Vinda International Holdings Limited
維達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code : 3331)

Annual Report 2007


GLOBAL
TOP BRAND
A GREAT
Banyan

PAPER-MAKING KINGDOM

CONTENTS

CORPORATE INFORMATION

Directors

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Audit Committee

Mr. KAM Robert *(Chairman)*
Mr. MAK Kin Kwong
Mr. HUI Chin Tong, Godfrey

Remuneration Committee

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

Nomination Committee

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

Authorised Representatives

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

Company Secretary, Qualified Accountant and Chief Financial Officer

Mr. TSANG Zee Ho, Paul, CPA, FCCA

Auditors and Reporting Accountants

PricewaterhouseCoopers

Compliance Adviser

Partners Capital International Limited

Registered Office

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

Principal Place of Business in Hong Kong

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

Place of Listing and Stock Code

The Stock Exchange of Hong Kong Limited
Stock Code: 3331

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Legal Advisers to the Company

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

Principal Bankers

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

Website

http://www.vindapaper.com/en/Investors/02.asp
http://www.hkexnews.com.hk

To Become A PAPER-MAKING KINGDOM

Fresh

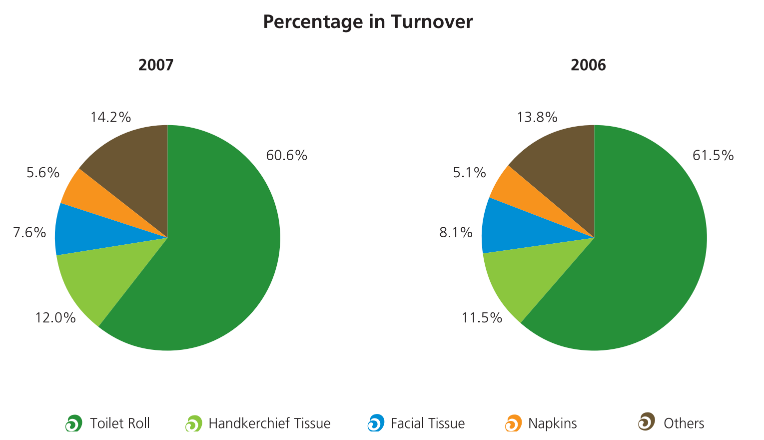
FINANCIAL HIGHLIGHTS

	2007	2006
Gross profit margin (%)	20.6%	25.1%
Net profit margin (%)	4.4%	7.9%
Earnings per share		
Calculated based on the weighted average number of shares (2007: 762,334,778 shares; 2006: 637,448,020 shares)	10.3 cents	16.8 cents
Dividend per share	2.2 cents	59 cents
Stock turnover	107 days	102 days
Debtors turnover	37 days	36 days
Creditors turnover	38 days	51 days
Current ratio (times)	1.39	0.61
Gearing ratio[1] (%)	44.6%	200.3%
Net gearing ratio[2] (%)	27.4%	187.0%

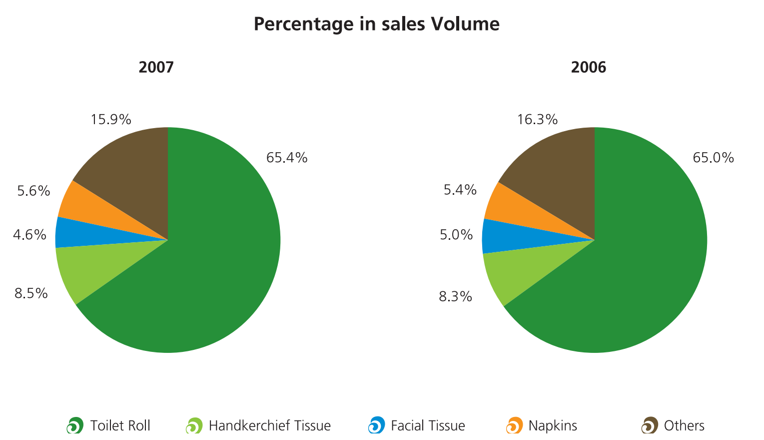
Notes:

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

Turnover by Product Categories



Sales Volume by Product Categories



PRODUCT LINES

Products By Brands

(1) NBA Sports Series

With a unique, sporty, fashionable and high-end package, this NBA series is manufactured using a two-ply softening technology with special treatments and processes to enhance softness and absorbency for use in homes and in sports.

(2) Sports Series

Leveraging the sporty image of Vinda established over the years, this uniquely-designed sports package series highlights the theme of healthy physical exercises. Its softness has been enhanced for better absorption when wet and low-dusting when dry. It has a fresh smell, ideal for use after execise.

(3) Blue-coloured Classic Series

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

(4) Hong Kong King Series

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

(5) Vinda products

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

(6) The Toughest Series

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

(7) Huazhiyun（花之韻）– the Internet Personalities Series

With its cover design using superbly popular Internet personalities, this series targets the young consumer segment with a uniquely-designed handy and attractive package, the series offers convenience as well as comfort in use.

(8) Romantic Series

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

(9) Elegant Series

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

(10) Other series

MISSION

Bringing clean and comfortable products to people

GOAL

Creating trend-setting products; maximizing operation scale and efficiency, improving quality; consolidating leadership position

CORE VALUES

Professional, focus, environmental friendly, advanced

CORE COMPETENCE

A highly committed team offering professional services and value-for-money products to customers

CHAIRMAN'S STATEMENT

I'm pleased to present to the shareholders of Vinda International Holdings Limited ("Vinda International" or the "Company") the Annual Report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2007. The audited revenue was Hong Kong Dollars ("HK$") HK$1,777.7 million, representing an increase of HK$419.5 million over last year (2006: HK$1,358.2 million). The net profit was HK$78.4 million, representing a decrease of HK$28.4 million as compared with last year (2006: HK$106.8 million), while the basic earnings per share were HK10.3 cents, representing a decrease of HK6.5 cents as compared with last year (2006: HK16.8 cents).The board of Directors (the "Board") has proposed to pay a final dividend of HK2.2 cents in respect of the financial year ended 31 December 2007 to all the shareholders.

Business Review

During the reporting period, the revenue grew at a high pace of 30.9% over the last year, our profit did not record a similarly high level of growth. We analyse that it was mainly due to the large price surge of raw material which went over and above the expectation of the management. This is a common problem faced by all companies within the industry. In response to the rising costs, the management had implemented a number of measures to control the operating overheads and raised the prices of certain products as appropriate during the year. We expect these measures to bear results in the upcoming year.

2007 is a memorable year for the Group. With solid business growth and outstanding financial performance, the Company successfully listed its shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 July 2007. The Group believes that its successful listing will not only further enhance awareness of the Company and its brands, but also improve the Group's corporate governance and shareholding structure, and access to the capital market.

In 2007, China's economy grew rapidly and the disposable income of consumers continued to increase. As a result, consumers' demand for medium to high-end tissue paper was increased. However, it leads to keen competition in the high-end market. Attributable to the higher standard for environmental protection and the continuing surge in the price of raw materials, most small and medium-sized paper product producers were severely impacted or even forced to shut down.

Innovation is the fundamental driving force for our growth. In 2007, the Group continued to develop new products in different segments to meet consumers' growing demand. We have received very positive response from the consumers to our newly launched products.

The continuous development of brand is the cornerstone for our sustainability. The "Vinda" brand has gained broad appeal to consumers since inception and was honored "China Famous Trademark"("中國馳名商標")", "China Top-brand Product" ("中國名牌產品") and "National inspection-free product"("國家免檢產品"). Through extensive advertising, especially sports marketing and promotion targeting specific consumer groups during the year, we have enriched our brand image, enhanced the communication with consumers and highlighted the uniqueness of the products. The Group will consistently implement the brand building strategy of "Taking the quality as the foundation, taking the customers as the core".

Good corporate governance enables us to manage our growth. In 2007, the Group established internal control system, optimized management processes and structured and reinforced the responsibilities of different positions, so as to further improve the Group's overall management capabilities and operation efficiency. The Group has also strengthened the oversight of its internal control system and established measures through the cooperation of different specialized committees, ensuring a high standard of corporate governance and operating environment.

Prospect and Strategy

The Board believes that China's economy will continue to grow in 2008 and consumers' purchasing power will be further enhanced. As a result, China's demand for household paper will continue to grow. The price for raw materials, however, will remain at a high level. The costs for labour and transportation will also increase.

We believe there are opportunities in the market. While actively expanding the production capabilities of its existing manufacturing bases, the Group will also continue to invest in new manufacturing facilities to step-up its cost advantage and achieve better economies of scale. The Group will continue to improve its operating system, strengthen its control on production processes and integrate marketing management resources. Moreover, the Group will shorten the management chain by implementing specialized and centralized management on marketing and production, so as to effectively integrate and fully utilize the internal human resources, increase management efficiency and significantly lower the costs. We expect to benefit from the appreciation of Renminbi ("RMB").

The Group will continue to optimize its product portfolio by focusing on products with higher gross profit margin, and devote more efforts in the development of the second and third tier markets. Thus, the Group will further enhance the market coverage and increase its market share.

The Group believes that in the year of 2008, our business will continue its development and the management measures will work effectively. On behalf of the Board, I would like to thank all the shareholders, customers and business partners of the Group for their support. I also would like to take the opportunity to express my sincere appreciation to all employees for their diligence and contribution.

LI Chao Wang
Chairman

Hong Kong, 18 April 2008


Vinda
维达
FACIAL TISSUES
Soft
To Become A GLOBAL TOP BRAND

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Vinda International Holdings Limited (“Vinda International” or the “Company”) is pleased to present the Annual Report of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 (the “Period”).

In 2007, the Group’s business continued a sound development. Annual turnover reached Hong Kong dollars (“HK$”) 1,777.7 million, representing an increase of 30.9% over the same period of 2006. This has continued to consolidate the Group’s leading position in the household paper industry in the People's Republic of China (the “PRC”).

Business Environment

In 2007, the declining economic growth in the United States (the “US”) and the depreciation of United States dollars (“US$”) inflicted considerable repercussion on China’s economy, which relied on export to the US. Nonetheless, China’s economy still maintained its steady and fast growth in 2007. According to the data released by the National Bureau of Statistics, annual Gross Domestic Product (“GDP”) grew by 11.4% to Renminbi (“RMB”) 24.66 trillion. Annual retail sales of social consumption goods grew by 16.8% to RMB8.9 trillion; annual disposable income per capita of urban residents grew by 17.2% to RMB13,786; net income per capita of rural residents grew by 15.4% to RMB4,140. With the sustained rapid growth of China’s economy, its accelerating urbanization and the constantly improving living standards of urban and rural residents, consumers’ requirement and demand for quality tissue paper products will continue to increase. The household paper industry in the PRC will enjoy immense growth potential.

The Company’s successful listing in July 2007 greatly increased the Group’s market prominence, strengthened the Group’s holding power in the industry, making us become more vigorous and competitive. Following commencement of the second construction phase in Shuangshui, Guangdong and the second construction phase in Sichuan, the Group basically achieved a comprehensive sales and marketing strategy that makes use of sales points to cover regions. With centers in Beijing, Hubei, Guangdong and Sichuan along with expansion to peripheral areas, an extensive distribution capability and network advantage will be achieved. The ongoing establishment of a production and sales network featuring “multi-point layout” and a cost efficient logistics system will result in a responsive and efficient product supply mechanism and a consistent sales and marketing network. This will accelerate our market expansion pace to cater for the increasing consumption demand.

Financial review

For the year ended 31 December 2007, the Group recorded a turnover of HK$1,777.7 million, representing an increase of 30.9% over the same period last year. During the Period, profit attributable to equity holders of the Company amounted to HK$78.4 million, representing a decline of 26.6% over the same period last year. Basic earnings per share were HK10.3 cents, a decrease of 38.7% over the same period last year.

Operating expenses

In 2007, the Group’s selling and marketing costs were HK$175.2 million (2006: HK$130.3 million), and percentage to the Group’s revenues increased from 9.59% in the same period last year to 9.85% during the Period. In order to proactively strengthen the brandname of “Vinda”, the Group launched a number of product advertising and diversified marketing plans, and the proportion of actual advertising costs and promotion fee to the Group’s revenues increased from 3.26% to 3.91%.

In 2007, administrative expenses amounted to HK$78.6 million (2006: HK$62.0 million), decreased from 4.57% to 4.42% (both presented as a precentage of the Group's total revenue) during the Period. It reflected that the Group’s overall management system and the strategy of strict controls in administration expenses were successfully implemented.

Profit from business operations

During the Period, the earning before interest, tax, depreciation and amortisation (the "EBITDA") of the Group was HK$190.3 million (2006: HK$218.5 million), representing a decrease of 12.9% over the same period last year, primarily due to an increase in the Group's advertising costs and promotion fee as compared with last year.

Business Review

The Group strives to become the leading manufacturer of tissue paper products. We keep on improving our economies of scale by increasing our production capacity. During the Period, the Group spent a lot of effort to consolidate our leading position in the household paper market, further increased operation efficiency, recruited outstanding staff and continued to appropriate resources to staff training and development.

Products of the "Vinda" brand series enjoy the reputation as a leading brand and wide consumer recognition in the PRC. Through continuous promotion of specific sports events such as the bowling championship and the marketing arrangement signed with NBA, the Group established a healthy and active image for the "Vinda" brand name, further enhancing the Group's brand equity.

During the Period, the Group continued to improve its product mix and enhanced the sales mix of products with higher gross profit margins including hard-envelop facial tissue, soft-envelop facial tissue, paper napkins, handkerchief tissue as well as other multi functional papers such as kitchen paper towels. In 2007, sales of these products accounted for 34.2% of the Group's total revenue (2006: 33.1%), an increase of 1.1% over year 2006. The sales of toilet rolls accounted for 60.6% of the Group's total revenue a decrease of 0.9% over last year (2006: 61.5%).

