



中國包裝集團有限公司
China Packaging Group Company Limited

(Provisional Liquidators Appointed)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 572)

Annual Report 2009

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Corporate Information

JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

Mr. FOK Hei Yu
(Appointed by the High Court on 2 October 2009)
Mr. Roderick John SUTTON
(Appointed by the High Court on 2 October 2009)

BOARD OF DIRECTORS

Executive Directors

Mr. YANG Zongwang
(Resigned on 18 September 2009)
Mr. XUE De Fa
(Resigned on 18 September 2009)
Mr. XIE Xi
(Resigned on 18 September 2009)
Mr. SO Chiu
*(Appointed on 18 September 2009 and
resigned on 7 October 2009)*
Mr. LIU Zhi Qiang

Independent Non-Executive Directors

Mr. NG Wai Man
(Resigned on 9 March 2009)
Mr. TONG Hing Wah
(Resigned on 31 July 2009)
Mr. LU Zheng
*(Appointed on 9 June 2009 and
resigned on 18 September 2009)*
Mr. SETO Man Fai
*(Appointed on 18 September 2009 and
resigned on 3 October 2009)*
Mr. CHAN Hoi Wan
*(Appointed on 18 September 2009 and
resigned on 7 October 2009)*
Mr. ORR Joseph Wai Shing
*(Appointed on 18 September 2009 and
resigned on 22 October 2009)*
Mr. CHONG Hoi Fung

AUDIT COMMITTEE

Mr. TONG Hing Wah
(Resigned on 31 July 2009)
Mr. NG Wai Man
(Resigned on 9 March 2009)
Mr. CHONG Hoi Fong
Mr. LU Zheng
*(Appointed on 9 June 2009 and
resigned on 18 September 2009)*
Mr. SETO Man Fai
*(Appointed on 18 September 2009 and
resigned on 3 October 2009)*
Mr. CHAN Hoi Wan
*(Appointed on 18 September 2009 and
resigned on 7 October 2009)*
Mr. ORR Joseph Wai Shing
*(Appointed on 18 September 2009 and
resigned on 22 October 2009)*

REMUNERATION COMMITTEE

Mr. TONG Hing Wah
(Resigned on 31 July 2009)
Mr. NG Wai Man
(Resigned on 9 March 2009)
Mr. CHONG Hoi Fong
Mr. LU Zheng
*(Appointed on 9 June 2009 and
resigned on 18 September 2009)*
Mr. SETO Man Fai
*(Appointed on 18 September 2009 and
resigned on 3 October 2009)*
Mr. CHAN Hoi Wan
*(Appointed on 18 September 2009 and
resigned on 7 October 2009)*
Mr. ORR Joseph Wai Shing
*(Appointed on 18 September 2009 and
resigned on 22 October 2009)*

Corporate Information

COMPANY SECRETARY

Mr. LI Yik Sang
(Resigned on 14 July 2009)

Mr. CHAN Yee Tak
*(Appointed on 14 July 2009 and
resigned on 12 October 2009)*

AUTHORISED REPRESENTATIVE

Mr. YANG Zongwang
(Resigned on 18 September 2009)

Mr. LI Yik Sang
(Resigned on 14 July 2009)

Mr. CHAN Yee Tak
*(Appointed on 14 July 2009 and
resigned on 12 October 2009)*

Mr. SO Chiu
*(Appointed on 18 September 2009 and
resigned on 7 October 2009)*

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1806-7, 18th Floor Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL OFFICE

c/o FTI Consulting (Hong Kong) Limited
14/F The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

COMPANY WEBSITE

<http://www.cpackaging.com.hk>

REGISTERED OFFICE

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

AUDITORS

World Link CPA Limited
5th Floor, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Provisional Liquidators' Report

Trading in the shares of China Packaging Group Company Limited (Provisional Liquidators Appointed) (the "Company") has been suspended from trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 April 2009.

On 2 October 2009, DBS Bank (Hong Kong) Limited filed an application with the High Court of Hong Kong (the "High Court") for the winding up petition against the Company. Accordingly, the High Court appointed Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited), to act as provisional liquidators to the Company (the "Provisional Liquidators") on the same day.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the manufacture and sale of tinplate cans for the packaging of beverage in Shanxi, PRC.

FINANCIAL RESULTS

For the year ended 31 December 2009, the Group's turnover was approximately RMB74 million (31 December 2008: RMB193 million), representing a decrease of approximately 61.70% as compared to the corresponding period of last year. Respective state of affairs of the Group is set out in the consolidated financial statements on pages 24 to 27. The consolidated loss attributable to shareholders of the Company amounted to approximately RMB9 million (31 December 2008: RMB836 million) for the year ended 31 December 2009. Basic loss per share was approximately RMB0.0133 (31 December 2008: RMB1.366) for the year ended 31 December 2009. There will be no payment of dividend for the year ended 31 December 2009 (31 December 2008: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash including escrow money as at 31 December 2009 was approximately RMB5 million (31 December 2008: RMB11 million). The Group's gearing ratio measured on the basis of the Group's total bank borrowings relative to the shareholders' funds was not applicable due to the shareholders' deficits for the financial years ended 31 December 2009 and 31 December 2008..

Provisional Liquidators' Report

CAPITAL STRUCTURE

Details of the capital structure of the Company are set out in note 28 to the consolidated financial statements.

FOREIGN CURRENCY EXPOSURE

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

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

RESTRUCTURING OF THE GROUP AND KEY EVENTS AFTER THE APPOINTMENT OF THE PROVISIONAL LIQUIDATORS UP TO THE DATE OF THIS REPORT

On 5 October 2009, Bloxworth Enterprise (HK) Limited ("Bloxworth HK"), a wholly owned subsidiary of the Company, which wholly owns the shareholding interest in Fujian Fuwang Metal Products Co Ltd (福建福旺金屬製品有限公司), was placed in creditors' voluntary liquidation pursuant to section 228A of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong. On 26 February 2010, Mr. Fok Hei Yu and Mr. Roderick John Sutton of FTI Consulting were appointed as Joint and Several Liquidators of Bloxworth HK.

Partners Capital International Limited has been appointed by the Provisional Liquidators as the financial advisor to the Company regarding the restructuring of the Group.

On 28 December 2009, the Provisional Liquidators, on behalf of the Company, FTI Consulting ("Escrow Agent") entered into an exclusivity and escrow agreement with Business Giant Limited (the "Investor"). The said agreement granted the Investor a 12-month exclusivity to negotiate the restructuring of the Company, certain subsidiaries and associated companies, if any, in the Group, and in turn, the Investor paid a sum of HK\$5 million to the Company to meet the costs and expenses in relation to the implementation of the restructuring of the Company during the 12-month exclusivity period. Furthermore, the Investor acknowledges that the Company and its business in the PRC may require working capital for its normal operations during this period and agrees to make available a working capital facility to the Group, if necessary.

Provisional Liquidators' Report

On 22 February 2010, the Stock Exchange issued a letter to the Company, inter alia, setting out the conditions for resumption of trading of the shares of the Company as follows:

- demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.
- publish all outstanding financial results and address any concerns that may be raised by the auditors of the Company.
- demonstrate that the Company has adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the Listing Rules.
- address certain issues raised by Deloitte Touche Tohmatsu, the former auditors of the Company, which details were set out in the announcement of the Company dated 30 April 2009, to the satisfaction of the Stock Exchange.
- withdrawal or dismissal of the winding-up petition and discharge of the Provisional Liquidators.

On 23 March 2010, the Provisional Liquidators and Sino Gather Limited ("Sino Gather") (a special purpose vehicle controlled by the Provisional Liquidators) entered into a sale and purchase agreement where Sino Gather agreed to acquire and the Provisional Liquidators (on behalf of the Company) agreed to sell the entire share capital of Chinawinner Enterprises Limited ("Chinawinner BVI"), Chinawinner Enterprises (HK) Limited ("Chinawinner HK"), Rich Victory Development Limited ("Rich Victory"), all are at an aggregate nominal consideration of HK\$3. The said transaction is primarily in furtherance of the Group's restructuring.

The Stock Exchange placed the Company in the first stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules. If the Company failed to submit a viable resumption proposal on or before 21 August 2010 and demonstrate its compliance with Rule 13.24 of the Listing Rules, the Stock Exchange would consider whether to proceed to place the Company in the second stage of delisting procedures. A resumption proposal was submitted to the Stock Exchange on 21 August 2010.

Provisional Liquidators' Report

PROSPECTS

It is anticipated that the financial position of the Group will be substantially improved upon (i) the Investor signing a formal restructuring agreement with the Provisional Liquidators (on behalf of the Company without personal liability) to revive the Group; and (ii) completion of the proposed restructuring of the Group as contemplated under such agreement. The Investor and the Provisional Liquidators anticipate all existing liabilities owed to the creditors of the Company and creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through a proposed scheme of arrangement and the Group will be able to turnaround its existing net liabilities position upon completion of the restructuring.

Subject to, among other things, the approvals of the shareholders of the Company and the Stock Exchange upon completion of the abovementioned restructuring agreement, the Company's shares will resume trading on the Stock Exchange.

It is the Investor's intention to maintain the Group's existing business in Shanxi, the PRC, currently conducted through Shanxi Zhanpen Metal Products Co Ltd (山西展鹏金属製品有限公司) ("Zhanpen"), an indirect wholly owned subsidiary of the Company.

PRE-EMPTIVE RIGHTS

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

SIGNIFICANT INVESTMENT

On the basis of the available books and records to the Provisional Liquidators, the Group did not have any significant investment throughout the period. Accordingly, the Provisional Liquidators are not aware of any significant discrepancy of the said item.

