the Company is able to meet its legal and regulatory obligations and requirements as a listed corporation. The Board is generally responsible for ensuring that the Group complies with its disclosure obligations regarding inside information and has established a disclosure group comprising certain directors and management to assist it in determining whether any particular information is inside information and overseeing and coordinating disclosure of inside information of the Group. Inside information should be disclosed by way of an announcement in accordance with the requirements of the Securities and Futures Ordinance and the Listing Rules. Before relevant information is fully disclosed to the public, the disclosure group will help the Board to ensure that such information is kept strictly confidential.

## DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Board acknowledges that it is responsible for the preparation of financial statements of the Group and for ensuring that financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of financial statements of the Group. The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external independent auditors of the Company, Messrs Ernst & Young, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 26.

On behalf of the Board

**Lam How Mun Peter**
*Chairman*

Hong Kong, 25 March 2014

The directors are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of corporate management services. The Group is principally engaged in the design, development, manufacture and sale of packaging products and point-of-sales display units. Its product portfolio is principally packaging products for watches, jewellery and eyewear products, comprising packaging cases, bags and pouches and display units. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 27 to 71.

The directors do not recommend the payment of any final dividend for the year ended 31 December 2013.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 27 May 2014 to Wednesday, 28 May 2014, both days inclusive, for determining the eligibility of shareholders for attending and voting at the forthcoming annual general meeting of the Company to be held on Wednesday, 28 May 2014 (the "AGM"). In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged with Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration by 4:30 p.m. on Monday, 26 May 2014.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2012 (the "Listing Date") and raised net proceeds of HK$20.2 million. As at 31 December 2013, the unused proceeds of HK$7.6 million were deposited with licensed banks in Hong Kong.

As at 31 December 2013, the net proceeds was utilised as follows:

| | Actual net proceeds HK$ million | Amount utilised up to 31 December 2013 HK$ million | Balance as at 31 December 2013 HK$ million |
|---|---|---|---|
| Acquisition and replacement of machinery and equipment | 8.1 | 4.6 | 3.5 |
| Explore new business opportunities and enhance market awareness of the Group's products | 8.1 | 5.9 | 2.2 |
| Enhance the Group's product design and development capability | 2.0 | 0.1 | 1.9 |
| Working capital and other general corporate purposes | 2.0 | 2.0 | – |
| | 20.2 | 12.6 | 7.6 |

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 72. The summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

## ASSOCIATES

Particulars of the Group's associates are set out in note 16 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 24 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no pre-emptive rights provision in the Companies Act 1981 of Bermuda (as amended from time to time) or in the Company's Bye-laws.

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

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

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25(b) to the financial statements and in the consolidated statement of changes in equity respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution to shareholders, calculated in accordance with the Companies Act 1981 of Bermuda (as amended from time to time), amounted to HK$35,536,000. In addition, the Company's share premium account in the amount of HK$18,733,000 may be distributed in form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions amounting to HK$21,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted in the aggregate for 52.2% of the total sales for the year and sales to the largest customer included therein amounted to 30.2%. Purchases from the Group's five largest suppliers accounted in the aggregate for 64.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to 31.7%.

None of the directors, their associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers.

## DIRECTORS

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

**Executive Directors:**
Ms. Poon Ho Yee Agnes *(Managing Director)*
Mr. Lam Hiu Lo
Mr. Leung Chun Cheong
Mr. Wu Hong Cho

**Non-executive Directors:**
Dr. Lam How Mun Peter *(Chairman)*
Mr. Leung Wai Fai

**Independent Non-executive Directors:**
Mr. Chan Sze Hung
Dr. Leung Wai Keung
Mr. Tam Kwok Fai Paul

In accordance with Bye-law 84 of the Company's Bye-laws, Mr. Lam Hiu Lo, Dr. Lam How Mun Peter and Dr. Leung Wai Keung will retire and, being eligible, will offer themselves for re-election at the AGM. All other directors will continue to be in office.

The Company has received from each of the Independent Non-executive Directors, Mr. Chan Sze Hung, Dr. Leung Wai Keung and Mr. Tam Kwok Fai Paul, an annual written confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board has reviewed their independence based on such confirmations and considers all of them to remain independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 4 to 5.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with any company in the Group which is not terminable by such company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS

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

## NON-COMPETITION UNDERTAKINGS

The Company has received from each of the controlling shareholders of the Company, namely, Mr. Cheung Chung Kiu ("Mr. Cheung"), Thrivetrade Limited ("Thrivetrade") and Regulator Holdings Limited ("Regulator"), and C C Land Holdings Limited ("CC Land") (collectively the "Covenantors") an annual confirmation in relation to the non-competition undertakings (the "Undertakings") made to the Company under the Deed of Non-competition dated 21 June 2012, details of which were disclosed in the prospectus of the Company dated 28 June 2012 (the "Prospectus") under the section headed "Relationship with Controlling Shareholders and CC Land"). The independent non-executive directors have reviewed the Undertakings and are of the view that each of the Covenantors has complied with the terms of the Deed of Non-competition throughout the year.

## REMUNERATION DETAILS

Details of the directors' remuneration and the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements respectively.

## REMUNERATION POLICY

The remuneration policy for employees of the Group is formulated based on the merit, qualifications and competence of individual employee which are reviewed regularly in order to provide compensation packages at market rates sufficient to reward successful performance and attract, retain and motivate employees. The Company has adopted a share option scheme as a long-term incentive to eligible employees and directors, details of which are set out in note 26 to the financial statements.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2013, details of the interests and short positions of each of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Interests in shares of the Company (long positions)

| Name of directors | Capacity in which interests are held | Number of shares held | Approximate percentage (Note) |
|---|---|---|---|
| Dr. Lam How Mun Peter | Beneficial owner | 15,926 | 0.01 |
| Ms. Poon Ho Yee Agnes | Beneficial owner | 5,200 | 0.00 |
| Mr. Leung Chun Cheong | Beneficial owner | 32,733 | 0.02 |

Note: Approximate percentage refers to the number of shares which a director held expressed as a percentage (rounded up to two decimal places) of the issued share capital of the Company as at 31 December 2013.

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests and Short Positions" above and "Share Options" below, and in the share option scheme disclosures set out in note 26 to the financial statements, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, or any of their associates, had any rights to subscribe for shares of the Company, or had exercised any such rights during the year.