Despite the tightening market supply of selected categories of wood pulp, the output of the Group's major products maintained its growth with consistent quality. We were able to maintain sufficient product supply to meet the market demand. However, the ongoing increases prices of wood pulp inflicted pressure on our production cost. Although the Group effectively controlled other costs and fees, as well as raised prices of some products in a proper and gradual fashion during the second half of 2007, the gross profit margin suffered a drop to 20.6% (2006: 25.1%).

As the living standards for urban and rural residents continue to improve, the market demand for medium to high-end quality tissue paper products has been increasing accordingly. However, the production and development of small paper manufacturing plants gradually ceased due to the requirement by the Central Government on environmental protection. Based on the situation and government policies, the Group continued to increase our production capability to satisfy the constantly increasing market demand. During 2007, the second construction phase of the Group's Beijing production base commenced in January and April 2007; the second construction phase of the production base in Jiangmen, Guangdong commenced in August 2007; and the second construction phase of the production base in Sichuan was commenced in October 2007. All these production facilities provided an additional capacities aggregating 70,000 tons. The Group's output capability has increased to 240,000 tons.

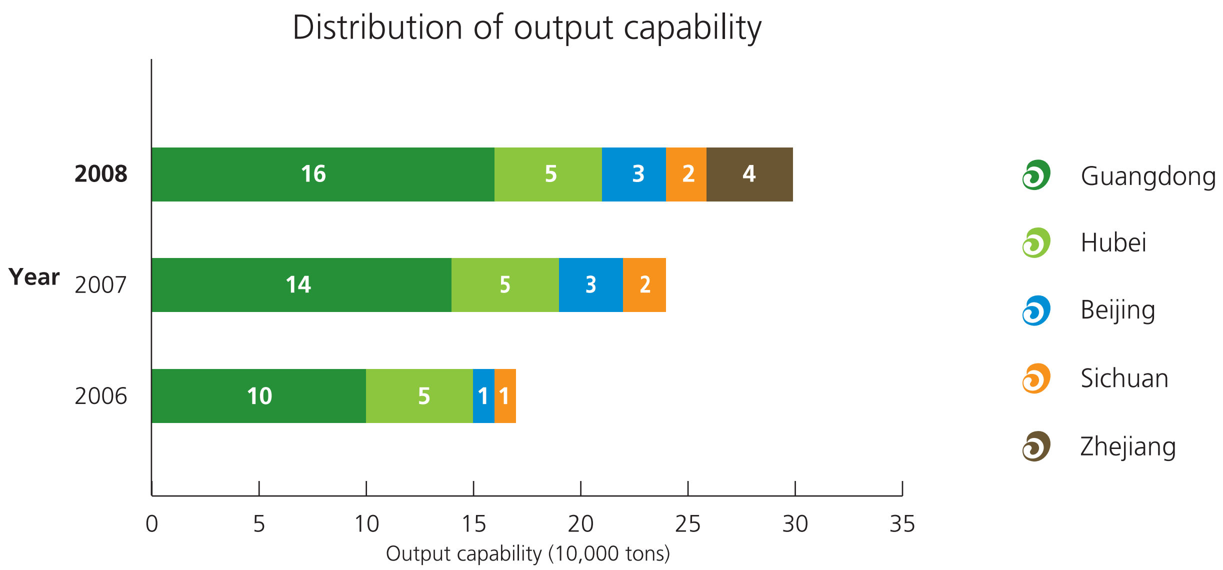
Paper Manufacturing Machine	Location	Annual output capability	Date of Operation
2	Beijing	20,000 tons	January & April 2007
2	Jiangmen, Guangdong	40,000 tons	August 2007
1	Sichuan	10,000 tons	October 2007
Total		70,000 tons	

In addition, the Group will build a new production base in Longyou, Zhejiang. The first construction phase is expected to commence operation in stages by October and December 2008 with 40,000 tons of output capability in total. Meanwhile the third phase of 40,000 tons capability in Jiangmen, Guangdong, will begin production in stages by December 2008 and May 2009. By doing so, the Group will have an additional annual output capability of 80,000 tons. By then, the production base in Zhejiang will directly supply products to "four provinces and one city" in the eastern China, namely the Group's markets in Jiangxi, Zhejiang, Jiangsu, Anhui and Shanghai.

Paper Manufacturing Machine	Location	Annual output capability	Date of Operation
2 (first phase)	Longyou, Zhejiang	40,000 tons	October & December 2008
2 (third phase)	Jiangmen, Guangdong	40,000 tons	December 2008, May 2009
Total		80,000 tons	

The sources of funding in the coming year for the said capital expenditure are expected from internal resources (inclusive of proceeds from the Company's Initial Public Offering ("IPO") in July 2007) and bank borrowings.

As at the end of 2008, the distribution of the Group's regional output capability and total output capability will be as follows:



Business Strategy

Based on our existing model, the Group will keep expanding its sales network, optimizing its sales team, enhancing its sales and service. Facing a rapidly growing domestic market, the Group will not only release new products, stabilize and improve the product's quality, but will also devote more efforts in strategic planning such as new production base in Longyou Zhejiang. Since this will substantially reduce the Group's transportation cost and other relevant fees with regard to distributing products to the above mentioned markets, the competitiveness of the Group's products in those markets will be enhanced. With the Olympic Games to be held in China, the Group will fully implement its sports-oriented sales strategy to further increase the market value of the "Vinda" brand.

Keep on Improving Operation Efficiency

With further capacity expansion of output capability and the reasonable installation of product processing equipment, the Group's total capacity will be increased further. The effect of economies of scale will become more visible. The enlarged scale of sales will increase the output of a single product, shortening the idle time of equipment due to changes in products and standards. Meanwhile, the installation of processing equipment to manufacture diversified products and the increased product packaging speed due to equipment adjustment has increased efficiency while reducing operating cost.

Future Prospects

In its "World Economic Situation and Prospects 2008" released on 9 January 2008, the United Nations forecasts that in 2008 China's economy will grow by 10% and remain a steady and fast development. This will bring unlimited opportunities and great challenges to the Group.

The prices of both energy and supplementary materials are still on an upward trend. Thus, the costs of operations are under the pressure. However, through integrating product mix and pricing structure, increasing the "added value" of products as well as increasing the product prices in a proper fashion, profit margins would rise again gradually. Moreover, the Group will release its cost pressure by optimising the product mix through the continuous launch of new products, improving internal control system, implementing effective cost control measures, expanding the sales and marketing network, and strengthening marketing and publicity, etc. To achieve these, the Group will closely monitor the market, firmly utilize its strategy, and endeavour the best of its abilities in the following areas:

1. To achieve the goal of better cost control, strengthening the co-ordination between production and sales, fully utilizing the Group's integrated efficiency and the coordinating efforts, raising the benchmark of production techniques and enhancing operating efficiency.

2. Fully utilize the advantage of centralized management and operation. With regard to purchasing and sales, we shall continue to strengthen market research, increase responsiveness to market, fully utilize the advantage of the centralized purchase of raw and supplementary materials, and foster professional management. Based on confirmed sales orders, we shall devise a more scientific purchasing plan, control our inventory appropriately and strive to lower the purchasing and inventory costs.

3. Continue to focus on the strategy of talents, strengthen staff training and management, enhance work skills and the overall quality of all employees, and strengthen the cultivation of talents for internal key management.

4. Continue to improve and optimise the product and sales structures; increase the ratio of high-margin products.

In 2008, the Group will fully utilize the advantage of integration, strive to innovate, continue to enhance our ability in sustainable development and consolidate our core competitiveness. We shall focus on increasing our market share in the southwest and eastern China. We will expand our market share in a planned and strategic manner through our favorably established sales and marketing channels, quality products and the strong sales network. The Group believes that the momentum for business growth remains strong and will continue in the future.

Liquidity, Financial Resources and Borrowings

The Group's financial position remained healthy. As at 31 December 2007, the Group's bank and cash balances amounted to approximately HK$258,788,000, including pledged bank deposits HK$6,707,535 (31 December 2006: HK$43,112,857). Current and non-current borrowings in aggregate amounted to approximately HK$654,174,000 (31 December 2006: HK$927,763,000). During the Period, the Group's capital expenditure on the purchases and construction of new production facilities amounted to approximately HK$348,021,000.

The annual interest rates of borrowings ranged from approximately 5.20% to 8.42% during the Period. As at 31 December 2007, certain property, plant and equipment with net book values of HK$334,325,743 (31 December 2006: HK$382,696,270) were pledged to as security for borrowings. As at 31 December 2007, the gearing ratio was approximately 44.6% (as at 31 December 2006: 200.3%), which was calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity. The net gearing ratio, which was calculated on the basis of the amount of total borrowings less bank balances and cash as a percentage of the total shareholders' equity, was approximately 27.4 % (as at 31 December 2006: 187.0%). These ratios were very substantially improved by the proceeds from new shares issued in connection with the Global Offering (gross proceeds: approximately HK$813,777,000) and the exercise of over allotment option (gross proceeds: approximately HK$165,913,000), both completed in July 2007.

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

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

	Estimates Per Prospectus	**Amount Utilised**	**Balance as at 31 December 2007**
	HK$ million	*HK$ million*	*HK$ million*
To construct new manufacturing facilities	144.7	85.7	59.0
To acquire paper making machine	254.3	182.6	71.7
To acquire processing machines and related facilities	127.4	84.0	43.4
To repay short-term loans	297.6	289.1	8.5
To meet working capital needs	46.0	57.0	(11.0)
	870.0	698.4	171.6

The remaining portion of the net proceeds was placed with banks in Hong Kong and mainland as short-term deposits.

Foreign Exchange Risk

The Group focuses on operating our business inside the PRC. The denomination and settlement of the majority of our businesses is denominated in RMB, while the majority of major imported raw materials are paid in US$. The Group's entities utilise long-term contracts to manage foreign exchange risks generated from future business deals and the recognition of assets and liabilities. Foreign exchange risks would come from future business deals and the confirmation of assets and liabilities that denominated in a currency not used by our entities as the functional currency. As at 31 December 2007, the Group did not issue any tools of sizable amount or entered into any contracts for the purpose of foreign exchange hedging.

Contingent Liabilities

As at 31 December 2007 and 31 December 2006, the Group has no material contingent liabilities.

Capital Commitments

	As at 31 December 2007 ***HK$'000***	As at 31 December 2006 *HK$'000*
Contracted but not provided for	**242,288**	161,767

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

Final Dividend

The Board has resolved to propose to shareholders the distribution of a final dividend for the year ended 31 December 2007 at HK2.2 cents, totalling HK$19,884,517, subject to approval by shareholders at the Annual General Meeting (the "AGM") on 27 May 2008. If so approved by shareholders, it is expected that the final dividend will be paid on or about 27 June 2008 to shareholders whose names appear on the register of member of the Company on 23 May 2008.

Close of Register of Members

The register of members of the Company will be closed from 23 May 2008 to 27 May 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the final dividend to be approved at the AGM (and payable on or about 27 June 2008), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 22 May 2008 for registration of transfer.

Purchase, Sale or Redemption of the Company's Listed Securities

Since the listing of the Company's shares on the Stock Exchange on 10 July 2007, no listed share has been redeemed. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares.

Human Resource & Management

The Group has a stable, experienced, dedicated and hard working management team. More than 95% of our senior management have been working for the Group for more than 10 years, and they possess over 10 years' relevant industry experience. Besides, by recruiting all kinds of university graduates to join different positions of the Group on a constant basis, we can cultivate talents for key positions.

The Company believes that our team is the most important resource of the Group. In particular, the capabilities of the management level, professional engineers and skilled technicians are of great importance to the growth of the Group. We will continue to provide staff with a proper and fair working environment, as well as promotion opportunities, training and development. As usual, the Group will continue to comply with the principles of the Company's management model and the best practice of corporate governance.

As at 31 December 2007, the Group had a total of 4,246 full-time employees. To ensure the attractiveness of employees' compensation package, the employees' salary and remuneration will be decided following a thorough consideration of staff's experience and qualifications as well as taking into account of the market situation. Year end bonus and monetary rewards will be dependent on the Group's results and the staff's actual performance.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LI Chao Wang (李朝旺), aged 49, was appointed as an executive Director of the Company on 17 August 1999 and has become the chairman of the Board since 28 April 2000. Mr. LI is a founder of the Group and the Group's Chief Executive Officer (the "CEO") and leads overall corporate development and strategic planning. Mr. LI has over 20 years of experience in the household paper industry and executive business management, having served as a factory manager and a general manager. Mr. LI currently is a member of Guangdong Political Consultative Committee, the vice president of the China Household Paper Association, vice president of the All-China Federation of Industry and Commerce Papermakers' Group and the president of the Jiangmen City Federation of Industry and Commerce. Mr. LI graduated from the Guangdong Radio and TV University's business administration program.

Ms. YU Yi Fang (余毅昉), aged 53, was appointed as an executive Director on 1 February 2000. Ms. YU is a founder and the Chief Operating Officer (the "COO") of the Group. She has over 20 years of experience in China's household paper industry and 18 years of financial management experience as manager of financial affairs for the Group. Ms. YU graduated from the Guangdong Radio and TV University's accounting program.

Mr. DONG Yi Ping (董義平), aged 44, was appointed as an executive Director on 1 February 2000 and is the Group's Chief Technology Officer (the "CTO"). Mr. DONG joined Vinda Paper (Guangdong) in 1991. Mr. DONG has over 20 years of experience in equipment operations and safety, quality control, and research and development. Prior to joining the Group, he served in senior positions in two other paper manufacturing companies. Mr. DONG graduated from the paper manufacturing program of the Tianjin University of Science and Technology (previously the Tianjin Institute of Light Industry).