Provisional Liquidators' Report

DIRECTORS

To the best knowledge of the Provisional Liquidators, the directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. YANG Zongwang (*Resigned on 18 September 2009*)

Mr. XUE De Fa (*Resigned on 18 September 2009*)

Mr. XIE Xi (*Resigned on 18 September 2009*)

Mr. SO Chiu (*Appointed on 18 September 2009 and resigned on 7 October 2009*)

Mr. LIU Zhi Qiang

Independent Non-Executive Directors

Mr. NG Wai Man (*Resigned on 9 March 2009*)

Mr. TONG Hing Wah (*Resigned on 31 July 2009*)

Mr. LU Zheng (*Appointed on 9 June 2009 and resigned on 18 September 2009*)

Mr. SETO Man Fai (*Appointed on 18 September 2009 and resigned on 3 October 2009*)

Mr. CHAN Hoi Wan (*Appointed on 18 September 2009 and resigned on 7 October 2009*)

Mr. ORR Joseph Wai Shing (*Appointed on 18 September 2009 and resigned on 22 October 2009*)

Mr. CHONG Hoi Fung

Provisional Liquidators' Report

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

To the best knowledge of the Provisional Liquidators, as at 31 December 2009, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company, its subsidiaries and associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 Companies (the "Model Code"), were as follows:

Long position in the shares of the Company

Name of directors	Type of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Total	Approximate percentage of the issued share capital of the Company
Mr. Yang Zongwang ("Mr. Yang")	Corporate (<i>note</i>)	236,610,000	-	236,610,000	36.01%

Note: These shares are registered in the name of and beneficially owned by Fu Teng Global Limited ("Fu Teng"), a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Yang.

Other than as disclosed above, to the best knowledge of the Provisional Liquidators, none of the directors or chief executive or any of their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2009.

Provisional Liquidators' Report

SUBSTANTIAL SHAREHOLDERS

At 31 December 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors and chief executive, the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

Name of shareholder	Number of issued ordinary shares held	Approximate percentage of the issued shares capital of the Company
Fu Teng	236,610,000 <i>(note a)</i>	36.01%
Ms. Yang Yunxian	236,610,000 <i>(note b)</i>	36.01%
Mr. Yang	236,610,000 <i>(note b)</i>	36.01%

Notes:

- a. Mr. Yang is the owner of the entire issued share capital of Fu Teng.
- b. Mr. Yang is the owner of the entire issued share capital of Fu Teng. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 236,610 shares held by Fu Teng by virtue of the SFO. In addition, 5,000,000 share options owned by Mr. Yang are also taken to be interested by Ms. Yang by virtue of the SFO.

As announced by the Company on 9 May 2006, the Company entered into a warrant instrument dated 4 May 2006 (the "Instrument") with an independent subscriber (the "Subscriber"). Pursuant to the Instrument, the Company agreed to issue and the Subscriber agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK\$0.10 each in the Company, subject to adjustments, at an initial subscription price of HK\$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

Provisional Liquidators' Report

The initial subscription price per share is HK\$0.88 (equivalent to approximately RMB0.82) as at the date of issue of the Warrants until 18 May 2007, and thereafter will be HK\$0.88 as adjusted downward by the Company on the first anniversary of the date of issue of the Warrants. The adjusted subscription price will be such price in Hong Kong dollars as equals the market price of shares determined on the first anniversary of the date of issue of the Warrants, but in no case will be less than HK\$0.71 (equivalent to approximately RMB0.66). As at 31 December 2009, there is no adjustment in subscription price after the first anniversary of the date of issue of warrants.

No Warrants have been exercised since the date of issue and carried at fair value. Exercise in full of such Warrants would result in the issue of 38,000,000 additional ordinary shares of HK\$0.10 each in the Company.

Save as disclosed above, the Provisional Liquidators were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2009, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' SERVICE CONTRACTS

According to the available books and records, no director of the Company proposed for re-election at the forthcoming general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

As the books and records available to the Provisional Liquidators are either lost or incomplete, the Provisional Liquidators make no representation to the service contract entered into by the Company with the directors prior to the appointment of the Provisional Liquidators.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Provisional Liquidators make no representation as to whether any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any directors or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement(s) to enable the directors to acquire such rights in any other body corporate during the year ended 31 December 2009.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED PARTY TRANSACTIONS

The Provisional Liquidators make no representation as to whether any Directors have a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2009.

Provisional Liquidators' Report

MANAGEMENT CONTRACT

The Provisional Liquidators and the Directors make no representation as to whether there was any contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2009.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Provisional Liquidators and the Directors make no representation as to whether any Directors or the management shareholder of the Company had any interest in a business which competes or may compete with the business of the Group during the year ended 31 December 2009.

ADOPTED CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

As the Provisional Liquidator is appointed on 2 October 2009, the Provisional Liquidators are unable to comment on whether the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors for the financial year ended 31 December 2009. The Provisional Liquidators make no representation as to whether the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Provisional Liquidators make no representation as to whether the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

CONTINGENT LIABILITIES

Details are set out in note 32 to the financial statements.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Provisional Liquidators as at the latest practicable date prior to the issue of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

Provisional Liquidators' Report

AUDIT COMMITTEE

Following the resignations of the majority of the Company's independent non-executive directors in March and July 2009, there has been no replacement of members of the audit committee. No audit committee is therefore maintained as required by Rule 3.21 of the Listing Rules. As a result, the audited accounts of the Group for the year ended 31 December 2009 have not been reviewed by the audit committee

DELAY IN DESPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Due to suspension of trading in its shares on the Stock Exchange and most of the responsible officers had left the Group as explained below, the Company has not been able to prepare and despatch the annual report for the financial year ended 31 December 2009 to its members within the due date as required by the Listing Rules.

The delay in the despatch of the 2009 annual report constitutes non-compliance of the Rule 13.46(2) of the Listing Rules by the Company.

NON-COMPLIANCE OF APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

1. Information on the Group's major suppliers and customers.
2. A statement in respect of connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.
3. A separate Corporate Governance Report containing the information as required under Appendix 23 to the Listing Rules.
4. Details of the number and remuneration of employees, remuneration policies, and the retirement benefits scheme.
5. Details of related party transactions.
6. Details of management contracts.
7. Details of directors' and employees' remuneration and the five highest paid individuals.
8. Details of contracts of significance between the Company and its directors, substantial shareholders and subsidiaries.
9. Details of pledge of assets.

Provisional Liquidators' Report

RESERVE

Movements in reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 27.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Movements in share capital of the Company are set out in note 28 to the financial statements.

SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the shareholders of the Company on 2 June 2003, the Company adopted a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive director), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5,000,000 must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will be not less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

To the best knowledge of the Provisional Liquidators, 35,600,000 share options were exercised during the year.

Provisional Liquidators' Report

CORPORATE GOVERNANCE

Since the Provisional Liquidators were appointed on 2 October 2009 pursuant to an order of the High Court, the Provisional Liquidators are unable to comment as to whether the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2009.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 37 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2009 were audited by World Link CPA Limited.

For and on behalf of
CHINA PACKAGING GROUP COMPANY LIMITED
(Provisional Liquidators Appointed)

FOK Hei Yu
Roderick John Sutton
Joint and Several Provisional Liquidators who act without personal liabilities

Hong Kong, 28 October 2010

Biographical Details of Directors

Based on the available information to the Provisional Liquidators, the biographical details of the directors of the Company are set out as follows:

EXECUTIVE DIRECTORS

Mr. Liu Zhi Qiang (劉志強), aged 49, is responsible for the Group's administration. Mr. Liu joined the Group in September 2002. Mr. Liu graduated from the Guanghua School of Management in the Peking University with a Executive Master in Business Administration programme. Mr. Liu gained about 22 years of experience in corporate finance and project management. He has held various senior positions in a number of recognised financial institutions and companies in the PRC and Hong Kong, including 中國光大國際信託投資公司 (China Everbright Trust and Investment Company), 日本櫻花銀行 (Sakura Global Capital Co., Ltd.), 京華山一國際 (香港) 有限公司 (Core Pacific - Yamaichi International (H.K.) Limited) and 中國星火有限公司 (China Spark Co., Ltd.). He also previously worked in the statistics department of 中國人民銀行 (People's Bank of China).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chong Hoi Fong (庄海峰), aged 40, joined the Group in June 2003 and has been a deputy general manager of a property development company in the PRC for 8 years. He has also held senior positions in other property development companies in Hong Kong and the PRC. Mr. Chong graduated from Xiamen University with a bachelor degree in Economics in 1993. He has about 11 years of experience in property development and 2 years of experience in international trading in the PRC.

Independent Auditor's Report

TO THE SHAREHOLDERS OF CHINA PACKAGING GROUP COMPANY LIMITED (Provisional Liquidators Appointed)

(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Packaging Group Company Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 67, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' AND PROVISIONAL LIQUIDATORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors and the Provisional Liquidators since their appointment on 2 October 2009 are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 the consolidated 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.

SUSPENSION OF TRADING OF THE COMPANY'S SHARES AND APPOINTMENT OF THE JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

Trading of the Company's shares on Stock Exchange has been suspended since 28 April 2009.

As stated in Note 2.1 to the financial statements:

"On 2 October 2009, pursuant to an order of the High Court of the Hong Kong Special Administrative Region, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (formerly Ferrier Hodgson Limited), were appointed as the provisional liquidators to the Company (the "Provisional Liquidators") as a result of the winding up petition made by DBS Bank (Hong Kong) Limited, one of the major creditors, against the Company. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company.

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of annual report and the audited financial statements for the year ended 31 December 2009 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of these audited financial statements for the year ended 31 December 2009 based on the books and records made available to the Provisional Liquidators."

Independent Auditor's Report

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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Going concern and basis of preparation

As disclosed in Note 2.1 to the financial statements, the Provisional Liquidators are in the process of restructuring the Group's indebtedness and revitalizing the Group's business and that the financial statements have been prepared on a going concern basis. The ability of the Group as a going concern assumes that the restructuring proposal by the Investor will be successfully implemented and that, following the restructuring, the Group will continue to meet in full its obligations as they fall due in the foreseeable future. We are unable to obtain information that is necessary to satisfy ourselves that the restructuring proposal will be successfully implemented and how the Group will be able to operate as a going concern after the restructuring. We are therefore unable to form an opinion as to whether the assumptions used to prepare the Group's financial statements on a going concern basis are appropriate and the Group will be able to continue as a going concern. Should the liquidation basis of accounting have to be used, adjustments would have to be made to restate the value of the Group's assets to their recoverable amounts and the liabilities to their estimated settlement amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities of the Group as current assets and liabilities respectively.