## SHARE OPTIONS

The Company adopted a share option scheme on 18 May 2012, details of which were disclosed in the Prospectus and are set out in note 26 to the financial statements. No share option has been granted since its adoption.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2013, details of the interests and short positions of every person, other than directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of shareholders | Capacity in which interests are held | Number of shares held (long position) | Approximate percentage [3] |
|---|---|---|---|
| Mr. Cheung | Interest of controlled corporation | 72,726,098 [1&2] | 50.58 |
| Thrivetrade | Beneficial owner | 58,385,656 [1] | 40.61 |
| Regulator | Beneficial owner | 14,340,442 [2] | 9.97 |
| Yugang International (B.V.I.) Limited ("Yugang-BVI") | Interest of controlled corporation | 14,340,442 [2] | 9.97 |
| Yugang International Limited ("Yugang") | Interest of controlled corporation | 14,340,442 [2] | 9.97 |
| Chongqing Industrial Limited ("CIL") | Interest of controlled corporation | 14,340,442 [2] | 9.97 |
| Palin Holdings Limited ("Palin") | Interest of controlled corporation | 14,340,442 [2] | 9.97 |

Notes:

1. 58,385,656 of such shares were held through Thrivetrade, a company wholly-owned by Mr. Cheung. Accordingly, Mr. Cheung was deemed to be interested in the same number of shares held through Thrivetrade.

2. 14,340,442 of such shares were held through Regulator, a direct wholly-owned subsidiary of Yugang-BVI, which is in turn a direct wholly-owned subsidiary of Yugang.

   Yugang was owned by CIL, Timmex Investment Limited ("Timmex") and Mr. Cheung as to approximately 44.06% in aggregate. CIL was owned as to 35%, 30%, 5% and 30% by Mr. Cheung, Peking Palace Limited ("Peking Palace"), Miraculous Services Limited ("Miraculous Services") and Prize Winner Limited ("Prize Winner") respectively. Mr. Cheung had 100% beneficial interest in Timmex. Prize Winner was beneficially owned by Mr. Cheung and his associates. Peking Palace and Miraculous Services were held by Palin as the trustee for Palin Discretionary Trust, a family discretionary trust, the objects of which included Mr. Cheung and his family.

   Each of Mr. Cheung, Palin, CIL, Yugang and Yugang-BVI was therefore deemed to be interested in the same number of shares held through Regulator.

3. Approximate percentage refers to the number of shares which a shareholder held expressed as a percentage (rounded up to two decimal places) of the issued share capital of the Company as at 31 December 2013.

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any interests or short positions of any other person, other than directors or the chief executive of the Company, in the shares or underlying shares of the Company required to be recorded in the register kept by the Company under Section 336 of the SFO.

## CONNECTED TRANSACTIONS

Details of the related party transactions undertaken by the Group for the year are set out in note 32 to the financial statements. These transactions were exempted continuing connected transactions under the Listing Rules. The Company's directors (including independent non-executive directors) are of the view that these transactions were in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable, and in the interests of the shareholders as a whole. Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2013 and up to the date of this report as required under the Listing Rules.

## INDEPENDENT AUDITORS

Ernst & Young will retire and a resolution for their re-appointment as independent auditors of the Company will be proposed at the AGM.

On behalf of the Board

**Lam How Mun Peter**
*Chairman*

Hong Kong, 25 March 2014

EY 安永

**To the shareholders of Qualipak International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Qualipak International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 71, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 (the "HKICPA") 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, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 HKICPA. 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 2013, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25 March 2014

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

| | Notes | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **436,402** | 389,304 |
| Cost of sales | | **(366,930)** | (318,099) |
| Gross profit | | **69,472** | 71,205 |
| Other income and gains | 5 | **4,235** | 2,975 |
| Selling and distribution expenses | | **(16,049)** | (14,688) |
| Administrative expenses | | **(37,080)** | (32,841) |
| Other expenses | | **(890)** | (966) |
| Share of profits and losses of associates | | **24** | 486 |
| PROFIT BEFORE TAX | 6 | **19,712** | 26,171 |
| Income tax expense | 9 | **(2,780)** | (3,256) |
| PROFIT FOR THE YEAR | | **16,932** | 22,915 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **59** | – |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **16,991** | 22,915 |
| Profit attributable to: | | | |
| Owners of the parent | 11 | **13,435** | 20,341 |
| Non-controlling interests | | **3,497** | 2,574 |
| | | **16,932** | 22,915 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | 11 | **13,494** | 20,341 |
| Non-controlling interests | | **3,497** | 2,574 |
| | | **16,991** | 22,915 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 12 | **9.35 cents** | 14.93 cents |

Details of the dividend for the year are disclosed in note 10 to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **119,461** | 121,247 |
| Prepaid land lease payments | 14 | **12,940** | 13,341 |
| Investments in associates | 16 | **1,135** | 1,111 |
| Total non-current assets | | **133,536** | 135,699 |
| CURRENT ASSETS | | | |
| Prepaid land lease payments | 14 | **402** | 402 |
| Inventories | 17 | **41,586** | 36,141 |
| Trade and bills receivables | 18 | **53,295** | 51,611 |
| Prepayments, deposits and other receivables | 19 | **4,110** | 4,889 |
| Tax recoverable | | **186** | 875 |
| Pledged deposits | 20 | **7,542** | 7,516 |
| Cash and cash equivalents | 20 | **80,502** | 74,004 |
| Total current assets | | **187,623** | 175,438 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 21 | **31,931** | 31,651 |
| Other payables and accruals | 22 | **25,168** | 28,640 |
| Tax payable | | **404** | – |
| Total current liabilities | | **57,503** | 60,291 |
| NET CURRENT ASSETS | | **130,120** | 115,147 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **263,656** | 250,846 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 23 | **1,522** | 1,538 |
| Net assets | | **262,134** | 249,308 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 24 | **14,377** | 14,377 |
| Reserves | 25(a) | **246,824** | 233,330 |
| | | **261,201** | 247,707 |
| **Non-controlling interests** | | **933** | 1,601 |
| Total equity | | **262,134** | 249,308 |

**Lam How Mun Peter**
*Director*

**Leung Chun Cheong**
*Director*

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium account HK$'000 | Special reserve HK$'000 | Capital reserve HK$'000 | Contributed surplus HK$'000 | Merger reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2012 | | – | – | (158) | 2,291 | – | 78 | – | 161,826 | 164,037 | 2,457 | 166,494 |
| Profit and total comprehensive income for the year | | – | – | – | – | – | – | – | 20,341 | 20,341 | 2,574 | 22,915 |
| Contribution from a shareholder** | | – | – | – | 43,000 | – | – | – | – | 43,000 | – | 43,000 |
| Disposal of carved-out subsidiaries | | – | – | 158 | – | – | – | – | – | 158 | – | 158 |
| Dividend paid to a non-controlling shareholder | | – | – | – | – | – | – | – | – | – | (3,430) | (3,430) |
| Capitalisation issue of shares | 24(iii) | 219 | – | – | – | (219) | – | – | – | – | – | – |
| Issue of new shares | 24(ii),(iv) | 14,158 | 21,420 | – | – | (12,642) | (78) | – | – | 22,858 | – | 22,858 |
| Share issue expenses | 24 | – | (2,687) | – | – | – | – | – | – | (2,687) | – | (2,687) |
| **At 31 December 2012 and 1 January 2013** | | **14,377** | **18,733*** | **–*** | **45,291*** | **(12,861)*** | **–*** | **–*** | **182,167*** | **247,707** | **1,601** | **249,308** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **13,435** | **13,435** | **3,497** | **16,932** |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | **–** | **–** | **–** | **–** | **–** | **–** | **59** | **–** | **59** | **–** | **59** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **59** | **13,435** | **13,494** | **3,497** | **16,991** |
| Dividend paid to a non-controlling shareholder | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(4,165)** | **(4,165)** |
| At 31 December 2013 | | **14,377** | **18,733*** | **–*** | **45,291*** | **(12,861)*** | **–*** | **59*** | **195,602*** | **261,201** | **933** | **262,134** |

* These reserve accounts comprise the consolidated reserves of HK$246,824,000 (2012: HK$233,330,000) in the consolidated statement of financial position.

