Vinda International Holdings Limited

維 達 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 3331

Healthy lifestyle starts from Vinda

annual report 2008


To Become
a Global
Top Brand
Fresh
Natural
Soft

Contents

Corporate Information

Directors

Executive Directors

Mr. LI Chao Wang (Chairman & Chief Executive Officer)
Ms. YU Yi Fang (Chief Operating Officer)
Mr. DONG Yi Ping (Chief Technology Officer)

Non-Executive Directors

Mr. LEUNG Ping Chung, Hermann
Mr. Johann Christoph MICHALSKI
Mr. CHIU Bun

Independent Non-Executive Directors

Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Audit Committee

Mr. KAM Robert (Chairman)
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Remuneration Committee

Dr. CAO Zhen Lei (Chairman)
Mr. LEUNG Ping Chung, Hermann
Mr. TSUI King Fai

Nomination Committee

Mr. HUI Chin Tong, Godfrey (Chairman)
Mr. LI Chao Wang
Mr. TSUI King Fai

Authorised Representatives

Mr. LI Chao Wang
Mr. TSANG Zee Ho, Paul

Company Secretary, Qualified Accountant and Chief Financial Officer

Mr. TSANG Zee Ho, Paul, CPA, FCCA

Auditors

PricewaterhouseCoopers

Compliance Adviser

Mitsubishi UFJ Securities (HK) Capital Limited

Legal Advisers to the Company

Stevenson, Wong & Co. (as to Hong Kong law)
Conyers Dill & Pearman (as to Cayman Islands law)

Registered Office

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

Principal Place of Business in Hong Kong

Room 506, Tower 1, South Seas Centre
75 Mody Road, Tsimshatsui East
Kowloon, Hong Kong
Tel: (852) 2366 9853
Fax: (852) 2366 5805

Corporate Information

Place of Listing and Stock Code

The Stock Exchange of Hong Kong Limited
Stock Code: 3331

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank Limited
CITIC Ka Wah Bank Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Bank of China Limited

Website

http://www.vindapaper.com
http://www.hkexnews.com.hk

To Become

A PAPER-MAKING KINGDOM

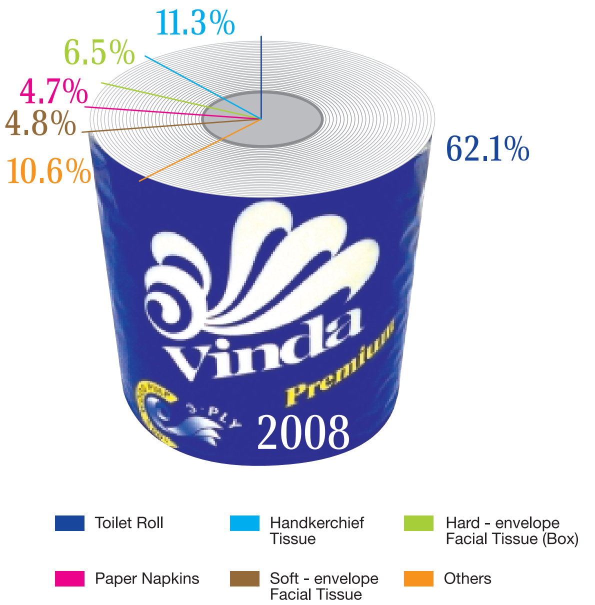
Financial Highlights

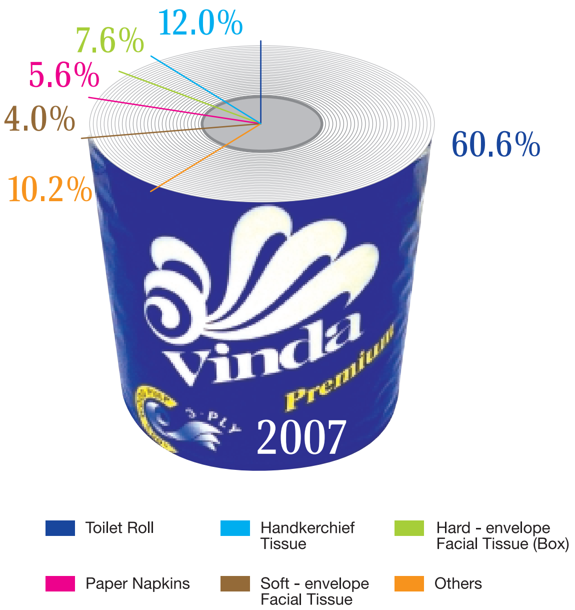
	2008	2007
Gross profit margin (%)	**21.2%**	20.6%
Net profit margin (%)	**6.8%**	4.4%
Earnings per share	**18.4 cents**	10.3 cents
Dividend per share	**4.6 cents**	2.2 cents
Stock turnover	**95 days**	107 days
Finished goods turnover	**32 days**	37 days
Debtors turnover	**32 days**	37 days
Creditors turnover	**34 days**	38 days
Current ratio (times)	**1.26**	1.39
Gearing ratio (%)[1]	**43.5%**	44.6%
Net gearing ratio (%)[2]	**33.5%**	27.4%

Notes:
1. Calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity.
2. Calculated on the basis of the amount of total borrowings less bank balances and cash as a percentage of the total shareholders' equity.

Financial Highlights

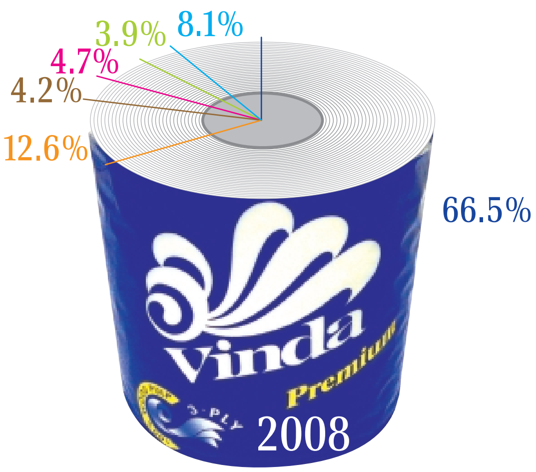
Turnover by Product Categories





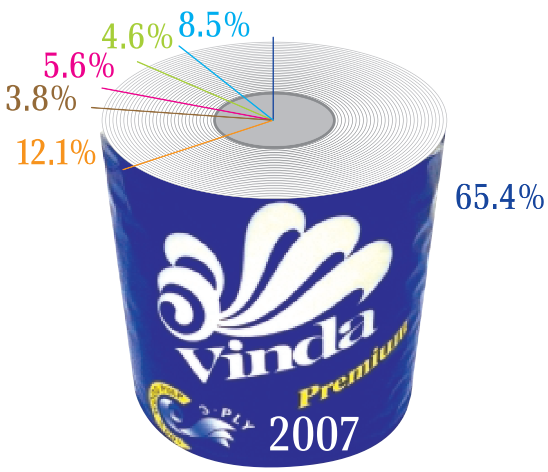
Financial Highlights

Sales Volume by Product Categories



Toilet Roll | Handkerchief Tissue | Hard - envelope Facial Tissue (Box)

Paper Napkins | Soft - envelope Facial Tissue | Others



Toilet Roll | Handkerchief Tissue | Hard - envelope Facial Tissue (Box)

Paper Napkins | Soft - envelope Facial Tissue | Others

Product Lines

Products By Brands

(1) Sports Series

Leveraging the sporty brand image of Vinda established over the years and its unique, sporty, fashionable and high-end package, this NBA series is manufactured using a twoply softening technology with special treatments and processes to enhance softness and absorbency for use in homes and in sports.

(2) Blue-coloured Classic Series

The blue-coloured Classic Series is the high-end main brand of Vinda. This series of products features a fashionable, upmarket positioning with soft texture and good absorbency, highlighting the superb quality of Vinda products and represents a flagship product of Vinda Paper and of the industry of household paper.

(3) Hong Kong King Series

An extension of our blue-coloured Classic Series and a representation of the premium quality of Vinda products, this Hong Kong King Series targets the markets in Hong Kong, Macau and South-east Asia.

(4) Vinda products

The "Vinda" brand is an award-winning brand of Vinda Paper. It is a top-selling brand with many years of strong sales track record.

(5) The Toughest Series

Packaged in materials of an eye-catching orange colour, the Series poses strong visual impact for consumers, allowing them to experience softness, cleanliness and good value-for-money.

Product Lines

(6) Romantic Series

In a custom-made package, this Romantic Series primarily caters for the market segment of young consumers and students, offering softness to appeal to the emotional comfort of youngsters.

(7) Elegant Series

Offered in a refined and fashionable design package, this Elegant Series targets young families and housewives and emphasised on healthy lifestyles. It has soft and durable properties.

(8) Happiness Series

Characterised by its fresh and sleek packages and softness, this Happiness Series caters for the demand of customers for value-for-money quality household paper to show their care for their families with heartwarming affection and comfort.

(9) Other series

Chairman's Statement

Mr LI Chao Wang, Chairman, addresses guests at the ceremony celebrating Grand Completion of our Jiangmen plant of 120,000 tonnes of annual capacity.

I am pleased to present to the shareholders of Vinda International Holdings Limited ("Vinda International" or the "Company") the annual results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2008. In 2008, the Group recorded significant growth in business, as evidenced by a leap in turnover and a significant improvement in profitability. During the year, the Company's audited turnover was HK$2,424,044,090, representing an increase of 36.4% over the previous year (2007: HK$1,777,721,432). Profit attributable to shareholders was HK$ 165,911,568, representing an increase of 111.7% over the previous year (2007: HK$78,357,059). Basic earnings per share were HK$ 18.4 cents, representing an increase of 78.6% over the previous year (2007: HK$10.3 cents). The Board of Directors (the "Board") has proposed a final dividend of HK4.6 cents in respect of the financial year ended 31 December 2008 to all the shareholders.

Chairman's Statement

Business Review

In the first half of 2008, the economic and business environment in the People's Republic of China (the "PRC") was hardly hit by the heavy snowstorm in the central and western parts of China and the earthquake catastrophe happened in Wenchuan, Sichuan in May. Nevertheless, the Group's 2008 annual results reported strong growth despite the natural disasters. Vinda is relatively resilient as compared to companies in other industries since we are engaged in the fast moving consumer goods industry and the demand for household paper products mainly comes from the domestic market. This, coupled with the continuous improvement in the living standard of Chinese people, drove the constant growth of the household paper industry in the PRC. In addition, the production capacity newly added in 2007 operated efficiently during the year and generated sales income to the Group. Lastly, implementation of the price increase policy on all products and the trend of pulp cost which turned from stable to decline therein in the third quarter of the year further lifted the profitability of the Group.

Following the commencement of operation of the production bases in Longyou, Zhejiang Province and Jiangmen, Guangdong Province at the end of last year after fine-tuning, the Group's total production capacity has reached 300,000 tons by the end of year 2008, which helped us achieve the strategic goal of expanding production capacity and establishing a multi-point layout and further exploit the advantages of economy of scale. Leveraging the positive brand image of "Vinda", the Group established strategic partnership with NBA during the year to develop a new sports series under the NBA title. The association with NBA's international, professional and high standard image has further uplifted Vinda's brand influence. Through a series of marketing activities collaborated with NBA's marketing resources, the Group has actively promoted sales of NBA series products and good market response was received.

During the year, management of the Group demonstrated outstanding organisation skills and strong capability in dealing with emergencies. Vinda Paper (Sichuan) Co., Limited, a subsidiary of the Group, resumed production within two weeks immediately after the Wenchuan Earthquake. In view of the effect on global economy resulted from the financial tsunami happened in the second half of the year, the management analyzed the economic and market situations in a timely manner, adjusted the procurement strategy and reduced the pulp inventory prior to the downward trend of pulp prices began, and thereby effectively reducing the costs.

The Group made remarkable achievements in brand building in 2008. Specifically, the Group was named as "A Major Renowned Export Enterprise in Guangdong Province to be Fostered and Developed from 2007 to 2010" and was granted the "Top Ten Leading Enterprises of China Cailun Award" by China Paper Industry Chamber of Commerce, which is a prestigious and authoritative award in the paper industry of the PRC. According to a research by the National Bureau of Statistics of China, by the end of year 2007, toilet roll produced by Vinda ranked No. 1, the seventh years in a roll, in sales volume among the same product category in domestic market. In 2008, the Group also won several awards in Hong Kong, including "Creditworthy Enterprise", "Top Ten Brands" and "Most Favoured Paper for Hong Kong Families". All of these accolades are testaments to the Group's representative and leading position in the paper industry of the PRC.

Chairman's Statement

The Group has been devoted to our responsibilities of corporate citizenship by actively participating in commonwealth and environmental protection activities. In respect of commonwealth, Vinda teamed up with NBA China to launch the "1 Fen 1 Pack" education funding program through China Charity Federation. The Group, together with a shareholder SCA, donated more than RMB 1.5 million to Wenchuan Earthquake victims. In respect of environmental protection, the Group invested a total of more than RMB 30 million upgrading the environmental facilitates. Currently, the average water consumption of the Group for producing one ton of paper was close to the international standard level. The energy saving and discharge reduction plan for paper production lines proposed by our Jiangmen subsidiary during the year was accredited by All-China Federation of Trade Unions as "Outstanding Optimization Proposal for Energy Saving and Discharge Reduction of PRC Employees" and was well promoted and applied within the Group. The Group believes that shouldering social responsibilities is an important means for achieving sustainable corporate development, and is helpful in establishing a good corporate image, forming the enterprise's intangible assets and eventually improving the Group's competitiveness and reputation.

The Group always adopts a "prudent and stable" financing policy and strives to control the gearing ratio. Currently, the Group has a strong balance sheet and sufficient financial resources. Gearing ratio is maintained at a reasonable level. The Group's core operations and majority of the assets are based in Mainland China, and are primarily denominated in RMB, thus it has no significant exposure to exchange rate fluctuations. During the year, there were no material acquisitions or disposals of any assets of its subsidiaries.

Prospect and Strategy

The Group has raised adequate funds for future development through its listing in 2007. On the one hand, the management will adhere to the development blueprint of scale operation and multi-point production, on the other hand, under the prevailing economic situation, we will adopt a prudent and pragmatic approach to gradually facilitate capacity expansion projects in the future, so as to ensure the realization of economy of scale.

Looking ahead to 2009, although the economic prospect is far from satisfactory, the Group is well-prepared for the challenges. Vinda's unrivalled industry position, the sufficient cash flows and the fall of international raw material prices are all important factors for turning crisis into opportunity. In respect of the household paper sector, the consumption per capita of household paper products in China is still low and market potential is tremendous. The expected elimination of more small-scale paper manufacturing plants resulted from the implementation of new sewage discharge standards in the PRC is favourable to market consolidation. Therefore, the management team and I are confident that we will be able to seize every opportunity to turn crisis into opportunity and are well-prepared in this regard.

Chairman's Statement

In October 2008, the Group made great efforts in strengthening the management structure and enhancing the management skills. The Group has recruited marketing talents who are experienced in the fast moving consumables industry and set up a new senior marketing team for the formulation of clear marketing plans. In 2009, the Group will further strengthen the distribution network, penetrate and expand into the end market through our "Dual Brands" strategy. 2009 is set to be "Marketing Year", the Group will reinforce the existing distribution channels through the introduction of the "Ten Measures". Furthermore, the production capacity added in 2008 will provide considerable support for our operation. I believe that the Group will certainly continue to create new values for the shareholders in the coming year with strong support from the dedicated management and excellent employees.

I would like to take this opportunity to express my sincere appreciation to all the shareholders, customers and business partners of the Group for their constant trust and support, and to the management and employees of the Group for their full commitment and hard work. I believe that we will certainly be able to share another harvest season in 2009 with the hard work of all employees of Vinda International.

LI Chao Wang
Chairman

Jiangmen, PRC , 7 April 2009

Management Discussion and Analysis

The Board of Vinda International is pleased to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 (the "Period").

Business Review

As a leading manufacturer of household paper products in China, the Group has been focusing on the research and development, production and sales of a series of household paper products. In 2008, the Group overcame various challenges, such as natural disasters, price volatility in raw materials and the global financial crisis, and managed to maintain satisfactory growth in both sales revenue and earnings.

During the year, the Group seized the opportunities brought by the Beijing Olympic Games and continued to fully leverage on sports marketing to build its brand and conduct market promotion. In addition, the Group reinforced its brand promotion through sponsorship activities conducted by the Group as an official partner of NBA and the title sponsor of the Bowling Championships, and carried out product presentation and marketing by capitalizing on such sports events. Meanwhile, the Group developed a series of sports fashion products. As a result, the healthy, clean and vigorous brand image of Vinda was strengthened and the brand value of Vinda was further enhanced. Furthermore, the Group captured the opportunities emerging at a time when demand exceeded supply in the market to duly adjust the selling prices of its products, which laid a solid foundation for the further improvement of the profitability of its products.