Non-executive Directors

Mr. MAK Kin Kwong (麥建光), aged 46, was appointed as a non-executive Director on 19 June 2007. Mr. MAK is the founder and managing director of Venfund Investment in Shenzhen. He serves as an independent director and audit committee chairman of Trina Solar Limited, China GrenTech Corp. Ltd., China Security & Surveillance Technology, Inc. and Dragon Pharmaceutical Inc., all listed in the United States; Gemdale Industries Inc., listed in the PRC; and Huabao International Holdings Ltd, listed in Hong Kong. Mr. MAK is also a non-executive director of Bright World Precision Machinery Ltd., a company listed in Singapore. Previously, he was the managing partner of Arthur Andersen Southern China and also a partner of Arthur Andersen Worldwide. He graduated from Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom (the "U.K.") and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Mr. LEUNG Ping Chung, Hermann (梁秉聰), aged 52, was appointed as a Director on 17 May 2005 and was re-designated as a non-executive Director on 19 June 2007. Mr. LEUNG is an executive director of New China Capital Management (HK) Ltd and serves as a non-executive director of Wuxi Little Swan Company Limited, a PRC listed company, which shares are listed on the Shenzhen Stock Exchange. Mr. LEUNG is also currently a non-executive director of Centron Telecom International Holdings Limited and China Aoyuan Property Group Limited, companies whose shares are listed in Hong Kong. He was an alternate non-executive director of Warderly International Holdings Limited, a Hong Kong listed company, until May 2007. Mr. LEUNG has over 20 years of management and operational experience throughout the Asia Pacific region. He received a bachelor of social sciences degree as well as a master's degree in business administration from The Chinese University of Hong Kong.

Mr. Rijk Hendrik Jan SCHIPPER, aged 54, was appointed as a Director on 29 March 2007 and was re-designated as a non-executive Director on 19 June 2007. Mr. SCHIPPER was previously the president of Svenska Cellulosa Aktiebolaget ("SCA") Asia Pacific based in Shanghai, the PRC and has been appointed president of SCA Europe Personal Care from 1 April 2008. SCA Asia Pacific is a business unit under the SCA Group, of which Mr. SCHIPPER has since 1980 served in senior management positions including president of SCA Hygiene Products, Away-from-Home Tissue and vice-president of SCA Hygiene Products European Operations, Incontinence Care. He has over 25 years experience in the global paper and consumer products industry. Mr. SCHIPPER is a graduate from the Utrecht Business School of Economics HEAO-CE, Netherlands. He resigned as a non-executive Director on 19 April 2008.

Mr. Johann Christoph MICHALSKI, aged 42, was appointed as a non-executive Director on 19 April 2008. Mr. MICHALSKI is the president of SCA Asia Pacific based in Shanghai, the PRC. SCA Asia Pacific is a business unit under the SCA Group, of which Mr. MICHALSKI has since 2007 served as senior vice president of Business Development and Strategic Planning. Previously he held a number of senior management positions in the New Zealand dairy group Fonterra as well as the global FMCG company Unilever. He has over 15 years of experience in leading roles in business development and strategy, consumer marketing and innovation in the consumer goods industry. Mr. MICHALSKI has a master degree in economics from Kiel University, Germany.

Mr. CHIU Bun (趙賓), aged 32, was appointed as a Director on 29 March 2007 and was re-designated as a non-executive Director on 19 June 2007. Mr. CHIU joined SCA in 2005 and is the general counsel of SCA Asia Pacific based in Shanghai, the PRC. Mr. CHIU previously worked with international law firms including Clifford Chance, Perkin Coie and Morrison & Foerster. He is admitted as a solicitor in Hong Kong and England & Wales. Mr. CHIU received a bachelor degree in information management from the University College, London and master of laws degrees from the City University of Hong Kong and Remin University, Beijing.

Independent non-executive Directors

Dr. CAO Zhen Lei (曹振雷), aged 48, was appointed as an independent non-executive Director on 19 June 2007. Dr. CAO is the vice president of the China National Light Industry (Group) Corporation, director of the China National Pulp and Paper Research Institute, and general manager of the China Paper Development Company. With more than 20 years of experience in research and management in the pulp and paper industry in China, Dr. CAO also serves as vice president and secretary-general of the Standing Committee of the China Technical Association of Paper Industry, vice president of the China Paper Association, deputy director of the All-China Federation of Industry and Commerce's Papermakers Association, and vice president of the Printing and Printing Equipment Industries Association of China. Dr. CAO is the independent director of Shangdong Sun Paper Industry Joint Stock Co., Ltd. (山東太陽紙業股份有限司), a company listed in the PRC. Dr. CAO holds a bachelor's degree from the South China University of Technology with a specialization in the pulp and paper industry, a master's degree in paper making from the Light Industry Institute of Science and Technology, a Ph.D. in chemical science from the University of Saskatchewan, and an Executive M.B.A. from Peking University's Guanghua School of Management.

Mr. HUI Chin Tong, Godfrey (許展堂), aged 48, was appointed as an independent non-executive Director on 19 June 2007. Since the 1980's, Mr. HUI has established and managed several businesses in the PRC and currently serving as chairman of the board of directors of Network CN Inc. and chief executive officer. Mr. HUI obtained his bachelor degree in business management from the Chinese University of Hong Kong and a master degree in finance and investment from the University of Hull in the U.K.

Mr. KAM Robert (甘廷仲), aged 50, was appointed as an independent non-executive Director on 19 June 2007. Mr. KAM started his career with one of the big four international accounting firm and currently is a partner in the chartered accountancy firm Inpact Kam & Beadman based in Sydney, Australia. He has many years of experience in providing audit, tax and accounting services, including public company statutory audits, information systems audits and internal audits. Mr. KAM graduated with a bachelor of commerce degree from the University of Western Australia. Mr. KAM is a chartered accountant and a member of the Institute of Chartered Accountants in Australia, a Registered Auditor in New South Wales, Australia and a Registered Auditor of the Australian Securities Commission. Mr. KAM is also a Justice of the Peace for the State of New South Wales in Australia.

Mr. TSUI King Fai (徐景輝), aged 58, was appointed as an independent non-executive Director on 19 June 2007. Mr. TSUI is a director and senior consultant at WAG Worldsec Corporate Finance Limited, a registered financial services company in Hong Kong. He has over 30 years of extensive experience in accounting, finance and investment management, particularly in investments in the PRC. Mr. TSUI worked for two of the big four audit firms in the United States and Hong Kong and served in various public listed companies in Hong Kong in a senior capacity. Mr. TSUI is currently acting as independent non-executive director of Lippo Limited, Lippo China Resources Limited, Hongkong Chinese Limited and China Aoyuan Property Group Limited. He graduated from the University of Houston, Texas, the United States and holds a master of science in accountancy and a bachelor of business administration with first class honors. Mr. TSUI is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia and a member of the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. TSANG Zee Ho, Paul (曾思豪), aged 46, is the Chief Financial Officer (the "CFO"), company secretary, and qualified accountant for the Group. He joined the Group in April 2007. He began his career with an international accounting firm in tax consulting. Since 1988, Mr. TSANG has held various senior finance and management positions with public and private companies in Hong Kong and China, including chief financial officer of a private group of companies having diversified operations and interests in Guangzhou, PRC, associate director of Deloitte & Touche Corporate Finance and general manager of corporate finance of Century City Group, a listed company in Hong Kong. Mr. TSANG graduated from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants in the U.K. and a non-practicing member of the Hong Kong Institute of Certified Public Accountants.

Mr. SU Luo Fu (蘇洛夫), aged 51, is the head of material procurement centre for the Group, responsible for the centralized material procurement for the Group. He has served in his present position since he joined the Vinda Paper Group in September 1999. Previously, he was president of the Forda Co. Inc., a trading company, and has over 15 years of experience in sourcing and trade management. He graduated from People's University of China in trade and economic.

Ms. LI Pei Lan (李佩蘭), aged 52, is the Chief Marketing Officer (the "CMO") for the Group. She graduated from the Beijing Administrative College in economic management and from the Peking University Guanghua School of management executive education program. Prior to joining the Vinda Paper Group in January 1998, she was sales department manager at Beijing Electronic Equipment Company (北京市電子器材公司). She has more than 20 years experience in sales management and nearly 10 years of experience in corporate management.

Mr. ZHANG Jian (張健), aged 36, is the assistant to the CEO and also deputy COO of the Group. He graduated from Wu Yi University in Electronic Technology, and joined Vinda Paper Group in the same year. He has served as a manager in the production, marketing, and procurement logistics departments, and also deputy manager and general manager of the company. He has extensive experience in corporate management. He is an executive director of the Guangdong Paper Association.

Ms. WU Bao Ying (吳寶英), aged 44, is the head of quality control centre for the Group and senior engineer in paper making processes. She is responsible for quality control for the Group. Ms. WU graduated from the South China University of Technology majoring in pulp making and paper manufacturing and joined Vinda Paper Group in 1992 from the Jiangmen Paper Factory. She has served as product manager, production manager and deputy general manager. Ms. WU is a member of sub-committee in household paper and paper board at the China Standardization Technical Committee of Papermaking Industry.

Mr. LI Chao Bing (李朝炳), aged 54, is the deputy CMO of the Group. He joined the Vinda Paper Group in February 1998 from the Guangzhou Maritime Safety Administration Traffic and has worked in sales management for the Group. He oversees the sales in southern and eastern China for the Group. Mr. LI is the elder brother of Mr. LI Chao Wang.

Mr. CHEN Bei Qiang (陳北強), aged 49, is the head of technology centre and chief engineer for the Group, senior engineer in textile machinery. He is responsible for paper-making engineering construction projects. Mr. CHEN graduated from the Guangdong Mechanical Engineering College majoring in machinery manufacturing processes and equipment, and joined the Group in June 1997 from the Guangdong Zhujiang Silk Company Limited. Mr. CHEN has 24 years of experience in mechanical and electrical engineering.

Ms. LU Meng (盧夢), aged 33, is the head of operation centre for the Group. She obtained her master's degree in Finance from South-central University of Nationalities, has the title of intermediate accountant and holds the Legal Professional Certification. Prior to joining the Vinda Paper Group in February 2004, she held positions in import and export trade and finance, and has been finance manager in the Group since she joined. She was assistant manager of the internal control department of the Group in August 2007. She has been the head of operation center for the Group since January 2008.

Ms. SUN Qiuli (孫秋利), aged 40, is the head of sale centre for the Group. She graduated from Beijing Xicheng District Workers University. Prior to joining the Vinda Paper Group in March 1999, she served in the Meter Factory of Beijing Automotive Industry Company. Since joining the Group, she has served in production, procurement (as manager) and factory manager. She has been the head of sale for the Group since January 2008.

Mr. CHOW Wing Chau, Rico (周永秋), aged 42, is the head of finance centre for the Group. He graduated from Macquarie University in Australia and is a member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Prior to joining the Vinda Paper Group in August 2007, he had served as project manager and company secretary in a listed company in Hong Kong, as well as financial controller in a private group of companies. He has been the head of finance center for the Group since January 2008.

Ms. LAM Hui Man (林栩雯), aged 60, is manager of internal control for the Group. Prior to joining the Vinda Paper Group in March 2004, she was sales manager in the Xinhui branch of ICBC and has over 15 years of experience in the banking industry. She has served as finance manager since she joined the Group and has been manager of internal control since April 2007.

Corporate Governance Practices

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

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

Directors' Securities Transactions

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with all the directors of the Company (the "Directors" or individually the "Director"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the year ended 31 December 2007.

Board Of Directors

Composition

The board of Directors (the "Board") of the Company currently comprises eleven Directors of which three are executive Directors, four are non-executive directors and four are independent non-executive Directors. The members of the Board as at the date of this annual report are as follows:

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 21 to 24 under the section headed "Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors and senior management attend the meetings. During the period from 10 July 2007 to 31 December 2007, other than resolutions passed in writing by all the Directors, the Board held a total of two regular Board meetings.

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

Directors	Number of regular and ad hoc Board meetings attended	Number of special Board meetings attended
Executive Directors		
Mr. LI Chao Wang *(Chairman and Chief Executive Officer)*	2(2)	5(5)
Ms. YU Yi Fang *(Chief Operating Officer)*	2(2)	5(5)
Mr. DONG Yi Ping *(Chief Technology Officer)*	2(2)	5(5)
Non-executive Directors		
Mr. LEE Kwong Sang	1(2)	
Mr. LEUNG Ping Chung, Hermann	2(2)	
Mr. Rijk Hendrik Jan SCHIPPER	2(2)	
Mr. CHIU Bun	2(2)	
Mr. MAK Kin Kwong	2(2)	
Independent non-executive Directors		
Dr. CAO Zhen Lei	2(2)	
Mr. KAM Robert	2(2)	
Mr. HUI Chin Tong, Godfrey	2(2)	
Mr. TSUI King Fai	2(2)	

Chairman of the Board and Chief Executive Officer

Mr. LI Chao Wang ("Mr. LI") is both the chairman of the Board and a founder of the Company. Mr. LI also serves as the chief executive officer and therefore the daily operation and management of the Company is overseen by Mr. LI with the assistance of the other executive directors as well as the senior management.

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders, including the review of continuing connected transactions described below. The Board consists of four independent non-executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2007 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

Appointments, Re-election and Removal of Directors

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

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

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

The Board Committees

Remuneration Committee

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

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

During the year ended 31 December 2007, no meeting was convened for the remuneration committee.

Nomination Committee

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

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

During the year ended 31 December 2007, no meeting were convened for the nomination committee.

Audit Committee

The Company has established an audit committee on 19 June 2007. The board has adopted the terms of reference for the audit committee which are in line with the Code Provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The audit committee comprises two independent non-executive directors, namely Mr. KAM Robert, and Mr. HUI Chin Tong, Godfrey and a non-executive directors, Mr. MAK Kin Kwong. Mr. KAM Robert is the chairman of the audit committee.