** On 24 February 2012, an amount of HK$43,000,000 was waived by C C Land Holdings Limited ("CC Land"), the then immediate holding company of the Company, and was recognised as a capital contribution from a shareholder.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **19,712** | 26,171 |
| Adjustments for: | | | |
| Share of profits and losses of associates | | **(24)** | (486) |
| Bank interest income | 5 | **(101)** | (89) |
| Depreciation | 13 | **5,118** | 4,983 |
| Amortisation of prepaid land lease payments | 14 | **401** | 401 |
| Gain on disposal of items of property, plant and equipment | 5 | **(42)** | (62) |
| Impairment/(write-back of impairment) of trade receivables | 6 | **(358)** | 307 |
| Write-down of inventories to net realisable value | 6 | **889** | 61 |
| Forfeiture of deposits from customers | 5 | **3** | 865 |
| | | **25,598** | 32,151 |
| Decrease/(increase) in inventories | | **(6,334)** | 2,805 |
| Increase in trade, bills and other receivables, prepayments and deposits | | **(547)** | (6,291) |
| Decrease in trade, bills and other payables and accruals | | **(3,195)** | (8,686) |
| Cash generated from operations | | **15,522** | 19,979 |
| Interest received | | **101** | 89 |
| Hong Kong profits tax paid | | **(1,703)** | (4,511) |
| Net cash flows from operating activities | | **13,920** | 15,557 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 13 | **(3,347)** | (1,389) |
| Proceeds from disposal of items of property, plant and equipment | | **57** | 64 |
| Increase in pledged time deposits | | **(26)** | (7,516) |
| Net cash flows used in investing activities | | **(3,316)** | (8,841) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 24 | **–** | 22,858 |
| Share issue expenses | 24 | **–** | (2,687) |
| Dividend paid to a non-controlling shareholder | | **(4,165)** | (3,430) |
| Decrease in an amount due to a related party | | **–** | (9,251) |
| Net cash flows from/(used in) financing activities | | **(4,165)** | 7,490 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **6,439** | 14,206 |
| Cash and cash equivalents at beginning of year | | **74,004** | 59,798 |
| Effect of foreign exchange rate changes, net | | **59** | – |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **80,502** | 74,004 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 20 | **64,416** | 57,976 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **16,086** | 16,028 |
| | | **80,502** | 74,004 |

| | Notes | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 15 | **47,890** | 47,890 |
| CURRENT ASSETS | | | |
| Prepayments and other receivables | 19 | **296** | 290 |
| Due from subsidiaries | 15 | **6,928** | 6,300 |
| Cash and cash equivalents | 20 | **17,552** | 17,836 |
| Total current assets | | **24,776** | 24,426 |
| CURRENT LIABILITIES | | | |
| Accruals | 22 | **2,387** | 2,409 |
| Due to subsidiaries | 15 | **1,600** | 1,600 |
| Tax payable | | **33** | 42 |
| Total current liabilities | | **4,020** | 4,051 |
| NET CURRENT ASSETS | | **20,756** | 20,375 |
| Net assets | | **68,646** | 68,265 |
| EQUITY | | | |
| Issued capital | 24 | **14,377** | 14,377 |
| Reserves | 25(b) | **54,269** | 53,888 |
| Total equity | | **68,646** | 68,265 |

**Lam How Mun Peter**
*Director*

**Leung Chun Cheong**
*Director*

## 1. CORPORATE INFORMATION AND GROUP REORGANISATION

Qualipak International Holdings Limited (the "Company") was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 24 October 2011. The principal place of business of the Company is located at 7th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2012 (the "Listing Date").

The principal activities of the Company are investment holding and provision of corporate management services. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, development, manufacture and sale of packaging products and point-of-sales display units.

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 15 May 2012. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" under the section headed "History, Development and Corporate Reorganisation" in the prospectus of the Company dated 28 June 2012.

## 2.1 BASIS OF PREPARATION

Pursuant to the Reorganisation, the subsidiaries now comprising the Group were under common control of the controlling shareholder before and after the Reorganisation. Accordingly, these financial statements have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the financial periods presented.

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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") 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 for the year ended 31 December 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group has directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES 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 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| HKFRS 10 | *Consolidated Financial Statements* |
| HKFRS 11 | *Joint Arrangements* |
| HKFRS 12 | *Disclosure of Interests in Other Entities* |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* |
| HKFRS 13 | *Fair Value Measurement* |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* |
| HKAS 19 (2011) | *Employee Benefits* |
| HKAS 27 (2011) | *Separate Financial Statements* |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures* |
| HKAS 36 Amendments | Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted) |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual Improvements 2009-2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012 |

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements. However, the application of HKFRS 12 and amendments to HKAS 1 resulted in additional disclosures in the consolidated financial statements.

HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements,* HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for a subsidiary and associates are included in notes 15 and 16 to the financial statements.

The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[4] |
| HKFRS 9, HKFRS 7 and HKAS 39 Amendments | *Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS12 and HKAS 27 (2011) – *Investment Entities*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[3] |
| HKAS 19 Amendments | Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1] |
| HKAS 39 Amendments | Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| HK(IFRIC)-Int 21 | *Levies*[1] |
| *Annual Improvements 2010-2012 Cycle* | Amendments to a number of HKFRSs issued in January 2014[2] |
| *Annual Improvements 2011-2013 Cycle* | Amendments to a number of HKFRSs issued in January 2014[2] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The Group expects to adopt the amendments from 1 January 2015.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

Subsidiaries are all entities (including structured entities), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial 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 of disposal, 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is an 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### 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 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 are stated at cost less accumulated depreciation and any impairment losses. 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 profit or loss 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.

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:

| | |
|---|---|
| Land and buildings | 2% to 5% or over the unexpired terms of the leases, if less than 50 years |
| Leasehold improvements | 20% or over the unexpired terms of the leases, if less than 5 years |
| Electricity supply system | 10% |
| Furniture, fixtures and equipment | 10% to 20% |
| Motor vehicles | 20% to 25% |
| Plant and machinery | 10% |
| Moulds | 15% |

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 depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### 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 profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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 profit or loss 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 profit or loss on the straight-line basis over the lease terms.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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.