It is a constant and important objective of the Group to optimize its product mix and enhance product profitability. Nevertheless, in light of the improving living standard of domestic residents and the phasing out of small paper manufacturing plants, the demand for the medium to high end toilet tissue paper rolls has been increasing. In this regard, the Group has strengthened its marketing efforts and production capability of toilet tissue paper rolls while the production capacity expanded steadily during the year so as to capture such growing demand. As such, in terms of product mix, the proportion of high gross profit products in sales for the year remained at 32.5% (2007: 34.2%) while the proportion of the toilet tissue paper rolls in sales stayed at 62.1% (2007: 60.6%). On the other hand, in terms of the absolute value, the value of the Group's high gross profit products increased by 29.7% from HK$608,006,233 in 2007 to HK$788,468,789 in 2008, indicating that more high added value products were included in the product mix of the Group.

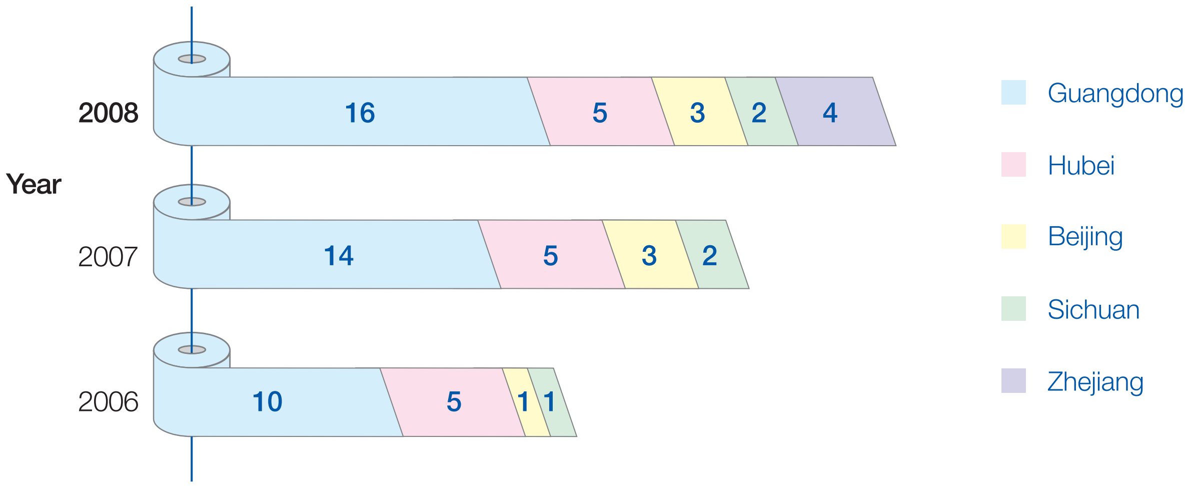
Furthermore, in further pursuit of our development strategy focusing on mass production and a multi-point layout, the Group commenced the construction of a new production base in Longyou, Zhejiang in February 2008. Eight months later, the first phase of the base with a production capacity of 40,000 tons commenced operation as scheduled. Currently, the production base in Zhejiang has begun to provide products directly to "four provinces and one city" in eastern China, namely Jiangxi, Zhejiang, Jiangsu, Anhui and Shanghai. As a result, the transportation and other related costs of the Group in these markets have been significantly reduced. The effect of such a reduction will filter through gradually in 2009. In addition, a new paper manufacturing machine installed in the plant in Jiangmen, Guangdong commenced trial operation as scheduled in December 2008. As of December 2008, the production capacity of the Group reached 300,000 tons, which further strengthened the leading position of the Group in the household paper market and the competitiveness of the Group.

Distribution of the additional production capacity in 2008:

Paper manufacturing machine	Location	Annual production capacity	Date for trial operation
2 (Phase I)	Longyou, Zhejiang	40,000 tons	October & December 2008
1 (Phase III)	Jiangmen, Guangdong	20,000 tons	December 2008
Total		60,000 tons	

As at the end of 2008, the distribution of the Group's production capacity in various regions and total production capacity are as follows:

Distribution of output capability



Output capability (10,000 tons)

Business Strategy

In 2008, China's household paper industry maintained its rapid growth, with the medium to high end household paper sector ranking first in terms of growth rate. In view of the expansion of the domestic household paper market, the Group intensified efforts to expand the market in second-tier and third-tier cities and townships while consolidating and expanding the market in first-tier cities, and increased its investment in modern distribution channels so as to build up a more extensive distribution network. On the front of new product development, the Group continued to launch products catering to the demands of different consumer proferences so as to expand its market share. On the front of marketing, the Group is committed to the study and exploration of an innovative business model. The Group will also continue to improve its brand value through sports marketing and reinforced its marketing team to improve marketing quality.

Management Discussion and Analysis

Keep on Improving Operation Efficiency

During the year under review, the Group continued to increase its production capacity. As the operation scale expanded, the Group could secure a stable supply of raw materials and key auxiliary materials at competitive prices and guaranteed quality. Based on its analysis and market insights, the Group managed to capture the opportunities brought by the drop in pulp prices and adjusted its procurement strategy for pulp in a timely manner, thus controlling inventory and enjoying the benefits resulted from the decrease in pulp prices. Furthermore, with the introduction of advanced equipment, promotion and application of the automatic packaging machine for tissue paper rolls and the electronic scale invented independently by the Group's technicians, the Group's automation level was further improved, the wastage in production was under effective control and the benefits of economy of scale began to emerge.

Human Resources and Management

The Group considers employees as its most valuable assets and endeavours to retain and attract talents by adhering to competitive remuneration policies and providing employees with ample opportunities for career development. In order to strengthen team unity and maintain the vigour of the organization, the Group also provides employees with relevant trainings to improve their abilities in continuous study.

The sustained development of the Group relies not only on our dedication, but also on its unique corporate culture and values, as well as a stable and diligent management team and its aspiring employees. We conduct annual target responsibility assessment on senior management and determine the annual remuneration of senior management based on the fulfilment of the Group's annual operating goals and the results of annual individual assessment.

As at 31 December 2008, the Group has 4,379 full-time staff. During the year, the remuneration expenses of the Group grew steadily while other remunerations and benefits, including contributions to social security funds, common reserve funds and mandatory provident fund schemes, were maintained at a reasonable level.

Financial Review

For the year ended 31 December 2008, the Group generated operating revenue of HK$2,424,044,090, representing an increase of 36.4% over the previous year. Earnings before interest, taxes, depreciation and amortization (EBITDA) were HK$334,002,275, representing an increase of 50.2% over the previous year. Profit attributable to equity holders of the Company was HK$165,911,568, representing an increase of 111.7% over the previous year. Basic earnings per share were HK18.4 cents, representing an increase of 78.6% over the previous year.

Distribution costs in 2008 accounted for approximately 7.5% of the Group's total revenue and increased by 3.8% over the previous year to HK$181,765,469. The increase was not distinguished as that of revenue, which was mainly due to the expansion of the sales scale, the more stringent sales management and the adoption of commercial discount settlement method.

Administrative expenses for 2008 were HK$115,367,807, accounting for 4.8% of the revenue of the Group. The increase of administrative expenses was a result of our adding new production facilities and the implementation of stricter professional internal control.

Foreign Exchange Risks

The majority of the Group's sales operations and purchases of auxiliary materials are conducted in the PRC and are denominated and settled in RMB, while the majority of key raw materials are imported from overseas and paid in US dollar. As at 31 December 2008, the Group had not entered into any material financial hedging instruments. It is the Group's policy not to enter into any derivative contracts.

Liquidity, Financial Resources and Bank Loans

The Group's financial position remained healthy. As at 31 December 2008, the Group's bank and cash balances (including pledged bank deposits of HK$884,454 (31 December 2007: HK$6,706,535)) amounted to HK$173,073,712 (31 December 2007: HK$258,788,016), and short-term and long-term loans in aggregate amounted to HK$744,286,796 (31 December 2007: HK$654,175,010). The annual interest rates of bank loans ranged from 2.77% to 8.47%, of which about 40% was fixed in interest rate.

As at 31 December 2008, the gearing ratio was 43.5% (31 December 2007: 44.6%), which was calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity. The net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and cash equivalents as a percentage of the total shareholders' equity, was 33.5% (31 December 2007: 27.4%).

Use of the Proceeds from Initial Public Offering ("IPO")

In July 2007, the Company issued 266,220,006 ordinary shares of HK$0.1 par value pursuant to the IPO at an Offer Price of HK$3.68, raising net proceeds of HK$881,416,333 (after deducting underwriting fees and expenses incurred by the Company in connection with the Global Offering). The proceeds were used up to 31 December 2008 in the following manner:

	Estimates Per Prospectus	Amount Utilised		
		2007	2008	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
To construct new manufacturing facilities	144.7	85.7	67.5	153.2
To acquire paper making machine	254.3	182.6	60.7	243.3
To acquire processing machines and related facilities	127.4	84.0	43.4	127.4
To repay short-term loans	297.6	289.1	—	289.1
To meet working capital needs	46.0	57.0	—	57.0
	870.0	698.4	171.6	870.0

Contingent Liabilities

As at 31 December 2008 and 31 December 2007, the Group had no material contingent liabilities.

Capital Commitments

	As at 31 December	
	2008	2007
	HK$	HK$
Contracted but not provided for	**45,528,840**	242,287,552

During the Period, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Final Dividend

The Board has resolved to propose to shareholders the distribution of a final dividend for the year ended 31 December 2008 at HK4.6 cents (2007: HK2.2 cents) totaling HK$41,576,718, subject to approval by shareholders at the annual general meeting (the "AGM") on 25 May 2009. If so approved by shareholders, it is expected that the final dividend will be paid on or about 25 June 2009 to shareholders whose names appear on the register of member of the Company on 20 May 2009.

Close of Register of Members

The register of members of the Company will be closed from 20 May 2009 to 22 May 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the final dividend to be approved at the AGM (and payable on or about 25 June 2009), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 19 May 2009 for registration of transfer.

Disclosure Under Rules 13.13 to 13.19 of the Listing Rules

The Directors confirm that by the end of year 2008, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

Future Prospects

Looking ahead to 2009, we expect that the Chinese economy will continue to grow in spite of the challenging economic situation. The economic stimulus measures introduced by the Chinese government and the stricter requirements of the State on environmental protection indicate that the household paper market of China is still filled with opportunities.

In the coming year, the Group will make efforts to consolidate its core competitive strength and, by leveraging on its established marketing infrastructures, premium products, extensive distribution network and diversified layout of production bases and supply centers, will further enhance the penetration of its distribution channels and terminals and further explore the Northeast market and the East China market in order to maintain its robust business growth. Furthermore, the Group will continue to capitalize on the results of its fruitful strategy on same-point production expansion and multi-point layout to effectively enhance the economy of scale and the logistics cost management of the Group so as to consolidate its leading position in the market.

We will not underestimate the current economic environment and the challenges lying ahead. The global economic recession and the slowdown of the Chinese economy will bring some pressure on the price rise of the Group. However, it is anticipated that international pulp prices will be lower than the 2008 average level. This will help the Group achieve a sharp reduction in production costs. In view of the current economic situation, the Group will concentrate on the implementation of the following strategies:

- To maintain financial stability by strengthening assets and liabilities management;
- To prepare a capital utilization plan and put it into effect so as to strengthen unified management on capital and enhance the capital utilization rate;
- To reduce production costs constantly by boosting the renovation and advancement of processes and technology through technical renovation;
- To pursue the construction of an information technology infrastructure that would provide a common platform and support for the management in areas of procurement, production, distribution, finance and logistics, thereby enhancing the efficiency in the gathering and analysis of information with a view to timely identify problems and provide solutions to management;
- To further forge a core team in sales and marketing, who, by adopting a dual brand marketing strategy, consolidates and extends our sales and marketing channels, standardizes the management of sales and marketing, and sets up different modes of marketing co-operation.

We will adhere to our prudent strategies and duly expand and optimize our business in order to create maximum value for shareholders.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. LI Chao Wang (李朝旺), aged 50, was appointed as an Executive Director of the Company on 17 August 1999 and has become the Chairman of the Board since 28 April 2000. Mr. LI is a founder of the Group and the Group's Chief Executive Officer (the "CEO") and spearheads overall corporate development and strategic planning. Mr. LI has over 20 years of experience in the household paper industry and executive business management, having served as a factory manager and a general manager. Mr. LI currently is a member of Guangdong Political Consultative Committee, the vice president of the China Household Paper Association, vice president of the All-China Federation of Industry and Commerce Papermakers' Group and Guangdong Province FIC council member and the president of the Jiangmen City Federation of Industry and Commerce. Mr. LI graduated from the Guangdong Radio and Television University's business administration program.

Ms. YU Yi Fang (余毅昉), aged 54, was appointed as an Executive Director on 1 February 2000. Ms. YU is a founder and the Chief Operating Officer (the "COO") of the Group. She has over 20 years of experience in China's household paper industry and 19 years of financial management experience as manager of financial affairs for the Group. Ms. YU graduated from the Guangdong Radio Television University's accounting program.

Mr. DONG Yi Ping (董義平), aged 45, was appointed as an Executive Director on 1 February 2000 and is the Group's Chief Technology Officer (the "CTO"). Mr. DONG joined Vinda Paper (Guangdong) in 1991. An engineer, Mr. DONG has over 20 years of experience in equipment operations and safety, quality control, and research and development. Prior to joining the Group, he served in senior positions in two other paper manufacturing companies. Mr. DONG graduated from the paper manufacturing program of the Tianjin University of Science and Technology (previously the Tianjin College of Light Industry).

Non-Executive Directors

Mr. LEUNG Ping Chung, Hermann (梁秉聰), aged 53, was appointed as a Director on 17 May 2005 and was re-designated as a Non-Executive Director on 19 June 2007. Mr. LEUNG is an executive director of New China Capital Management (HK) Ltd and serves as a non-executive director of Wuxi Little Swan Company Limited, a PRC listed company, which shares are listed on the Shezhen Stock Exchange. Mr. LEUNG is also currently a non-executive director of Centron Telecom International Holdings Limited and China Aoyuan Property Group Limited, companies whose shares are listed in Hong Kong. He was an alternate non-executive director of Warderly International Holdings Limited, a Hong Kong listed company, until May 2007. Mr. LEUNG has over 20 years of management and operational experience throughout the Asia Pacific region. He received a bachelor of social sciences degree as well as a master's degree in business administration from The Chinese University of Hong Kong.

Mr. Johann Christoph MICHALSKI, aged 43, was appointed as a Non-Executive Director on 19 April 2008. Mr. MICHALSKI is the president of Svenska Cellulosa Aktiebolaget ("SCA") Asia Pacific based in Shanghai, the PRC. SCA Asia Pacific is a business unit under the SCA Group, of which Mr. MICHALSKI has since 2007 served as senior vice president of Business Development and Strategic Planning. Previously he held a number of senior management positions in the New Zealand dairy group Fonterra as well as the global FMCG company, Unilever. He has over 16 years of experience in leadership roles in business development and strategy, consumer marketing and innovation in the consumer goods industry. Mr. MICHALSKI has a master's degree in economics from Kiel University, Germany.

Biographical Details of Directors and Senior Management

Mr. CHIU Bun (趙賓), aged 33, was appointed as a Director on 29 March 2007 and was re-designated as a Non-Executive Director on 19 June 2007. Mr. CHIU joined SCA in 2005 and is the general counsel of SCA Asia Pacific based in Shanghai, PRC. Mr. CHIU previously worked with international law firms including Clifford Chance, Perkin Coie and Morrison & Foerster. He is admitted as a solicitor in Hong Kong and England & Wales. Mr. CHIU received a bachelor's degree in information management from the University College London, the Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong and a master of laws degree from Remin University, Beijing.

Independent Non-Executive Directors

Dr. CAO Zhen Lei (曹振雷), aged 49, was appointed as an Independent Non-Executive Director on 19 June 2007. Dr. CAO is the vice president of the China National Light Industry (Group) Corporation, director of the China National Pulp and Paper Research Institute and general manager of the China Paper Development Company. With more than 20 years of experience in research and management in the pulp and paper industry in China, Dr. CAO also serves as secretary-general of the Standing Committee of the China Technical Association of Paper Industry, vice president of the China Paper Association, deputy director of the All-China Federation of Industry and Commerce's Papermakers Association and vice president of the Printing and Printing Equipment Industries Association of China. Dr. CAO is an independent director of Shangdong Sun Paper Industry Joint Stock Co., Ltd. (山東太陽紙業股份有限公司), a company listed in the PRC. Dr. CAO holds a bachelor's degree from the South China University of Technology with a specialization in the pulp and paper industry, a master's degree in paper making from the Light Industry Institute of Science and Technology, a Ph.D. in chemical science from the University of Saskatchewan and an Executive M.B.A. from Peking University's Guanghua School of Management.