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

During the year ended 31 December 2007 the audit committee held one meeting. The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Company, the discloseable transaction acquisition agreement entered into by the Group and the audit scope and fees for the year ended 31 December 2007.

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

	Members Number of meetings attended
Mr. KAM Robert *(Chairman)*	1(1)
Mr. MAK Kin Kwong	1(1)
Mr. HUI Chin Tong, Godfrey	1(1)

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2007 as disclosed in this annual report. The Directors consider that the consolidated financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. As at 31 December 2007, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 41 to 42 of this annual report.

Internal Control

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effectiveness and efficiency of our operations and to ensure compliance with relevant laws and regulations, the Group emphasizes the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives. The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of materials assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal control of the Group is satisfactory. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2007 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, PricewaterhouseCoopers, for the year ended 31 December 2007 is set out as follows:

	Services rendered **Fee paid/payable** *HK$'000*
Audit services	2,519

The Board agreed with the Audit Committee's view on the selection and re-appointment of the external auditors of the Company for the financial year ending 31 December 2008.

Communication with Shareholders

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

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

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

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

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2007.

Principal Activities and Geographical Analysis of Operations

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 46.

The Directors recommend the payment of a final dividend of HK2.2 cents per ordinary share, totalling HK$19,884,517.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year ended 31 December 2007 are set out in Note 15 to the consolidated financial statements.

Property, Plant and Equipment

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

In accordance with the Group's accounting policies, leasehold land, land use rights and buildings are stated at historical cost less accumulated amortisation/depreciation and impairment losses, if any. The Group's properties interest as at 30 April 2007 were revalued by Vigers Appraisal & Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in "Appendix III — Property valuation" of the prospectus of the Company dated 26 June 2007. The net revaluation surplus, representing the excess of market value of the properties over their then book value, was approximately HK$57,592,000. Such revaluation surplus has not been included in the Group's consolidated financail statements as at 31 December 2006 and 31 December 2007. Had the then properties of the Group been stated at such valuation as at 30 April 2007, an additional depreciation of approximately HK$1,583,000 per annum would be charged to the consoldiated income statement fo the year ended 31 December 2007.

Share Capital

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

Distributable Reserves

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2007, the reserves of the Company available for distribution to shareholders amounted to HK$1,226,825,118 (2006: HK$394,509,459), subject to the restrictions stated in Note 14 to Note 15 to the consolidatd financial statements.

Four-Year Financial Summary

A summary of the consolidated results of the Group for the last four financial years and of its consolidated assets and liabilities as at the end of the last four financial years is set out on pages 111 and 112 respectively.

Purchase, Sale or Redemption of Shares

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

Directors

The Directors who have served during the period from 10 July 2007 (the date on which the Company became listed) to 31 December 2007 :

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

Non-Executive Directors

Mr. LEE Kwong Sang	(resigned on 23 January 2008)
Mr. MAK Kin Kwong	(appointed on 19 June 2007)
Mr. LEUNG Ping Chung, Hermann	
Mr. Rijk Hendrik Jan SCHIPPER	(appointed on 29 March 2007 and resigned on 19 April 2008)
Mr. Johann Christoph MICHALSKI	(appointed on 19 April 2008)
Mr. CHIU Bun	(appointed on 29 March 2007)

Independent Non-Executive Directors

Dr. CAO Zhen Lei	(appointed on 19 June 2007)
Mr. KAM Robert	(appointed on 19 June 2007)
Mr. HUI Chin Tong, Godfrey	(appointed on 19 June 2007)
Mr. TSUI King Fai	(appointed on 19 June 2007)

Directors' Service Contracts

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

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 21 to 24.

Directors' Interests in Contracts

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

Continuing Connected Transactions

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

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

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

   The independent non-executive Directors have reviewed the above mentioned transactions during the period from 1 January 2007 to 31 December 2007 which amount to an aggregate of HK$37,316,751 which falls within the stipulated cap of HK$120 million for the relevant period. The Independent Non-Executive Directors confirmed that the transactions have been entered into:

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

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

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

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

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

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares, underlying shares and debentures

Name	Company name of associated corporations	Nature of Interest	Number of securities	Approximate percentage of interest
LI Chao Wang (1)	The Company	Interest of controlled company	273,180,235 Shares	30.22%
	Fu An International Company Limited	Interest of controlled company	280 shares of US$1.00 each	73.68%
	Sentential Holdings Limited	Interest of controlled company	1 share of US$1.00 each	100%
	Eagle Power Assets Limited	Settlor and beneficiary of CW Li Family Trust	1 share of US$1.00 each	100%
YU Yi Fang (2)	The Company	Interest of controlled company	273,180,235 Shares	30.22%
	Fu An International Company Limited	Interest of controlled company	60 shares of US$1.00 each	15.79%
	Join Pride International Limited	Interest of controlled company	10 shares of US$1.00 each	100%
	Kingdom World Assets Limited	Settlor and beneficiary of YF Yu Family Trust	1 share of US$1.00 each	100%
DONG Yi Ping (3)	The Company	Interest of controlled company	273,180,235 Shares	30.22%
	Fu An International Company Limited	Interest of controlled company	40 shares of US$1.00 each	10.53%
	Daminos Management Limited	Interest of controlled company	10 shares of US$1.00 each	100%
	Profit Zone Assets Limited	Settlor and beneficiary of YP Dong Family Trust	1 share of US$1.00 each	100%

Notes:

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

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

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

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

Share Option Scheme

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

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

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

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

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

Since the Scheme has become effective upon the Company's listing of its shares on the Stock Exchange on 10 July 2007, no share options were granted, exercised or cancelled by the Company under the Scheme during the year and there are no outstanding share options under the Scheme as at 31 December 2007.

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

As at 31 December 2007, the interests and short positions of the substantial shareholders of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares and underlying shares

Name of shareholder	No. of shares held	Nature of Interest	Percentage of Issued share capital
Fu An International Company Limited	273,180,235	Beneficial owner	30.22%
Sentential Holdings Limited *(Note 1)*	273,180,235	Interest of controlled company	30.22%
Eagle Power Assets Limited *(Note 1)*	273,180,235	Interest of controlled company	30.22%
HSBC International Trustee Limited *(Note 1)*	273,180,235	Trustee of CW Li Family Trust	30.22%
LI Chao Wang *(Note 1)*	273,180,235	Settlor and beneficiary of CW Li Family Trust	30.22%
SCA Hygiene Holding AB	127,524,330	Beneficial owner	14.11%
SCA Group Holding BV *(Note 2)*	127,524,330	Interest of controlled company	14.11%
Svenska Cellulosa Aktiebolaget *(Note 2)*	127,524,330	Interest of controlled company	14.11%
Cathay Paper Limited	84,567,232	Beneficial owner	9.36%
Cathay Capital Holdings, L.P. *(Note 3)*	84,567,232	Interest of controlled company	9.36%
Cathay Master G.P., Ltd. *(Note 3)*	84,567,232	Interest of controlled company	9.36%
Commonwealth Bank of Australia *(Note 4)*	53,640,000	Interest of controlled company	5.93%
UBS AG *(Note 5)*	45,514,000	Interest of controlled company	5.04%

Notes:

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

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

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

(4) These Shares are registered in the name of First State Investments (Hong Kong) Ltd. which is indirectly wholly-owned by Commonwealth Bank Australia.

(5) Of the total 45,514,000 Shares, 19,597,000 Shares are held through UBS Global Asset management (Singapore) Ltd; 11,137,000 Shares are held through UBS Fund Services (Luxembourg) SA; 9,574,000 Shares are held through UBS Global Asset Management (Hong Kong) Ltd; 3,717,000 Shares are held by UBS AG as a person having a security interest in shares; and 1,588,000 Shares are held by UBS AG as beneficial owner.

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

Management Contracts

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

Taxation of Holders of Shares

(a) Hong Kong

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, transfer or other dispositions of Shares is exempted from Cayman Islands stamp duty.

(c) Professional tax advice recommended

Intending holders of Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares.

Major Customers and Suppliers

During the year, the percentages of sales of goods and services for the year attributable to the Group's major customers are approximately as follows:

—	the largest customer	9.3%
—	five largest customers combined	30.0%

The percentages of purchasers of goods and services for the year attributable to the Group´s major suppliers are approximately as follows:

—	the largest supplier	16.5%
—	five largest suppliers combined	52.9%

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

Sufficiency of Public Float

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 18 April 2008.

Pre-Emptive Rights

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

Auditors

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

On behalf of the Board
LI Chao Wang
Chairman

Hong Kong, 18 April 2008

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

We have audited the consolidated financial statements of Vinda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 110, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 April 2008

CONSOLIDATED BALANCE SHEET

As at 31 December 2007
(All amounts are stated in Hong Kong dollar ("HK$") unless otherwise stated)

		As at 31 December	
	Note	**2007** **_HK$_**	2006 *HK$*
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**1,391,200,294**	985,395,491
Leasehold land and land use rights	*6*	**95,396,490**	83,744,799
Intangible assets	*8*	**2,966,002**	2,912,265
Deferred income tax assets	*18*	**31,592,589**	23,243,478
		1,521,155,375	1,095,296,033
Current assets			
Inventories	*11*	**501,295,002**	330,180,962
Trade receivables, other receivables and prepayments	*10*	**245,497,749**	204,816,564
Due from related parties	*30(c)*	**4,272,969**	—
Pledged bank deposits	*12*	**6,706,535**	43,112,857
Derivative financial instruments	*20*	**131,890**	341,487
Cash and cash equivalents	*13*	**252,081,481**	61,557,237
		1,009,985,626	640,009,107
Total assets		**2,531,141,001**	1,735,305,140
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*14*	**90,384,169**	4,250,811
Share premium	*14*	**834,834,579**	69,260,002
Other reserves	*15*	**541,373,559**	389,585,378
Total equity		**1,466,592,307**	463,096,191

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2007
(All amounts are stated in HK$ unless otherwise stated)

	Note	As at 31 December 2007 HK$	2006 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	*17*	**308,639,527**	192,413,474
Deferred government grants	*19*	**28,223,836**	27,165,895
Deferred income tax liabilities	*18*	**869,655**	787,601
		337,733,018	220,366,970
Current liabilities			
Trade payables, other payables and accrued expenses	*16*	**347,577,580**	282,503,385
Due to related parties	*30(c)*	**—**	186,786
Dividends payable	*30(c)*	**—**	6,102,892
Borrowings	*17*	**345,535,483**	735,349,426
Current income tax liabilities		**33,702,613**	27,699,490
		726,815,676	1,051,841,979
Total liabilities		**1,064,548,694**	1,272,208,949
Total equity and liabilities		**2,531,141,001**	1,735,305,140
Net current assets/(liabilities)		**283,169,950**	(411,832,872)
Total assets less current liabilities		**1,804,325,325**	683,463,161

LI Chao Wang
Director

YU Yi Fang
Director

The notes on pages 49 to 110 are an integral part of these consolidated financial statements.

COMPANY BALANCE SHEET

As at 31 December 2007
(All amounts are stated in HK$ unless otherwise stated)

	Note	As at 31 December 2007 HK$	2006 HK$
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**895,858,457**	204,535,159
Current assets			
Other receivables		**918,580**	73,023
Pledged bank deposits	12	—	11,933,421
Cash and cash equivalents	13	**94,662,426**	29,142
		95,581,006	12,035,586
Total assets		**991,439,463**	216,570,745
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**90,384,169**	4,250,811
Share premium	14	**834,834,579**	69,260,002
Other reserves	15	**61,352,806**	34,267,398
Total equity		**986,571,554**	107,778,211
LIABILITIES			
Current liabilities			
Other payables and accrued expenses	16	**4,867,909**	116,900
Dividends payable		—	6,102,892
Due to a related party		—	16
Due to subsidiaries	9	—	102,572,726
Total liabilities		**4,867,909**	108,792,534
Total equity and liabilities		**991,439,463**	216,570,745
Net current assets/(liabilities)		**90,713,097**	(96,756,948)
Total assets less current liabilities		**986,571,554**	107,778,211

LI Chao Wang
Director

YU Yi Fang
Director

The notes on pages 49 to 110 are an integral part of this financial statement.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(All amounts are stated in HK$ unless otherwise stated)

		For the year ended 31 December	
	Note	**2007** *HK$*	2006 *HK$*
Revenue	*5*	**1,777,721,432**	1,358,171,643
Cost of sales	*22*	**(1,411,775,105)**	(1,018,006,538)
Gross profit		**365,946,327**	340,165,105
Selling and marketing costs	*22*	**(175,162,720)**	(130,277,419)
Administrative expenses	*22*	**(78,647,307)**	(62,029,113)
Other income/(loss)	*21*	**10,854,268**	11,182,467
Operating profit		**122,990,568**	159,041,040
Finance income	*24*	**22,703,473**	1,483,554
Finance costs	*24*	**(50,794,794)**	(46,829,961)
Finance costs, net	*24*	**(28,091,321)**	(45,346,407)
Profit before income tax		**94,899,247**	113,694,633
Income tax expense	*25(a)*	**(16,542,188)**	(6,881,099)
Profit for the year and attributable to equity holders of the Company		**78,357,059**	106,813,534
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK$ per share)			
— basic	*26*	**0.103**	0.168
— diluted	*26*	**0.103**	0.168
Dividend	*27*	**25,000,000**	20,000,000

The notes on pages 49 to 110 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007
(All amounts are stated in HK$ unless otherwise stated)