***Subsequent measurement***

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 other income and gains in profit or loss. The loss arising from impairment is recognised as finance costs in profit or loss for loans and in other expenses for receivables.

### 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. 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 write-off is later recovered, the recovery is credited to other expenses in profit or loss.

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, 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.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals.

***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 rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate 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 profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities *(Continued)*

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### 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 profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

### Derivative financial instruments

The Group uses derivative financial instruments, being forward currency contracts, to manage its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. The derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of the derivative financial instruments are taken directly to profit or loss.

### 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 profit or loss.

### 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 goodwill or 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 and associates, 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, 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 and associates, 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

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.

### 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; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 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 a binomial model.

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 in employee benefit expense. 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 profit or loss 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 payments, 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Other employee benefits

#### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

#### *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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 measured. The gain or loss arising on translation of non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of certain overseas subsidiaries is a currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### 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***

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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.

***Provision for obsolete and slow-moving inventories***

The Group has a general provision policy on inventories based on ageing. The Group's sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves a comparison of the carrying values of aged inventory items with their respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

#### *Impairment loss on trade and other receivables*

In determining whether impairment loss on trade and other receivables is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the Group's responsible personnel discusses with the relevant customers and debtors and reports to management on the recoverability. Impairment loss is only made for receivables that are unlikely to be collected.

#### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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 level of future taxable profits together with future tax planning strategies. Details of the amount of unrecognised tax losses are set out in note 23 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one operating segment which is the manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

Revenue from external customers based on the locations of these customers is analysed as follows:

| | **Group** | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Hong Kong and Mainland China | **191,304** | 141,474 |
| Europe | **122,753** | 136,015 |
| North and South America | **83,432** | 81,933 |
| Others | **38,913** | 29,882 |
| | **436,402** | 389,304 |

The geographical locations of the Group's non-current assets are analysed as follows:

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **68,554** | 70,089 |
| Mainland China | **64,982** | 65,610 |
| | **133,536** | 135,699 |

The non-current asset information above is based on the locations of the assets.

### Information about a major customer

Revenue of approximately HK$131,748,000 (2012: HK$66,250,000) was derived from sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units to a single customer, which accounted for more than 10% of the Group's total revenue.

## 5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of the Group's other income and gains is as follows:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| Bank interest income | **101** | 89 |
| Sale of scrap materials | **733** | 532 |
| Gain on disposal of items of property, plant and equipment | **42** | 62 |
| Gross rental income | **960** | 678 |
| Fair value gain on derivative financial instruments | **2,013** | 393 |
| Forfeiture of deposits from customers | **3** | 865 |
| Others | **383** | 356 |
| | **4,235** | 2,975 |

## 6. PROFIT BEFORE TAX

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

| | Notes | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **366,041** | 318,038 |
| Depreciation | 13 | **5,118** | 4,983 |
| Amortisation of prepaid land lease payments | 14 | **401** | 401 |
| Minimum lease payments under operating leases in respect of land and buildings | | **263** | 212 |
| Auditors' remuneration | | **1,350** | 1,585 |
| Employee benefit expenses (including directors' remuneration (note 7)): | | | |
| Wages and salaries | | **97,294** | 92,870 |
| Pension scheme contributions | | **11,681** | 9,485 |
| | | **108,975** | 102,355 |
| Gross rental income | 5 | **(960)** | (678) |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning properties | | **285** | 51 |
| Net rental income | | **(675)** | (627) |
| Foreign exchange differences, net* | | **1,248** | 659 |
| Impairment/(write-back of impairment) of trade receivables* | | **(358)** | 307 |
| Write-down of inventories to net realisable value | | **889** | 61 |

* These items are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Fees | **990** | 466 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,490** | 2,698 |
| Performance related bonuses* | **800** | 1,400 |
| Pension scheme contributions | **129** | 104 |
| | **5,409** | 4,668 |

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the Company's operating results, individual performance of the directors and comparable market statistics during the year.

### (a) Independent non-executive directors

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

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Mr. Chan Sze Hung | **200** | 94 |
| Dr. Leung Wai Keung | **200** | 94 |
| Mr. Tam Kwok Fai Paul | **200** | 94 |
| | **600** | 282 |

Mr. Chan Sze Hung, Dr. Leung Wai Keung and Mr. Tam Kwok Fai Paul were appointed as independent non-executive directors of the Company on 19 June 2012.

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

## 7. DIRECTORS' REMUNERATION *(Continued)*

### (b) Executive directors and non-executive directors

| Year ended 31 December 2013 | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| Mr. Lam Hiu Lo | – | – | – | – | – |
| Mr. Leung Chun Cheong | – | 650 | – | 30 | 680 |
| Ms. Poon Ho Yee Agnes | – | 2,145 | 400 | 99 | 2,644 |
| Mr. Wu Hong Cho | – | 695 | 400 | – | 1,095 |
| | – | 3,490 | 800 | 129 | 4,419 |
| Non-executive directors: | | | | | |
| Dr. Lam How Mun Peter | 250 | – | – | – | 250 |
| Mr. Leung Wai Fai | 140 | – | – | – | 140 |
| | 390 | – | – | – | 390 |
| | 390 | 3,490 | 800 | 129 | 4,809 |

| Year ended 31 December 2012 | Note | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| Mr. Lam Hiu Lo | | – | – | – | – | – |
| Mr. Leung Chun Cheong | | – | 332 | – | 14 | 346 |
| Ms. Poon Ho Yee Agnes | (i) | – | 1,950 | 900 | 90 | 2,940 |
| Mr. Wu Hong Cho | | – | 416 | 500 | – | 916 |
| | | – | 2,698 | 1,400 | 104 | 4,202 |
| Non-executive directors: | | | | | | |
| Dr. Lam How Mun Peter | | 118 | – | – | – | 118 |
| Mr. Leung Wai Fai | | 66 | – | – | – | 66 |
| | | 184 | – | – | – | 184 |
| | | 184 | 2,698 | 1,400 | 104 | 4,386 |

(i) The director's emoluments during the period from 1 January 2012 to 11 July 2012 were paid by way of a management fee to CC Land, the then immediate holding company of the Company.

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

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2012: two directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2012: three) non-director highest paid employees are as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **2,770** | 2,493 |
| Performance related bonuses | **100** | 162 |
| Pension scheme contributions | **131** | 118 |
| | **3,001** | 2,773 |

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

| | Number of employees | |
|---|---|---|
| | **2013** | 2012 |
| Nil to HK$1,000,000 | **2** | 3 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| | **3** | 3 |

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The Group's subsidiaries, which are established in the People's Republic of China (the "PRC"), had no assessable profit during the year.