Mr. HUI Chin Tong, Godfrey (許展堂), aged 49, was appointed as an Independent Non-Executive Director on 19 June 2007. Since the 1980's, Mr. HUI has established and managed several businesses in the PRC and is currently serving as chairman of the board of directors and chief executive officer of Network CN Inc. Mr. HUI obtained his bachelor's degree in business management from The Chinese University of Hong Kong and a master's degree in finance & investment from the University of Hull in the United Kingdom.

Mr. KAM Robert (甘廷仲), aged 51, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. KAM started his career with one of the Big Four international accounting firms and currently is a partner in the chartered accountancy firm, Inpact Kam & Beadman, based in Sydney, Australia. He has many years of experience in providing audit, tax and accounting services, including public company statutory audits, information systems audits and internal audits. Mr. KAM graduated with a bachelor of commerce degree from the University of Western Australia. Mr. KAM is a chartered accountant and a member of the Institute of Chartered Accountants in Australia, a Registered Auditor in New South Wales, Australia and a Registered Auditor of the Australian Securities Commission. Mr. KAM is also a Justice of the Peace for the State of New South Wales in Australia.

Mr. TSUI King Fai (徐景輝), aged 59, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. TSUI is a director and senior consultant at WAG Worldsec Corporate Finance Limited, a registered financial services company in Hong Kong. He has over 30 years of extensive experience in accounting, finance and investment management, particularly in investments in the PRC. Mr. TSUI worked for two of the Big Four audit firms in the Unite States and Hong Kong and served in various public listed companies in Hong Kong in a senior capacity. Mr. TSUI is currently acting as Independent Non-Executive Director of Lippo Limited, Lippo China Resources Limited, Hongkong Chinese Limited and China Aoyuan Property Group Limited. He graduated from the University of Houston, Texas, the United States and holds a master of science in accountancy and a bachelor of business administration with first class honors. Mr. TSUI is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia and a member of the American Institute of Certified Public Accountants.

Biographical Details of Directors and Senior Management

Biography of Senior Management

Mr. TSANG Zee Ho, Paul (曾思豪), aged 47, is the Chief Financial Officer (the "CFO"), company secretary and qualified accountant of the Group. He joined the Group in April 2007. He began his career with an international accounting firm in tax consulting. Since 1988, Mr. TSANG has held various senior finance and management positions with public and private companies in Hong Kong and China, including chief financial officer of a private group of companies which has diversified operations and interests in Guangzhou, PRC, associate director of Deloitte & Touche Corporate Finance, general manager of corporate finance department of Century City Group, a listed company in Hong Kong and director of its subsidiary which is engaged in financial service operations. Mr. TSANG graduated from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants in the U.K. and a non-practicing member of the Hong Kong Institute of Certified Public Accountants.

Ms. LI Pei Lan（李佩蘭）, aged 53, is the Chief Marketing Officer (the "CMO") and assistant to the CEO of the Group. She graduated from the Beijing Administrative College in economic management and from the Peking University Guanghua School of Management executive education program. Prior to joining Vinda Paper Group in January 1998, she was sales department manager at Beijing Electronic Equipment Company（北京市電子器材公司）. She has more than 20 years experience in sales management and nearly 10 years of experience in overall corporate management.

Mr. SU Luo Fu（蘇洛夫）, aged 52, is the deputy COO of the Group, responsible for the centralized material procurement of the Group. He graduated from People's University of China in economics. He has been in charge of the current function since he joined Vinda Paper Group in September 1999. Previously, he was president of Forda Co. Inc., a trading company, and has over 15 years of experience in sourcing and trade management.

Mr. ZHANG Jian（張健）, aged 37, is the assistant to the CEO and deputy COO of the Group. He graduated from Wu Yi University in electronic technology, and joined Vinda Paper Group in the same year. He served as a manager in the production, marketing, and procurement departments, and deputy manager and general manager of the Company. He is an executive director of the Guangdong Paper Association.

Mr. LI Chao Bing（李朝炳）, aged 55, is the Executive Vice President (the "EVP") (international sales) of the Group and general manager of sales of Forton Enterprises Limited. He joined Vinda Paper Group in February 1998 and has served various sales management positions such as sales manager, deputy sales general manager and sales vice president. He has extensive experience in overall marketing management. Mr. LI is the elder brother of Mr. LI Chao Wang.

Mr. HE Hui Xian（何惠獻）, aged 35, is the EVP (domestic sales) of the Group. He graduated from Anhui Finance and Trade College（安徽財貿學院）in trade and economics in 1996 and joined Vinda Paper Group in January 1997. He has been responsible for sales management and served as deputy general manager and general manager of the Company.

Mr. TANG Hai Tang (湯海棠), aged 38, is the EVP (Marketing and Media) of the Group. Mr. TANG graduated from South China University of Technology in biochemistry in 1994. He joined Vinda Paper Group in August 1995 and served as deputy general manager, marketing director, manager of marketing department and chief marketing officer. Mr. TANG left the Group in March 2003 and served as chief marketing officer of Guangxi Guitang (Group) Co., Ltd.（廣西貴糖（集團）股份有限公司）. He rejoined Vinda Paper Group in December 2008 and has served as EVP (marketing and media)

Biographical Details of Directors and Senior Management

Ms. WU Bao Ying (吳寶英), aged 45, is the EVP (Project Development) of the Group, project manager of Vinda Personal Care (Hong Kong) Ltd. and senior engineer in paper making process. She graduated from the South China University of Technology majoring in pulp making and paper manufacturing. She joined Vinda Paper Group in 1992 and has served as managers of quality control and production departments, deputy general manager, head of quality assurance centre of the Group and EVP (Quality) of the Group. Ms. WU is also a member of sub-committee in household paper and paper board at the China Standardization Technical Committee of Papermaking Industry.

Mr. CHEN Bei Qiang (陳北強), aged 50, is the EVP (Technology), head of technology centre and chief engineer of the Group and senior engineer in textile machinery. He graduated from the Guangdong Mechanical Engineering College majoring in machinery manufacturing process and equipment. Since joining Vinda Paper Group in June 1997, he has served as the head of technology centre and chief engineer of the Group.

Ms. WANG Bo (王波), aged 36, is the EVP (Production) and head of production centre of the Group. Ms. WANG graduated from Beijing Forestry University in forestry in 2007 and joined Vinda Paper Group in July in the same year. She has served as manager of product control and development department, head of factory, deputy general manager and general manager of the Company.

Ms. LIN Yu Zhen (林玉珍), aged 46, is the EVP (Procurement) and head of procurement centre of the Group. Ms. LIN graduated from China Central Radio and Television University in finance in November 2003. Since joining Vinda Paper Group in January 1985, she has served as manager of production department and supply department, head of factory, deputy head of procurement centre of the Group. She has extensive experience in production and procurement management.

Ms. ZHAO Xiao Yu (趙小妤), aged 33, is the EVP (Human Resources) and head of human resources centre of the Group. Ms. ZHAO graduated from Jinan University（廣州暨南大學）in statistics in 1999 and joined Vinda Paper Group in November in the same year. She has served as manager of human resources department and deputy head of human resources and administration centre of the Group.

Ms. LU Meng (盧夢), aged 34, is the head of finance centre of the Group. She obtained her master's degree in finance from South-central University of Nationalities and has the title of accountant and the Legal Professional Certification in China. Prior to joining Vinda Paper Group in February 2004, she held positions in import and export trade and finance management, and has been the finance manager, regional finance manager, assistant manager of internal control department and head of operation center of the Group.

Ms. LAM Hui Man (林栩雯), aged 61, is the manager of internal control for the Group. Prior to joining the Vinda Paper Group in March 2004, she was a sales manager in the Xinhui branch of ICBC and has over 15 years of extensive experience in the banking industry. She has served as the finance manager and regional finance manager after joining the Group.

Corporate Governance Practices

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all of the shareholders of the Company.

The Company has complied with the Code on Corporate Governance Practices (the "Code") except for deviations from provision A.2.1 of the Code, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. LI Chao Wang is currently both the Chairman of the Board and the CEO. The Board believes that the posts of Chairman and CEO being performed by the same person would provide the Group with strong and consistent leadership in the development and execution of long-term business strategies and development plans. The Board believes that there is adequate balance between the power and duty.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Having made specific enquiry with all the directors of the Company (the "Directors" or individually the "Director"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the year ended 31 December 2008.

Board of Directors

Composition

The board of directors (the "Board") of the Company comprises ten Directors of which three are Executive Directors, three are Non-Executive Directors and four are Independent Non-Executive Directors. The members of the Board as at the date of this annual report are as follows:

Executive Directors

Mr. LI Chao Wang *(Chairman and Chief Executive Officer)*
Ms. YU Yi Fang *(Chief Operating Officer)*
Mr. DONG Yi Ping *(Chief Technology Officer)*

Non-Executive Directors

Mr. LEUNG Ping Chung, Hermann
Mr. Johann Christoph MICHALSKI
Mr. CHIU Bun

Independent Non-Executive Directors

Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Corporate Governance Report

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 20 to 23 under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended to by a majority of the Directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the Executive Directors and senior management attend the meetings. During the year ended 31 December 2008, other than resolutions passed in writing by all the Directors, the Board held a total of 4 regular and ad hoc Board meetings.

The attendance of each member at the Board meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a Board member.

Directors	Number of regular and ad hoc Board meetings attended	Number of special Board meetings attended
Executive Directors		
Mr. LI Chao Wang *(Chairman and Chief Executive Officer)*	4 (4)	7 (7)
Ms. YU Yi Fang *(Chief Operating Officer)*	4 (4)	7 (7)
Mr. DONG Yi Ping *(Chief Technology Officer)*	4 (4)	7 (7)
Non-Executive Directors		
Mr. LEUNG Ping Chung, Hermann	4 (4)	
Mr. Johann Christoph MICHALSKI	4 (4)	
Mr. CHIU Bun	4 (4)	
Independent Non-Executive Directors		
Dr. CAO Zhen Lei	4 (4)	
Mr. KAM Robert	4 (4)	
Mr. HUI Chin Tong, Godfrey	4 (4)	
Mr. TSUI King Fai	4 (4)	

Chairman of the Board and Chief Executive Officer

Mr. LI Chao Wang ("Mr. LI") is both the Chairman and founder of the Company. Mr. LI also serves as the CEO and therefore the daily operation and management of the Company is overseen by Mr. LI with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. LI, being the founder of the Group, possesses in-depth knowledge of the Group. He has developed extensive and over 20 years of experience in the household paper industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meet regularly to discuss issues affecting the operation of the Group.

Executive Directors

The Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-Executive Directors

The Non-Executive Directors provide a wide range of expertise and experience and bring independence judgment on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.

Independent Non-Executive Directors

The Independent Non-Executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders including the review of continuing connected transactions described below. The Board consists of four Independent Non-Executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the Independent Non-Executive Directors a confirmation of independence for the year ended 31 December 2008 pursuant to Rule 3.13 of the Listing Rules and considers such Directors to be independent.

Appointments, Re-election and Removal of Directors

Each of the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors of the Company has entered into a service contract with the Company for a specific term. Such term is subject to his re-election by the Company at an annual general meeting upon retirement. The Articles of the Company provide that any Director appointed by the Board, either to fill a casual vacancy in the board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Under the Company's Articles, one-third of all Directors (whether Executive or Non-Executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he retires.

Members of the Company may, at any general meeting convened and held in accordance with Company's Articles to remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in Company's Articles or in any agreement between the Company and such Director.

The Board Committees

Remuneration Committee

The Company has established a remuneration committee on 19 June 2007. The Board has adopted the terms of reference for the remuneration committee which are in line with the Code Provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The remuneration committee comprises three members, and is chaired by Dr. CAO Zhen Lei. The other members are Mr. LEUNG Ping Chung, Hermann and Mr. TSUI King Fai.

The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all Executive Directors and senior management and making recommendations to the Board the remuneration of Non-Executive Directors. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration.

During the year ended 31 December 2008, the remuneration committee held 4 meetings. The remuneration committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendation to the Board.

The attendance of each member at the remuneration committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the remuneration committee.

Members	Number of meetings attended
Dr. CAO Zhen Lei	4 (4)
Mr. LEUNG Ping Chung, Hermann	4 (4)
Mr. TSUI King Fai	4 (4)

Nomination Committee

The Company has established a nomination committee on 19 June 2007. The Board has adopted the terms of reference for the nomination committee which are in line with the Code Provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listings Rules. The nomination committee comprises two Independent Non-Executive Directors, namely Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai; and one Executive Director, Mr. LI Chao Wang. Mr. HUI Chin Tong, Godfrey is the chairman of the nomination committee.

The nomination committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board on a regular basis.

Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the Independent Non-Executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on the assessment of their qualifications, experience and expertise as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business. During the year ended 31 December 2008, the nomination committee reviewed the current structure, size and composition of the Board and the remuneration of the senior management.

The attendance of each member at the nomination committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the nomination committee.

	Members Number of meetings attended
Mr. HUI Chin Tong, Godfrey	1 (1)
Mr. TSUI King Fai	1 (1)
Mr. LI Chao Wang	1 (1)

Audit Committee

The Company has established an audit committee on 19 June 2007. The Board has adopted the terms of reference for the audit committee which are in line with the Code Provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The audit committee comprises Independent Non-Executive Directors, namely Mr. KAM Robert, Mr. HUI Chin Tong, Godfrey, Mr. MAK Kin Kwong (resigned on 31 December 2008) and Mr. TSUI King Fai (appointed on 12 January 2009). Mr. KAM Robert is the chairman of the audit committee.

The audit committee is accountable to the Board and the principle duties of the audit committee include the review and supervision of the financial reporting process and internal control system of the Group.

During the year ended 31 December 2008 the audit committee held 4 meeting(s). The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Companyand the audit scope and fees for the year ended 31 December 2008.

The attendance of each member at the audit committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the audit committee.

Members	Number of meetings attended
Mr. KAM Robert	4 (4)
Mr. HUI Chin tong, Godfrey	4 (4)
Mr. MAK Kin Kwong	4 (4)

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2008 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. As at 31 December 2008, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis. The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 39 to 40 of this annual report.

Internal Controls

The Board is responsible for overseeing the Company's system of internal control. To facilitate the effectiveness and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives. The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of materials assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2008 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs PricewaterhouseCoopers, for the year ended 31 December 2008 is set out as follows:

	Services rendered Fee paid/payable *HK$'000*
Audit services	5,058

Communication with Shareholders

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and

4. Updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

Report of the Directors

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2008.

Principal Activities and Geographical Analysis of Operations

The Company is principally engaged in investment holding. The principal activities of the subsidiaries of the Company and other information are set out in note 9 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 44.

The Directors recommend the payment of a final dividend of HK4.6 cents (2007: HK2.2 cents) per ordinary share, totaling HK$41,576,718.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year ended 31 December 2008 are set out in Note 15 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 14 to the consolidated financial statements.

Distributable Reserves

The Company's reserves available for distribution comprise the share premium account and retained profits. At 31 December 2008, the reserves of the Company available for distribution to shareholders amounted to HK$1,348,920,028 (2007: HK$1,226,825,118), subject to the restrictions stated in Note 14 to Note 15 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 114 to 116 respectively.

Purchase, Sale or Redemption of Securities

The Company has not redeemed any of the Company's shares during the year. Neither the Company nor any of its subsidiaries has redeemed, purchased, cancelled or sold any of its securities during the year.

Report of the Directors

Directors

The Directors during the year were:

Executive Directors

Mr. LI Chao Wang *(Chairman and Chief Executive Officer)*
Ms. YU Yi Fang *(Chief Operating Officer)*
Mr. DONG Yi Ping *(Chief Technology Officer)*

Non-Executive Directors

Mr. LEUNG Ping Chung Hermann	
Mr. MAK Kin Kwong	(resigned on 31 December 2008)
Mr. Rijk Hendrik Jan SCHIPPER	(resigned on 19 April 2008)
Mr. Johann Christoph MICHALSKI	(appointed on 19 April 2008)
Mr. CHIU Bun	

Independent Non-Executive Directors

Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 20 to 23.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors to be independent.