2. Changes of directors, appointment of Provisional Liquidators and lack of management representation

During the year, there were changes in the composition of the board of directors of the Company. On 9 March 2009, Mr. Ng Wai Man resigned as independent non-executive director of the Company. On 9 June 2009, Mr. Lu Zheng was appointed as independent non-executive director of the Company. On 31 July 2009, Mr. Tong Hing Wah resigned as independent non-executive director of the Company. On 18 September 2009, Mr. Yang Zongwang resigned as executive director and chairman of the Company. Mr. Xue De Fa and Mr. Xie Xi resigned as executive directors of the Company and Mr. Lu Zheng resigned as independent non-executive director of the Company. On the same day, Mr. So Chiu was appointed as executive director of the Company, Mr. Seto Man Fai, Mr. Chan Hoi Wan and Mr. Orr Joseph Wai Shing were appointed as independent non-executive directors of the Company.

Independent Auditor's Report

2. Changes of directors, appointment of Provisional Liquidators and lack of management representation (*continued*)

On 2 October 2009, the Provisional Liquidators were appointed. On 3 October 2009, Mr. Seto Man Fai resigned as independent non-executive director of the Company. On 7 October 2009, Mr. So Chiu and Mr. Chan Hoi Wan resigned as executive director and independent non-executive director of the Company respectively. On 22 October 2009, Mr. Orr Joseph Wai Shing resigned as independent non-executive director of the Company. We are unable to obtain representation from the former directors/directors/management whether these financial statements present a true and fair view of the state of affairs of the Group as at 31 December 2009 and the results of the Group for the year then ended.

As explained in Note 2.1 to the financial statements, the Provisional Liquidators prepared the consolidated financial statements for the year ended 31 December 2009 based on books and records made available to them. The Provisional Liquidators make no representation as to the completeness and accuracy of the information contained in these financial statements and, as a consequence, the Provisional Liquidators are not making any representation that these financial statements of the Group present a true and fair view of the state of affairs of the Group as at 31 December 2009 and the results of the Group for the year then ended.

The lack of representation from the former directors/directors/management/Provisional Liquidators on the completeness and accuracy of the information contained in these financial statements constitutes a limitation of the scope of our audit.

3. Departure from the Hong Kong Financial Reporting Standards

As explained in Note 2.3 to the financial statements, a number of disclosures as required by the Hong Kong Financial Reporting Standards have not been made in these financial statements as the Provisional Liquidators did not have sufficient data and information as a result of unavailability of complete books and records of some of the subsidiaries of the Group. Accordingly, certain disclosures in these financial statements are not in full compliance with the relevant Hong Kong Financial Reporting Standards.

4. Scope Limitation – Opening balances and comparative figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2008 (the "2008 Financial Statements"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the fundamental uncertainty in relation to going concern. Accordingly, we were then unable to form an opinion as to whether the 2008 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's results for the year then ended.

Independent Auditor's Report

5. Loss on deconsolidation of subsidiaries, impairment on investment costs and amounts due from deconsolidated subsidiaries, amounts recovered from deconsolidated subsidiaries

As explained in Note 2.2 to the financial statements, the Provisional Liquidators consider that the control of the Company over certain subsidiaries has been lost subsequent to the year ended 31 December 2008. Therefore, such subsidiaries have not been consolidated in the Group's consolidated financial statements for the year ended 31 December 2008.

The impairment on the amounts due from deconsolidated subsidiaries of approximately RMB7,832,000, which were funds transferred from a subsidiary, Bloxworth Enterprises Limited, during the year and amounts recovered from deconsolidated subsidiaries of RMB4,381,000 have been recognized in the consolidated statement of comprehensive income.

Whilst the Provisional Liquidators consider that the exclusion of these subsidiaries present more fairly the Group's financial position and the results for the year in the circumstances, the exclusion of the financial position and results of these subsidiaries in the consolidated financial statements is a departure from the requirements of Hong Kong Accounting Standard 27 "Separate and Consolidated Financial Statements".

Since the Provisional Liquidators consider that the control of the Company over these subsidiaries has been lost and accordingly failed to get access to their books and records, we have not been able to obtain sufficient appropriate audit evidence and explanations to assess the accuracy and completeness of the impairment on amounts due from deconsolidated subsidiaries and amounts recovered from deconsolidated subsidiaries.

6. Scope Limitation – Transactions, income and expense items for the year/ lack of complete books and records of the Company and a subsidiary

As detailed in Note 2.1 to the financial statements, the preparation of the consolidated financial statements for the year ended 31 December 2009 are based on the books and records made available to the Provisional Liquidators. The Provisional Liquidators considered that certain books and records of the Company and a subsidiary, Bloxworth Enterprises Limited, was not complete for the year ended 31 December 2009.

- (a) Included in the Company's bank borrowings were amounts of approximately RMB2,472,000, which we have been unable to obtain sufficient evidences to verify the accuracy and completeness of these balances and the related income and expenses to be recognized in the consolidated financial statements.
- (b) Included in other income and administrative expenses in the consolidated statement of comprehensive income were sundry income of approximately RMB660,000 and other expenses of approximately RMB1,366,000 arising from unreconciled credit balance or debit balance of bank accounts of the Company and a subsidiary closed during the year respectively. We have been unable to obtain sufficient evidences to verify the nature, accuracy and completeness of these amounts.

Independent Auditor's Report

6. Scope Limitation – Transactions, income and expense items for the year/ lack of complete books and records of the Company and a subsidiary (*continued*)

There are no other alternative audit procedures we could adopt to satisfy ourselves that the bank borrowings and the related income and expense items, other income and administrative expenses of approximately RMB2,472,000, RMB660,000 and RMB1,366,000 respectively were properly accounted for in the consolidated financial statements for the year ended 31 December 2009 and these balances were free from material misstatement and were fairly stated.

7. Scope Limitation – Impairment of property, plant and equipment

Included in the consolidated statement of financial position at 31 December 2009 were property, plant and equipment with an aggregate carrying amount of approximately RMB65,529,000. As set out in Note 2.1 to the financial statements, the Group incurred a loss of approximately RMB8,608,000 for the year ended 31 December 2009 and together with the fact that production activities of certain of the Group's facilities were not in full capacities during the year, in our opinion this constituted an indicator of impairment of property, plant and equipment. However, no impairment loss was recognised for the year ended 31 December 2009. We were unable to satisfy ourselves as to the appropriateness of the assumptions made by the Company regarding the impairment review of the property, plant and equipment in the absence of their value-in-use calculation and accordingly, we were unable to assess whether the recoverable amounts of property, plant and equipment exceeded their carrying amounts as at 31 December 2009 and whether any impairment loss should be recognised in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets".

8. Scope Limitation – Inventories

We were appointed auditors of the Group on 2 February 2010 by the Provisional Liquidators to report on the consolidated financial statements for the year ended 31 December 2009. In consequence, we were unable to attend the Company's physical inventory count at 31 December 2009. We were invited to attend the inventory count which the Company further carried out on 5 May 2010. However, we had not been provided with sufficient evidence and detailed movements of inventories between the date of physical inventory count and the financial reporting date to verify the existence, completeness and valuation of the inventories at 31 December 2009. There were no other satisfactory alternative audit procedures that we could adopt to satisfy ourselves that the inventories as stated in the consolidated statement of financial position as at 31 December 2009 were free from material misstatement and were fairly stated.

Independent Auditor's Report

9. Scope Limitation – Provision for bank loans guarantee for a deconsolidated subsidiary

As disclosed in Note 25 to the financial statements, as at 31 December 2009, the Group had made full provision for bank loans guarantee for a deconsolidated subsidiary of approximately RMB29,000,000. Since no direct confirmation from third parties and other sufficient evidence have been received by us up to the date of this report, we were unable to assess the accuracy and completeness of this liability. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that the balance and related disclosures have been properly recorded and reflected in the consolidated financial statements as at 31 December 2009.

10. Scope Limitation – Commitment, contingent liabilities and related party transactions

As disclosed in Note 2, 31, 32, 33 and 35 to the financial statements, the Provisional Liquidators make no representation as to the completeness and accuracy of the information contained in these consolidated financial statements and the completeness of the disclosure of commitments, contingent liabilities and related party transactions and balances in the consolidated financial statements as at 31 December 2009. Therefore we were unable to satisfy ourselves as to the existence and completeness of the disclosures of commitment, contingent liabilities and related party transactions as at 31 December 2009.

11. Scope Limitation – Events after the reporting period

As disclosed in Note 2.1 to the financial statements, the preparation of the financial statements for the year ended 31 December 2009 are based on the books and records made available to the Provisional Liquidators and the Provisional Liquidators make no representation to the completeness of the books and records. We were unable to perform the audit procedures that we consider necessary to complete our review of events after the reporting period from the end of the reporting period up to the date of this report. Such procedures might result in the identification of adjustments to the amounts reported in the consolidated financial statements and/or additional disclosures in respect of events after the reporting period.

Any adjustments to the figures above might have a significant consequential effect on the Group's results for two years ended 31 December 2008 and 2009, the financial positions of the Group as at 31 December 2008 and 2009, and the related disclosures thereof in the consolidated financial statements.

Independent Auditor's Report

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2.1 to the financial statements which explain the circumstances giving rise to the fundamental uncertainty. The appropriateness of preparing the Group's consolidated financial statements on the going concern basis depends on the successful outcome of the conclusion of the resumption proposal and the scheme of arrangement.