		Attributable to equity holders of the Company			
	Note	**Share capital** *HK$*	**Share premium** *HK$*	**Other reserves** *HK$*	**Total** *HK$*
Balance at 1 January 2006		4,167,462	69,343,351	267,503,440	341,014,253
Income recognised directly in equity					
— currency translation differences		—	—	15,268,404	15,268,404
Profit for the year		—	—	106,813,534	106,813,534
Total recognised income for 2006		—	—	122,081,938	122,081,938
Issue of ordinary shares	*14*	83,349	19,916,651	—	20,000,000
Dividend	*27*	—	(20,000,000)	—	(20,000,000)
Balance at 31 December 2006		4,250,811	69,260,002	389,585,378	463,096,191
Balance at 1 January 2007		4,250,811	69,260,002	389,585,378	463,096,191
Income recognised directly in equity					
— currency translation differences		—	—	73,431,122	73,431,122
Profit for the year		—	—	78,357,059	78,357,059
Total recognised income for 2007		—	—	151,788,181	151,788,181
Issue of ordinary shares	*14*	26,622,001	850,085,934	—	876,707,935
Conversion of share premium to increase capital	*14*	59,511,357	(59,511,357)	—	—
Dividend	*27*	—	(25,000,000)	—	(25,000,000)
Balance at 31 December 2007		90,384,169	834,834,579	541,373,559	1,466,592,307

The notes on pages 49 to 110 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(All amounts are stated in HK$ unless otherwise stated)

		For the year ended 31 December	
	Note	2007 HK$	2006 HK$
Cash flows from operating activities			
Cash generated from operations	28(a)	10,117,417	50,785,924
Interest paid		(59,373,691)	(47,551,731)
Income tax paid		(20,433,656)	(27,881,081)
Net cash used in operating activities		(69,689,930)	(24,646,888)
Cash flows from investing activities			
Purchase of property, plant and equipment		(348,020,999)	(278,809,668)
Proceeds from disposal of property, plant and equipment		133,000	13,541,718
Payment for leasehold land and land use rights		(8,760,021)	(10,940,982)
Purchase of intangible assets		(255,742)	(50,948)
Interest received		9,929,396	1,483,554
Net cash used in investing activities		(346,974,366)	(274,776,326)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net		881,416,333	20,000,000
Interest received on IPO subscription deposits		12,774,077	—
Proceeds from government grants		—	18,149,883
Proceeds from borrowings		1,585,423,399	1,967,293,965
Repayments of borrowings		(1,915,663,748)	(1,668,159,813)
Decrease/(increase) in pledged bank deposits		36,406,322	(18,223,870)
Decrease in amounts due to related parties		(186,786)	(1,530,108)
Dividends paid to the Company's equity holders		(31,102,892)	(20,397,108)
Net cash generated from financing activities		569,066,705	297,132,949
Net increase/(decrease) in cash and cash equivalents		152,402,409	(2,290,265)
Effect of foreign exchange rate changes		38,121,835	15,268,404
Cash and cash equivalents, beginning of the year	13	61,557,237	48,579,098
Cash and cash equivalents, end of the year	13	252,081,481	61,557,237

The notes on pages 49 to 110 are an integral part of these consolidated financial statements.

1. General Information

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

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

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

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

These consolidated financial statements are presented in Hong Kong dollar ("HK$") unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 April 2008.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods that the Group has not early adopted:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009;

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

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010, but it is not expected to have any impact on the Group's consolidated financial statements;

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. The Group will apply HKFRS 3 (Revised) from 1 January 2010; and

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

(b) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2007 or later periods but are not relevant for the Group's operations:

- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. As none of the Group entities are going to liquidation, HKAS 32 and HKAS 1 Amendments is not relevant to the Group's operations;

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. As none of the Group entities have such share-based payment arrangements, HKFRS 2 is not relevant to the Group's operations;

- HK(IFRIC)-Int 11, "HKFRS 2 — Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 address how to apply HKFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. As none of the Group entities have such share-based payment arrangements, HK(IFRIC)-Int 11 is not relevant to the Group's operations;

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations (continued)*

- HK(IFRIC)-Int 12, "Service concession arrangements" (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC)-Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services;

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

- HK(IFRIC)-Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC)-Int 14 is not relevant to the Group's operation as the Group do not have any defined benefit plan.

(c) *Standards, amendments and interpretations effective in 2007 but have no significant impact to the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but have no significant impact to the Group's operations:

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements — Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's consolidated financial instruments, or the disclosures relating to taxation and trade and other payables, but require additional disclosure in relation to the Group's financial instruments. The main additional disclosures include certain quantitative information of the Group's exposure to credit risk, liquidity risk and market risk, as well as qualitative information of the Group's capital risk management;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any impact on the Group's consolidated financial statements; and

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) *Standards, amendments and interpretations effective in 2007 but have no significant impact to the Group's operations (continued)*

- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's consolidated financial statements.

(d) *Standards, amendments and interpretations effective in 2007 but not relevant for the Group's operations*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC)-Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC)-Int 9, "Re-assessment of embedded derivatives".

2.2 Consolidation

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

(a) *Subsidiaries*

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

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

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

(c) *Group companies*

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

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

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(c) *Group companies (continued)*

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held by owner.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers or the directors of the Group. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

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

Changes in fair values are recognised in the consolidated income statement as part of the other income.

2. Summary of significant accounting policies (continued)

2.6 Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

2.7 Leasehold land and land use rights

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

2.8 Intangible assets

(a) *Goodwill*

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each entity with independent operations (Note 2.9).

(b) *Computer software*

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

2.9 Impairment of investments in subsidiaries and non-financial assets

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

2. Summary of significant accounting policies (continued)

2.10 Financial assets

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

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

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

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.13).

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. Impairment test of trade receivables is described in Note 2.13.

2.11 Derivative financial instruments

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

2.12 Inventories

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

2. Summary of significant accounting policies (continued)

2.13 Trade and other receivables

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade and other payables

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

2.17 Borrowings

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

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

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

2. Summary of significant accounting policies (continued)

2.18 Borrowing costs

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

2.19 Current and deferred income tax

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

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

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

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

2. Summary of significant accounting policies (continued)

2.20 Employee benefits

(a) *Pension obligations*

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

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

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

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

(b) *Other employee benefits*

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

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

2.21 Provisions

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

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

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

2. Summary of significant accounting policies (continued)

2.22 Government assistance and grants

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

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

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

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

2.23 Revenue recognition

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

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

(a) *Sales of goods*

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

(b) *Interest income*

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

(c) *Dividend income*

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

(d) *Rental income*

Rental income is recognised over the term of the lease on a straight-line basis.

2. Summary of significant accounting policies (continued)

2.24 Operating Leases

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

2.25 Contingent liabilities and contingent assets

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

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

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

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

2.26 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

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

(a) *Market risk*

(i) *Foreign exchange risk*

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

As at 31 December 2006 and 2007, if RMB had strengthened/weakened by 10% against US$ and HK$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US$ and HK$ denominated cash and cash equivalents, pledged bank deposits, trade receivables, trade payables and other payables and borrowings. Details of the changes are as follows:

	31 December	
	2007	2006
	HK$	*HK$*
For the year ended:		
Post-tax profit increase/(decrease)		
— Strengthened 10%	**1,124,051**	22,136,359
— Weakened 10%	**(1,124,051)**	(22,136,359)
As at:		
Owners' equity increase/(decrease)		
— Strengthened 10%	**1,124,051**	22,136,359
— Weakened 10%	**(1,124,051)**	(22,136,359)

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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(i) *Foreign exchange risk (continued)*

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

As at 31 December 2006 and 2007, if RMB had strengthened/weakened by 10% against HK$ with all other variables held constant, the translation reserve of each year end would have changed as follows:

	As at 31 December	
	2007	2006
	HK$	*HK$*
Owners' equity increase/(decrease)		
— Strengthened 10%	**84,199,219**	40,448,126
— Weakened 10%	**(84,199,219)**	(40,448,126)

(ii) *Interest-rate risk*

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

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

As at 31 December 2006 and 2007, if interest rates on bank borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of the changes are as follows:

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Post-tax profit increase/(decrease)		
— 10 basis points higher	**(322,374)**	(285,458)
— 10 basis points lower	**322,374**	285,458

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk*

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

As at 31 December 2006 and 2007, all pledged bank deposits and cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk.

Management does not expect any losses from non-performance by these counterparties.

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

(c) *Liquidity risk*

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

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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

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

	Less than 1 year *HK$*	**Between 1 and 2 years** *HK$*	**Between 2 and 5 years** *HK$*	**Over 5 years** *HK$*
As at 31 December 2007				
Borrowings	345,535,483	427,168	308,212,359	—
Interests payable on borrowings (i)	21,753,397	19,440,304	31,127,838	—
Trade payables	144,111,101	1,192,601	1,634,277	—
Other payables and accrued expenses	185,816,544	12,921,599	—	—
As at 31 December 2006				
Borrowings	735,349,426	7,846,843	183,308,913	1,257,718
Interests payable on borrowings (i)	25,779,414	12,327,081	24,326,177	382,628
Trade payables	139,494,771	191,739	1,677,815	—
Other payables and accrued expenses	133,935,351	7,203,709	—	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2006 and 2007 without taking account of future issues. Floating-rate interest is estimated using current interest rate as at 31 December 2006 and 2007 respectively.

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

3. Financial risk management (continued)

3.2 Capital risk management

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

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

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

The gearing ratios at 31 December 2006 and 2007 were as follows:

	As at 31 December	
	2007	2006
	HK$	*HK$*
Total borrowings *(Note 17)*	**654,175,010**	927,762,900
Less: Cash and cash equivalents *(Note 13)*	**(252,081,481)**	(61,557,237)
Pledged bank deposits *(Note 12)*	**(6,706,535)**	(43,112,857)
Net debt	**395,386,994**	823,092,806
Total equity	**1,466,592,307**	463,096,191
Total capital	**1,861,979,301**	1,286,188,997
Gearing ratio	**21.23%**	63.99%

The decrease in the gearing ratio as at 31 December 2007 resulted primarily from the repayment of borrowings.

3. Financial risk management (continued)

3.3 Fair value estimation

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

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

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

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

4. Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) *Useful lives of property, plant and equipment*

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

(b) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

4. Critical accounting estimates and judgements (continued)

4.1 Critical accounting estimates and assumptions (continued)

(c) *Current tax and deferred tax*

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

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

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

The applicable CIT rates for the Company's PRC subsidiaries are listed in Note 25.

(d) *Estimate of fair value of investment properties*

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(e) *Net realisable value of inventories*

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

(f) *Provision for impairment of trade and other receivables*

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

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

5. Segment information

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Sales of goods	**1,683,533,327**	1,288,334,653
Sales of semi-finished goods and other materials	**94,188,105**	69,836,990
Total revenue	**1,777,721,432**	1,358,171,643

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

6. Leasehold land and land use rights — Group

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

	As at 31 December	
	2007	2006
	HK$	*HK$*
In Hong Kong, held on:		
Lease of between 10 to 50 years	**13,517,462**	14,460,046
In PRC, held on:		
Lease of between 10 to 50 years	**81,879,028**	69,284,753
	95,396,490	83,744,799

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

6. Leasehold land and land use rights — Group (continued)

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Opening	**83,744,799**	72,824,329
Additions	**8,760,021**	10,940,982
Transferred from investment properties	**—**	570,000
Amortisation of leasehold land and land use rights *(Note 22)*	**(2,561,964)**	(2,903,741)
Exchange differences	**5,453,634**	2,313,229
	95,396,490	83,744,799

(a) As at 31 December 2007, certain leasehold land and land use rights with net book values of HK$33,271,703 (2006: HK$61,819,694) were pledged as securities for bank borrowings (Note 17 (a)).

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

7. Property, plant and equipment — Group

	Buildings HK$	Leasehold improvements HK$	Machinery HK$	Furniture, fittings and equipment HK$	Vehicles HK$	Construction in progress HK$	Total HK$
At 1 January 2006							
Cost	232,169,410	1,088,223	645,998,424	16,785,336	7,251,134	78,861,015	982,153,542
Accumulated depreciation and impairment	(32,506,539)	(1,024,634)	(196,285,694)	(7,115,427)	(4,015,563)	—	(240,947,857)
Net book amount	199,662,871	63,589	449,712,730	9,669,909	3,235,571	78,861,015	741,205,685
Year ended 31 December 2006							
Opening net book amount	199,662,871	63,589	449,712,730	9,669,909	3,235,571	78,861,015	741,205,685
Additions	32,926,952	—	7,768,414	608,480	1,117,094	236,388,728	278,809,668
Transfer from investment properties	1,130,000	—	—	—	—	—	1,130,000
Disposals	—	—	(13,288,745)	(1,308)	(86,380)	—	(13,376,433)
Reclassification	45,327,220	—	153,709,768	23,188	—	(199,060,176)	—
Depreciation *(Note 22)*	(7,590,695)	(37,331)	(47,890,782)	(655,375)	(965,785)	—	(57,139,968)
Exchange differences	8,050,246	—	23,722,006	39,599	(65,021)	3,019,709	34,766,539
Closing net book amount	279,506,594	26,258	573,733,391	9,684,493	3,235,479	119,209,276	985,395,491
At 31 December 2006							
Cost	325,397,504	1,088,223	813,544,452	14,848,198	7,953,109	119,209,276	1,282,040,762
Accumulated depreciation and impairment	(45,890,910)	(1,061,965)	(239,811,061)	(5,163,705)	(4,717,630)	—	(296,645,271)
Net book amount	279,506,594	26,258	573,733,391	9,684,493	3,235,479	119,209,276	985,395,491
Year ended 31 December 2007							
Opening net book amount	279,506,594	26,258	573,733,391	9,684,493	3,235,479	119,209,276	985,395,491
Additions	32,048,304	—	50,637,016	1,646,506	2,264,485	296,633,852	383,230,163
Disposals	—	—	(282,950)	(9,352)	(27,204)	—	(319,506)
Reclassification	51,323,058	—	202,828,557	26,616	—	(254,178,231)	—
Depreciation *(Note 22)*	(11,372,325)	(26,258)	(52,217,302)	(1,076,652)	(811,249)	—	(65,503,786)
Exchange differences	22,243,956	—	55,318,931	679,375	292,009	9,863,661	88,397,932
Closing net book amount	373,749,587	—	830,017,643	10,950,986	4,953,520	171,528,558	1,391,200,294
At 31 December 2007							
Cost	434,480,988	1,088,223	1,142,393,450	17,549,348	10,856,729	171,528,558	1,777,897,296
Accumulated depreciation and impairment	(60,731,401)	(1,088,223)	(312,375,807)	(6,598,362)	(5,903,209)	—	(386,697,002)
Net book amount	373,749,587	—	830,017,643	10,950,986	4,953,520	171,528,558	1,391,200,294

(a) As at 31 December 2007, certain property, plant and machinery with net book values of HK$334,325,743 (2006: HK$382,696,270) were pledged for bank borrowings (Note 17 (a)).