Directors' Service Contracts

Each Executive Director has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

Directors' Interests and Controlling Shareholders' Interests in Contracts

Saved as disclosed under the Continuing Connected Transactions below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Continuing Connected Transactions

A) On 20 June 2007, the Group entered into a master product supply agreement (the "Supply Agreement") with SCA Hygiene Australasia Pty Limited and SCA Hygiene Australasia Limited (together, "SCA HA") (both as customer) pursuant to which the parties would enter into such transactions at prices determined on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third parties and subject to other terms and conditions set out therein. The Supply Agreement has an initial term from 1 January 2007 to 31December 2009.

SCA HA are both wholly owned subsidiaries of SCA which has been an indirect Substantial Shareholder of the Company since 29 March 2007, and are therefore considered Connected Persons to the Company.

The Company requested for and the Stock Exchange granted a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements in connection with the transaction under the Supply Agreement, otherwise applicable to Connected Transactions pursuant to Listing Rule 14A.42(3).

The independent non-executive Directors have reviewed the above mentioned transactions during the period from 1 January 2008 to 31 December 2008 which amount to an aggregate of HK$23,131,717 which falls within the stipulated cap of HK$160 million for the relevant period. The Independent Non-Executive Directors confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms no less favorable to the Company than terms available to other independent third parties; and

(3) in accordance with the Supply Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

B) To the extent the above transactions constituted connected transactions as defined in the Listing Rules, the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

C) The Group has been purchasing packaging material from SCA (Tianjin) Packaging Products Limited ("SCA Tianjin") and Wuhan SCA Packaging Limited ("SCA Wuhan"). SCA Tianjin and SCA Wuhan are wholly-owned subsidiaries of SCA, a substantial shareholder of the Company and a Connected Person.

During the finalization of the audited financial statements of the Company for the year ended 31 December 2008, it came to the attention of the Board that during the 12-month period ended on 31 December 2008, the total amount paid by the Group to SCA Tianjin and SCA Wuhan for the packaging material was approximately HK$3,518,000. The terms had been negotiated and was conducted on an arm's length basis between the parties and on normal commercial terms. These transactions constituted continuing connected transactions under Rule 14A.14 of the Listing Rules and had exceeded the de minimis threshold set forth in Rule 14A.33(3) of the Listing Rules and are subject to the reporting and announcement requirements and exempted from the requirement of obtaining the independent shareholders' approval pursuant to Rule 14A.34(1) of the Listing Rules.

As the purchase transactions conducted during the 12-month period ended on 31 December 2008 are only exempted from the independent shareholders' approval requirement, the Company should have complied with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. The Company failed to comply with the reporting and announcement requirements in relation to the purchase transactions which took place during the 12-month period ended on 31 December 2008 pursuant to Chapter 14A of the Listing Rules on a timely basis. The Company considers that this was an inadvertent oversight and an unintentional non-compliance with the Listing Rules.

Directors' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules were as follows:

Long positions in shares, underlying shares and debentures

Name	Company name of associated corporations	Nature of Interest	Number of securities	Approximate percentage of interest
LI Chao Wang (1)	The Company	Interest of controlled company	281,981,235 Shares	31.20%
	Fu An International Company Limited	Interest of controlled company	280 shares of US$1.00 each	73.68%
	Sentential Holdings Limited	Interest of controlled company	1 share of US$1.00 each	100%
	Eagle Power Assets Limited	Settlor and beneficiary of CW Li Family Trust	1 share of US$1.00 each	100%
YU Yi Fang (2)	The Company	Interest of controlled company	281,981,235 Shares	31.20%
	Fu An International Company Limited	Interest of controlled company	60 shares of US$1.00 each	15.79%
	Join Pride International Limited	Interest of controlled company	10 shares of US$1.00 each	100%
	Kingdom World Assets Limited	Settlor and beneficiary of YF Yu Family Trust	1 share of US$1.00 each	100%
DONG Yi Ping (3)	The Company	Interest of controlled company	281,981,235 Shares	31.20%
	Fu An International Company Limited	Interest of controlled company	40 shares of US$1.00 each	10.53%
	Daminos Management Limited	Interest of controlled company	10 shares of US$1.00 each	100%
	Profit Zone Assets Limited	Settlor and beneficiary of YP Dong Family Trust	1 share of US$1.00 each	100%

Notes:

(1) The Shares are registered in the name of Fu An International Company Limited which is held as to 73.68% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.53% by Daminos Management Limited. The entire issued share capital of Sentential Holdings Limited is held by Eagle Power Assets Limited, whose entire issued share capital is held by HSBC International Trustee Limited in its capacity as trustee of CW Li Family Trust with LI Chao Wang as the settlor.

(2) The Shares are registered in the name of Fu An International Company Limited which is held as to 73.68% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.53% by Daminos Management Limited. The entire issued share capital of Join Pride International Limited is held by Kingdom World Assets Limited, whose entire issued share capital is held by HSBC International Trustee Limited in its capacity as trustee of YF Yu Family Trust with YU Yi Fang as the settlor.

(3) The Shares are registered in the name of Fu An International Company Limited which is held as to 73.68% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.53% by Daminos Management Limited. The entire issued share capital of Daminos Management Limited is held by Profit Zone Assets Limited, whose entire issued share capital is held by HSBC International Trustee Limited in its capacity as trustee of YP Dong Family Trust with DONG Yi Ping as the settlor.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the shareholders of the Company passed on 19 June 2007 and was adopted by a resolution of the Board on 19 June 2007. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to promote the success of the Group.

The Board may, at its discretion and on such terms as it may think fit, grant an employee, a director and any shareholder of any members of the Group or any holder of any securities issued by any member of the Group an award ("**Award**"), either by way of option ("**Option**") to subscribe for Shares, an award of Shares or a grant of a conditional right to acquire Shares as it may determine in accordance with the terms of the Scheme.

The Scheme shall be valid and effective for a period of 10 years commencing from 10 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of Offer.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date. Any further grant of Awards in excess of the above limit must be subject to shareholders' approval by ordinary resolution in general meeting. Where any offer proposed to be made to a substantial shareholder or an independent non-executive director of the Company or any of his associates would result in such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the shareholders in general meeting taken on a poll.

No share options were granted during the year and there are no outstanding share options under the Scheme as at 31 December 2008.

Arrangement to Purchase Shares or Debentures

Save as disclosed above, at no time during the year were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares of the Company

As at 31 December 2008, the interests and short positions of the substantial shareholders of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares and underlying shares

Name of shareholder	No. of shares held	Nature of Interest	Percentage of Issued share capital
Fu An International Company Limited	281,981,235	Beneficial owner	31.20%
Sentential Holdings Limited (Note 1)	281,981,235	Interest of controlled company	31.20%
Eagle Power Assets Limited (Note 1)	281,981,235	Interest of controlled company	31.20%
HSBC International Trustee Limited (Note 1)	281,981,235	Trustee of CW Li Family Trust	31.20%
LI Chao Wang (Note 1)	281,981,235	Settlor and beneficiary of CW Li Family Trust	31.20%
SCA Hygiene Holding AB	169,531,897	Beneficial owner	18.76%
SCA Group Holding BV (Note 2)	169,531,897	Interest of controlled company	18.76%
Svenska Cellulosa Aktiebolaget (Note 2)	169,531,897	Interest of controlled company	18.76%
Cathay Paper Limited	84,567,232	Beneficial owner	9.36%
Cathay Capital Holdings, L.P. (Note 3)	84,567,232	Interest of controlled company	9.36%
Cathay Master G.P., Ltd. (Note 3)	84,567,232	Interest of controlled company	9.36%
Prime Capital Management (Cayman) Limited (Note 4)	46,230,000	Beneficial owner	5.10%

Notes:

(1) These Shares are registered in the name of Fu An International Company Limited which is held as to 73.68% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.53% by Daminos Management Limited. The entire issued share capital of Sentential Holdings Limited is held by Eagle Power Assets Limited, whose entire issued share capital is held by HSBC International Trustee Limited in its capacity as trustee of CW Li Family Trust with Mr. LI Chao Wang as the settler. Under the SFO, Sentential Holdings Limited, Eagle Power Assets Limited, HSBC International Trustee Limited and LI Chao Wang are all deemed to be interested in the Shares held by Fu An International Company Limited.

(2) These Shares are registered in the name of SCA Hygiene Holding AB, which is indirectly wholly-owned by Svenska Cellulosa Aktiebolaget, a company whose shares are traded on the Stockholm, London and New York (as ADRs) stock exchanges. Under the SFO, Svenska Cellulosa Aktiebolaget is deemed to be interested in the Shares held by SCA Hygiene Holding AB.

(3) These Shares are registered in the name of Cathay Paper Limited, which is wholly-owned by Cathay Capital Holdings, L.P., a private equity fund and a limited partnership with direct investment in China. Cathay Master GP, Ltd. is the general partner of Cathay Capital Holdings, L.P. Under the SFO, Cathay Master GP., Ltd. and Cathay Capital Holdings, L.P. are deemed to be interested in the Shares held by Cathay Paper Limited.

(4) Prime Capital Management (Cayman) Limited was interested in 46,230,000 shares of the Company as investment manager.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

Charitable Donations

During the year, the Group made charitable donation amounting to HK$926,837.

Management Contracts

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

Major Customers and Suppliers

During the year, the percentage of sales of goods for the year attributable to the Group's five largest customers combined are 12.6%

During the year, the percentages of purchasers of goods for the year attributable to the Group's major suppliers are approximately as follows:

– the largest supplier	22.2%
– five largest suppliers combined	55.3%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers.

Sufficiency of Public Float

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

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
LI Chao Wang
Chairman

Jiangmen, PRC, 7 April 2009

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF VINDA INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vinda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 113, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 April 2009

Consolidated Balance Sheet

As at 31 December 2008

(All amounts are stated in Hong Kong dollars ("HK$") unless otherwise stated)

	Note	As at 31 December 2008 HK$	2007 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	7	**1,852,374,329**	1,391,200,294
Leasehold land and land use rights	6	**117,294,978**	95,396,490
Intangible assets	8	**740,895**	2,966,002
Deferred income tax assets	18	**47,508,724**	31,592,589
		2,017,918,926	1,521,155,375
Current assets			
Inventories	11	**491,755,387**	501,295,002
Trade receivables, other receivables and prepayments	10	**259,669,018**	245,497,749
Due from a related party	30(c)	**5,300,643**	4,272,969
Pledged bank deposits	12	**884,454**	6,706,535
Derivative financial instruments	20	**—**	131,890
Cash and cash equivalents	13	**172,189,258**	252,081,481
		929,798,760	1,009,985,626
Total assets		**2,947,717,686**	2,531,141,001
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**90,384,169**	90,384,169
Share premium	14	**834,834,579**	834,834,579
Other reserves	15	**783,867,895**	541,373,559
Total equity		**1,709,086,643**	1,466,592,307

Consolidated Balance Sheet *(continued)*

As at 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

	Note	As at 31 December 2008 HK$	2007 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	17	**465,875,506**	308,639,527
Deferred government grants	19	**33,127,079**	28,223,836
Deferred income tax liabilities	18	**1,556,700**	869,655
		500,559,285	337,733,018
Current liabilities			
Trade payables, other payables and accrued expenses	16	**429,879,934**	347,577,580
Due to a related party	30(c)	**568,205**	—
Borrowings	17	**278,411,290**	345,535,483
Current income tax liabilities		**29,212,329**	33,702,613
		738,071,758	726,815,676
Total liabilities		**1,238,631,043**	1,064,548,694
Total equity and liabilities		**2,947,717,686**	2,531,141,001
Net current assets		**191,727,002**	283,169,950
Total assets less current liabilities		**2,209,645,928**	1,804,325,325

LI Chao Wang
Director

YU Yi Fang
Director

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

Company Balance Sheet

As at 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

	Note	As at 31 December 2008 HK$	2007 HK$
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**1,006,935,617**	895,858,457
Current assets			
Other receivables		**240,096**	918,580
Dividend receivable		**60,136,070**	—
Cash and cash equivalents	13	**159,111**	94,662,426
		60,535,277	95,581,006
Total assets		**1,067,470,894**	991,439,463
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**90,384,169**	90,384,169
Share premium	14	**834,834,579**	834,834,579
Other reserves	15	**138,801,879**	61,352,806
Total equity		**1,064,020,627**	986,571,554
LIABILITIES			
Current liabilities			
Other payables and accrued expenses	16	**3,450,267**	4,867,909
Total liabilities		**3,450,267**	4,867,909
Total equity and liabilities		**1,067,470,894**	991,439,463
Net current assets		**57,085,010**	90,713,097
Total assets less current liabilities		**1,064,020,627**	986,571,554

LI Chao Wang	**YU Yi Fang**
Director	Director

The notes on pages 47 to 113 are an integral part of this financial statement.

Consolidated Income Statement

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

	Note	For the year ended 31 December 2008 HK$	2007 HK$
Revenue	5	**2,424,044,090**	1,777,721,432
Cost of sales	22	**(1,910,939,233)**	(1,411,775,105)
Gross profit		**513,104,857**	365,946,327
Selling and marketing costs	22	**(181,765,469)**	(175,162,720)
Administrative expenses	22	**(115,367,807)**	(78,647,307)
Other income and gains / (losses)	21	**4,041,388**	10,854,268
Operating profit		**220,012,969**	122,990,568
Finance income	24	**3,268,001**	22,703,473
Finance costs	24	**(28,465,727)**	(50,794,794)
Finance costs, net	24	**(25,197,726)**	(28,091,321)
Profit before income tax		**194,815,243**	94,899,247
Income tax expense	25(a)	**(28,903,675)**	(16,542,188)
Profit for the year and attributable to equity holders of the Company		**165,911,568**	78,357,059
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
– basic	26	**0.184**	0.103
– diluted	26	**0.184**	0.103
Dividend	27	**19,884,517**	25,000,000

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

		Attributable to equity holders of the Company			
	Note	Share capital HK$	Share premium HK$	Other reserves HK$	Total HK$
Balance at 1 January 2007		4,250,811	69,260,002	389,585,378	463,096,191
Income recognised directly in equity					
– currency translation differences		–	–	73,431,122	73,431,122
Profit for the year		–	–	78,357,059	78,357,059
Total recognised income for 2007		–	–	151,788,181	151,788,181
Issue of ordinary shares	14	26,622,001	850,085,934	–	876,707,935
Conversion of share premium to increase capital	14	59,511,357	(59,511,357)	–	–
Dividend	27	–	(25,000,000)	–	(25,000,000)
Balance at 31 December 2007		90,384,169	834,834,579	541,373,559	1,466,592,307
Balance at 1 January 2008		90,384,169	834,834,579	541,373,559	1,466,592,307
Income recognised directly in equity					
– currency translation differences		–	–	96,467,285	96,467,285
Profit for the year		–	–	165,911,568	165,911,568
Total recognised income for 2008		–	–	262,378,853	262,378,853
Dividend	27	–	–	(19,884,517)	(19,884,517)
Balance at 31 December 2008		90,384,169	834,834,579	783,867,895	1,709,086,643

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

	Note	For the year ended 31 December 2008 HK$	2007 HK$
Cash flows from operating activities			
Cash generated from operations	28(a)	**441,470,967**	10,117,417
Interest paid		**(27,615,337)**	(59,373,691)
Income tax paid		**(45,884,441)**	(20,433,656)
Net cash generated from / (used in) operating activities		**367,971,189**	(69,689,930)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(493,629,296)**	(348,020,999)
Proceeds from disposal of property, plant and equipment		**40,040**	133,000
Payment for leasehold land and land use rights		**(19,816,230)**	(8,760,021)
Purchase of intangible assets		**(95,986)**	(255,742)
Interest received		**3,268,001**	9,929,396
Net cash used in investing activities		**(510,233,471)**	(346,974,366)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net		**—**	881,416,333
Interest received on IPO subscription deposits		**—**	12,774,077
Proceeds from borrowings		**942,707,308**	1,585,423,399
Repayments of borrowings		**(876,963,413)**	(1,915,663,748)
Decrease in pledged bank deposits		**5,822,081**	36,406,322
Decrease in amounts due to a related party		**—**	(186,786)
Dividends paid		**(19,884,517)**	(31,102,892)
Net cash generated from financing activities		**51,681,459**	569,066,705
Net (decrease) / increase in cash and cash equivalents		**(90,580,823)**	152,402,409
Effect of foreign exchange rate changes		**10,688,600**	38,121,835
Cash and cash equivalents, beginning of the year	13	**252,081,481**	61,557,237
Cash and cash equivalents, end of the year	13	**172,189,258**	252,081,481

The notes on pages 47 to 113 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

1 General Information

Vinda International Holdings Limited (the "Company") was incorporated on 17 August 1999 in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company acts as an investment holding company and provides management services to its subsidiaries. The principal activities of the subsidiaries are set out in Note 9. The Company and its subsidiaries are collectively referred to as the "Group".