We consider that appropriate disclosures have been made; however, we consider that this material uncertainty is so fundamental that we disclaim our opinion in respect of the appropriateness of the going concern basis. The financial statements of the Group do not include any adjustments that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to provide further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. Such adjustments may have a consequential significant effect on the net liabilities of the Group as at 31 December 2009 and the Group's loss attributable to the equity holders of the Company for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31st December 2009 and of the Group's loss for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on matters under sections 141 (4) and 141 (6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to the matters described in the basis for disclaimer of opinion paragraphs:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

World Link CPA Limited

Certified Public Accountants
Hong Kong, 28 October 2010

Fung Tze Wa

Practising Certificate Number: P01138

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	<i>Notes</i>	2009 RMB'000	2008 RMB'000
Turnover	6	74,066	193,354
Cost of sales		(79,631)	(149,262)
Gross (loss)/profit		(5,565)	44,092
Other income	7	2,972	2,688
Selling expenses		(4,104)	(8,349)
Administrative expenses		(18,924)	(18,241)
(Loss)/profit from operations		(25,621)	20,190
Gain on termination of derivative financial instruments	26	23,340	–
Loss on change in fair values of derivative financial instruments		–	(3,806)
Loss on deconsolidation of subsidiaries, impairment on investment costs and amounts due from deconsolidated subsidiaries, amounts recovered from deconsolidated subsidiaries	8	(3,451)	(800,402)
Impairment loss on deposit for compensation	15	–	(12,400)
Provision for loss on bank loans guarantee for a deconsolidated subsidiary	25	–	(29,000)
Finance costs	9	(2,876)	(5,752)
Loss before tax	10	(8,608)	(831,170)
Income tax expense	11	–	(5,243)
Loss for the year attributable to equity holders of the Company		(8,608)	(836,413)
Other comprehensive loss			
Reversal upon deconsolidation of subsidiaries		–	(65,904)
Total comprehensive loss for the year attributable to equity holders of the Company		(8,608)	(902,317)
Loss per share for loss attributable to the equity holders of the Company during the year	13		
– Basic		(RMB0.0133)	(RMB1.366)

The notes on page 28 to 67 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2009

	<i>Notes</i>	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	14	65,529	55,426
Prepaid lease payments	15	-	-
		65,529	55,426
Current assets			
Inventories	16	3,557	4,341
Trade and other receivables	17	28,646	63,286
Escrow money	18	4,400	-
Pledged bank deposits	19	-	35,640
Bank balances and cash	20	411	11,313
		37,014	114,580
Current liabilities			
Trade and other payables	21	7,898	15,193
Amounts due to shareholders	22	-	42,544
Taxation payable		1,971	4,385
Bank borrowings	23	59,727	110,508
Other borrowings	24	48,255	-
Provision for bank loans guarantee for a deconsolidated subsidiary	25	29,000	29,000
Escrow money	18	4,400	-
Derivative financial instruments	26	-	96,198
Other financial liabilities	27	71,453	-
		222,704	297,828
Net current liabilities		(185,690)	(183,248)
Net liabilities		(120,161)	(127,822)

Consolidated Statement of Financial Position

At 31 December 2009

	<i>Notes</i>	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	28	67,399	64,260
Reserves		(187,560)	(192,082)
Deficit attributable to equity holders of the Company		(120,161)	(127,822)

The consolidated financial statements were approved and authorised for issue by the Joint and Several Provisional Liquidators on 28 October 2010 and are signed on its behalf by:

Fok Hei Yu

*Joint and Several Provisional Liquidator
who acts without personal liability*

Roderick John Sutton

*Joint and Several Provisional Liquidator
who acts without personal liability*

The notes on page 28 to 67 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Share premium	Special reserve	Share option reserve	Surplus reserve fund	Enterprise expansion fund	Retained profits/ (accu- mulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 30)	(note 30)		(note 30)	(note 30)		
At 1 January 2008	62,516	211,283	24,709	14,443	37,686	7,586	423,255	781,478
Reversal upon deconsolidation of subsidiaries (Note 8)	-	-	(24,709)	-	(33,609)	(7,586)	-	(65,904)
Loss for the year	-	-	-	-	-	-	(836,413)	(836,413)
Total comprehensive loss for the year	-	-	(24,709)	-	(33,609)	(7,586)	(836,413)	(902,317)
Dividend for 2007 (note 12 and 30(c))	-	(24,190)	-	-	-	-	-	(24,190)
Transfer (note 30(a))	-	-	-	-	2,174	-	(2,174)	-
Recognition of equity – settled share-based payments	-	-	-	6,176	-	-	-	6,176
Exercise of share options	1,744	11,525	-	(2,238)	-	-	-	11,031
	1,744	(12,665)	-	3,938	2,174	-	(2,174)	(6,983)
At 31 December 2008	64,260	198,618	-	18,381	6,251	-	(415,332)	(127,822)
Total comprehensive loss for the year	-	-	-	-	-	-	(8,608)	(8,608)
Transfer (note 30(a))	-	-	-	-	2,971	-	(2,971)	-
Recognition of equity – settled share-based payments	-	-	-	137	-	-	-	137
Exercise of share options	3,139	17,147	-	(4,154)	-	-	-	16,132
Lapse of share options	-	-	-	(665)	-	-	665	-
	3,139	17,147	-	(4,682)	2,971	-	(2,306)	16,269
At 31 December 2009	67,399	215,765	-	13,699	9,222	-	(426,246)	(120,161)

The notes on page 28 to 67 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

China Packaging Group Company Limited (Provisional Liquidators Appointed) (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is 14/F, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and have been suspended from trading since 28 April 2009.

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of tinline cans for the packaging of beverage in Shanxi, the People’s Republic of China (the “PRC”).

These consolidated financial statements are presented in thousands of Renminbi (RMB’000), unless otherwise stated.

2. BASIS OF PRESENTATION

2.1. Winding-up petitions, appointment of provisional liquidators, going concern and group restructuring

As at 31 December 2009, the Company and its subsidiaries (collectively the “Group”) incurred a loss attributable to equity holders of the Company of approximately RMB8,608,000 for the year ended 31 December 2009 (2008: loss of approximately RMB836,413,000) and the Group had net current liabilities of approximately RMB185,690,000 (2008: RMB183,248,000) and net liabilities of RMB120,161,000 (2008: RMB127,822,000). These conditions indicate the existence of a fundamental uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

On 2 October 2009, pursuant to an order of the High Court of the Hong Kong Special Administrative Region, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting (Hong Kong) Limited (“FTI Consulting”) (formerly Ferrier Hodgson Limited), were appointed as the provisional liquidators to the Company (the “Provisional Liquidators”) as a result of the winding up petition made by DBS Bank (Hong Kong) Limited, one of the major creditors, against the Company. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and business of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. BASIS OF PRESENTATION *(continued)*

2.1. Winding-up petitions, appointment of provisional liquidators, going concern and group restructuring *(continued)*

The Provisional Liquidators are responsible for the accuracy and completeness of the contents of the annual report and the audited financial statements for the year ended 31 December 2009 in relation to (i) the affairs of the Group after the appointment of the Provisional Liquidators; and (ii) the preparation of the contents of these audited financial statements for the year ended 31 December 2009 based on the books and records made available to the Provisional Liquidators.

Save as addressed above, the Provisional Liquidators make no representation as to the completeness and accuracy of the information contained in these financial statements.

The Company is in the first stage of the delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as at the date of these financial statements. The Company is required to submit a viable resumption proposal to the Stock Exchange by 21 August 2010, which should meet the following conditions:

1. demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.
2. publish all outstanding financial results and address any concerns that may be raised by the auditors.
3. demonstrate that the Company has adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the Listing Rules.
4. address certain issues raised by Deloitte Touche Tohmatsu, the then auditors of the Company, which details were set out in the announcement of the Company dated 30 April 2009, to the satisfaction of the Stock Exchange.
5. withdraw or dismissal of the winding-up petition, and discharge of the Provisional Liquidators.

If the Company failed to submit a viable resumption proposal to address the above conditions on or before 21 August 2010, the Stock Exchange may proceed to place the Company in the second stage of the delisting procedures.

The restructuring proposal submitted by Business Giant Limited (the "Investor") on 13 December 2009 has been accepted by the Provisional Liquidators (on behalf of the Company). On 28 December 2009, an exclusivity and escrow agreement was entered into amongst the Provisional Liquidators, on behalf of the Company, FTI Consulting ("the Escrow Agent") and the Investor ("the Escrow Agreement"). Pursuant to the Escrow Agreement, the Provisional Liquidators granted the Investor an exclusive right up to 27 December 2010 to negotiate a legally binding agreement for the implementation of the restructuring proposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. BASIS OF PRESENTATION *(continued)*

2.1. Winding-up petitions, appointment of provisional liquidators, going concern and group restructuring *(continued)*

The Provisional Liquidators appointed Partners Capital International Limited as financial adviser to the Company regarding the restructuring of the Group and submitting a viable resumption proposal to the Stock Exchange. A resumption proposal was submitted to the Stock Exchange on 21 August 2010.

The financial statements have been prepared on a going concern basis on the basis that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

2.2 Deconsolidation of subsidiaries

The Provisional Liquidators consider that control of the Company over certain subsidiaries has been lost subsequent to the year ended 31 December 2008. Details are set out below:

- On 5 October 2009, Bloxworth Enterprises (HK) Limited ("Bloxworth HK"), a wholly owned subsidiary of the Company, which wholly owns Fujian Fuwang Metal Products Company Limited (福建福旺金屬製品有限公司) ("Fuwang"), was placed into creditors' voluntary liquidation pursuant to section 228A of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong. On 26 February, 2010, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting were appointed as Joint and Several Liquidators of Bloxworth HK.
- On 23 March 2010, Chinawinner Enterprises (HK) Limited ("Chinawinner HK"), Chinawinner Enterprises Limited ("Chinawinner BVI") and Rich Victory Development Limited ("Rich Victory"), all direct wholly owned subsidiaries of the Company and the subsidiary of Chinawinner BVI, Sichuan Zhanwang Metal Products Company Limited (四川省展旺金屬製品有限公司) ("Zhanwang") (collectively the "Disposed Group"), were transferred to a special purpose vehicle controlled by the Provisional Liquidators for realisation for the benefit of the creditors of the Company and to facilitate the restructuring as proposed by the Investor.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. BASIS OF PRESENTATION *(continued)*

2.2 Deconsolidation of subsidiaries *(continued)*

The Provisional Liquidators are of the view that the results and assets and liabilities of Bloxworth HK, Fuwang and the Disposed Group should not be consolidated to the financial statements of the Group since 1 January 2008. The consolidated financial statements as at and for the years ended 31 December 2009 and 2008 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid situations. The non-consolidation of Bloxworth HK, Fuwang and the Disposed Group is not in compliance with the requirements of Hong Kong Accounting Standards (“HKAS”) 27 “Consolidated and Separate Financial Statements”.