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **2,769** | 2,789 |
| Underprovision/(overprovision) in prior years | **27** | (54) |
| Deferred (note 23) | **(16)** | 521 |
| Total tax charge for the year | **2,780** | 3,256 |

## 9. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Profit before tax | **19,712** | 26,171 |
| Tax at the statutory tax rate | **3,142** | 4,318 |
| Income from offshore manufacturing operation not subject to tax | **(1,177)** | (1,773) |
| Adjustments in respect of current tax of previous periods | **27** | (54) |
| Profits and losses attributable to associates | **(4)** | (80) |
| Income not subject to tax | **(67)** | (15) |
| Expenses not deductible for tax | **804** | 948 |
| Tax losses utilised from previous periods | **(113)** | (116) |
| Tax losses not recognised | **345** | 10 |
| Others | **(177)** | 18 |
| Tax charge at the Group's effective tax rate | **2,780** | 3,256 |

## 10. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2012: Nil).

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of HK$7,898,000 (2012: HK$5,143,000) which has been dealt with in the financial statements of the Company (note 25(b)).

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount for the year ended 31 December 2013 is based on the profit for the year attributable to ordinary equity holders of the parent of HK$13,435,000 (2012: HK$20,341,000), and the weighted average number of ordinary shares of 143,765,993 (2012: 136,203,824) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2012 includes 127,196,162 ordinary shares of the Company in issue, and 2,193,832 ordinary shares of the Company issued pursuant to the capitalisation issues as if the shares had been in issue throughout the year ended 31 December 2012, and 14,375,999 ordinary shares of the Company issued on 11 July 2012 in connection with the listing of the ordinary shares of the Company on the Stock Exchange.

The Group had no potentially dilutive ordinary shares in issue during those years.

# 13. PROPERTY, PLANT AND EQUIPMENT

## Group

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Electricity supply system HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Moulds HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | | |
| At 31 December 2012 and 1 January 2013: | | | | | | | | |
| Cost | **144,154** | **2,872** | **2,729** | **10,066** | **2,843** | **15,989** | **6,251** | **184,904** |
| Accumulated depreciation | **(28,879)** | **(2,804)** | **(2,728)** | **(8,265)** | **(2,225)** | **(12,879)** | **(5,877)** | **(63,657)** |
| Net carrying amount | **115,275** | **68** | **1** | **1,801** | **618** | **3,110** | **374** | **121,247** |
| At 1 January 2013, net of accumulated depreciation | **115,275** | **68** | **1** | **1,801** | **618** | **3,110** | **374** | **121,247** |
| Additions | **–** | **628** | **–** | **327** | **1,069** | **1,323** | **–** | **3,347** |
| Disposals | **–** | **–** | **–** | **(14)** | **–** | **(1)** | **–** | **(15)** |
| Depreciation provided during the year | **(3,022)** | **(134)** | **(1)** | **(467)** | **(522)** | **(807)** | **(165)** | **(5,118)** |
| At 31 December 2013, net of accumulated depreciation | **112,253** | **562** | **–** | **1,647** | **1,165** | **3,625** | **209** | **119,461** |
| At 31 December 2013: | | | | | | | | |
| Cost | **144,154** | **3,500** | **2,729** | **10,069** | **3,532** | **11,024** | **1,294** | **176,302** |
| Accumulated depreciation | **(31,901)** | **(2,938)** | **(2,729)** | **(8,422)** | **(2,367)** | **(7,399)** | **(1,085)** | **(56,841)** |
| Net carrying amount | **112,253** | **562** | **–** | **1,647** | **1,165** | **3,625** | **209** | **119,461** |
| **31 December 2012** | | | | | | | | |
| At 1 January 2012: | | | | | | | | |
| Cost | 144,154 | 3,193 | 2,729 | 12,313 | 2,975 | 20,102 | 8,202 | 193,668 |
| Accumulated depreciation | (25,857) | (3,072) | (2,727) | (10,449) | (1,966) | (17,156) | (7,598) | (68,825) |
| Net carrying amount | 118,297 | 121 | 2 | 1,864 | 1,009 | 2,946 | 604 | 124,843 |
| At 1 January 2012, net of accumulated depreciation | 118,297 | 121 | 2 | 1,864 | 1,009 | 2,946 | 604 | 124,843 |
| Additions | – | 33 | – | 431 | – | 925 | – | 1,389 |
| Disposals | – | – | – | (2) | – | – | – | (2) |
| Depreciation provided during the year | (3,022) | (86) | (1) | (492) | (391) | (761) | (230) | (4,983) |
| At 31 December 2012, net of accumulated depreciation | 115,275 | 68 | 1 | 1,801 | 618 | 3,110 | 374 | 121,247 |
| At 31 December 2012: | | | | | | | | |
| Cost | 144,154 | 2,872 | 2,729 | 10,066 | 2,843 | 15,989 | 6,251 | 184,904 |
| Accumulated depreciation | (28,879) | (2,804) | (2,728) | (8,265) | (2,225) | (12,879) | (5,877) | (63,657) |
| Net carrying amount | 115,275 | 68 | 1 | 1,801 | 618 | 3,110 | 374 | 121,247 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net carrying amount of land and buildings shown above comprises:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Land and buildings situated in Hong Kong: | | |
| Long term leases | **60,308** | 61,741 |
| Medium term leases | **5,119** | 5,276 |
| | **65,427** | 67,017 |
| Buildings situated in Mainland China: | | |
| Medium term leases | **46,826** | 48,258 |
| | **112,253** | 115,275 |

Certain of the Group's land and buildings were pledged to a bank to secure general banking facilities granted to the Group (note 29).

## 14. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **13,743** | 14,144 |
| Recognised during the year | **(401)** | (401) |
| Carrying amount at 31 December | **13,342** | 13,743 |
| Current portion | **(402)** | (402) |
| Non-current portion | **12,940** | 13,341 |

The leasehold land is situated in Mainland China and is held under a medium term lease.

## 15. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **47,890** | 47,890 |

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand or within one year.

## 15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Big Focus Limited# | British Virgin Islands ("BVI") | Ordinary US$1 | – | 100 | Investment holding |
| Empire New Assets Limited | BVI/Hong Kong | Ordinary US$100 | – | 100 | Property holding |
| King Place Investments Limited | BVI/Hong Kong | Ordinary US$100 | – | 100 | Property holding |
| Onestep Enterprises Limited# | BVI | Ordinary US$100 | – | 100 | Investment holding |
| Permate Production Inc.# | BVI | Ordinary US$20 | – | 100 | Property holding |
| Qualipak Development Limited# | BVI | Ordinary US$10,000 | 100 | – | Investment holding |
| Qualipak Fortune Inc.# | BVI | Ordinary US$10,000 | – | 100 | Dormant |
| Qualipak Manufacturing Limited### | Hong Kong | Ordinary HK$100 Non-voting deferred HK$22,303,857 (Note) | – | 100 | Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units |
| Qualipak Manufacturing (China) Limited# | BVI | Ordinary US$1 | – | 100 | Holding a vehicle |
| Qualipak Nominees Limited# | BVI | Ordinary US$1 | – | 100 | Provision of nominee services |
| Qualipak Packaging (Zhongshan) Co., Ltd#/## | PRC | Registered and paid-up HK$16,000,000 | – | 100 | Dormant |
| Qualipak Production Inc.# | BVI | Ordinary US$10,000 | – | 100 | Property holding |
| Qualipak Production (Shenzhen) Company Limited*/## (確必達包裝製造(深圳)有限公司) | PRC | Registered and paid-up US$1,000,000 | – | 100 | Manufacture and sale of packaging products |
| Theme Production House Limited | Hong Kong | Ordinary HK$1,000,000 | – | 51 | Trading of display units |
| Winning Hand Management Limited | BVI/ Mainland China | Ordinary US$1 | – | 100 | Property holding |
| Wisdom Way Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |

# These are either investment holding companies or dormant companies which have no specific principal place of operations.