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited ("HKSE') since 10 July 2007.

The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

These consolidated financial statements are presented in Hong Kong dollar ("HK$") unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7 April 2009.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods that the Group has not early adopted:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Revised), but does not anticipate any material impact on the Group's consolidated financial statements as the Group has already followed the principles of capitalise borrowing costs for qualify assets in accordance with existing HKAS 23.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010, but it is not expected to have any impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 7 (Amendment), 'Financial instruments: Disclosure' (effective from 1 January 2009). The amended standard introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will apply the HKFRS 7 (Amendment) from 1 January 2009, but it is not expected to have impact on the Group's consolidated financial statements.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009, but it is not expected to have any impact on the Group's consolidated financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  ➢ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  — HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

  ➢ HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The amendment will not have an impact on the Group's operations as there are no loans received or other grants from the government.

  ➢ HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

For the Year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  ➢ HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  ➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

  — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  — The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

  — When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. It is not expected to have any impact on the Group's financial statements.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  ➢ HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  ➢ There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. The Group is currently assessing the impact of these amendments on the Group's financial statements.

(b) Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations

The following standards, amendments and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. As none of the Group entities are going to liquidation, HKAS 32 and HKAS 1 Amendments is not relevant to the Group's operations.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations *(continued)*

- HK(IFRIC) - Int 13 , 'Customer loyalty programmes' (effective from 1 July 2008). HK(IRFIC) - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009). HK(IFRIC) - Int 15 clarifies whether HKAS 18, 'Revenue' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC) - Int 15 is not relevant to the Group's operations.

- HK(IFRIC) - Int 16 , 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. This is not relevant to the Group as the Group does not have any hedges of a net investment in a Foreign Operation.

- HK(IFRIC) - Int 17 , 'Distributions of non-cash assets to owners' (effective from 1 July 2009).

- HK(IFRIC) - Int 18 - 'Transfers of assets from customers' (effective from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. This is not relevant to the Group's operations because none of the group companies' ordinary activities comprise renting and subsequently selling assets.

  ➢ HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, Financial instruments: recognition and measurement, is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment is not relevant to the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations *(continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  ➢ HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. This is not relevant to the Group because there is not any investments in associates.

  ➢ HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment is not relevant to the Group's operations, as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

  ➢ HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The amendment is not relevant to the Group's operations as there are no interests held in joint ventures.

  ➢ HKAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009).A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for shoe mail order catalogues when the Group has access to the catalogues and not when the catalogues are distributed to customers, as is the Group's current accounting policy.

  ➢ HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. It is not relevant to the Group, as no investment properties are held by the Group.

  ➢ HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations that are not yet effective and not relevant for the Group's operations *(continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(continued)*

  ➢ The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which have not been addressed above. These amendments are not relevant to the Group's operations as described above.

(c) Standards, amendments and interpretations effective in 2008 but have no significant impact to the Group's operations

The following amendment is mandatory for accounting periods beginning after 1 January 2008 but have no significant impact to the Group's operations:

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met . The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(d) Interpretations effective in 2008 but not relevant for the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

- HK(IFRIC) - Int 11, "HKFRS 2 - Group and Treasury Share Transactions"
- HK(IFRIC) - Int 12 , "Service Concession arrangements"
- HK(IFRIC) - Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidation income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi ("RMB"). Considering the Company is tax registered in Hong Kong, HK$ is chosen as the presentation currency to present the consolidated financial statements.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other income and gains / (losses)' net.

Translation difference on derivative financial instruments denominated in foreign currency is recognised in the consolidated income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment

Property, plant and equipment, comprising buildings, leasehold improvements, machinery, furniture, fittings and equipment and vehicles are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	30 to 50 years
Leasehold improvements	3 years
Machinery	10 to 15 years
Furniture, fittings and equipment	4 to 5 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Leasehold land and land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method. The leasehold land and land use rights are stated at historical cost less accumulated amortisation and impairment losses.

2 Summary of significant accounting policies *(continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each entity with independent operations (Note 2.8).

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill, for which an impairment was recorded previously, are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies *(continued)*

2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.12).

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Loans and receivables are initially recognised at fair value and then subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within 'other income and gains / (losses)', in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. Impairment test of trade receivables is described in Note 2.12.

2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group's derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit and loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement within 'other income and gains / (losses)'.

2 Summary of significant accounting policies *(continued)*

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.15 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies *(continued)*

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings at nil or low interest rates from government are treated as government assistance and recognised initially at the cost of consideration received.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits

(a) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$ 1,000 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan as set out in Note 23. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group also operates two defined contribution schemes which are available to the employees in Australia and United States. Contributions are made based on certain percentage of the employees' compensation or a fixed sum.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated income statement as incurred.

(b) Other employee benefits

In addition to pension obligation, all PRC employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated income statement as incurred.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax amount that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of significant accounting policies *(continued)*

2.21 Government assistance and grants

Government assistance is the action by government designed to provide an economic benefit specific to an entity. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity are not recognised.

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of land use rights and property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement on a straight line basis over the expected lives of the related assets.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a Group's entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 Summary of significant accounting policies *(continued)*

2.23 Operating Leases

Rental in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.24 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors as appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial market and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Company and most of its subsidiaries' functional currency is RMB, since majority of the companies' revenues are derived from operations in mainland China. Foreign exchange risk arises when the future commercial transactions of sales to and purchases from overseas and recognised assets or liabilities, such as cash and cash equivalents (Note 13), pledged bank deposits (Note 12), trade receivables (Note 10), trade payables and other payables (Note 16) and borrowings (Note 17), which are mainly denominated in United States dollar (the "US$") and HK$. The Group has not hedged its foreign exchange rate risk because the exposure is not significant.

As at 31 December 2007 and 2008, if RMB had strengthened/weakened by 10% against US$ and HK$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US$ and HK$ denominated cash and cash equivalents, pledged bank deposits, trade receivables, trade payables and other payables and borrowings. Details of the changes are as follows:

	31 December	
	2008	2007
	HK$	HK$
For the year ended:		
Post-tax profit increase / (decrease)		
- Strengthened 10%	**30,347,272**	1,124,051
- Weakened 10%	**(30,347,272)**	(1,124,051)
As at:		
Owners' equity increase / (decrease)		
- Strengthened 10%	**30,347,272**	1,124,051
- Weakened 10%	**(30,347,272)**	(1,124,051)

Considering the Company is tax registered in Hong Kong, HK$ is chosen as the presentation currency to present the consolidated financial statements. The results and financial position of the Group are translated from the functional currency RMB into the presentation currency HK$. All resulting exchange differences are recognised as translation reserve in equity.

(All amounts are stated in HK$ unless otherwise stated)

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

As at 31 December 2007 and 2008, if RMB had strengthened/weakened by 10% against HK$ with all other variables held constant, the translation reserve of each year end would have changed as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
Owners' equity increase / (decrease)		
- Strengthened 10%	**140,519,763**	84,199,219
- Weakened 10%	**(140,519,763)**	(84,199,219)

(ii) Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates, as the Group has no significant interest-bearing assets. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 17.

The Group historically has not used any financial instruments to hedge its exposure to interest rate risk.

(All amounts are stated in HK$ unless otherwise stated)

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Interest-rate risk *(continued)*

As at 31 December 2007 and 2008, if interest rates on bank borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expense on floating rate borrowings. Details of the changes are as follows:

	31 December	
	2008	2007
	HK$	HK$
For the year ended:		
Post-tax profit increase / (decrease)		
- 10 basis points higher	**(274,315)**	(322,374)
- 10 basis points lower	**274,315**	322,374
As at:		
Owners' equity increase / (decrease)		
- 10 basis points higher	**(274,315)**	(322,374)
- 10 basis points lower	**274,315**	322,374

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, pledged bank deposits, derivative financial instruments, due from related parties, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

As at 31 December 2007 and 2008, all pledged bank deposits and cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

Most of the Group's sales are settled in cash or in check by its customers on delivery of goods. Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis.

(All amounts are stated in HK$ unless otherwise stated)

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year HK$	**Between 1 and 2 years** HK$	**Between 2 and 5 years** HK$
As at 31 December 2008			
Borrowings	278,411,290	81,026,193	384,849,313
Interests payable on borrowings (i)	23,244,746	25,641,047	25,303,214
Trade payables	208,576,180	—	—
Other payables and accrued expense	221,303,754	—	—
As at 31 December 2007			
Borrowings	345,535,483	427,168	308,212,359
Interests payable on borrowings (i)	21,753,397	19,440,304	31,127,838
Trade payables	146,937,979	—	—
Other payables and accrued expense	200,639,601	—	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2007 and 2008 without taking account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2007 and 2008 respectively.

(All amounts are stated in HK$ unless otherwise stated)

3 Financial risk management *(continued)*

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents and pledged bank deposits. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2007 and 2008 were as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
Total borrowings (Note 17)	**744,286,796**	654,175,010
Less: Cash and cash equivalents (Note 13)	**(172,189,258)**	(252,081,481)
Pledged bank deposits (Note 12)	**(884,454)**	(6,706,535)
Net debt	**571,213,084**	395,386,994
Total equity	**1,709,086,643**	1,466,592,307
Total capital	**2,280,299,727**	1,861,979,301
Gearing ratio	**25.05%**	21.23%

The increase in the gearing ratio as at 2008 resulted primarily from the addition of borrowings.

3 Financial risk management *(continued)*

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices or mark to market value at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The Group uses other methods, such as estimated discounted cash flows, to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of due from / due to related parties is determined by discounting the future contractual cash flows at the current market interest rate.

The carrying value less impairment provision of trade and other receivables and payables, due from/to related parties are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

4 Critical accounting estimates and judgments *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Current tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

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

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax (hereinafter "CIT") in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the CIT rate applicable to the Company will be gradually increased to 25% in a 5-year period from 2008 to 2012.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

(e) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

(All amounts are stated in HK$ unless otherwise stated)

4 Critical accounting estimates and judgments *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(f) Estimated impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgement is required in the area of asset impairment particularly in assessing : (i) whether an event has occurred that may indicated that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

5 Segment information

The Group is principally engaged in the manufacture and sales of household consumable paper. Revenue is analysed as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Sales of goods	**2,283,662,244**	1,683,533,327
Sales of semi-finished goods and other materials	**140,381,846**	94,188,105
Total revenue	**2,424,044,090**	1,777,721,432

The Group is principally engaged in a single business segment. More than 90% of the Group's turnover and operating profit is earned within the PRC and all major operating assets of the Group are located in the PRC. Therefore, no business segment or geographical segment is presented.

(All amounts are stated in HK$ unless otherwise stated)

6 Leasehold land and land use rights - Group

The Group's interests in leasehold land and land use rights represent the prepaid operating lease payments and their net book values are analysed as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
In Hong Kong, held on:		
Lease of between 10 to 50 years	**12,270,618**	13,517,462
In PRC, held on:		
Lease of between 10 to 50 years	**105,024,360**	81,879,028
	117,294,978	95,396,490

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Opening	**95,396,490**	83,744,799
Additions	**19,816,230**	8,760,021
Amortisation of leasehold land		
and land use rights (Note 22)	**(3,953,688)**	(2,561,964)
Exchange differences	**6,035,946**	5,453,634
	117,294,978	95,396,490

(a) As at 31 December 2007, certain leasehold land and land use rights with net book values of HK$ 33,271,703 were pledged as securities for bank borrowings (Note 17 (a)).

(All amounts are stated in HK$ unless otherwise stated)

7 Property, plant and equipment - Group

	Buildings HK$	Leasehold improvements HK$	Machinery HK$	Furniture, fittings and equipment HK$	Vehicles HK$	Construction in progress HK$	Total HK$
At 1 January 2007							
Cost	325,397,504	1,088,223	813,544,452	14,848,198	7,953,109	119,209,276	1,282,040,762
Accumulated depreciation and impairment	(45,890,910)	(1,061,965)	(239,811,061)	(5,163,705)	(4,717,630)	–	(296,645,271)
Net book amount	279,506,594	26,258	573,733,391	9,684,493	3,235,479	119,209,276	985,395,491
Year ended 31 December 2007							
Opening net book amount	279,506,594	26,258	573,733,391	9,684,493	3,235,479	119,209,276	985,395,491
Additions	32,048,304	–	50,637,016	1,646,506	2,264,485	296,633,852	383,230,163
Disposals	–	–	(282,950)	(9,352)	(27,204)	–	(319,506)
Reclassification	51,323,058	–	202,828,557	26,616	–	(254,178,231)	–
Depreciation (Note 22)	(11,372,325)	(26,258)	(52,217,302)	(1,076,652)	(811,249)	–	(65,503,786)
Exchange differences	22,243,956	–	55,318,931	679,375	292,009	9,863,661	88,397,932
Closing net book amount	373,749,587	–	830,017,643	10,950,986	4,953,520	171,528,558	1,391,200,294
At 31 December 2007							
Cost	434,480,988	1,088,223	1,142,393,450	17,549,348	10,856,729	171,528,558	1,777,897,296
Accumulated depreciation and impairment	(60,731,401)	(1,088,223)	(312,375,807)	(6,598,362)	(5,903,209)	–	(386,697,002)
Net book amount	373,749,587	–	830,017,643	10,950,986	4,953,520	171,528,558	1,391,200,294
Year ended 31 December 2008							
Opening net book amount	373,749,587	–	830,017,643	10,950,986	4,953,520	171,528,558	1,391,200,294
Additions	15,583,749	–	21,382,993	1,973,189	3,368,159	432,511,034	474,819,124
Disposals	–	–	(46,165)	–	(8,180)	–	(54,345)
Reclassification	128,868,291	–	159,995,480	–	–	(288,863,771)	–
Depreciation (Note 22)	(15,327,895)	–	(75,484,944)	(1,578,037)	(1,596,065)	–	(93,986,941)
Impairment charge (Note 22)	–	–	(6,973,472)	–	–	–	(6,973,472)
Exchange differences	23,874,532	–	51,107,947	313,831	199,961	11,873,398	87,369,669
Closing net book amount	526,748,264	–	979,999,482	11,659,969	6,917,395	327,049,219	1,852,374,329
At 31 December 2008							
Cost	606,411,464	1,088,223	1,394,590,759	20,263,188	14,663,803	327,049,219	2,364,066,656
Accumulated depreciation and impairment	(79,663,200)	(1,088,223)	(414,591,277)	(8,603,219)	(7,746,408)	–	(511,692,327)
Net book amount	526,748,264	–	979,999,482	11,659,969	6,917,395	327,049,219	1,852,374,329

(All amounts are stated in HK$ unless otherwise stated)

7 Property, plant and equipment - Group *(continued)*

(a) As at 31 December 2008, certain property, plant and machinery with net book values of HK$ 195,426,840 (2007: HK$ 334,325,743) were pledged for bank borrowings (Note 17 (a)).

During the year ended 31 December 2008, depreciation expenses have been charged in the consolidated income statement as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Cost of sales	**88,473,371**	62,240,506
Administrative expenses	**5,513,570**	3,263,280
	93,986,941	65,503,786

(All amounts are stated in HK$ unless otherwise stated)

8 Intangible assets - Group

	Goodwill HK$	Computer software HK$	Total HK$
At 1 January 2007			
Cost	2,206,207	1,129,431	3,335,638
Accumulated amortisation	—	(423,373)	(423,373)
Net book amount	2,206,207	706,058	2,912,265
Year ended 31 December 2007			
Opening net book amount	2,206,207	706,058	2,912,265
Additions	—	255,742	255,742
Amortisation expense (Note 22)	—	(253,589)	(253,589)
Exchange differences	—	51,584	51,584
Closing net book amount	2,206,207	759,795	2,966,002
At 31 December 2007			
Cost	2,206,207	1,452,217	3,658,424
Accumulated amortisation	—	(692,422)	(692,422)
Net book amount	2,206,207	759,795	2,966,002

	Goodwill HK$	**Computer software HK$**	**Total HK$**
Year ended 31 December 2008			
Opening net book amount	**2,206,207**	**759,795**	**2,966,002**
Additions	**—**	**95,986**	**95,986**
Amortisation expense (Note 22)	**—**	**(313,545)**	**(313,545)**
Exchange differences	**—**	**198,659**	**198,659**
Impairment (Note 22)	**(2,206,207)**	**—**	**(2,206,207)**
Closing net book amount	**—**	**740,895**	**740,895**
At 31 December 2008			
Cost	**—**	**1,548,203**	**1,548,203**
Accumulated amortisation	**—**	**(807,308)**	**(807,308)**
Net book amount	**—**	**740,895**	**740,895**

(All amounts are stated in HK$ unless otherwise stated)

8 Intangible assets - Group *(continued)*

(a) During the year ended 31 December 2008, amortisation of intangible assets is charged to the consolidated income statement as follow:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Administrative expenses	**313,545**	253,589

(b) Impairment test of goodwill

The goodwill was arising from acquisition of Vinda Household Paper (Australia) Limited ("Vinda Household (Australia)") and its subsidiary – Vinda Paper (Australia) Pty Ltd. ("Vinda Paper (Australia)") on 15 May 2005. The recoverable amount of it is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follow:

	2008	2007
Gross margin	**7%**	9%
Growth rate	**3.7%**	3%
Discount rate	**3.25%**	6.16%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks.