2.3 Departure from the Hong Kong Financial Reporting Standards (“HKFRSs”)

Due to the failure of getting access to the books and records of certain subsidiaries and the resignation of the majority of management personnel responsible for maintaining the books and records, the Provisional Liquidators do not have sufficient data to compile the financial statements of the Group for the year ended 31 December 2009 so as to comply with the HKFRSs. The following information, among others, are not disclosed in the said financial statements:

- (a) Information about the extent and nature of the financial instruments as required by HKAS 32 “Financial Instruments: Disclosure and Presentation” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”);
- (b) Details of the Group’s policy in respect of the financial risk management as required by HKFRS 7 “Financial Instruments: Disclosure” issued by the HKICPA;
- (c) Consolidated cash flow statements for the year ended 31 December 2009 as required by HKAS 7 “Statement of Cash Flows” issued by the HKICPA;
- (d) Details of related party disclosures as required by HKAS 24 “Related Party Disclosures” issued by the HKICPA;
- (e) Details of the Group’s aging of debtors and creditors as required by the Listing Rules;
- (f) Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance;
- (g) Details of directors’ and employees’ emoluments as required by the Listing Rules and the Hong Kong Companies Ordinance; and
- (h) Segment information disclosures as required by HKAS 14 “Segment Reporting” issued by the HKICPA and the Listing Rules.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised Hong Kong Accounting Standards (“HKAS”s), HKFRS, amendments and interpretations (“INT”s) (hereinafter collectively referred to as “new and revised HKFRSs”) issued by the HKICPA which are effective for accounting period beginning on or after 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial instruments
HKFRS 8	Operating Segments
HK(IFRIC)*-Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfer of assets from Customers (adopted from 1 July 2009)
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

* *IFRIC represents the International Financial Reporting Interpretations Committee.*

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

Presentation of Financial Statements

HKAS 1 (Revised) “Presentation of Financial Statements” affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁵
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters ⁶
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁸
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions ⁶
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 18	Transfers of Assets from Customers ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁸
HK Interpretation 4 (Amendments)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases ⁶

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

⁴ Effective for annual periods beginning on or after 1 January 2011.

⁵ Effective for annual periods beginning on or after 1 February 2010.

⁶ Effective for annual periods beginning on or after 1 January 2010.

⁷ Effective for annual periods beginning on or after 1 January 2013.

⁸ Effective for annual periods beginning on or after 1 July 2010.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Provisional Liquidators anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA other than those as stated in Note 2.3. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

Subsidiaries

Subsidiaries are 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 at 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 interest. 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 profit or loss.

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 statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Revenue from sales of goods are recognised when goods are delivered and the title has been passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods 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.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are mainly loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period, loans and receivables (including trade and other receivables, escrow money, pledged bank deposits, bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses.

Effective interest method

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

Impairment of financial assets

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

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loans and receivables assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities, including trade and other payables, amounts due to shareholders, bank borrowings, other borrowings, escrow money and other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

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

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Taxation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Operating lease

Leases 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 profit or loss on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

(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 consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where the items are remeasured. 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 profit or loss.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(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:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income 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
- 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, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the profit or loss in the period in which they are incurred.

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 rate 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.

Financial guarantees

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract.

Contingent liability

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share-option reserve will be transferred to share premium. When the share options are not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit costs

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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.

(i) Depreciation of property, plant and equipment

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

(ii) Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its debtors and adjusts credit limits based on payment history and the debtor's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its debtors and maintains a provision for estimated credit losses based upon its historical experience and any specific debtors collection issues that it has been identified. The Group will continue to monitor the collections from debtors and maintain an appropriate level of estimate credit losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(iii) Net realisable value of inventories

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

(iv) Fair value of derivative financial instruments

As described in note 26, the Provisional Liquidators use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Details of the assumptions used are disclosed in note 26.

(v) Provision for financial guarantees

The Group makes provision for financial guarantees in respect of banking facilities granted to a deconsolidated subsidiary, Fuwang. The determination of the provision for guarantees requires the use of judgment and estimates. Where the expectation is different from the original estimates, such difference will impact the carrying value of the provision and the results for the year in the period in which such estimates change.

6. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. OTHER INCOME

	2009	2008
	RMB'000	RMB'000
Exchange gain	–	1,949
Interest income on bank deposits	5	739
Sales of scraped materials	1,704	–
Sundry income	1,263	–
	2,972	2,688

8. LOSS ON DECONSOLIDATION OF SUBSIDIARIES, IMPAIRMENT ON INVESTMENT COSTS AND AMOUNTS DUE FROM DECONSOLIDATED SUBSIDIARIES, AMOUNTS RECOVERED FROM DECONSOLIDATED SUBSIDIARIES

	2009	2008
	RMB'000	RMB'000
Loss on deconsolidation of subsidiaries (<i>Note</i>)	–	382,692
Impairment on investment costs in the deconsolidated subsidiaries (<i>Note</i>)	–	153,194
	–	535,886
Impairment on amounts due from the deconsolidated subsidiaries (<i>Note 35</i>)	7,832	287,085
Amounts recovered from the deconsolidated subsidiaries	(4,381)	(22,569)
	3,451	800,402

Note:

Loss on deconsolidation of subsidiaries

As disclosed in note 2.2 to the financial statements, the Provisional Liquidators considered that the control over certain subsidiaries had been lost since 1 January 2008. The results, assets and liabilities of these subsidiaries were therefore deconsolidated from the financial statements of the Group since the financial year ended 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. LOSS ON DECONSOLIDATION OF SUBSIDIARIES, IMPAIRMENT ON INVESTMENT COSTS AND AMOUNTS DUE FROM DECONSOLIDATED SUBSIDIARIES, AMOUNTS RECOVERED FROM DECONSOLIDATED SUBSIDIARIES (*continued*)

	2008
Net assets of these subsidiaries as at 1 January 2008	RMB'000
Property, plant and equipment	217,584
Deposits paid for acquisition of property, plant and equipment	81,253
Prepaid lease payments (<i>Note 15</i>)	70,516
Inventories	21,917
Trade and other receivables	145,139
Amount due from a director	41
Amount due from a fellow subsidiary	968
Pledged bank deposits	4,224
Bank balances and cash	386,801
Trade and other payables	(50,848)
Tax payable	(6,653)
Bank loans	(29,000)
Amounts due to holding companies	(240,152)
	601,790
Release of special reserve (<i>Note 30b</i>)	(24,709)
Release of surplus reserve fund (<i>Note 30a</i>)	(33,609)
Release of enterprise expansion fund (<i>Note 30a</i>)	(7,586)
	535,886
Loss on deconsolidation of subsidiaries	382,692
Impairment on investment costs in the deconsolidated subsidiaries (<i>Note 36b</i>)	153,194
	535,886

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

9. FINANCE COSTS

	2009	2008
	RMB'000	RMB'000
Interest on:		
Bank loans wholly repayable within five years	1,448	5,500
Other borrowings (<i>Note 24</i>)	797	–
Other financial liabilities (<i>Note 27</i>)	623	–
	2,868	5,500
Bank charges	8	252
	2,876	5,752

10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2009	2008
	RMB'000	RMB'000
Directors' remuneration	607	1,976
Other staff costs	2,515	3,146
Retirement benefit cost, other than directors	43	35
Share-based payments (<i>Note 29</i>)	137	6,176
Total staff costs	3,302	11,333
Auditor's remuneration	396	2,703
Cost of inventories recognised as an expense	79,631	149,262
Depreciation of property, plant and equipment	5,917	5,085
Impairment loss on trade receivables (<i>Note 17</i>)	10,168	–
Net foreign exchange loss	231	–
Minimum lease payments in respect of:		
– land and buildings	349	630
– machinery and equipment	2,000	2,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. INCOME TAX EXPENSE

	2009	2008
	RMB'000	RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC	–	5,243

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The PRC corporate income tax is calculated at the applicable tax rates in accordance with the relevant law and regulations in the PRC. A PRC subsidiary, Zhanpen, was approved as enterprise with foreign investment and therefore, it is exempted from corporate income tax for three years starting from the first year of profit-making after offsetting prior year tax losses, followed by a 50% reduction for the next two consecutive years thereafter. 2009 is the fifth year after first profitable year. Accordingly, corporate income tax for Zhanpen was provided at a reduced rate of 15% based on the corporate income tax rate of 30%. According to the letter issued by Fenyang State Tax Bureau on 24 February 2006, Zhanpen was approved as an enterprise with foreign investment and thus the local enterprise tax of 3% is exempted.

Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. Because Zhanpen, is in the last year of the tax relief period, the chargeable corporate income tax rate is 30%. From year 2010 onward, corporate income tax rate of 25% will be applied to Zhanpen.