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

7. Property, plant and equipment — Group (continued)

During the year ended 31 December 2007, depreciation expenses have been charged in the consolidated income statement as follows:

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Cost of sales	**62,240,506**	54,952,301
Administrative expenses	**3,263,280**	2,187,667
	65,503,786	57,139,968

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

8. Intangible assets — Group

	Goodwill HK$	Computer software HK$	Total HK$
At 1 January 2006			
Cost	2,206,207	1,056,944	3,263,151
Accumulated amortisation	—	(215,408)	(215,408)
Net book amount	2,206,207	841,536	3,047,743
Year ended 31 December 2006			
Opening net book amount	2,206,207	841,536	3,047,743
Additions	—	50,948	50,948
Amortisation expense *(Note 22)*	—	(213,008)	(213,008)
Exchange differences	—	26,582	26,582
Closing net book amount	2,206,207	706,058	2,912,265
At 31 December 2006			
Cost	2,206,207	1,129,431	3,335,638
Accumulated amortisation	—	(423,373)	(423,373)
Net book amount	2,206,207	706,058	2,912,265
Year ended 31 December 2007			
Opening net book amount	**2,206,207**	**706,058**	**2,912,265**
Additions	**—**	**255,742**	**255,742**
Amortisation expense *(Note 22)*	**—**	**(253,589)**	**(253,589)**
Exchange differences	**—**	**51,584**	**51,584**
Closing net book amount	**2,206,207**	**759,795**	**2,966,002**
At 31 December 2007			
Cost	**2,206,207**	**1,452,217**	**3,658,424**
Accumulated amortisation	**—**	**(692,422)**	**(692,422)**
Net book amount	**2,206,207**	**759,795**	**2,966,002**

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

8. Intangible assets — Group (continued)

(a) During the year ended 31 December 2007, amortisation of intangible assets is charged to the consolidated income statement as follow:

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Administrative expenses	**253,589**	213,008

(b) Impairment test of goodwill

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

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

	2007	2006
Gross margin	**9%**	9%
Growth rate	**3%**	1%
Discount rate	**6.16%**	8.05%

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

Based on the assessment of the management, there was no impairment in the goodwill as at 31 December 2006 and 2007.

9. Investments in and balances with subsidiaries — Company

(a) Investments in subsidiaries

	As at 31 December	
	2007	2006
	HK$	*HK$*
Unlisted investments, at cost	**895,858,457**	204,535,159

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

9 Investments in and balances with subsidiaries — Company (continued)

(b) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment. As at 31 December 2006 and 2007, the carrying amounts of due to subsidiaries approximated their fair values.

(c) Details of subsidiaries

As at 31 December 2007, the Company had direct and indirect interest in the following subsidiaries:

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

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

9 Investments in and balances with subsidiaries — Company (continued)

(c) Details of subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Principal activities	Paid-in capital	Interest held (directly)	Interest held (indirectly)
Vinda Paper (Guangdong) Company Limited ("Vinda Paper (Guangdong)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$34,550,000	—	100%
Vinda Paper (Sichuan) Company Limited ("Vinda Paper (Sichuan)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$104,780,000	—	100%
Vinda Paper (Hubei) Company Limited ("Vinda Paper (Hubei)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$53,030,000	—	100%
Vinda Paper (Beijing) Company Limited ("Vinda Paper (Beijing)")	PRC, limited liability company	Trading of household consumable paper	US$350,000	—	100%
Vinda North Paper (Beijing) Company Limited ("Vinda Northern Paper")	PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$75,000,000	—	100%
Vinda Paper (Jiangmen) Company Limited ("Vinda Paper (Jiangmen)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$33,457,479	—	100%
Vinda Paper (Xiaogan) Company Limited ("Vinda Paper (Xiaogan)")	PRC, limited liability company	Manufacturing and sale of household consumable paper	US$12,410,000	—	100%

Shanghai Vinda Paper Company Limited, a subsidiary of the Company, was liquidated in July 2006.

The registered capital of Vinda Paper (Guangdong) was increased to US$34,550,000 on 22 May 2007.

The registered capital of Vinda Paper (Jiangmen) was increased to US$75,000,000 on 27 July 2007.

The registered capital of Vinda Paper (Sichuan) was increased to HK$183,900,000 on 15 November 2007.

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

10. Trade receivables, other receivables and prepayments — Group

	As at 31 December	
	2007	2006
	HK$	*HK$*
Trade receivables	**196,836,708**	156,073,323
Less: Provision for impairment of trade receivables	**(4,673,758)**	(6,211,929)
Trade receivables, net	**192,162,950**	149,861,394
Other receivables		
— deductible input value-added tax ("VAT")	**23,080,985**	11,870,577
— prepaid income tax recoverable	**4,993,285**	2,433,051
— VAT refundable on goods exported	**523,185**	1,761,730
— purchase rebates	**5,456,806**	7,799,717
— others	**6,204,355**	6,731,121
Less: Provision for impairment of other receivables	**—**	(777,227)
Other receivables, net	**40,258,616**	29,818,969
Trade and other receivables, net	**232,421,566**	179,680,363
Notes receivable	**2,889,040**	271,682
Prepayments		
— for purchase of raw materials	**7,239,021**	20,765,979
— others	**2,948,122**	4,098,540
	245,497,749	204,816,564

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

	As at 31 December	
	2007	2006
	HK$	*HK$*
RMB	**183,285,537**	130,035,666
HK$	**49,964,156**	39,903,533
US$	**9,304,592**	23,154,087
Australian dollar (the "AU$")	**2,943,464**	11,392,215
Japanese Yen (the "JPY")	**—**	317,998
Euros (the "EUR")	**—**	13,065
	245,497,749	204,816,564

As at 31 December 2007 and 2006, the carrying amounts of the Group's trade and other receivables approximated their fair values due to short duration.

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

10. Trade receivables, other receivables and prepayments — Group (continued)

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

Ageing analyses of trade receivables of the Group as at 31 December 2007 and 2006 are as below:

	As at 31 December	
	2007	2006
	HK$	*HK$*
Within 3 months	**183,276,212**	142,674,261
4 months to 6 months	**8,791,787**	6,649,209
7 months to 12 months	**94,951**	537,924
	192,162,950	149,861,394

As at 31 December 2007, trade receivables of HK$13,560,496 (2006: HK$13,399,062) were impaired. The amount of provision was HK$4,673,758 (2006: HK$6,211,929) as at 31 December 2007. The individually impaired receivables mainly relate to customers with different credit ratings. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	As at 31 December	
	2007	2006
	HK$	*HK$*
4 months to 6 months	**9,367,847**	7,488,239
7 months to 12 months	**189,902**	1,289,950
over 1 year	**4,002,747**	4,620,873
	13,560,496	13,399,062

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

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

10. Trade receivables, other receivables and prepayments — Group (continued)

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
As at 1 January	**(6,211,929)**	(6,973,860)
Provision for receivable impairment	**(97,288)**	(1,009,501)
Receivables written off during the year as uncollectible	**1,530,350**	2,298,923
Unused amounts reversed	**814,210**	—
Exchange differences	**(709,101)**	(527,491)
As at 31 December	**(4,673,758)**	(6,211,929)

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

11. Inventories — Group

	As at 31 December	
	2007	2006
	HK$	*HK$*
Raw materials		
— at net realisable value	**10,335,502**	8,098,379
— at cost	**329,051,786**	185,956,587
Work in progress, at cost	**4,591,355**	3,378,552
Finished goods		
— at net realisable value	**8,786,623**	3,415,909
— at cost	**148,529,736**	129,331,535
	501,295,002	330,180,962

The cost of inventories recognised as expenses and included in cost of sales amounted to HK$1,138,957,493 (2006: HK$847,279,710) for the year ended 31 December 2007.

12. Pledged bank deposits

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
Pledged bank deposits	**6,706,535**	43,112,857

As at 31 December 2007, bank deposits of HK$2,135,839 (2006: HK$12,535,916) were pledged as securities for the issuance of letters of credit.

As at 31 December 2007, bank deposits of HK$4,570,696 (2006: HK$29,813,404) were pledged as securities for bank borrowings (Note 17 (a)).

As at 31 December 2006, bank deposits of HK$763,537 were pledged as securities for the issuance of bank acceptance notes.

The effective annual interest rates on pledged bank deposits were ranging from 0% to 3.06% (2006: from 0% to 4.05%) as at 31 December 2007; these deposits mainly have an maturity ranging from 0 to 90 days.

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

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
RMB	**6,706,535**	9,885,988
US$	**—**	21,293,448
JPY	**—**	11,933,421
	6,706,535	43,112,857

	Company As at 31 December	
	2007	2006
	HK$	*HK$*
Pledged bank deposits — denominated in JPY	**—**	11,933,421

As at 31 December 2006, bank deposits of HK$11,933,421 were pledged as securities for the issuance of letters of credit of the Company.

13. Cash and cash equivalents

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
Cash in hand	**117,226**	4,353,871
Cash at bank	**251,964,255**	57,203,366
	252,081,481	61,557,237

The effective weighted average annual interest rates on cash and cash equivalents were 2.07% for the year ended 31 December 2007 (2006: 0.95%).

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

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
HK$	**126,345,446**	9,126,639
RMB	**108,199,002**	49,519,863
US$	**14,521,012**	372,269
AU$	**2,786,786**	2,538,466
EUR	**229,235**	—
	252,081,481	61,557,237

	Company As at 31 December	
	2007	2006
	HK$	*HK$*
Cash at bank — denominated in HK$	**94,662,426**	29,142

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

14. Share capital and share premium

	Number of authorised shares	Number of issued and fully paid shares	Amount: Ordinary shares HK$	Amount: Share premium HK$	Amount: Total HK$
At 1 January 2006	46,000,000	41,674,620	4,167,462	69,343,351	73,510,813
Issue of ordinary shares *(Note (a))*	—	833,492	83,349	19,916,651	20,000,000
Dividend *(Note (f))*	—	—	—	(20,000,000)	(20,000,000)
At 31 December 2006 and 1 January 2007	46,000,000	42,508,112	4,250,811	69,260,002	73,510,813
Issue of ordinary shares *(Note (b,c,d))*	79,954,000,000	266,220,006	26,622,001	953,067,621	979,689,622
Share issuance costs	—	—	—	(102,981,687)	(102,981,687)
Conversion of share premium to increase capital *(Note (e))*	—	595,113,568	59,511,357	(59,511,357)	—
Dividend *(Note (f))*	—	—	—	(25,000,000)	(25,000,000)
At 31 December 2007	**80,000,000,000**	**903,841,686**	**90,384,169**	**834,834,579**	**925,218,748**

The total authorised number of ordinary shares is 80,000,000,000 (2006: 46,000,000) shares with a par value of HK$0.10 (2006: HK$0.10) per share as at 31 December 2007.

(a) Pursuant to a resolution at the Board of Directors' meeting on 15 March 2006, shares of 409,558, 215,558, 38,860 and 169,516 were issued to Fu An International Company Limited ("Fu An"), Lee Der Fung Company Limited ("Lee Der Fung"), Vinda Investment Limited ("Vinda Investment") and Cathay Paper Limited ("Cathay Paper") respectively at HK$24.00 per share with a total amount of HK$20,000,000, of which HK$83,349 was credited as share capital and HK$19,916,651 as share premium.

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

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

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

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

14. Share capital and share premium (continued)

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

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

15. Other reserves

	Group			
	Statutory reserves *HK$*	**Translation reserve** *HK$*	**Retained earnings** *HK$*	**Total** *HK$*
At 1 January 2006	24,003,165	11,104,079	232,396,196	267,503,440
Profit for the year	—	—	106,813,534	106,813,534
Appropriation of reserves	13,960,273	—	(13,960,273)	—
Currency translation differences	—	15,268,404	—	15,268,404
At 31 December 2006	37,963,438	26,372,483	325,249,457	389,585,378
At 1 January 2007	37,963,438	26,372,483	325,249,457	389,585,378
Profit for the year	—	—	78,357,059	78,357,059
Appropriation of reserves	11,615,977	—	(11,615,977)	—
Currency translation differences	—	73,431,122	—	73,431,122
At 31 December 2007	**49,579,415**	**99,803,605**	**391,990,539**	**541,373,559**

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

15. Other reserves (continued)

	Company		
	Translation reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2006	—	16,859,279	16,859,279
Profit for the year	—	15,952,841	15,952,841
Currency translation differences	1,455,278	—	1,455,278
At 31 December 2006	1,455,278	32,812,120	34,267,398
At 1 January 2007	1,455,278	32,812,120	34,267,398
Loss for the year	—	(4,790,471)	(4,790,471)
Currency translation differences	31,875,879	—	31,875,879
At 31 December 2007	**33,331,157**	**28,021,649**	**61,352,806**

(a) Statutory reserves

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

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

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

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

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

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

16. Trade payables, other payables and accrued expenses

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
Trade payables	**146,937,979**	141,364,325
Notes payable	**—**	2,523,938
Other payables		
— salaries payable	**13,796,751**	9,727,348
— taxes payable other than income tax	**12,898,187**	6,305,308
— advances from customers	**19,467,599**	9,603,113
— others	**102,112,461**	83,877,192
Accrued expenses		
— promotion fees	**19,602,376**	8,657,259
— utility charges	**8,271,346**	6,962,334
— transportation fees	**7,279,990**	3,760,854
— others	**17,210,891**	9,721,714
	347,577,580	282,503,385

As at 31 December 2007 and 2006, the carrying amounts of the Group's trade payables, other payables and accrued expenses approximated their fair values.