The impairment charge arose based on the assessment of the management as at 31 December 2008. This was a result of the decreased gross margin of Vinda Paper (Australia) in the relevant market.

(All amounts are stated in HK$ unless otherwise stated)

9 Investments in and balances with subsidiaries - Company

(a) Investments in subsidiaries

	As at 31 December	
	2008	2007
	HK$	HK$
Unlisted investments, at cost	**1,006,935,617**	895,858,457

(b) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment. As at 31 December 2007 and 2008, the carrying amounts of due to subsidiaries approximated their fair values.

Notes to the Consolidated Financial Statements

For the Year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

9 Investments in and balances with subsidiaries - Company *(continued)*

(c) Details of subsidiaries

As at 31 December 2008, the Company had direct and indirect interest in the following subsidiaries:

Name	Place of incorporation and kind of legal entity	Principal activities	Paid-in capital	Interest held (directly)	Interest held (indirectly)
Vinda Household Paper (China) Limited ("Vinda Household Paper (China)")	British Virgin Islands, limited liability company	Investment holding company and trading of wood pulp and machinery	US$ 1	100%	–
Vinda Household Paper (Hong Kong) Limited	British Virgin Islands, limited liability company	Investment holding company	US$ 10,002	100%	–
Vinda Household Paper (U.S.A.) Limited	British Virgin Islands, limited liability company	Investment holding company	US$ 1	100%	–
Vinda Household (Australia)	British Virgin Islands, limited liability company	Investment holding company	US$ 1	100%	–
Vinda Paper (U.S.A.) Inc.	United States of America, limited liability company	Trading of wood pulps	US$ 1	–	100%
Vinda Paper (Australia)	Australia, limited liability company	Manufacturing and sale of household consumable paper	Australion dollar $ 100,000	–	100%

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(All amounts are stated in HK$ unless otherwise stated)

9 Investments in and balances with subsidiaries - Company *(continued)*

(c) Details of subsidiaries *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities	Paid-in capital	Interest held (directly)	Interest held (indirectly)
Forton Enterprises Limited ("Forton Enterprises")	Hong Kong, limited liability company	Trading of household consumable paper	HK$ 10,100	–	100%
Vinda Paper Industrial (H.K.) Company Limited	Hong Kong, limited liability company	Property investments and trading of household consumable paper	HK$ 10,000	–	100%
Vinda Investment (China) Limited ("Vinda Investment")	Hong Kong, limited liability company	Investment holding company	HK$ 1	–	100%
Vinda Paper (Guangdong) Company Limited ("Vinda Paper (Guangdong)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$ 34,550,000	–	100%
Vinda Paper (Sichuan) Company Limited ("Vinda Paper (Sichuan)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$ 164,280,000	–	100%
Vinda Paper (Hubei) Company Limited ("Vinda Paper (Hubei)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$ 53,030,000	–	100%
Vinda Paper (Beijing) Company Limited ("Vinda Paper (Beijing)")	PRC, limited liability company	Trading of household consumable paper	US$ 350,000	–	100%

For the Year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

9 Investments in and balances with subsidiaries - Company *(continued)*

(c) Details of subsidiaries *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities	Paid-in capital	Interest held (directly)	Interest held (indirectly)
Vinda North Paper (Beijing) Company Limited ("Vinda Northern Paper")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$ 75,000,000	–	100%
Vinda Paper (Jiangmen) Company Limited ("Vinda Paper (Jiangmen)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$ 54,379,108	–	100%
Vinda Paper (Xiaogan) Company Limited ("Vinda Paper (Xiaogan)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$ 22,310,000	–	100%
Vinda Paper (Zhejiang) Company Limited ("Vinda Paper (Zhejiang)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$ 175,333,483	–	100%

The registered capital of Vinda Paper (Xiaogan) was increased to US$ 38,410,000 on 11 March 2008.

Vinda Paper (Zhejiang) was incorporated in Quzhou, Zhejiang province of the PRC on 9 January 2008. As at 31 December 2008, the registered capital of Vinda Paper (Zhejiang) is HK$ 200,000,000. Vinda Paper (Jiangmen) and Vinda Household Paper (China) hold 25% and 75% interests in Vinda Paper (Zhejiang) respectively.

Vinda Investment was incorporated in Hong Kong on 18 December 2008. As at 31 December 2008, the registered capital of Vinda Investment is HK$ 10,000. Vinda Household Paper (China) hold 100% interests in Vinda Investment.

(All amounts are stated in HK$ unless otherwise stated)

10 Trade receivables, other receivables and prepayments - Group

	As at 31 December	
	2008	2007
	HK$	HK$
Trade receivables	**216,077,878**	196,836,708
Less: Provision for impairment of trade receivables	**(4,788,288)**	(4,673,758)
Trade receivables, net	**211,289,590**	192,162,950
Other receivables		
– deductible input value-added tax ("VAT")	**9,390,833**	23,080,985
– prepaid income tax recoverable	**4,420,330**	4,993,285
– VAT refundable on goods exported	**—**	523,185
– purchase rebates	**10,390,439**	5,456,806
– others	**15,019,571**	6,204,355
Other receivables, net	**39,221,173**	40,258,616
Trade and other receivables, net	**250,510,763**	232,421,566
Notes receivable	**2,145,811**	2,889,040
Prepayments		
– for purchase of raw materials	**4,818,501**	7,239,021
– others	**2,193,943**	2,948,122
	259,669,018	245,497,749

The carrying amounts of the trade receivables, other receivables and prepayments are denominated in the following currencies:

	As at 31 December	
	2008	2007
	HK$	HK$
RMB	**172,972,153**	183,285,537
HK$	**70,024,178**	49,964,156
US$	**12,406,376**	9,304,592
Other currencies	**4,266,311**	2,943,464
	259,669,018	245,497,749

As at 31 December 2008 and 2007, the carrying amounts of the Group's trade and other receivables approximated their fair values due to short duration.

Customers are generally granted with credit terms ranging from 30 to 90 days.

(All amounts are stated in HK$ unless otherwise stated)

10 Trade receivables, other receivables and prepayments - Group *(continued)*

Ageing analyses of trade receivables of the Group as at 31 December 2008 and 2007 are as below:

	As at 31 December	
	2008	2007
	HK$	HK$
Within 3 months	**203,101,400**	183,276,212
4 months to 6 months	**7,346,585**	8,791,787
7 months to 12 months	**841,605**	94,951
	211,289,590	192,162,950

As at 31 December 2008, trade receivables of HK$ 12,976,477 (2007: HK$ 13,560,496) were impaired. The amount of provision was HK$ 4,788,288 (2007: HK$ 4,673,758) as at 31 December 2008. The individually impaired receivables mainly relate to customers with different credit ratings. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
4 months to 6 months	**8,464,321**	9,367,847
7 months to 12 months	**1,652,545**	189,902
over 1 year	**2,859,611**	4,002,747
	12,976,477	13,560,496

The Group recognised provision for impairment of trade and other receivables in the administrative expenses in the consolidated income statement.

Movements on the provision for impairment of trade receivables are as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
As at 1 January	**(4,673,758)**	(6,211,929)
Provision for receivable impairment	**(1,545,851)**	(97,288)
Receivables written off during the year as uncollectible	**1,720,153**	1,530,350
Unused amounts reversed	**—**	814,210
Exchange differences	**(288,832)**	(709,101)
As at 31 December	**(4,788,288)**	(4,673,758)

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above. The Group does not hold any collateral as security.

(All amounts are stated in HK$ unless otherwise stated)

11 Inventories - Group

	As at 31 December	
	2008	2007
	HK$	HK$
Raw materials		
– at net realisable value	**7,672,848**	10,335,502
– at cost	**300,596,456**	329,051,786
Work in progress, at cost	**5,359,234**	4,591,355
Finished goods		
– at net realisable value	**11,582,057**	8,786,623
– at cost	**166,544,792**	148,529,736
	491,755,387	501,295,002

The cost of inventories recognised as expenses and included in cost of sales amounted to HK$ 1,572,555,789 (2007: HK$ 1,138,957,493) for the year ended 31 December 2008.

12 Pledged bank deposits

	Group	
	As at 31 December	
	2008	2007
	HK$	HK$
Pledged bank deposits	**884,454**	6,706,535

As at 31 December 2008, bank deposits of HK$ 884,454 (2007: HK$ 2,135,839) were pledged as securities for the issuance of letters of credit.

As at 31 December 2007, bank deposits of HK$ 4,570,696 were pledged as securities for bank borrowings (Note 17 (a)).

The effective annual interest rates on pledged bank deposits were ranging from 1.71% to 3.33% (2007: from 0% to 3.06%) as at 31 December 2008; these deposits mainly have an maturity ranging from 0 to 90 days.

The carrying amounts of the pledged bank deposits are denominated in the following currencies:

	Group	
	As at 31 December	
	2008	2007
	HK$	HK$
RMB	**884,454**	6,706,535

13 Cash and cash equivalents

	Group	
	As at 31 December	
	2008	2007
	HK$	HK$
Cash in hand	169,305	117,226
Cash at bank	172,019,953	251,964,255
	172,189,258	252,081,481

The effective weighted average annual interest rates on cash at bank were 1.69% for the year ended 31 December 2008 (2007: 2.07%).

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	Group	
	As at 31 December	
	2008	2007
	HK$	HK$
RMB	151,041,829	108,199,002
US$	14,002,396	14,521,012
HK$	5,875,237	126,345,446
Other currencies	1,269,796	3,016,021
	172,189,258	252,081,481

	Company	
	As at 31 December	
	2008	2007
	HK$	HK$
Cash at bank – denominated in HK$	159,111	94,662,426

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

14 Share capital and share premium

	Number of authorised shares	Number of issued and fully paid shares	Amount Ordinary shares HK$	Amount Share premium HK$	Total HK$
At 1 January 2007	46,000,000	42,508,112	4,250,811	69,260,002	73,510,813
Issue of ordinary shares (Note (a,b,c))	79,954,000,000	266,220,006	26,622,001	953,067,621	979,689,622
Share issuance costs	–	–	–	(102,981,687)	(102,981,687)
Conversion of share premium to increase capital(Note (d))	–	595,113,568	59,511,357	(59,511,357)	–
Dividend (Note (e))	–	–	–	(25,000,000)	(25,000,000)
At 31 December 2007 and 31 December 2008	80,000,000,000	903,841,686	90,384,169	834,834,579	925,218,748

(a) On 19 June 2007, the Company's authorised share capital was increased from HK$ 4,600,000 to HK$ 8,000,000,000 by the creation of additional 79,954,000,000 shares of HK$ 0.10 each.

(b) On 19 June 2007, the Company's share option scheme was approved by the Board of Directors. The Board of Directors may, under the share option scheme, grant options to employees, directors or non-executive directors of the Group. No options have been granted up to the date of these consolidated financial statements.

(c) On 10 July 2007, the Company issued 221,135,006 new ordinary shares of HK$ 0.10 each at HK$ 3.68 per share in connection with its global offering and the commencement of the listing of its shares on the Main Board of HKSE, and raised gross proceeds of HK$ 813,776,822. In addition, on 19 July 2007, pursuant to the exercise of the over-allotment option, an additional 45,085,000 new ordinary shares of HK$ 0.10 each were issued at HK$ 3.68 per share and gross proceeds of HK$ 165,912,800 were raised.

(d) On 10 July 2007, a total of 595,113,568 new ordinary shares of HK$ 0.10 each were issued and allotted to the then equity shareholders of the Company (namely Fu An International Company Limited ("Fu An"), Lee Der Fung Company Limited ("Lee Der Fung"), Cathay Paper Limited ("Cathay Paper"), SCA Hygiene Holding AB ("SCA Hygiene") and ML GCRE IBK LLC ("ML GCRE")) in proportion to their respective shareholdings, by the capitalisation and application of HK$ 59,511,357 from the share premium account as payment in full of 595,113,568 shares at par value.

(e) According to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the articles of association of the Company, the dividends can be declared out of share premium account but subject to solvency test.

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

15 Other reserves

	Group			
	Statutory reserves HK$	Translation reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2007	37,963,438	26,372,483	325,249,457	389,585,378
Profit for the year	—	—	78,357,059	78,357,059
Appropriation of reserves	11,615,977	—	(11,615,977)	—
Currency translation differences	—	73,431,122	—	73,431,122
At 31 December 2007	49,579,415	99,803,605	391,990,539	541,373,559
At 1 January 2008	49,579,415	99,803,605	391,990,539	541,373,559
Profit for the year	—	—	165,911,568	165,911,568
Appropriation of reserves	23,932,141	—	(23,932,141)	—
Dividend	—	—	(19,884,517)	(19,884,517)
Currency translation differences	—	96,467,285	—	96,467,285
At 31 December 2008	73,511,556	196,270,890	514,085,449	783,867,895

	Company		
	Translation reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2007	1,455,278	32,812,120	34,267,398
Loss for the year	—	(4,790,471)	(4,790,471)
Currency translation differences	31,875,879	—	31,875,879
At 31 December 2007	33,331,157	28,021,649	61,352,806
At 1 January 2008	33,331,157	28,021,649	61,352,806
Dividend	—	(19,884,517)	(19,884,517)
Gain for the year	—	40,534,682	40,534,682
Currency translation differences	56,798,908	—	56,798,908
At 31 December 2008	90,130,065	48,671,814	138,801,879

15 Other reserves *(continued)*

(a) Statutory reserves

(i) For subsidiaries of the Company, which are wholly foreign owned enterprises in the PRC

In accordance with the "Law of the PRC on Enterprises Operated Exclusively with Foreign Capital" and the Articles of Association of those PRC subsidiaries of the Group, an appropriation to the Reserve Fund and the Staff and Workers' Bonus and Welfare Fund from the statutory net profit after offsetting accumulated losses of previous years in advance should be made prior to profit distribution to the shareholders. The appropriation for the Reserve Fund is no less than 10% of the statutory net profit and it can cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. The percentage of appropriation to the Staff and Workers' Bonus and Welfare Fund is decided by the Board of Directors of the respective enterprises.

(ii) For subsidiaries of the Company, which are sino-foreign joint ventures in the PRC

In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the Articles of Association of those PRC subsidiaries of the Group, appropriations from the statutory net profit should be made to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The percentages to be appropriated to the Reserve Fund, the Staff and Workers' Bonus and Welfare Fund and the Enterprise Expansion Fund are determined by the Board of Directors of the respective enterprises.

The Staff and Workers' Bonus and Welfare Fund are available to fund payments of special bonuses to staff and for collective welfare benefits. Upon approval from the Board of Directors, the Reserve Fund can be used to offset accumulated losses or to increase capital; the Enterprise Expansion Fund can be used to expand production or to increase capital.

(All amounts are stated in HK$ unless otherwise stated)

16 Trade payables, other payables and accrued expenses

	Group As at 31 December 2008 HK$	2007 HK$
Trade payables	**208,576,180**	146,937,979
Notes payable	**704,697**	—
Other payables		
- salaries payable	**19,909,923**	13,796,751
- taxes payable other than income tax	**19,388,652**	12,898,187
- advances from customers	**29,759,211**	19,467,599
- payables for property, plant and equipment	**50,264,390**	69,074,563
- others	**47,732,078**	33,037,898
Accrued expenses		
- promotion fees	**23,707,019**	19,602,376
- utility charges	**11,242,883**	8,271,346
- transportation fees	**5,795,130**	7,279,990
- Others	**12,799,771**	17,210,891
	429,879,934	347,577,580

As at 31 December 2008 and 2007, the carrying amounts of the Group's trade payables, other payables and accrued expenses approximated their fair values.