## These companies are registered as wholly-owned foreign enterprises under PRC law.

### The statutory financial statements of the subsidiary are audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* Direct translation from the Chinese name which is for identification purposes only.

Note: The non-voting deferred shares have restricted rights on the distribution of profits, capital and voting.

## 15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Details of the Group's subsidiary that has material non-controlling interests are set out below:

| | 2013 | 2012 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests of Theme Production House Limited | **49%** | 49% |

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests of Theme Production House Limited | **3,497** | 2,574 |
| Dividend paid to non-controlling interests of Theme Production House Limited | **4,165** | 3,430 |
| Accumulated balances of non-controlling interests at the reporting date of Theme Production House Limited | **933** | 1,601 |

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before inter-company eliminations:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Revenue | **103,148** | 86,354 |
| Total expenses | **(96,011)** | (81,102) |
| Profit and total comprehensive income for the year | **7,137** | 5,252 |
| Current assets | **17,045** | 15,655 |
| Non-current assets | **86** | 170 |
| Current liabilities | **(15,227)** | (12,558) |
| Net cash flows from/(used in) operating activities | **6,306** | (2,631) |
| Net cash flows used in investing activities | **(4)** | (70) |
| Net cash flows used in financing activities | **(8,500)** | (7,000) |
| Net decrease in cash and cash equivalents | **(2,198)** | (9,701) |

## 16. INVESTMENTS IN ASSOCIATES

| | Group 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Share of net assets | **1,135** | 1,111 |
| Goodwill on acquisition | **31,438** | 31,438 |
| | **32,573** | 32,549 |
| Provision for impairment | **(31,438)** | (31,438) |
| | **1,135** | 1,111 |

Particulars of the associates are as follows:

| Name | Place of incorporation/ registration and business | Particulars of issued shares held | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Technical International Holdings Limited | BVI | Ordinary shares of US$1 each | 30 | Investment holding |
| T Plus Limited | Hong Kong | Ordinary shares of HK$1 each | 30 | Design and trading of wine openers, knives and kitchenware |
| Technical Development (HK) Limited | Hong Kong | Ordinary shares of HK$1 each | 30 | Design and trading of wine openers, knives and kitchenware |
| Technical (HK) Manufacturing Limited | Hong Kong | Ordinary shares of HK$1 each | 30 | Design and trading of wine openers, knives and kitchenware |

All the above associates are held by a wholly-owned subsidiary of the Company and were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network. They have been accounted for using the equity method in these financial statements.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Share of the associates' profit for the year | **24** | 486 |
| Share of the associates' total comprehensive income | **24** | 486 |
| Aggregate carrying amount of the Group's investments in associates | **1,135** | 1,111 |

## 17. INVENTORIES

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Raw materials | **11,412** | 12,116 |
| Work in progress | **13,236** | 11,426 |
| Finished goods | **16,938** | 12,599 |
| | **41,586** | 36,141 |

## 18. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Trade and bills receivables | **53,634** | 52,666 |
| Impairment | **(339)** | (1,055) |
| | **53,295** | 51,611 |

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period generally ranges from 30 to 60 days. 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 and bills 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 its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within 1 month | **27,380** | 27,554 |
| 1 to 2 months | **17,870** | 14,465 |
| 2 to 3 months | **6,026** | 6,819 |
| Over 3 months | **2,019** | 2,773 |
| | **53,295** | 51,611 |

## 18. TRADE AND BILLS RECEIVABLES *(Continued)*

The movements in provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| At 1 January | **1,055** | 748 |
| Impairment losses recognised | **48** | 307 |
| Amount written off as uncollectible | **(374)** | – |
| Impairment losses reversed | **(390)** | – |
| | **339** | 1,055 |

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of HK$339,000 (2012: HK$1,055,000) with a carrying amount before provision of HK$435,000 (2012: HK$1,055,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **36,828** | 32,574 |
| Less than 1 month past due | **12,610** | 13,519 |
| 1 to 3 months past due | **3,761** | 5,518 |
| | **53,199** | 51,611 |

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. The Group does not hold any collateral or other credit enhancements over these balances.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments | **981** | 1,330 | **293** | 282 |
| Deposits | **2,697** | 3,488 | **–** | – |
| Other receivables | **432** | 71 | **3** | 8 |
| | **4,110** | 4,889 | **296** | 290 |

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.

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **64,416** | 57,976 | **1,466** | 1,808 |
| Time deposits | **23,628** | 23,544 | **16,086** | 16,028 |
| | **88,044** | 81,520 | **17,552** | 17,836 |
| Less: Pledged time deposits (Note) | **(7,542)** | (7,516) | **–** | – |
| Cash and cash equivalents | **80,502** | 74,004 | **17,552** | 17,836 |

Note: The time deposits were pledged to secure general banking facilities granted to the Group's associates (note 29).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,152,000 (2012: HK$7,727,000). 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 one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits approximate to their fair values.

## 21. TRADE AND BILLS PAYABLES

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 | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within 1 month | **25,170** | 26,202 |
| 1 to 2 months | **6,203** | 5,089 |
| 2 to 3 months | **524** | 98 |
| Over 3 months | **34** | 262 |
| | **31,931** | 31,651 |

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

## 22. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits received | **13,786** | 15,263 | **–** | – |
| Other payables | **145** | 20 | **–** | – |
| Accruals | **11,237** | 13,357 | **2,387** | 2,409 |
| | **25,168** | 28,640 | **2,387** | 2,409 |

Other payables are non-interest-bearing and are normally settled within three months.

## 23. DEFERRED TAX LIABILITIES

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

**Group**

| | **Depreciation allowance in excess of related depreciation HK$'000** |
|---|---|
| At 1 January 2012 | 1,017 |
| Deferred tax charged to profit or loss during the year (note 9) | 521 |
| At 31 December 2012 and 1 January 2013 | **1,538** |
| Deferred tax credited to profit or loss during the year (note 9) | **(16)** |
| At 31 December 2013 | **1,522** |

## 23. DEFERRED TAX LIABILITIES *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by a subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2013, no deferred tax has been recognised for withholding taxes as the Group's subsidiaries established in Mainland China have been loss-making for some time.