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

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
RMB	**278,900,998**	179,591,129
US$	**59,289,116**	89,496,461
HK$	**9,267,492**	9,835,138
EUR	**111,871**	—
JPY	**8,103**	3,580,657
	347,577,580	282,503,385

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

The credit period granted by the creditors generally ranged from 30 to 90 days. Ageing analysis of trade payables as at 31 December 2007 and 2006 are as follows:

	Group As at 31 December	
	2007	2006
	HK$	*HK$*
Within 3 months	**127,862,267**	137,138,529
4 months to 6 months	**16,135,442**	2,145,030
7 months to 12 months	**113,392**	211,212
1 year to 2 years	**1,192,601**	191,739
2 years to 3 years	**63,418**	37,961
Over 3 years	**1,570,859**	1,639,854
	146,937,979	141,364,325

	Company As at 31 December	
	2007	2006
	HK$	*HK$*
Other payables and accrued expenses — denominated in HK$	**4,867,909**	116,900

As at 31 December 2007 and 2006, the carrying amount of the Company's other payables and accrued expenses approximated their fair values.

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

17. Borrowings — Group

	As at 31 December	
	2007	2006
	HK$	*HK$*
Non-current		
Bank borrowings		
— Secured *(Note (a))*	**210,780,829**	171,454,912
— Guaranteed *(Note (b))*	**—**	5,100,000
— Unsecured	**96,112,772**	13,833,196
	306,893,601	190,388,108
Unsecured other borrowings *(Note (c))*	**1,745,926**	2,025,366
Total non-current borrowings	**308,639,527**	192,413,474
Current		
Bank borrowings		
— Secured *(Note (a))*	**112,964,545**	244,811,896
— Guaranteed *(Note (b))*	**—**	260,541,918
— Unsecured	**231,289,434**	229,199,354
	344,253,979	734,553,168
Unsecured other borrowings *(Note (c))*	**1,281,504**	796,258
Total current borrowings	**345,535,483**	735,349,426
Total borrowings	**654,175,010**	927,762,900

(a) As at 31 December 2007, the Group had the following secured bank borrowings:

(i) Bank borrowings of HK$122,276,805 (2006: HK$136,856,773) were pledged by certain property, plant and equipment (Note 7) and leasehold land and land use rights (Note 6) of the Group as at 31 December 2007 and 2006, respectively.

(ii) Bank borrowings of HK$112,131,568 (2006: HK$104,508,809) were pledged by certain property, plant and equipment (Note 7) of the Group as at 31 December 2007 and 2006, respectively.

(iii) Bank borrowings of HK$15,249,893 (2006: HK$42,082,214) were pledged by certain bank deposits (Note 12) of the Group as at 31 December 2007 and 2006, respectively.

(iv) Bank borrowings of HK$74,087,108 (2006: HK$34,836,270) was pledged by certain property, plant and equipment (Note 7) as at 31 December 2007.

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

17 Borrowings — Group (continued)

(v) Bank borrowings of HK$87,270,179 were pledged by certain bank deposits (Note 12), property, plant and equipment (Note 7) and leasehold land and land use rights (Note 6) of the Group and guaranteed by Mr. Li Chao Wang and Ms. Yu Yi Fang, directors of the Company as at 31 December 2006.

(vi) Bank borrowings of HK$10,607,983 were pledged by certain property, plant and equipment (Note 7), leasehold land and land use rights (Note 6) of the Group and guaranteed by Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Lee Kwong Sang, directors of the Company as at 31 December 2006.

(vii) Bank borrowings of HK$104,580 were pledged by certain property, plant and equipment (Note 7) of the Group and guaranteed by Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Lee Kwong Sang, directors of the Company as at December 2006.

(b) The Group had the following guaranteed bank borrowings:

(i) Bank borrowings of HK$42,523,293 were guaranteed by Mr. Li Chao Wang and Ms. Yu Yi Fang, directors of the Company, as at 31 December 2006.

(ii) Bank borrowings of HK$95,238,720 were guaranteed by Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Dong Yi Ping, directors of the Company as at 31 December 2006.

(iii) Bank borrowings of HK$78,113,805 were guaranteed by Mr. Li Chao Wang, Ms. Yu Yi Fang and Mr. Lee Kwong Sang, directors of the Company as at 31 December 2006.

(iv) Bank borrowings of HK$49,766,100 were guaranteed by Mr. Li Chao Wang, director of the Company as at 31 December 2006.

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

(d) The maturity of borrowings is as follows:

	Bank borrowings As at 31 December		Other borrowings As at 31 December	
	2007 HK$	2006 HK$	**2007 HK$**	2006 HK$
Within 1 year	**344,253,979**	734,553,168	**1,281,504**	796,258
Between 1 and 2 years	**—**	7,448,714	**427,168**	398,129
Between 2 and 5 years	**306,893,601**	182,114,527	**1,318,758**	1,194,386
Wholly repayable within 5 years	**651,147,580**	924,116,409	**3,027,430**	2,388,773
Over 5 years	**—**	824,867	**—**	432,851
	651,147,580	924,941,276	**3,027,430**	2,821,624

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

17 Borrowings — Group (continued)

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

	Bank borrowings As at 31 December		Other borrowings As at 31 December	
	2007	2006	**2007**	2006
HK$	**5.20%–6.29%**	6.25%–9.25%	**—**	—
US$	**5.96%–6.74%**	5.22%–8.25%	**—**	—
JPY	**—**	7.75%–8%	**—**	—
EUR	**—**	6.75%–7%	**—**	—
RMB	**5.51%–8.42%**	5.02%–7.13%	**0%**	0%

(f) The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2007 *HK$*	2006 *HK$*	**2007** *HK$*	2006 *HK$*
Bank borrowings	**306,893,601**	190,388,108	**306,893,601**	190,388,108
Other borrowings	**1,745,926**	2,025,366	**1,197,644**	1,662,769
	308,639,527	192,413,474	**308,091,245**	192,050,877

The fair values of current borrowings approximate their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flow discounted using a rate based on the borrowing rate of 5.20%–8.42% (2006: 5.02%–9.25%) as at 31 December 2007.

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

	As at 31 December	
	2007 *HK$*	2006 *HK$*
RMB	**502,578,904**	619,702,286
HK$	**87,287,108**	68,169,685
US$	**64,308,998**	220,774,925
JPY	**—**	18,402,424
EUR	**—**	713,580
	654,175,010	927,762,900

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

18. Deferred income tax — Group

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

	As at 31 December	
	2007	2006
	HK$	*HK$*
Deferred tax assets	**31,592,589**	23,243,478
Deferred tax liabilities	**(869,655)**	(787,601)
	30,722,934	22,455,877

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Beginning of the year	**22,455,877**	7,288,809
Credited to the consolidated income statement *(Note 25)*	**7,334,357**	14,807,331
Exchange differences	**932,700**	359,737
End of the year	**30,722,934**	22,455,877

The movement of the deferred tax liabilities is as follows:

	Accelerated depreciation tax	**Borrowing costs**	**Total**
	HK$	*HK$*	*HK$*
At 1 January 2006	656,762	—	656,762
(Credited)/charged to the consolidated income statement	(58,294)	187,847	129,553
Exchange differences	133	1,153	1,286
At 31 December 2006 and 1 January 2007	598,601	189,000	787,601
(Credited)/charged to the consolidated income statement	(5,530)	6,969	1,439
Exchange differences	66,556	14,059	80,615
At 31 December 2007	**659,627**	**210,028**	**869,655**

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

18. Deferred income tax — Group (continued)

The movement of the deferred tax assets is as follows:

	Impairment of assets HK$	Deferred government grants HK$	Unrealised profits-sales of inventories HK$	Unrealised profits-sales of property, plant and equipment HK$	Others HK$	Total HK$
At 1 January 2006	3,179,796	1,245,795	1,700,064	1,207,765	612,151	7,945,571
Credited to the consolidated income statement	878,013	6,375,667	802,990	5,954,589	925,625	14,936,884
Exchange differences	131,063	124,121	—	(125,030)	230,869	361,023
At 31 December 2006 and 1 January 2007	4,188,872	7,745,583	2,503,054	7,037,324	1,768,645	23,243,478
(Charged)/credited to the consolidated income statement	(2,597,010)	(1,396,895)	(315,924)	8,212,492	3,433,133	7,335,796
Exchange differences	211,989	561,027	5,312	2,290	232,697	1,013,315
At 31 December 2007	**1,803,851**	**6,909,715**	**2,192,442**	**15,252,106**	**5,434,475**	**31,592,589**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The Group did not recognise deferred income tax assets of HK$7,354,064 (2006: HK$3,416,916) as at 31 December 2007 in respect of unrecognised tax losses carried forward as follows:

	As at 31 December	
	2007 ***HK$***	2006 *HK$*
Expired in:		
Year 2007	—	4,290
Year 2008	—	11,630
Year 2009	—	383,152
Year 2010	**1,047,483**	5,682,447
Year 2011	—	390,280
No expiry date	**41,102,040**	11,311,571
Unrecognised tax losses carried forward	**42,149,523**	17,783,370

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

19. Deferred government grants — Group

	HK$
At 1 January 2006	
Cost	11,014,743
Accumulated amortisation	(1,884,553)
Net book amount	9,130,190
Year ended 31 December 2006	
Opening net book amount	9,130,190
Additions	18,149,883
Amortisation *(Note 21)*	(785,092)
Exchange differences	670,914
Closing net book amount	27,165,895
At 31 December 2006	
Cost	29,918,022
Accumulated amortisation	(2,752,127)
Net book amount	27,165,895
Year ended 31 December 2007	
Opening net book amount	**27,165,895**
Amortisation *(Note 21)*	**(1,001,721)**
Exchange differences	**2,059,662**
Closing net book amount	**28,223,836**
At 31 December 2007	
Cost	**32,320,963**
Accumulated amortisation	**(4,097,127)**
Net book amount	**28,223,836**

In 2001, the local government of Xiaonan District in Xiaogan, Hubei Province, the PRC, granted certain land use rights with an amount of RMB10,800,010 (approximately HK$10,182,925) to Vinda Paper (Hubei). The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the expected useful lives of the corresponding land use rights.

In 2005, Vinda Paper (Sichuan) received government grants from the local government of Deyang Economic and Development Zone in Deyang, Sichuan Province, the PRC, relating to the purchase of property, plant and equipment with an amount of RMB865,340 (equivalent to HK$831,818). The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

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

19. Deferred government grants — Group (continued)

In 2006, Vinda Paper (Sichuan) received government grants from the Finance Bureau of Deyang Economic and Development Zone in Deyang, relating to the project of reconstruction of the production line and the land use rights previously acquired, with amounts of RMB600,000 (equivalent to HK$585,480) and RMB10,000,000 (equivalent to HK$9,758,002), respectively. The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment and land use rights.

In 2006, Vinda Paper (Xiaogan) received government grants from local government of Xiaonan District in Xiaogan, relating to the land use rights previously acquired, with an amount of RMB8,000,000 (equivalent to HK$7,806,401). The government grant was recorded as deferred government grants and is credited to the consolidated income statement on a straight-line basis over the expected useful lives of the corresponding land use rights.

20. Derivative financial instruments — Group

	As at 31 December	
	2007	2006
	HK$	*HK$*
Forward foreign exchange contracts — held-for-trading for US$ against HK$:		
Assets	**131,890**	341,487

The total notional principal amounts of the outstanding forward foreign exchange contracts were HK$15,444,250 (2006: HK$7,721,000) as at 31 December 2007.

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

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

21. Other income/(loss) — Group

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Subsidy income received from local government *(Note (a))*	**7,824,273**	1,789,664
Government grants for reinvestment *(Note (b))*	**5,738,480**	2,329,542
Amortisation of deferred government grants *(Note 19)*	**1,001,721**	785,092
Rental income	**—**	36,520
Fair value gains on investment properties	**—**	120,000
(Loss)/gain on disposal of property, plant and equipment	**(186,506)**	165,285
Gain on derivative financial instruments	**523,403**	407,337
Foreign exchange (loss)/gain, net	**(4,232,518)**	6,925,292
Others	**185,415**	(1,376,265)
	10,854,268	11,182,467

(a) In 2006, Vinda Paper (Hubei) received tax refund of RMB1,783,990 (equivalent to HK$1,740,874) from local government for the Group's business expansion in the area of Xiaogan.

In 2006, Vinda Paper (Sichuan) received subsidy income amounting to RMB50,000 (equivalent to HK$48,790) from local government for the Group's utility compensation and business expansion.

In 2007, Vinda Paper (Hubei) received tax refund of RMB485,913 (equivalent to HK$499,345) from local government for the Group's business expansion in the area of Hubei.

In 2007, Vinda Paper (Xiaogan) received tax refund of RMB677,807 (equivalent to HK$696,626) from local government for the Group's business expansion in the area of Xiaogan.

In 2007, Vinda Paper (Guangdong) received subsidy income amounting to RMB450,000 (equivalent to HK$462,440) from local government for the Group's brand development.

In 2007, Vinda Northern Paper received subsidy income amounting to RMB6,000,000 (equivalent to HK$6,165,862) from the Finance Bureau of Binghe Industry Zone in Pinggu District, Beijing, the PRC, for the Group's business expansion in the area of Pinggu.