The carrying amounts of the trade payables, other payables and accrued expenses are denominated in the following currencies:

	Group As at 31 December 2008 HK$	2007 HK$
RMB	**310,998,343**	278,900,998
US$	**108,634,278**	59,289,116
HK$	**3,340,963**	9,267,492
Other currencies	**6,906,350**	119,974
	429,879,934	347,577,580

16 Trade payables, other payables and accrued expenses *(continued)*

The credit period granted by the creditors generally ranged from 30 to 90 days. Ageing analysis of trade payables as at 31 December 2008 and 2007 are as follows:

	Group As at 31 December	
	2008 **HK$**	2007 HK$
Within 3 months	**181,107,904**	127,862,267
4 months to 6 months	**15,496,792**	16,135,442
7 months to 12 months	**2,683,468**	113,392
1 year to 2 years	**7,436,675**	1,192,601
2 years to 3 years	**99,357**	63,418
Over 3 years	**1,751,984**	1,570,859
	208,576,180	146,937,979

	Company As at 31 December	
	2008 **HK$**	2007 HK$
Other payables and accrued expenses –		
denominated in HK$	**3,450,266**	4,867,909

As at 31 December 2008 and 2007, the carrying amount of the Company's other payables and accrued expenses approximated their fair values.

(All amounts are stated in HK$ unless otherwise stated)

17 Borrowings – Group

	As at 31 December	
	2008	2007
	HK$	HK$
Non-current		
Bank borrowings		
- Secured (Note (a))	**113,853,518**	210,780,829
- Unsecured	**350,621,733**	96,112,772
	464,475,251	306,893,601
Unsecured other borrowings (Note (b))	**1,400,255**	1,745,926
Total non-current borrowings	**465,875,506**	308,639,527
Current		
Bank borrowings		
- Secured (Note (a))	**43,347,885**	112,964,545
- Unsecured	**234,156,273**	231,289,434
	277,504,158	344,253,979
Unsecured other borrowings (Note (b))	**907,132**	1,281,504
Total current borrowings	**278,411,290**	345,535,483
Total borrowings	**744,286,796**	654,175,010

(a) As at 31 December 2008, the Group had the following secured bank borrowings:

(i) Bank borrowings of HK$ 122,276,805 were pledged by certain property, plant and equipment (Note 7) and leasehold land and land use rights (Note 6) of the Group as at 31 December 2007.

(ii) Bank borrowings of HK$ 15,249,893 were pledged by certain bank deposits (Note 12) of the Group as at 31 December 2007.

(iii) Bank borrowings of HK$ 90,713,232 (2007: HK$ 112,131,568) were pledged by certain property, plant and equipment (Note 7) of the Group as at 31 December 2008 and 2007, respectively.

(iv) Bank borrowings of HK$ 66,488,171 (2007: HK$ 74,087,108) was pledged by certain property, plant and equipment (Note 7) as at 31 December 2008 and 2007, respectively.

(b) The other borrowings were granted by PRC local governments, unsecured and interest-free.

(All amounts are stated in HK$ unless otherwise stated)

17 Borrowings – Group *(continued)*

(c) The maturity of borrowings is as follows:

	Bank borrowings As at 31 December		Other borrowings As at 31 December	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Within 1 year	**277,504,158**	344,253,979	**907,132**	1,281,504
Between 1 and 2 years	**81,026,193**	—	**453,566**	427,168
Between 2 and 5 years	**383,449,058**	306,893,601	**946,689**	1,318,758
Wholly repayable				
within 5 years	**741,979,409**	651,147,580	**2,307,387**	3,027,430
	741,979,409	651,147,580	**2,307,387**	3,027,430

(d) The effective interest rates at the balance sheet date were as follows:

	Bank borrowings As at 31 December		Other borrowings As at 31 December	
	2008	2007	**2008**	2007
HK$	**3.45%-5.92%**	5.20%-6.29%	**—**	—
US$	**2.77%-6.1%**	5.96%-6.74%	**—**	—
RMB	**4.54%-8.47%**	5.51%-8.42%	**0%**	0%

(e) The carrying amounts and fair value of borrowings:

The fair values of the borrowings approximate their carrying amounts, as the impact of discounting is not significant.

The fair values are based on cash flows discounted using a rate based on the primary rate published by the People's Bank of China of 5.40% per annum (2007: 7.56% per annum) as at 31 December 2008.

(f) The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2008	2007
	HK$	HK$
RMB	**393,508,203**	502,578,904
HK$	**237,625,848**	87,287,108
US$	**113,152,745**	64,308,998
	744,286,796	654,175,010

(All amounts are stated in HK$ unless otherwise stated)

18 Deferred income tax - Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
Deferred tax assets		
- Deferred income tax assets to be recovered after more than 12 months	**25,665,020**	21,547,617
- Deferred income tax assets to be recovered within 12 months	**21,843,704**	10,044,972
	47,508,724	31,592,589
Deferred tax liabilities		
- Deferred income tax liability to be settled after more than 12 months	**(1,492,618)**	(842,528)
- Deferred income tax liability to be settled within 12 months	**(64,082)**	(27,127)
	(1,556,700)	(869,655)
Deferred income tax (liabilities)/assets, net	**45,952,024**	30,722,934

The gross movement on the deferred income tax account is as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Beginning of the year	**30,722,934**	22,455,877
Credited to the consolidated income statement (Note 25)	**13,063,437**	7,334,357
Exchange differences	**2,165,653**	932,700
End of the year	**45,952,024**	30,722,934

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

18 Deferred income tax - Group *(continued)*

The movement of the deferred tax liabilities is as follows:

	Accelerated depreciation tax HK$	Borrowing costs HK$	Total HK$
At 1 January 2007	598,601	189,000	787,601
(Credited) / charged to the consolidated income statement	(5,530)	6,969	1,439
Exchange differences	66,556	14,059	80,615
At 31 December 2007 and 1 January 2008	659,627	210,028	869,655
Charged / (credited) to the consolidated income statement	759,280	(30,490)	728,790
Exchange differences	(54,454)	12,709	(41,745)
At 31 December 2008	1,364,453	192,247	1,556,700

The movement of the deferred tax assets is as follows:

	Impairment of assets HK$	Deferred government grants HK$	Unrealised profits-sales of inventories HK$	Unrealised profits-sales of property, plant and equipment HK$	Others HK$	Total HK$
At 1 January 2007	4,188,872	7,745,583	2,503,054	7,037,324	1,768,645	23,243,478
Credited / (charged) to the consolidated income statement	(2,597,010)	(1,396,895)	(315,924)	8,212,492	3,433,133	7,335,796
Exchange differences	211,989	561,027	5,312	2,290	232,697	1,013,315
At 31 December 2007 and 1 January 2008	1,803,851	6,909,715	2,192,442	15,252,106	5,434,475	31,592,589
Credited to the consolidated income statement	1,609,871	834,712	2,809,465	1,097,757	7,440,422	13,792,227
Exchange differences	230,288	434,392	160,338	952,265	346,625	2,123,908
At 31 December 2008	3,644,010	8,178,819	5,162,245	17,302,128	13,221,522	47,508,724

(All amounts are stated in HK$ unless otherwise stated)

18 Deferred income tax - Group *(continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise deferred income tax assets of HK$ 2,655,097 (2007: HK$ 7,354,064) as at 31 December 2008 in respect of unrecognised tax losses carried forward as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
Expired in:		
Year 2010	**35,229**	1,047,483
Year 2011	**5,776,860**	—
No expiry date	**5,556,091**	41,102,040
Unrecognised tax losses carried forward	**11,368,180**	42,149,523

(All amounts are stated in HK$ unless otherwise stated)

19 Deferred government grants - Group

	HK$
At 1 January 2007	
Cost	29,918,022
Accumulated amortisation	(2,752,127)
Net book amount	27,165,895
Year ended 31 December 2007	
Opening net book amount	27,165,895
Amortisation (Note 21)	(1,001,721)
Exchange differences	2,059,662
Closing net book amount	28,223,836
At 31 December 2007	
Cost	32,320,963
Accumulated amortisation	(4,097,127)
Net book amount	28,223,836
Year ended 31 December 2008	
Opening net book amount	28,223,836
Additions	4,821,760
Amortisation (Note 21)	(1,566,824)
Exchange differences	1,648,307
Closing net book amount	33,127,079
At 31 December 2008	
Cost	39,182,844
Accumulated amortisation	(6,055,765)
Net book amount	33,127,079

In 2008, Vinda Northern Paper received government grants from the Finance Bureau of Binghe Industry Zone in Pinggu District, Beijing, the PRC, relating to the long-term loan interest discount , with amounts of RMB 4,140,000 (equivalent to HK$ 4,653,167). The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the credit term of the long-term loan.

In 2008, Vinda Paper (Sichuan) received government grants from the Finance Bureau of Deyang Economic and Development Zone in Deyang, relating to the property, plant and equipments investing, with amounts of RMB 150,000 (equivalent to HK$ 168,593). The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

(All amounts are stated in HK$ unless otherwise stated)

20 Derivative financial instruments - Group

	As at 31 December	
	2008	2007
	HK$	HK$
Forward foreign exchange contracts –		
held-for-trading for US$ against HK$: Assets	**—**	131,890

The total notional principal amounts of the outstanding forward foreign exchange contracts were HK$ 15,444,250 as at 31 December 2007.

The hedged transactions denominated in foreign currency are mainly expected to occur at various dates during the remaining contracted period. Gains or losses arising from changes in the fair value of derivative financial instruments are recognised in 'other income and gains / (losses)', as the derivative instruments do not qualify for hedge accounting.

21 Other income and gains/(losses) - Group

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Subsidy income received from		
local government (Note (a))	**11,761,610**	7,824,273
Government grants for reinvestment (Note (b))	**—**	5,738,480
Amortisation of deferred government grants (Note 19)	**1,566,824**	1,001,721
Loss on disposal of property, plant and equipment	**(14,305)**	(186,506)
Gain on derivative financial instruments	**265,928**	523,403
Foreign exchange loss, net	**(9,042,775)**	(4,232,518)
Others	**(495,894)**	185,415
	4,041,388	10,854,268

21 Other income and gains/(losses) - Group *(continued)*

(a) In 2007, Vinda Paper (Hubei) received tax refund of RMB 485,913 (equivalent to HK$ 499,345) from local government for the Group's business expansion in the area of Hubei.

In 2007, Vinda Paper (Xiaogan) received tax refund of RMB 677,807 (equivalent to HK$ 696,626) from local government for the Group's business expansion in the area of Xiaogan.

In 2007, Vinda Paper (Guangdong) received subsidy income amounting to RMB 450,000 (equivalent to HK$ 462,440) from local government for the Group's brand development.

In 2007, Vinda Northern Paper received subsidy income amounting to RMB 6,000,000 (equivalent to HK$ 6,165,862) from the Finance Bureau of Binghe Industry Zone in Pinggu District, Beijing, the PRC, for the Group's business expansion in the area of Pinggu.

In 2008, Vinda Paper (Hubei) received tax refund of RMB 1,690,000 (equivalent to HK$ 1,899,517) from local government for the Group's business expansion in the area of Xiaogan.

In 2008, Vinda Paper (Sichuan) received subsidy income amounting to RMB 240,000 (equivalent to HK$ 269,754) from local government for the Group's technology development.

In 2008, Vinda Paper (Zhejiang) received subsidy income amounting to RMB 6,380,000 (equivalent to HK$ 7,170,736) for the Group's business expansion in the area of Longyou County, Zhejiang and RMB 60,000 (equivalent to HK$ 67,438) for staff training from Longyou Industry Zone in Longyou County, Zhejiang, the PRC.

In 2008, Vinda Northern Paper received subsidy income amounting to RMB 310,000 (equivalent to HK$ 348,432) from the local water supply board for water conservation.

In 2008, Vinda Paper (Xiaogan) received tax refund of RMB 1,610,000 (equivalent to HK$ 1,809,599) from local government for the Group's business expansion in the area of Xiaogan.

In 2008, Vinda Paper (Guangdong) received subsidy income amounting to RMB 174,500 (equivalent to HK$ 196,134) from local government for the Group's brand development.

The Group has no further obligation for receiving these subsidies from local governments.

(b) In 2007, Vinda Paper (Guangdong) appropriated dividends to Forton Enterprises with amount of RMB 14,955,947 (equivalent to HK$ 15,369,383) and Forton Enterprises reinvested in Vinda Paper (Guangdong) by using same dividends appropriated from Vinda Paper (Guangdong). Accordingly, Forton Enterprises received government grants amounting to RMB 4,900,000 (equivalent to HK$ 5,079,570) from the PRC local tax bureau in 2007.

Vinda Household Paper (China) reinvested in Vinda Paper (Xiaogan) by using same dividends appropriated from Vinda Paper (Hubei) and received government grants amounting to RMB 641,976 (equivalent to HK$ 658,910) from the PRC local tax bureau in 2007.

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

22 Expenses by nature - Group

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Staff costs (Note 23)	157,276,402	114,789,084
Depreciation of property, plant and equipment	93,986,941	65,503,786
Provision for impairment of property, plant and equipment	6,973,472	—
(Reversal of write-down) / write-down of inventories	(252,855)	133,923
Provision for impairment of goodwill	2,206,207	—
Amortisation of intangible assets	313,545	253,589
Amortisation of leasehold land and land use rights	3,953,688	2,561,964
Transportation expenses	89,913,245	79,066,014
Travel and office expenses	13,017,571	8,538,487
Auditor's remuneration	5,993,314	2,519,059
Material costs	1,572,555,789	1,138,957,493
Provision / (write-back of provision)		
for impairment of receivables	1,545,851	(716,922)
Utilities	130,823,410	98,673,921
Real estate tax, stamp duty and other taxes	8,194,835	4,070,110
Advertising costs	14,932,332	15,480,404
Promotion fee	29,698,490	54,047,831
Operating lease rental	2,452,474	2,956,437
Bank charges	5,051,059	6,326,187
Other expenses	69,436,739	72,423,765
Total cost of sales, selling and marketing costs and administrative expenses	2,208,072,509	1,665,585,132

(All amounts are stated in HK$ unless otherwise stated)

23 Employee benefit expenses - Group

The aggregate amounts of staff costs including directors' emoluments are as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Pension for Hong Kong employees		
- MPF (Note (a))	**586,463**	450,544
Social security and benefits for the		
PRC employees (Note (b))	**19,363,106**	15,283,842
	19,949,569	15,734,386
Wages, salaries and bonus	**127,319,627**	89,120,107
Staff welfare	**10,007,206**	9,934,591
	157,276,402	114,789,084

(a) MPF

All Hong Kong employees participate in a defined contribution plan of the MPF, the assets of which are held in separate trustee-administered funds.

According to the relevant regulations, the contributions that should be borne by the Company are calculated based on 5% of the total salary of employees, subject to a certain ceiling, and are paid to the funds. Contributions to the plan are expensed as incurred.

(b) Social security and benefits for PRC employees

All Chinese employees of the PRC subsidiaries of the Company participate in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the governmental authorities.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the PRC subsidiaries of the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities. Contributions to the plans are expensed as incurred.

(c) Other pension costs

The Group also operates two defined contribution schemes which are available to the employees in Australia and United States. Contributions are made based on certain percentage of the employees' compensation or a fixed sum. Contributions to these plans, included in staff welfare, are expensed as incurred.

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

23 Employee benefit expenses - Group *(continued)*

(d) Directors' emoluments

	For the year ended 31 December 2008 HK$	2007 HK$
Directors		
- Fees	—	—
- Basic salaries, housing allowances, other allowances and benefits-in-kind	6,033,546	4,609,517
- Contributions to pension plans	41,114	50,866
- Discretionary bonuses	—	—
	6,074,660	4,660,383

The emoluments received by individual directors are as follows:

(i) For the year ended 31 December 2008:

Name	Basic salaries, housing allowances, other allowances, and benefits-in-kind HK$	Contributions to pension plans HK$	Total HK$
Directors			
- Mr. Li Chao Wang	1,989,310	12,668	2,001,978
- Ms. Yu Yi Fang	1,592,953	12,000	1,604,953
- Mr. Dong Yi Ping	1,589,649	16,446	1,606,095
- Mr. Kam Ting To, Robert	240,000	—	240,000
- Dr. Cao Zhen Lei	180,000	—	180,000
- Mr. Hui Chin Tong, Godfrey	180,000	—	180,000
- Mr. Tsui King Fai	180,000	—	180,000
- Mr. Mak Kin Kwong	19,992	—	19,992
- Mr. Leung Ping Chung, Hermann	19,992	—	19,992
- Mr. Chiu Bun	19,992	—	19,992
- Mr. Johann Christoph Michalski	13,994	—	13,994
- Mr. Rijk Hendrik Jan Schipper	5,998	—	5,998
- Mr. Lee Kwong Sang	1,666	—	1,666
	6,033,546	41,114	6,074,660

(All amounts are stated in HK$ unless otherwise stated)

23 Employee benefit expenses - Group *(continued)*

(d) Directors' emoluments *(continued)*

(ii) For the year ended 31 December 2007:

Name	Basic salaries, housing allowances, other allowances, and benefits-in-kind HK$	Contributions to pension plans HK$	Total HK$
Directors			
- Mr. Li Chao Wang	1,588,998	19,433	1,608,431
- Ms. Yu Yi Fang	1,168,895	12,000	1,180,895
- Mr. Dong Yi Ping	1,191,654	19,433	1,211,087
- Mr. Kam Ting To, Robert	180,000	—	180,000
- Dr. Cao Zhen Lei	135,000	—	135,000
- Mr. Hui Chin Tong, Godfrey	135,000	—	135,000
- Mr. Tsui King Fai	135,000	—	135,000
- Mr. Lee Kwong Sang	14,994	—	14,994
- Mr. Mak Kin Kwong	14,994	—	14,994
- Mr. Leung Ping Chung, Hermann	14,994	—	14,994
- Mr. Chiu Bun	14,994	—	14,994
- Mr. Rijk Hendrik Jan Schipper	14,994	—	14,994
	4,609,517	50,866	4,660,383

For the year ended 31 December 2008 and 2007, no directors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(All amounts are stated in HK$ unless otherwise stated)

23 Employee benefit expenses - Group *(continued)*

(e) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 include three directors (2007: three directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2007: two individuals) for the years ended 31 December 2008 is as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
- Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,551,834**	2,403,750
- Contributions to pension plans	**12,000**	9,000
- Discretionary bonuses	**—**	—
	2,563,834	2,412,750

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
- Nil to HK$ 1,000,000	**2**	2

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2008 (2007: Nil).