The Group had tax losses arising in Hong Kong of HK$211,000 (2012: HK$765,000) 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 HK$1,296,000 (2012: Nil) that will expire in one to five years for offsetting against future taxable profits. 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.

## 24. SHARE CAPITAL

**Shares**

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 (2012: 1,000,000,000) ordinary shares of HK$0.10 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 143,765,993 (2012: 143,765,993) ordinary shares of HK$0.10 each | **14,377** | 14,377 |

There was no movement in the Company's share capital during the year. The movements in the Company's authorised and issued share capital during the year ended 31 December 2012 were as follows:

| | Note | Number of ordinary shares of HK$0.10 each | Nominal value of ordinary shares HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| At 1 January 2012 | | 500,000 | 50 |
| Increase in authorised share capital on 15 May 2012 | (i) | 999,500,000 | 99,950 |
| At 31 December 2012 | | 1,000,000,000 | 100,000 |

## 24. SHARE CAPITAL *(Continued)*

| | Notes | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Contributed surplus HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Issued and fully paid: | | | | | | |
| At 1 January 2012 | | 1 | – | – | – | – |
| Issue of new shares pursuant to share swap on 15 May 2012 | (ii) | 127,196,161 | 12,720 | – | (12,642) | 78 |
| Capitalisation issues on 11 July 2012 | (iii) | 2,193,832 | 219 | – | (219) | – |
| Issue of new shares on 11 July 2012 | (iv) | 14,375,999 | 1,438 | 21,420 | – | 22,858 |
| | | 143,765,993 | 14,377 | 21,420 | (12,861) | 22,936 |
| Share issue expenses | | – | – | (2,687) | – | (2,687) |
| At 31 December 2012 | | 143,765,993 | 14,377 | 18,733 | (12,861) | 20,249 |

(i) Pursuant to an ordinary resolution passed on 15 May 2012, the authorised share capital of the Company was increased from HK$50,000 to HK$100,000,000 by the creation of additional 999,500,000 shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

(ii) On 15 May 2012, the Company entered into a sale and purchase agreement with CC Land, to acquire from CC Land the entire issued share capital of Qualipak Development Limited, the then direct wholly-owned subsidiary of CC Land, in exchange for which the Company allotted and issued 127,196,161 ordinary shares, all credited as fully paid to CC Land and the then one nil paid share held by CC Land was also credited as fully paid.

(iii) Pursuant to the written resolution of CC Land passed on 19 June 2012, the directors had authorised to capitalise HK$219,000 standing to the credit of the contributed surplus account of the Company and apply the same to pay up in full at par 2,193,832 ordinary shares for allotment and issue to CC Land on 11 July 2012.

(iv) On 11 July 2012, 14,375,999 ordinary shares of HK$0.10 each were issued at a price of HK$1.59 per share for a total consideration, before expenses, of approximately HK$22,858,000. Dealing in these shares on the Stock Exchange commenced on 12 July 2012.

## 25. 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 page 29.

## 25. RESERVES *(Continued)*

### (b) Company

| | Notes | Share premium account HK$'000 | Contributed surplus HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2012 | | – | – | (47) | (47) |
| Profit for the year and total comprehensive income for the year | | – | – | 251 | 251 |
| Acquisition of a subsidiary | 24(ii) | – | 35,170 | – | 35,170 |
| Capitalisation issues of shares | 24(iii) | – | (219) | – | (219) |
| Issue of new shares | 24(iv) | 21,420 | – | – | 21,420 |
| Share issue expenses | | (2,687) | – | – | (2,687) |
| At 31 December 2012 and 1 January 2013 | | **18,733** | **34,951** | **204** | **53,888** |
| Profit for the year and total comprehensive income for the year | | **–** | **–** | **381** | **381** |
| At 31 December 2013 | | **18,733** | **34,951** | **585** | **54,269** |

## 26. 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 (i) any director, officer, employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or its Related Group or a company in which the Group holds an interest or a subsidiary of such company (collectively the "Eligible Group"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include the Eligible Group; or (iii) a company beneficially owned by the Eligible Group. The Scheme became effective on 18 May 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

"Related Group" means (i) each of the substantial shareholders of the Company, and (ii) each associate and substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above, and (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above, and (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above, and (v) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iv) above.

## 26. SHARE OPTION SCHEME *(Continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of approval of the Scheme. The maximum number of shares issuable under the Scheme to each eligible participant 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 or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. 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 closing 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 14 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, save that such period shall not be more than 10 years from the date of offer of the share options.

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 an issued ordinary share of the Company on the date of offer of the share options.

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

No share option has been granted since the adoption of the Scheme.

## 27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transactions

(a) During the year ended 31 December 2012, the Company entered into a sale and purchase agreement with CC Land, to acquire from CC Land the entire equity interest in a wholly-owned subsidiary of CC Land, in exchange for which the Company allotted and issued 127,196,161 ordinary shares. Further details of which are set out in note 24(ii) to the financial statements.

(b) On 24 February 2012, an amount of HK$43,000,000 due to CC Land was waived, and was recognised as a capital contribution from a shareholder.

## 28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2013 and 2012.

At 31 December 2013, the contingent liabilities of the Company not provided for in the financial statements comprised guarantees of HK$42,000,000 (2012: HK$42,000,000), in aggregate, given to banks in connection with facilities granted to a subsidiary, of which the banking facilities were not utilised by the subsidiary as at 31 December 2013 and 2012.

## 29. PLEDGE OF ASSETS

At 31 December 2013, the Group pledged certain of its land and buildings with an aggregate carrying amount of HK$35,240,000 (2012: HK$36,125,000) as securities for general banking facilities granted to the Group.

At 31 December 2013, the Group pledged deposits with an aggregate carrying amount of HK$7,542,000 (2012: HK$7,516,000) as securities for general banking facilities granted to the Group's associates.

The Company did not pledge any of its assets as at 31 December 2013 and 2012.

## 30. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its properties (note 13 to the financial statements) under an operating lease arrangement, with a lease negotiated for a term of three years. The term of the lease generally also requires the tenant to pay security deposits and provides for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivable under a non-cancellable operating lease with its tenant falling due as follows:

| | **Group** | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within one year | **960** | 960 |
| In the second to fifth years, inclusive | **508** | 1,468 |
| | **1,468** | 2,428 |

### (b) As lessee

The Group leases certain of its manufacturing plants and car parks under operating lease arrangements. The leases for the manufacturing plants and car parks are negotiated for a term of one year.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **Group** | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Within one year | **173** | 165 |

## 31. COMMITMENTS

Other than the operating lease commitments detailed in note 30(b) above, neither the Group nor the Company had any significant commitments as at 31 December 2013 and 2012.