	2009	2008
	RMB'000	RMB'000
Loss before tax	(8,608)	(831,170)
Tax at the PRC corporate income tax rate of 30% (2008:30%)	(2,582)	(249,351)
Tax effect of expenses that are not deductible in determining taxable profit	5,341	268,024
Tax effect of income that is not taxable in determining taxable profit	(8,409)	(8,187)
Tax effect of income that is under preferential tax rate	–	(5,243)
Temporary differences not recognised	3,050	–
Unrecognised tax loss	2,600	–
Tax charge for the year	–	5,243

Deferred tax asset has not been recognised due to the unpredictability of future profit streams to utilise the deductible temporary differences or to offset against the unrecognized tax losses arising from the subsidiary in the PRC that will expire in five years from the respective year of loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. DIVIDEND

	2009	2008
	RMB'000	RMB'000
Ordinary shares:		
Final, paid for 2007 – RMB0.042 per share	–	24,190

No dividend in respect of the year ended 31 December 2009 is to be proposed at the forthcoming annual general meeting (2008: Nil).

13. LOSS PER SHARE

(a) Basic

The calculation of the basic loss per share attributable to equity holders of the Company is based on the following data:

	2009	2008
	RMB'000	RMB'000
Loss:		
Loss for the year for the purpose of basic loss per share	(8,608)	(836,413)

	2009	2008
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	646,373,376	612,513,376

(b) Diluted

Since the outstanding share options are anti-dilutive to the loss per share, no diluted loss per share is presented for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
COST						
At 1 January 2008	86,770	10,804	262,721	3,875	1,791	365,961
Deconsolidation of subsidiaries	(59,521)	(10,167)	(226,831)	(3,063)	(1,489)	(301,071)
Additions	-	-	-	245	5	250
At 31 December 2008	27,249	637	35,890	1,057	307	65,140
Additions	16,020	-	-	-	-	16,020
At 31 December 2009	43,269	637	35,890	1,057	307	81,160
DEPRECIATION						
At 1 January 2008	17,887	2,273	65,367	1,441	1,148	88,116
Deconsolidation of subsidiaries	(15,428)	(1,917)	(63,842)	(1,354)	(946)	(83,487)
Provided for the year	1,402	23	3,522	98	40	5,085
At 31 December 2008	3,861	379	5,047	185	242	9,714
Provided for the year	2,224	15	3,554	106	18	5,917
At 31 December 2009	6,085	394	8,601	291	260	15,631
NET BOOK VALUES						
At 31 December 2009	37,184	243	27,289	766	47	65,529
At 31 December 2008	23,388	258	30,843	872	65	55,426

Buildings as at 31 December 2009 of approximately RMB37,184,000 (2008: RMB23,388,000) represented buildings situated in Shanxi, the PRC and are held under medium-term leases. The Group is in the process of obtaining the building ownership certificates in respect of the buildings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent medium-term land use rights situated in Fujian, and deposits paid for compensation for land use rights in Shanxi and Sichuan, the PRC, respectively.

	2009 RMB'000	2008 RMB'000
At 1 January	-	82,916
Deconsolidation of subsidiaries (<i>Note 8</i>)	-	(70,516)
Impairment loss recognized (<i>Note</i>)	-	(12,400)
At 31 December	-	-

Note:

The amount of RMB12,400,000 represented first installment of compensation paid to 汾陽市文峰街道南關村民委員會 (“村委會”) for acquiring the land use right of a piece of land situated in 汾陽市 by a subsidiary, Zhanpen in 2007. Pursuant to the agreement 土地征用補償協議 entered into by Zhanpen and 村委會 in 2007, Zhanpen is required to pay a total amount of RMB24,800,000 to 村委會 as deposit in two equal installments for 村委會 as compensation so that 村委會 would procure to obtain the land use right certificate to transfer to Zhanpen. As advised by 村委會, the application for the conversion of the land, currently in form of collectively owned, into state-owned, which will be ready for transfer to Zhanpen, is still in progress. 村委會 has also been unable to estimate the time required to go through and complete the aforesaid conversion. The Provisional Liquidators are therefore of a view that since it is highly uncertain about the completion and the recoverability of the prepaid deposit, the prepaid deposit of RMB12,400,000 was impaired in the year ended 31 December 2008.

According to the legal advice from a PRC lawyer, the Provisional Liquidators do not anticipate that the Company would incur any further penalty or other contingent liabilities which may arise, based on the aforesaid agreement, should eventually the application for conversion is rejected by the Land Office in the PRC.

16. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	1,734	3,474
Packing materials	54	40
Finished goods	1,769	827
	3,557	4,341

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17. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	33,950	61,139
Less: Allowance for doubtful debts (<i>Note 10</i>)	(10,168)	–
	23,782	61,139
Other receivables, deposits and prepayments	4,864	2,147
	28,646	63,286

All trade receivables are expected to be recovered within one year and are denominated in RMB.

18. ESCROW MONEY

	2009 RMB'000	2008 RMB'000
Professional fees	4,400	–

On 28 December 2009, the Provisional Liquidators, on behalf of the Company, and the Escrow Agent entered into an exclusivity and escrow agreement with the Investor. The said agreement granted the Investor a 12-month exclusivity to negotiate the restructuring of the Company, certain subsidiaries and associated companies, if any, in the Group.

During the year ended 31 December 2009, the Investor provided HK\$5,000,000 (equivalent to approximately RMB4,400,000) to the Provisional Liquidators for the cost and expenses of the Company to proceed with the restructuring.

19. PLEDGED BANK DEPOSITS

For the year ended 31 December 2008, pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. They carried at prevailing market interest rates which range from 1.5% to 3.825% per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at prevailing market interest rates which range from 0.01% to 0.36% per annum (2008: 1.5% to 3.825% per annum).

Included in bank balances and cash are the following accounts denominated in currency other than functional currency of the Group.

	2009	2008
	RMB'000	RMB'000
US dollars	73	41
Hong Kong dollars	105	10,784
	178	10,825

21. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	RMB'000
Trade payables	1,656	8,314
Interest payable	1,353	1,353
Receipt in advance, other payables and accrued charges	4,889	5,526
	7,898	15,193

All trade payables are expected to be settled within one year.

22. AMOUNTS DUE TO SHAREHOLDERS

Based on the available books and records to the Provisional Liquidators, two loan agreements were entered into on 31 July 2009 by the Company with Mr. Yang Zongwang ("Mr. Yang") (a former director of the Company) and Fu Teng Global Limited ("Fu Teng") (a substantial shareholder of the Company in which Mr. Yang has entire interest) for HK\$3,763,100 (equivalent to approximately RMB3,308,000) and HK\$50,220,000 (equivalent to approximately RMB44,150,000) respectively (the "Shareholders' Loan Agreements"). Pursuant to the Shareholders' Loan Agreements, the loans were unsecured, interest free and repayable on or before 31 August 2009 with the overdue balances bearing interest at Hong Kong Prime Rate per annum.

Notes to the Consolidated Financial Statements

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22. AMOUNTS DUE TO SHAREHOLDERS *(continued)*

Pursuant to debt assignment agreements dated 21 September 2009 entered into between Fu Teng and Mr. Yang, and a third party, Banyan Capital Management Inc. ("Banyan Capital"), the loans from Fu Teng and Mr. Yang were assigned to Banyan Capital at consideration of HK\$2,700,000 and HK\$300,000 respectively (see Note 24).

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the amounts due to shareholders.

23. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank loans, secured	56,858	110,508
Bank overdrafts, secured	2,869	–
	59,727	110,508

	2009 RMB'000	2008 RMB'000
--	-----------------	-----------------

The maturity of the secured bank borrowings, is as follows:

Within one year or on demand	59,727	110,508
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Bank borrowings of RMB59,727,000 (2008: RMB99,733,000) and RMB Nil (2008: RMB10,775,000) are denominated in Hong Kong dollars and United States dollars respectively, and arranged at floating rates from 2% to 3.5% over HIBOR (2008: 2% to 3.5% over HIBOR) per annum and Nil (2008: 1.75% over USD LIBOR) per annum.

Bank loans from DBS Bank (China) Company Limited of approximately RMB20,533,000 and DBS Bank (Hong Kong) Limited of RMB25,751,000 had not been repaid in accordance with the relevant terms. Bank loans from PT. Bank Mandiri (Persero) TBK, Hong Kong Branch of RMB10,574,000 has been called on demand according to the respective loan agreements. Due to the default in repayment and consequential litigations following the default arisen against the bank loans, the Provisional Liquidators reclassified all the bank loans as current liabilities accordingly.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

24. OTHER BORROWINGS

	2009 RMB'000	2008 RMB'000
Debts assigned (<i>Note (i)</i>)	47,458	–
Accrued interest (<i>Note (ii)</i>)	797	–
As at 31 December	48,255	–

Note:

- (i) Pursuant to debt assignment agreements dated 21 September 2009 entered into between (a) Mr. Yang and Banyan Capital, (b) Fu Teng and Banyan Capital, the amounts due from the Company to Mr. Yang of HK\$3,763,100 (equivalent to approximately RMB3,308,000) and Fu Teng of HK\$50,220,000 (equivalent to approximately RMB44,150,000) were assigned to Banyan Capital at consideration of HK\$300,000 and HK\$2,700,000 respectively.
- (ii) Other borrowings are unsecured, interest bearing at Hong Kong Prime Rate per annum and have no fixed repayment terms.

25. PROVISION FOR BANK LOANS GUARANTEE FOR A DECONSOLIDATED SUBSIDIARY

	2009 RMB'000	2008 RMB'000
Provision for bank loans guarantee for 福建福旺金屬製品有限公司	29,000	29,000

Details of the guarantee are set out below:

Bank	Guarantee for	Status of subsidiary	Guaranteed Amount RMB'000
Bank of China Fuqing Branch	Fuwang	Bloxworth HK, immediate holding company of Fuwang, was placed into creditors' voluntary liquidation pursuant to section 228A of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong on 5 October 2009. On 26 February 2010, Mr. Fok Hei Yu and Mr. Roderick John Sutton, both of FTI Consulting were appointed as Joint and Several Liquidators of Bloxworth HK. Respective results, assets and liabilities were deconsolidated from the Group's account since 1 January 2008.	29,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

25. PROVISION FOR BANK LOANS GUARANTEE FOR A DECONSOLIDATED SUBSIDIARY (continued)

The Company had executed corporate guarantee to the extent of RMB29,000,000 (2008: RMB29,000,000) to a bank in the PRC to secure the loans extended to a deconsolidated subsidiary, Fuwang. So far the Company does not receive any notice for demand for repayment under the guarantee. Based on a legal advice from a lawyer in the PRC obtained by the Provisional Liquidators, the obligations under the guarantee are still in force until November 2011. Since there is insufficient information for the Company to assess the liabilities which will be borne by the Company under the guarantee, the Company therefore had made full provision of RMB29,000,000 (2008: RMB29,000,000) in the consolidated financial statements.