(All amounts are stated in HK$ unless otherwise stated)

24 Finance income and costs - Group

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Interest expense		
- bank borrowings	**(40,969,724)**	(60,812,492)
Less: Amounts capitalised in		
property, plant and equipment	**36,866**	1,646,590
	(40,932,858)	(59,165,902)
Net foreign exchange transaction gain	**12,467,131**	8,371,108
Finance costs	**(28,465,727)**	(50,794,794)
Finance income		
- interest income on bank deposits	**3,268,001**	9,929,396
- interest income on IPO subscription deposits	**—**	12,774,077
	3,268,001	22,703,473
Net finance costs	**(25,197,726)**	(28,091,321)

25 Taxation

(a) Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries or regions in which the Group operates.

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Current income tax		
- Hong Kong profits tax	**7,835,238**	9,416,917
- PRC enterprise income tax	**34,131,874**	14,366,093
- Overseas profits tax	**—**	93,535
Deferred income tax (Note 18)	**(13,063,437)**	(7,334,357)
	28,903,675	16,542,188

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

25 Taxation *(continued)*

(a) Income tax expenses *(continued)*

The tax of the Group's profit before income tax differs from the theoretical amount that would arise using weighted average tax rate applicable to profits of the consolidated companies as follows:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Profit before income tax	**194,815,243**	94,899,247
Tax calculated at applicable tax rates in the respective areas	**45,102,730**	24,174,735
Effect of change of income tax rate under the new CIT Law	**(759,287)**	1,707,827
Effect of different tax rates due to tax holidays	**(21,766,046)**	(12,914,116)
Income not subject to tax	**(2,509,007)**	(2,659,951)
Expenses not deductible for tax purposes	**3,949,174**	2,296,544
Utilisation of previously unrecognised tax losses	**(107,297)**	(1,453,793)
Unrecognised tax losses	**4,993,409**	5,390,942
Income tax expense	**28,903,675**	16,542,188

The weighted average applicable tax rates were 23.2% (2007: 25.5%) per annum for the year ended 31 December 2008. The change is caused by the changes in profitability of the Group's subsidiaries with different applicable tax rates.

The effective tax rates of the Company's PRC subsidiaries are as follows:

	2008	2007
Vinda Paper (Guangdong)	**25%**	27%
Vinda Paper (Jiangmen)	**12.5%**	0%
Vinda Paper (Hubei)	**25%**	30%
Vinda Paper (Xiaogan)	**12.5%**	15%
Vinda Paper (Beijing)	**25%**	31.5%
Vinda Northern Paper	**12.5%**	12%
Vinda Paper (Sichuan)	**0%**	3%
Vinda Paper (Zhejiang)	**25%**	—

(All amounts are stated in HK$ unless otherwise stated)

25 Taxation *(continued)*

(a) Income tax expenses *(continued)*

Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC shall determine and pay the Corporate Income Tax ("CIT") in accordance with the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the new CIT Law and DIR, the income tax rates for both domestic and foreign investment enterprises would be unified at 25% effective from 1 January 2008.

As the subsidiaries of the Company, established in the PRC, qualify as foreign investment production enterprises, which are entitled to two years' exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward (at most five years). According to the "New CIT Law" enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

The effective tax rates from 2009 to 2013 of the Company's PRC subsidiaries are as follows:

	2009	2010	2011	2012	2013
Vinda Paper (Guangdong)	25%	25%	25%	25%	25%
Vinda Paper (Jiangmen)	12.5%	12.5%	25%	25%	25%
Vinda Paper (Hubei)	25%	25%	25%	25%	25%
Vinda Paper (Xiaogan)	12.5%	25%	25%	25%	25%
Vinda Paper (Beijing)	25%	25%	25%	25%	25%
Vinda Northern Paper	25%	25%	25%	25%	25%
Vinda Paper (Sichuan)	12.5%	12.5%	25%	25%	25%
Vinda Paper (Zhejiang)	25%	25%	25%	25%	25%

(b) VAT

Sales of self-manufactured products other than Jumbo roll of the Company's PRC subsidiaries are subject to VAT. The applicable tax rate for domestic sales is 17%. Vinda Paper (Guangdong) and Vinda Paper (Jiangmen) have been approved to use the "exempt, credit, refund" method on goods exported. Effective from July 2007, the tax refund rate decreased from 13% to 5%.

Input VAT on purchases of raw materials, fuel, utilities and other production materials (merchandise, transportation costs) are deductible from output VAT. VAT payable is the net difference between output VAT and deductible input VAT.

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

26 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

	For the year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company (HK$)	**165,911,568**	78,357,059
Weighted average number of ordinary shares in issue	**903,841,686**	762,334,783
Basic earnings per share (HK$ per share)	**0.184**	0.103

On 10 July 2007, a total of 595,113,568 new ordinary shares of HK$0.10 each were issued and allotted to the then equity shareholders of the Company (namely Fu An, Lee Der Fung, Cathay Paper Limited, SCA Hygiene and ML GCRE) in proportion to their respective shareholdings, by the capitalisation and application of HK$59,511,357 from the share premium account as payment in full of 595,113,568 shares at par value (the "Capitalisation Issue").

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all diluted potential ordinary sharers.

The diluted earnings per share for the year ended 31 December 2008 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year.

27 Dividend

At a meeting held on 26 March 2007, the Board of Directors proposed an interim dividend in respect of the year ended 31 December 2006 of HK$ 25,000,000, representing HK$ 0.59 per ordinary share. The dividend was paid in June 2007.

At a meeting held on 27 May 2008, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2007 of HK$ 19,884,517, representing HK$ 0.022 per ordinary share. The dividend was paid in June 2008.

(All amounts are stated in HK$ unless otherwise stated)

28 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations

	For the year ended 31 December 2008 HK$	2007 HK$
Profit before income tax	**194,815,243**	94,899,247
Adjustments for:		
- Depreciation of property, plant and equipment	**93,986,941**	65,503,786
- Amortisation of intangible assets	**313,545**	253,589
- Amortisation of leasehold land and land use rights	**3,953,688**	2,561,964
- Amortisation of deferred income on government grants	**(1,566,824)**	(1,001,721)
- Loss on disposals of property, plant and equipment	**14,305**	186,506
- Provision for impairment of property,		
plant and equipment	**6,973,472**	—
- Provision for impairment of Goodwill	**2,206,207**	—
- Provision / (write-back of provision)		
for impairment of receivables	**1,545,851**	(716,922)
- (Write back of) / provision for impairment of inventories	**(252,855)**	133,923
- Interest income	**(3,268,001)**	(22,703,473)
- Interest expense	**40,932,858**	59,165,902
Changes in working capital		
(excluding the effect of exchange		
differences on consolidation):	**339,654,430**	198,282,801
- Decrease / (increase) in inventories	**9,712,215**	(171,470,777)
- Increase in trade receivables,		
other receivables and prepayments	**(12,116,963)**	(34,801,729)
- Increase in amount due from a related party	**(1,027,674)**	(4,272,969)
- Increase in trade payables, other		
payables and accrued expenses	**105,117,069**	22,170,494
- Increase in derivative financial instruments	**131,890**	209,597
Cash generated from operations	**441,470,967**	10,117,417

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

28 Cash generated from operations *(continued)*

(b) Reconciliation of proceeds from disposal of property, plant and equipment

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
Net book amount (Note 7)	**54,345**	319,506
Loss on disposal of property, plant and equipment	**(14,305)**	(186,506)
Proceeds from disposal of property, plant and equipment	**40,040**	133,000

29 Commitments

(a) Capital commitments for property, plant and equipment and intangible assets

	As at 31 December	
	2008	2007
	HK$	HK$
Contracted but not provided for	**45,528,840**	242,287,552

(b) Commitments under operating leases

As at 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December	
	2008	2007
	HK$	HK$
Not later than one year	**3,118,930**	1,484,586
Later than one year but not later than two years	**1,887,095**	351,930
Later than two years but not later than five years	**557,518**	343,546
	5,563,543	2,180,062

(All amounts are stated in HK$ unless otherwise stated)

30 Related party transactions

(a) Information on related parties and their relationships with the Group are as follows:

Name of related party	Relationship
SCA Hygiene	Shareholder since 29 March 2007
SCA Hygiene Australasia Pty Limited ("SCA HA")	Subsidiary of Svenska Cellulosa Aktiebolaget AB (the ultimate holding company of SCA Hygiene)
SCA (Tianjin) Packaging Products Co., Ltd. ("SCA (Tianjin)")	Subsidiary of Svenska Cellulosa Aktiebolaget AB (the ultimate holding company of SCA Hygiene)

(b) Significant related party transactions

In the opinion of the Company's directors, the related party transactions were conducted in the ordinary and usual course of business. Other than the related party transactions disclosed elsewhere in the consolidated financial statements, significant related party transactions of the Group during the year ended 31 December 2008 also include:

	For the year ended 31 December	
	2008	2007
	HK$	HK$
(1) Sales of products to a related party:		
— SCA HA (Note (i))	**23,131,717**	13,762,380

(i) On 29 March 2007, SCA Hygiene became one of the shareholders of the Company. The corresponding transactions of the Group with SCA Hygiene for the year ended 31 December 2007 only include those transactions during the period from 29 March 2007 to 31 December 2007.

(2) Purchase of packages from a related party:		
—SCA (Tianjin)	**3,472,878**	—

	For the year ended 31 December	
	2008	2007
	HK$	HK$
(3) Key management compensation:		
Directors		
— Basic salaries, housing allowances, other allowances, benefits-in-kind and other benefits	**6,074,660**	4,660,383
Senior management		
— Basic salaries, housing allowances, other allowances, benefits-in-kind and other benefits	**4,794,343**	5,320,326
	10,869,003	9,980,709

For the year ended 31 December 2008

(All amounts are stated in HK$ unless otherwise stated)

30 Related party transactions *(continued)*

(c) Year-end balances with related parties

	For the year ended 31 December 2008 HK$	2007 HK$
(1) Amount due from a related party		
—SCA HA	**5,300,643**	4,272,969

During the years ended 31 December 2007 and 2008, the maximum balances of the amounts due from related parties are as follows:

	As at 31 December 2008 HK$	2007 HK$
—SCA HA	**5,300,643**	16,377,775
(2) Amount due to a related party		
—SCA (Tianjin)	**568,205**	—

The related party balances are unsecured, non-interest bearing and have no fixed repayment term.

31 Events after the balance sheet date

The significant subsequent events of the Group are as follow:

a) Share options granted on 24 February 2009

A total of 27,546,000 share options were granted and the exercise price is HK$ 2.98. Among those share options, 22,476,000 were granted to the directors, others were granted to the senior management. The Group will follow HKFRS 2 to account for the arrangement in 2009.

b) Establishment of a new subsidiary

A subsidiary, Vinda Personal Care (Hong Kong) Limited ("Vinda Personal Care") was incorporated in Hong Kong on 20 March 2009. The registered capital of Vinda Personal Care is HK$10,000.

The Company holds 100% interests in Vinda Personal Care.

c) Dividends declared

At a meeting held on 7 April 2009, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2008 of HK$ 41,576,718, representing HK$ 0.046 per ordinary share.

32 Approval of accounts

These consolidated financial statements were approved by the Board of Directors on 7 April 2009.

Five Year Financial Summary

Consolidated Income Statement

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$	HK$	HK$	HK$	**HK$**
Revenue	725,968,857	925,899,138	1,358,171,643	1,777,721,432	**2,424,044,090**
Cost of sales	(525,262,926)	(677,507,337)	(1,018,006,538)	(1,411,775,105)	**(1,910,939,233)**
Gross profit	200,705,931	248,391,801	340,165,105	365,946,327	**513,104,857**
Selling and marketing costs	(86,862,867)	(102,531,494)	(130,277,419)	(175,162,720)	**(181,765,469)**
Administrative expenses	(38,087,853)	(51,476,282)	(62,029,113)	(78,647,307)	**(115,367,807)**
Other income and gains / (losses)	4,837,646	2,881,917	11,182,467	10,854,268	**4,041,388**
Operating profit	80,592,857	97,265,942	159,041,040	122,990,568	**220,012,969**
Finance costs , net	(17,530,978)	(26,809,407)	(45,346,407)	(28,091,321)	**(25,197,726)**
Profit before income tax	63,061,879	70,456,535	113,694,633	94,899,247	**194,815,243**
Income tax expense	(17,891,657)	(12,094,196)	(6,881,099)	(16,542,188)	**(28,903,675)**
Profit for the year and attributable to equity holders of the Company	45,170,222	58,362,339	106,813,534	78,357,059	**165,911,568**

Five Year Financial Summary

Consolidated Balance Sheet

	As at 31 December				
	2004 HK$	2005 HK$	2006 HK$	2007 HK$	**2008 HK$**
ASSETS					
Property, plant and equipment	481,795,125	741,205,685	985,395,491	1,391,200,294	**1,852,374,329**
Investment properties	2,900,000	1,580,000	–	–	**–**
Leasehold land and land use right	61,817,734	72,824,329	83,744,799	95,396,490	**117,294,978**
Intangible assets	753,147	3,047,743	2,912,265	2,966,002	**740,895**
Deferred income tax assets	7,366,193	7,945,571	23,243,478	31,592,589	**47,508,724**
Inventories	102,898,395	236,043,879	330,180,962	501,295,002	**491,755,387**
Trade receivables, other receivables and prepayments	131,195,395	127,163,506	204,816,564	245,497,749	**259,669,018**
Due from related parties	21,775,647	26,458	–	4,272,969	**5,300,643**
Pledged bank deposits	10,427,074	24,888,987	43,112,857	6,706,535	**884,454**
Cash and cash equivalents	102,831,846	48,579,098	61,557,237	252,081,481	**172,189,258**
Derivative financial instruments	–	–	341,487	131,890	**–**
Total Assets	923,760,556	1,263,305,256	1,735,305,140	2,531,141,001	**2,947,717,686**
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	4,600,000	4,167,462	4,250,811	90,384,169	**90,384,169**
Share premium	110,597,213	69,343,351	69,260,002	834,834,579	**834,834,579**
Other reserves	199,555,369	267,503,440	389,585,378	541,373,559	**783,867,895**
Total equity	314,752,582	341,014,253	463,096,191	1,466,592,307	**1,709,086,643**
LIABILITIES					
Long-term borrowings	80,539,355	59,051,418	192,413,474	308,639,527	**465,875,506**
Deferred government grants	8,968,703	9,130,190	27,165,895	28,223,836	**33,127,079**
Deferred income tax liabilities	–	656,762	787,601	869,655	**1,556,700**
Current liabilities	519,499,916	853,452,633	1,051,841,979	726,815,676	**738,071,758**
Total Liabilities	609,007,974	922,291,003	1,272,208,949	1,064,548,694	**1,238,631,043**
Total equity and liabilities	923,760,556	1,263,305,256	1,735,305,140	2,531,141,001	**2,947,717,686**
Net current assets /(liabilities)	(150,371,559)	(416,750,705)	(411,832,872)	283,169,950	**191,727,002**
Total assets less current liabilities	404,260,640	409,852,623	683,463,161	1,804,325,325	**2,209,645,928**

Five Year Financial Summary