## 32. RELATED PARTY TRANSACTIONS

**(a)** In addition to the transactions disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties during the year:

| | | Group | |
|---|---|---|---|
| | Notes | **2013 HK$'000** | 2012 HK$'000 |
| Rental income earned from the then immediate holding company | (i) | **–** | 226 |
| Rental income earned from an entity which is under common control of a controlling shareholder of the Company | (i) | **960** | 452 |
| Management fee paid to the then immediate holding company | (ii) | **–** | 1,277 |

Notes:

(i) The rental income received from CC Land, the then immediate holding company of the Company, and an entity which is under common control of a controlling shareholder of the Company were mutually agreed between the Company and the related parties. Upon the listing of shares of the Company on the Listing Date, the Company and CC Land are under common control of a controlling shareholder.

(ii) The management fee paid to CC Land for the share of certain costs including director's remuneration, staff welfare and miscellaneous costs was mutually agreed between the Company and CC Land.

Details of the amount of the director's remuneration paid by way of a management fee are set out in note 7 to the financial statements.

### (b) Operating lease arrangement with a related party

On 20 June 2012, a subsidiary of the Group entered into a three-year agreement ending 11 July 2015 with C C Land Management Limited, a company of which is under common control of a controlling shareholder of the Company, to lease office premises in Hong Kong. The amount of rental income is included in note 32(a)(i) to the financial statements. The amount of an operating lease commitment as a lessor is included in note 30(a) to the financial statements.

### (c) Compensation of key management personnel of the Group

Further details of directors' emoluments are included in note 7 to the financial statements.

Upon the listing of the shares of the Company on the Stock Exchange, the transactions with the then immediate holding company included in notes 32(a)(i) and 32(a)(ii) to the financial statements have been discontinued.

Except for the transactions with related parties which is under common control of a controlling shareholder of the Company and the then immediate holding company included in notes 32(a)(i) and 32(a)(ii) to the financial statements, all of the above related party transactions do not constitute a connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

## 33. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial assets and liabilities of the Company and the Group as at 31 December 2013 and 2012 are loans and receivables, and financial liabilities at amortised cost, respectively.

The carrying amounts of all financial instruments approximate to their fair values due to the short term maturities of these instruments.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and cash equivalents, trade and bills receivables, deposits and other receivables, trade and bills payables and other payables and accruals. Details of the major financial instruments and the Group's relevant accounting policies are disclosed in note 2.4 to the financial statements.

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

### Foreign currency risk

The Group has currency exposure as the majority of its sales from packaging products were denominated in US$, which is pegged to HK$. On the other hand, the expenses or expenditures incurred in the operations of the manufacturing plants were denominated in RMB, which expose the Group to foreign currency risk.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of RMB. The appreciation or devaluation of RMB against HK$ and US$ may have impact on the operating results of the Group.

There are limited hedging instruments available to the Group to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has entered into cross currency swaps with a bank in an effort to reduce the Group's exposure to foreign currency exchange risk. The Group may decide to enter into hedging transactions in the future and management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax.

| | **Increase/ (decrease) in RMB rate %** | **Increase/ (decrease) in profit before tax HK$'000** |
|---|---|---|
| **2013** | | |
| If HK$ weakens against RMB | **3** | **(2)** |
| If HK$ strengthens against RMB | **(3)** | **2** |
| 2012 | | |
| If HK$ weakens against RMB | 7 | (1) |
| If HK$ strengthens against RMB | (7) | 1 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivable balances are monitored on an ongoing basis to ensure that follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. The Group's maximum exposures to credit risk are the carrying amounts of trade and bills receivables and other receivables as disclosed in notes 18 and 19 to the financial statements, respectively. In addition, the Group reviews the recoverable amount of each individual trade debtor at the end of the reporting period to ensure that adequate impairment losses have been made for irrecoverable amounts.

### Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents and have available funding through an adequate amount of committed credit facilities to meet its business operations.

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

| | **On demand or less than 3 months HK$'000** |
|---|---|
| **At 31 December 2013** | |
| Trade and bills payables | **31,931** |
| Other payables and accruals | **11,382** |
| | **43,313** |

| | On demand or less than 3 months HK$'000 | 3 to 12 months HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2012 | | | |
| Trade and bills payables | 31,389 | 262 | 31,651 |
| Other payables and accruals | 13,377 | – | 13,377 |
| | 44,766 | 262 | 45,028 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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

| | On demand HK$'000 | Less than 3 months HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 31 December 2013** | | | |
| Due to subsidiaries | **1,600** | **–** | **1,600** |
| Accruals | **–** | **2,387** | **2,387** |
| | **1,600** | **2,387** | **3,987** |

| | On demand HK$'000 | Less than 3 months HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2012 | | | |
| Due to subsidiaries | 1,600 | – | 1,600 |
| Accruals | – | 2,409 | 2,409 |
| | 1,600 | 2,409 | 4,009 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders, to procure adequate financial resources from shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management *(Continued)*

The Group monitors capital using a net debt-to-adjusted capital ratio, which is net debt divided by adjusted capital. Net debt includes trade and bills payables and other payables and accruals, less cash and cash equivalents. Adjusted capital includes equity attributable to owners of the parent plus net debt. The net debt-to-adjusted capital ratios as at the end of the reporting periods were as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| Trade and bills payables | **31,931** | 31,651 |
| Other payables and accruals | **25,168** | 28,640 |
| Less: Cash and cash equivalents | **(80,502)** | (74,004) |
| Net debt | **(23,403)** | (13,713) |
| Equity attributable to owners of the parent | **261,201** | 247,707 |
| Adjusted capital | **237,798** | 233,994 |
| Net debt-to-adjusted capital ratio | **N/A** | N/A |

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

## RESULTS

| | Years ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **436,402** | 389,304 | 418,660 | 391,052 | 294,671 |
| PROFIT BEFORE TAX | **19,712** | 26,171 | 46,421 | 35,519 | 21,849 |
| Income tax expense | **(2,780)** | (3,256) | (4,931) | (4,091) | (2,724) |
| PROFIT FOR THE YEAR | **16,932** | 22,915 | 41,490 | 31,428 | 19,125 |
| Attributable to: | | | | | |
| Owners of the parent | **13,435** | 20,341 | 37,828 | 27,378 | 16,442 |
| Non-controlling interests | **3,497** | 2,574 | 3,662 | 4,050 | 2,683 |
| | **16,932** | 22,915 | 41,490 | 31,428 | 19,125 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **321,159** | 311,137 | 288,933 | 312,122 | 283,524 |
| Total liabilities | **(59,025)** | (61,829) | (122,439) | (184,086) | (182,996) |
| Non-controlling interests | **(933)** | (1,601) | (2,457) | (2,225) | (2,095) |
| | **261,201** | 247,707 | 164,037 | 125,811 | 98,433 |

The summary of the consolidated results of the Group for the three years ended 31 December 2009, 2010 and 2011 and the consolidated assets, liabilities and non-controlling interests of the Group as at 31 December 2009, 2010 and 2011 have been extracted from the prospectus. Such summary is presented on the basis as set out in the prospectus.