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the above mentioned corporate guarantee.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 RMB'000	2008 RMB'000
Swap derivatives	–	96,198

Swaps derivatives

	2009 RMB'000	2008 RMB'000
At 1 January	96,198	109,337
Payments made during the year	(2,028)	(21,264)
Changes in fair value	–	8,125
Gain on termination	(23,340)	–
Derecognition upon termination (Note 27)	(70,830)	–
Structure interest rate swap at 31 December	–	96,198

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

26. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Swaps derivatives *(continued)*

During the year ended 31 December 2007, the Company entered into two structured five-year interest rate swaps (the "Swaps") as a part of its financial management strategy with a commercial bank (the "Bank"). On effective date of respective Swaps, the Company received total upfront payments of approximately HK\$78,000,000 from the Bank. The fair value of the Swaps at the end of the reporting period is provided by the counterparty bank. Major terms of the Swaps are set out in below:

Notional amount	Upfront payments	Effective date	Maturity date	Swaps
HK\$390,000,000	HK\$39,000,000	28 February 2007	28 February 2012	The Company receives: 7.0% semi-annually for first 6 months; thereafter: 7.0% * n/m <i>(Notes i)</i> The Company pays: 9.0% semi-annually
US\$50,000,000	US\$5,000,000	23 April 2007	23 April 2012	The Company receives: 8.0% semi-annually The Company pays: 10.0% semi-annually for first 6 months; thereafter: 10.0% minus 5* (Index of YoY Return - 1.0%) <i>(Notes ii)</i> coupon capped at 13.0% and floored at 0%

Notes:

- (i) n : Number of business days in the calculation period that HK\$ 10-years CMS# minus HK\$ 2-years CMS[^] ≥ 0%
- m: Total number of business days in the calculation period
- # Mid-market quarterly swap rate expressed as a percentage for a HK\$ interest rate swap transaction with a term equal to 10 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the Accrual Period.
- [^] Mid-market quarterly swap rate expressed as a percentage for a HK\$ interest rate swap transaction with a term equal to 2 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the Accrual Period.
- (ii) Index* of YoY Return: The closing level of the Index five business days prior to the end of the relevant coupon payment period/closing level of the Index five business days prior to the payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in cash of the second coupon payment period) - 1.
- * *Index means the "Deutsche Bank Pan-Asian Forward Rate Bias Index" (the "Index") as published on Bloomberg Page DBFRASI3 <Index>*

During the year ended 31 December 2008, a loss on change in fair value of RMB8,125,000 was recognised in profit or loss.

The Group has to repay the upfront payments and the interests to the Bank, semi-annually. During the year, RMB2,028,000 (2008: RMB21,264,000) was repaid to the bank.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

26. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Swaps derivatives *(continued)*

On 13 May 2009, the Swaps were early terminated by the Bank as a result of the Company not paying the interest payment under the Swaps on the due dates and the Company received a statement of demand dated 15 May 2009 for an early termination amount (the "Termination Amount") of US\$10,319,033 (equivalent to approximately RMB70,830,000) and a gain of RMB23,340,000 was recognized upon termination of the Swaps on the same date. The Termination Amount is remained unsettled with the Bank as at 31 December 2009 and is included under "Other financial liabilities (see Note 27) in the consolidated statement of financial position at the same date. The Provisional Liquidators had negotiated with the Bank the basis for calculation of the Termination Amount. In August 2010, both parties agreed the revised Termination Amount of US\$10,069,033.

Warrants

As announced by the Company on 9 May 2006, the Company entered into a warrant instrument dated 4 May 2006 (the "Instrument") with an independent subscriber (the "Subscriber"). Pursuant to the Instrument, the Company agreed to issue and the Subscriber agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK\$0.10 each in the Company, at an initial subscription price of HK\$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

Pursuant to the terms of the Instrument, the Instrument, including any issued and outstanding Warrants, had lapsed at the end of the subscription period, i.e. 18 May 2009. To the best knowledge of the Provisional Liquidators, no Warrants has been issued or exercised during the year ended 31 December 2009.

27. OTHER FINANCIAL LIABILITIES

	2009 RMB'000
Termination Amount <i>(Note (i))</i>	70,830
Accrued interest <i>(Note (ii))</i>	623
At 31 December 2009	71,453

Notes:

- (i) The balance represents the Termination Amount demanded by the bank as a result of the early termination of the Swaps *(see Note 26)*.
- (ii) Interest is accrued on the Termination Amount for the period from 13 May 2009 to 2 October 2009 at a rate per annum equal to the cost to the Bank if it were to fund the relevant amount plus 1% per annum in accordance with the ISDA 2002 Master Agreement dated 14 February 2007. The Provisional Liquidators used the overnight USD London Interbank Offered Rates plus 1% per annum to estimate the accrued interest.

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28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1 January 2008, 31 December 2008 and 31 December 2009	2,000,000,000	200,000
<i>Issued and fully paid:</i>		
At 1 January 2008	601,791,081	60,179
Exercise of share options	19,730,000	1,973
At 31 December 2008 and at 1 January 2009	621,521,081	62,152
Exercise of share options	35,600,000	3,560
At 31 December 2009	657,121,081	65,712
		RMB'000
Shown in the financial statements		
At 31 December 2009		67,399
At 31 December 2008		64,260

All the shares which were issued by the Company during the year rank pari passu with each other in all respects.

29. SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the shareholders of the Company on 2 June 2003, the Company adopted a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive director), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5,000,000 must be approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

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29. SHARE OPTION SCHEME (continued)

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors and will be not less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

The following table discloses details and movements of the Company's share options held by the former directors/directors and employees during both years:

	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 31.12.2007 and at 1.1.2008	Granted during the year ended 31.12.2008	Exercised during the year ended 31.12.2008	Outstanding at 31.12.2008	Granted during the year ended 31.12.2009	Exercised during the year ended 31.12.2009	Lapsed during the year ended 31.12.2009	Outstanding at 31.12.2009
Directors of the Company, including former directors	25 May 2006	0.800	25 May 2006 to 24 May 2016	4,000,000	-	-	4,000,000	-	-	(4,000,000)	-
	17 July 2007	1.316	17 July 2007 to 16 July 2017	5,000,000	-	-	5,000,000	-	(5,000,000)	-	-
	30 January 2008	0.632	30 January 2008 to 29 January 2018	-	1,000,000	(1,000,000)	-	-	-	-	-
	14 January 2009	0.399	14 January 2009 to 13 January 2019	-	-	-	-	3,100,000	(3,100,000)	-	-
Senior management	10 February 2004	0.810	10 February 2004 to 9 February 2014	3,800,000	-	-	3,800,000	-	-	-	3,800,000
	2 January 2007	0.670	2 January 2007 to 1 January 2017	730,000	-	(230,000)	500,000	-	-	(500,000)	-
	2 May 2007	0.912	2 May 2007 to 1 May 2017	2,500,000	-	-	2,500,000	-	-	-	2,500,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	5,800,000	-	-	5,800,000	-	-	-	5,800,000
	30 January 2008	0.632	30 January 2008 to 29 January 2018	-	18,500,000	(14,500,000)	4,000,000	-	-	-	4,000,000
	9 December 2008	0.381	9 December 2008 to 8 December 2018	-	7,500,000	-	7,500,000	-	(7,500,000)	-	-
Employees	10 February 2004	0.810	10 February 2004 to 9 February 2014	7,600,000	-	-	7,600,000	-	-	-	7,600,000
	25 May 2006	0.800	25 May 2006 to 24 May 2016	2,280,000	-	-	2,280,000	-	-	-	2,280,000
	2 January 2007	0.670	2 January 2007 to 1 January 2017	700,000	-	-	700,000	-	-	-	700,000
	2 May 2007	0.912	2 May 2007 to 1 May 2017	8,000,000	-	-	8,000,000	-	-	-	8,000,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	38,870,000	-	-	38,870,000	-	-	-	38,870,000
	30 January 2008	0.632	30 January 2008 to 29 January 2018	-	10,000,000	(4,000,000)	6,000,000	-	-	-	6,000,000
	9 December 2008	0.381	9 December 2008 to 8 December 2018	-	20,000,000	-	20,000,000	-	(20,000,000)	-	-
				79,280,000	57,000,000	(19,730,000)	116,550,000	3,100,000	(35,600,000)	(4,500,000)	79,550,000

The Company received notional consideration for options granted during the year.

The closing price of the Company's share immediately before 14 January 2009, the date of grant of options, was HK\$0.370 (equivalent to approximately RMB0.326).

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29. SHARE OPTION SCHEME (continued)

The closing price of the Company's share immediately before 1 January 2009, 14 January 2009, 15 January 2009, 19 January 2009, 20 January 2009, 17 February 2009, 26 February 2009 and 16 March 2009, on which the share options were exercised at HK\$0.430, HK\$0.380, HK\$0.370, HK\$0.350, HK\$0.360, HK\$0.280, HK\$0.250 and HK\$0.190 respectively (equivalent to approximately RMB0.370, RMB0.330, RMB0.320, RMB0.310, RMB0.310, RMB0.240, RMB0.220 and RMB0.160 respectively).

The closing price of the Company's share immediately before 14 July 2009 and 18 September 2009, on which the share options were lapsed were HK\$0.290 on both dates (equivalent to approximately RMB0.255).

The estimated fair value of the share options granted on 14 January 2009 was HK\$155,678 (equivalent to approximately RMB137,000). Details of the fair value of the share options determined at the dates of grant on 14 January 2009 using the Black-Scholes option pricing model with the inputs are as follows:

	14 January 2009
Share price at date of grant	HK\$0.370
Exercise price	HK\$0.399
Expected volatility	56.54%
Expected life of options	1 year
Risk-free rate	0.3%
Expected dividend yield	12.16%

Notes:

- (i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over certain periods immediately preceding the grant date.
- (ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.
- (iii) As the Black-Scholes model requires the input of highly subjective assumptions based on the directors' best estimate, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

During the year, the Group recognised an expense of RMB137,000 (2008: RMB6,176,000) in relation to share options granted by the Company.

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30. RESERVES

(a) Basis of appropriations to reserves

As stipulated by the relevant laws and regulations in the PRC, Fuwang, Zhanwang and Zhanpen are required to provide for the surplus reserve fund and the enterprise expansion fund. Appropriation to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of Fuwang, Zhanwang and Zhanpen prepared in accordance with PRC Accounting Standards and the amount and allocation basis are decided by their respective board of directors annually. The surplus reserve fund can be used to make up prior year losses of Fuwang, Zhanwang and Zhanpen, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of Fuwang, Zhanwang and Zhanpen by means of capitalisation issue.

The surplus reserve fund of RMB33,609,000 and enterprise expansion fund of RMB7,586,000 were released during the year ended 31 December 2008 upon the deconsolidation of some subsidiaries (*Note 8*).

(b) Special reserve

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation taken place in June 2003.

The special reserve of RMB24,709,000 was released during the year ended 31 December 2008 upon the deconsolidation of a subsidiary (*Note 8*).

(c) Share premium

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

The Company declared and paid its dividend in 2007 from share premium as there was a retained loss resulted in the Company.

Notes to the Consolidated Financial Statements

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31. OPERATING LEASE COMMITMENTS

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

	Land and buildings RMB'000	2009 Machinery and equipment RMB'000	Total RMB'000	Land and buildings RMB'000	2008 Machinery and equipment RMB'000	Total RMB'000
Within one year	-	834	834	784	-	784
In the second to fifth year inclusive	-	1,166	1,166	745	-	745
	-	2,000	2,000	1,529	-	1,529

The lease payments represent the rental payable by the Group for certain of the premises and machinery and equipment. The lease payments are fixed for an average of 2 years and no arrangements have been entered into for contingent rental payments.

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the operating lease commitments.

32. CONTINGENT LIABILITIES

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the contingent liabilities.

33. CAPITAL COMMITMENTS

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the capital commitments.

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34. RETIREMENT BENEFITS PLANS

In the PRC, the Group and its employees in the PRC participate in retirement benefit schemes regulated by the local municipal governments, pursuant to which the Group and its PRC employees pay contributions to the schemes. The Group is currently required to pay a monthly contribution at 18% of the respective employees' average monthly salary in the preceding year.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute 5% of the respective employees' monthly salary (up to a maximum contribution of HK\$1,000 (equivalent to approximately RMB880) by the Group) on a monthly basis to the fund.

35. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed in Note 22 to the financial statements in relation to the amounts due to Shareholders, the Group has the following significant transactions carried out with related parties during the year.

Balances with deconsolidated subsidiaries

	Group	
	2009	2008
	RMB'000	RMB'000
Amounts due from deconsolidated subsidiaries:		
– 福建福旺金屬製品有限公司	7,824	263,738
– Bloxworth Enterprises (HK) Limited	–	17,853
– Rich Victory Development Limited	–	17
– Chinawinner Enterprises Limited	8	5,468
– Chinawinner Enterprises (HK) Limited	–	9
	7,832	287,085
Less: Impairment loss recognised upon deconsolidation of subsidiaries (Note 8)	(7,832)	(287,085)
	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

35. SIGNIFICANT RELATED PARTY TRANSACTIONS *(continued)*

Balances with deconsolidated subsidiaries *(continued)*

The amounts due from deconsolidated subsidiaries were unsecured, interest-free and repayable on demand.

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the balances and transactions with the deconsolidated subsidiaries.

36. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

The following is a list of the subsidiaries at 31 December 2009 which have been included in these consolidated financial statements:

Name of subsidiary	Place of incorporation or establishment/ operation	Paid-up share capital/ registered capital	Proportion of nominal value of ordinary issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bloxworth Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1,000	100%	–	Investment holding
山西展鵬金屬製品有限公司	PRC – wholly owned foreign enterprise	US\$8,100,000	–	100%	Manufacture and sale of tinplate cans for the packaging of beverage in the PRC

(b) Investments in deconsolidated subsidiaries

	2009 RMB'000	2008 RMB'000
Investments, at cost:		
Unlisted shares	–	153,194
Less: Impairment losses recognised <i>(Note 8)</i>	–	(153,194)
	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

36. INVESTMENTS IN SUBSIDIARIES (continued)

(b) Investments in deconsolidated subsidiaries (continued)

As explained in Note 2.2, the Provisional Liquidators consider that the control over certain subsidiaries, namely Rich Victory, Chinawinner HK, Chinawinner BVI and its wholly owned subsidiary, Zhanwang, and Bloxworth HK and its wholly owned subsidiary, Fuwang, had been lost. Their financial statements have not been included in the consolidated financial statements of the Group which is not in accordance with the requirements of HKAS 27 "Consolidated and Separate Financial Statements" issued by HKICPA.

Details of the deconsolidated subsidiaries as at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Paid-up share capital/ registered capital	Proportion of nominal value of ordinary issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Chinawinner Enterprises Limited	British Virgin Islands/ Hong Kong	US\$1,000	100%	–	Investment holding
Rich Victory Development Limited	Hong Kong	HK\$1	100%	–	Inactive
Chinawinner Enterprises (HK) Limited	Hong Kong	HK\$1,000	100%	–	Inactive
Bloxworth Enterprises (HK) Limited	Hong Kong	HK\$1,000	100%	–	Inactive
福建福旺金屬製品有限公司	PRC – wholly owned foreign enterprise	US\$20,100,000	–	100%	Manufacture and sale of tinplate cans for the packaging of food and beverage in the PRC, and provision of tinplate lacquering and printing services
四川省展旺金屬製品有限公司	PRC – wholly owned foreign enterprise	US\$5,000,000	–	100%	Manufacture and sale of foreign enterprise tinplate cans for the packaging of food and beverage in the PRC

37. EVENTS AFTER THE REPORTING PERIOD

1. On 13 May 2009, the Swaps were early terminated by the Deutsche Bank as a result of the Company not paying the interest payment under the Swaps on the due dates and the Company received a statement of demand dated 15 May 2009 for an early termination amount of US\$10,319,033 (equivalent to approximately RMB70,830,000) and a gain of RMB23,340,000 was recognised upon termination of the Swaps on the same date. The Provisional Liquidator had negotiated with Deutsche Bank the basis for calculation of the early termination amount. In August 2010, both parties agreed the revised early termination amount of US\$10,069,033.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

37. EVENTS AFTER THE REPORTING PERIOD *(continued)*

2. Pursuant to a letter dated 22 February 2010 by the Stock Exchange, the Company is in the first stage of the delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange as at the date of these financial statements. The Company is required to submit a viable resumption proposal to the Stock Exchange by 21 August 2010, which should meet the following conditions:
- (i) demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules.
 - (ii) publish all outstanding financial results and address any concerns that may be raised by the auditors of the Company.
 - (iii) demonstrate that the Company has adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the Listing Rules.
 - (iv) address certain issues raised by Deloitte Touche Tohmatsu, the then auditors of the Company, which details were set out in the announcement of the Company dated 30 April 2009, to the satisfaction of the Stock Exchange.
 - (v) withdraw and/or dismiss the winding-up petition and discharge the Provisional Liquidators.

A resumption proposal was submitted to the Stock Exchange on 21 August 2010.

On 23 March 2010, the Provisional Liquidators and Sino Gather Limited (“Sino Gather”) (a special purpose vehicle controlled by the Provisional Liquidators) entered into a sale and purchase agreement where Sino Gather agreed to acquire and the Provisional Liquidators (on behalf of the Company) agreed to sell the entire share capital of Chinawinner BVI, Chinawinner HK, Rich Victory, all are at an aggregate nominal consideration of HK\$3. The said transaction is primarily in furtherance of the Group’s restructuring.

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete the books and records of the Company and its subsidiaries, the Provisional Liquidators make no representation as to the completeness and accuracy of the events after the reporting period.

38. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

According to the latest available information to the Provisional Liquidators, the immediate parent and ultimate controlling party of the Group was Fu Teng Global Limited, which was incorporated in the BVI and wholly-owned by Mr. Yang Zongwang. Ms. Yang Yunxian is the spouse of Mr. Yang Zongwang and is deemed beneficially interested in the shares held by Fu Teng Global Limited by virtue of the Securities and Futures Ordinance (Chapter 571) of the Law of Hong Kong. This entity does not produce financial statements available for public use.

Financial Summary

RESULTS

	For the year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	74,066	193,354	668,641	518,093	470,789
(Loss)/profit before tax	(8,608)	(831,170)	120,641	114,096	107,832
Income tax expense	-	(5,243)	(28,141)	(17,594)	(14,491)
(Loss)/profit for the year	(8,608)	(836,413)	92,500	96,502	93,341

ASSETS AND LIABILITIES

	At 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Total assets	102,543	170,006	1,071,338	756,928	611,465
Total liabilities	(222,704)	(297,828)	(289,860)	(178,795)	(176,986)
Total (deficit)/equity	(120,161)	(127,822)	781,478	578,133	434,479

Since the Provisional Liquidators lost control of certain subsidiaries and failed to get access to the complete books and records of the Company and its subsidiaries, therefore the presentation format of this summary has not been prepared on a consistent basis.