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

21. Other income/(loss) — Group (continued)

(b) In 2006, Vinda Paper (Guangdong) appropriated dividends to Forton Enterprises with amount of RMB17,714,224 (equivalent to HK$17,027,996) and Forton Enterprises reinvested in Vinda Paper (Guangdong) by using same dividends appropriated from Vinda Paper (Guangdong). Accordingly, Forton Enterprises received government grants amounting to RMB2,387,315 (equivalent to HK$2,329,542) from the PRC local tax bureau in 2006.

In 2007, Vinda Paper (Guangdong) appropriated dividends to Forton Enterprises with amount of RMB14,955,947 (equivalent to HK$15,369,383) and Forton Enterprises reinvested in Vinda Paper (Guangdong) by using same dividends appropriated from Vinda Paper (Guangdong). Accordingly, Forton Enterprises received government grants amounting to RMB4,900,000 (equivalent to HK$5,079,570) from the PRC local tax bureau in 2007.

Vinda Household Paper (China) reinvested in Vinda Paper (Xiaogan) by using same dividends appropriated from Vinda Paper (Hubei) and received government grants amounting to RMB641,976 (equivalent to HK$658,910) from the PRC local tax bureau in 2007.

22. Expenses by nature — Group

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Staff costs *(Note 23)*	**114,789,084**	91,186,746
Depreciation of property, plant and equipment	**65,503,786**	57,139,968
Provision for impairment of inventories	**133,923**	844,350
Amortisation of intangible assets	**253,589**	213,008
Amortisation of leasehold land and land use rights	**2,561,964**	2,903,741
Transportation expenses	**79,066,014**	56,048,457
Travel and office expenses	**8,538,487**	6,751,845
Auditor's remuneration	**2,519,059**	3,403,783
Material costs	**1,138,957,493**	847,279,710
(Write-back of provision)/provision for impairment of receivables	**(716,922)**	1,009,501
Utilities	**98,673,921**	59,479,265
Real estate tax, stamp duty and other taxes	**4,070,110**	3,187,543
Advertising costs	**15,480,404**	7,588,736
Promotion fee	**54,047,831**	36,746,651
Operating lease rental	**2,956,437**	1,766,530
Bank charges	**6,326,187**	4,139,154
Other expenses	**72,423,765**	30,624,082
Total cost of sales, selling and marketing costs and administrative expenses	**1,665,585,132**	1,210,313,070

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

23. Employee benefit expenses — Group

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Pension for Hong Kong employees		
— MPF *(Note (a))*	**450,544**	317,242
Social security and benefits for the PRC employees *(Note (b))*	**15,283,842**	11,024,085
	15,734,386	11,341,327
Wages, salaries and bonus	**96,117,436**	76,941,961
Staff welfare	**2,937,262**	2,903,458
	114,789,084	91,186,746

(a) MPF

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

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

(b) Social security and benefits for PRC employees

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

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

(c) Other pension costs

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

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

23. Employee benefit expenses — Group (continued)

(d) Directors' emoluments

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Directors		
— Fees	**—**	—
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,609,518**	2,204,522
— Contributions to pension plans	**50,865**	106,588
— Discretionary bonuses	**—**	146,740
	4,660,383	2,457,850

The emoluments received by individual directors are as follows:

(i) For the year ended 31 December 2007:

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

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

23. Employee benefit expenses — Group (continued)

(d) Directors' emoluments (continued)

(ii) For the year ended 31 December 2006:

Name	Basic salaries	Housing allowances, other allowances, benefits-in-kind and other benefits	Total
	HK$	*HK$*	*HK$*
Directors			
— Mr. Li Chao Wang	768,398	228,974	997,372
— Ms. Yu Yi Fang	496,238	171,001	667,239
— Mr. Dong Yi Ping	496,238	171,001	667,239
— Mr. Chia Yen On	126,000	—	126,000
	1,886,874	570,976	2,457,850

For the year ended 31 December 2007 and 2006, no directors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(e) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 include three directors (2006: three directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2006: two individuals) for the years ended 31 December 2007 is as follows:

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,403,750**	1,069,237
— Contributions to pension plans	**9,000**	24,000
— Discretionary bonuses	**—**	237,600
	2,412,750	1,330,837

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

23. Employee benefit expenses — Group (continued)

(e) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
— Nil to HK$1,000,000	**2**	2

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2007 (2006: Nil).

24. Finance income and costs — Group

	For the year ended 31 December	
	2007 *HK$*	2006 *HK$*
Interest expense		
— bank borrowings	**(60,812,492)**	(47,791,462)
— borrowings due to a related party *(Note 30 (b))*	**—**	(145,933)
	(60,812,492)	(47,937,395)
Less: Amounts capitalised in property, plant and equipment	**1,646,590**	—
	(59,165,902)	(47,937,395)
Net foreign exchange transaction gain	**8,371,108**	1,107,434
Finance costs	**(50,794,794)**	(46,829,961)
Finance income		
— interest income on bank deposits	**9,929,396**	1,483,554
— interest income on IPO subscription deposits	**12,774,077**	—
	22,703,473	1,483,554
Net finance costs	**(28,091,321)**	(45,346,407)

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

25. Taxation

(a) Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries or regions in which the Group operates.

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Current income tax		
— Hong Kong profits tax	**9,416,917**	10,790,620
— PRC enterprise income tax	**14,366,093**	10,625,163
— Overseas profits tax	**93,535**	272,647
Deferred income tax *(Note 18)*	**(7,334,357)**	(14,807,331)
	16,542,188	6,881,099

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Profit before income tax	**94,899,247**	113,694,633
Tax calculated at applicable tax rates in the respective areas	**24,174,735**	28,258,184
Effect of change of income tax rate under the new CIT Law	**1,707,827**	—
Effect of different tax rates due to tax holidays	**(12,914,116)**	(21,443,525)
Income not subject to tax	**(2,659,951)**	(1,838,319)
Expenses not deductible for tax purposes	**2,296,544**	2,488,747
Utilisation of previously unrecognised tax losses	**(1,453,793)**	(1,074,615)
Unrecognised tax losses	**5,390,942**	490,627
Income tax expense	**16,542,188**	6,881,099

The weighted average applicable tax rates were 25.5% (2006: 24.9%) per annum for the year ended 31 December 2007. The change is caused by the changes in profitability of the Group's subsidiaries with different applicable tax rates.

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

25. Taxation (continued)

(a) Income tax expenses (continued)

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

	State Tax	Local Tax
Vinda Paper (Guangdong)	24%	3%
Vinda Paper (Jiangmen)	24%	3%
Vinda Paper (Hubei)	30%	3%
Vinda Paper (Xiaogan)	30%	3%
Vinda Paper (Beijing)	30%	3%
Vinda Northern Paper	24%	3%
Vinda Paper (Sichuan)	30%	3%

As the subsidiaries of the Company, established in the PRC, qualify as foreign investment production enterprises, in accordance with the PRC Law of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises, these companies are entitled to two years' exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward (at most five years).

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

	2007	2006
Vinda Paper (Guangdong)	**27%**	27%
Vinda Paper (Jiangmen)	**0%**	0%
Vinda Paper (Hubei)	**30%**	15%
Vinda Paper (Xiaogan)	**15%**	0%
Vinda Paper (Beijing)	**31.5%**	25.5%
Vinda Northern Paper	**12%**	12%
Vinda Paper (Sichuan)	**3%**	3%

(b) New CIT Law

Effective from 1 January 2008, the subsidiaries incorporated in PRC shall determine and pay the CIT in accordance with the new CIT Law as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the Corporate Income Tax Law (the "DIR") as approved by the State Council on 6 December 2007. In accordance with the new CIT Law and DIR, the CIT rate applicable to the subsidiaries incorporated in PRC will be 25% for those with original applicable CIT rates higher than 25%, or gradually increased to 25% in a 5-year period from 2008 to 2012 for those with original applicable CIT rates lower than 25%.

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

25. Taxation (continued)

(b) New CIT Law (continued)

The effective tax rates from 2008 to 2012 of the Company's PRC subsidiaries are as follows:

	2008	2009	2010	2011	2012
Vinda Paper (Guangdong)	25%	25%	25%	25%	25%
Vinda Paper (Jiangmen)	12.5%	12.5%	12.5%	25%	25%
Vinda Paper (Hubei)	25%	25%	25%	25%	25%
Vinda Paper (Xiaogan)	15%	15%	25%	25%	25%
Vinda Paper (Beijing)	25%	25%	25%	25%	25%
Vinda Northern Paper	12%	12%	25%	25%	25%
Vinda Paper (Sichuan)	15.5%	15.5%	15.5%	25%	25%

(c) VAT

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

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

26. Earnings per share

(a) Basic

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

	For the year ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company *(HK$)*	**78,357,059**	106,813,534
Weighted average number of ordinary shares in issue	**762,334,783**	637,448,020
Basic earnings per share (HK$ per share)	**0.103**	0.168

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

26. Earnings per share (continued)

(a) Basic (continued)

In determining the weighted average number of ordinary shares in issue for the year ended 31 December 2006, total of 595,113,568 ordinary shares adjusted for the Capitalisation Issue were deemed to be in issue since 1 January 2006 as detailed in Note 14.

(b) Diluted

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

The diluted earnings per share for the year ended 31 December 2007 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year.

27. Dividend

	For the year ended 31 December	
	2007 ***HK$***	2006 *HK$*
Interim, declared, of HK$0.59 (2006: HK$0.48) per ordinary share	**25,000,000**	20,000,000

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

At a meeting held on 18 April 2008, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2007 of HK$19,884,517, representing HK$0.022 per ordinary share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

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

28. Cash generated from operations

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Profit before income tax	**94,899,247**	113,694,633
Adjustments for:		
— Depreciation of property, plant and equipment	**65,503,786**	57,139,968
— Amortisation of intangible assets	**253,589**	213,008
— Amortisation of leasehold land and land use rights	**2,561,964**	2,903,741
— Amortisation of deferred income on government grants	**(1,001,721)**	(785,092)
— Loss/(gain) on disposals of property, plant and equipment	**186,506**	(165,285)
— Gain on revaluation of investment properties	**—**	(120,000)
— (Write-back of provision)/provision for impairment of receivables	**(716,922)**	1,009,501
— Provision for impairment of inventories	**133,923**	844,350
— Interest income	**(22,703,473)**	(1,483,554)
— Interest expense	**59,165,902**	47,937,395
Changes in working capital (excluding the effect of exchange differences on consolidation):	**198,282,801**	221,188,665
— Increase in inventories	**(171,470,777)**	(95,077,732)
— Increase in trade receivables, other receivables and prepayments	**(34,801,729)**	(67,447,871)
— (Increase)/decrease in amount due from related parties	**(4,272,969)**	26,458
— Increase/(decrease) in trade payables, other payables and accrued expenses	**22,170,494**	(6,460,509)
— Increase/(decrease) in derivative financial instruments	**209,597**	(1,443,087)
Cash generated from operations	**10,117,417**	50,785,924

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

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

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
Net book amount *(Note 7)*	**319,506**	13,376,433
(Loss)/profit on disposal of property, plant and equipment	**(186,506)**	165,285
Proceeds from disposal of property, plant and equipment	**133,000**	13,541,718

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

29. Commitments

(a) Capital commitments for property, plant and equipment

	As at 31 December	
	2007	2006
	HK$	*HK$*
Contracted but not provided for	**242,287,552**	161,767,351

(b) Commitments under operating leases

As at 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December	
	2007	2006
	HK$	*HK$*
Not later than one year	**1,484,586**	2,440,052
Later than one year but not later than two years	**351,930**	862,058
Later than two years but not later than five years	**343,546**	490,569
	2,180,062	3,792,679

30. Related party transactions

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

Name of related party	**Relationship**
Lee Der Fung	Shareholder
Fu An	Shareholder
Vinda Investment *(Note (i))*	Original investor of the Company
Cathay Paper	Shareholder
SCA Hygiene	Shareholder since 29 March 2007
SCA Hygiene Australasia Pty Limited ("SCA HA")	Subsidiary of Svenska Cellulosa Aktiebolaget AB (the ultimate holding company of SCA Hygiene)
ML GCRE	Shareholder since 30 March 2007
Guangdong Vinda Paper Company Limited ("Guangdong Vinda")	Controlled by Mr. Li Chao Wang, Chairman of the Company
Mr. Su Luo Fu	Director of the Company (resigned on 15 June 2007)

(i) Vinda Investment held 1,981,850 shares in the Company as at 31 December 2006. On 29 March 2007 and 31 March 2007 Vinda Investment transferred 1,939,755 shares and 42,095 shares to SCA Hygiene and Lee Der Fung, respectively. After the transfer, Vinda Investment ceased to be an investor in the Company.

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

30. Related party transactions (continued)

(b) Significant related party transactions

In the opinion of the Company's directors, the related party transactions were conducted in the ordinary and usual course of business. Other than the related party transactions disclosed elsewhere in the consolidated financial statements, significant related party transactions of the Group during the year ended 31 December 2007 also include:

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
(1) Interest expense on loans from a related party:		
— Mr. Su Luo Fu *(Note (i))*	**—**	145,933

(i) In 2005, pursuant to a loan agreement entered into by Forton Enterprises and Mr. Su Luo Fu, Mr. Su Luo Fu granted a loan with an amount of HK$1,000,000 to Forton Enterprises. The loan was effective from January 2005 and was repayable on 29 December 2006 with an effective annual interest rate of 5%.

In 2006, pursuant to a loan agreement entered into by Forton Enterprises and Mr. Su Luo Fu, Mr. Su Luo Fu granted a loan with an amount of US$130,000 to Forton Enterprises. The loan was effective from March 2006 and was repayable on 29 December 2006 with an annual interest rate of 12%. The principal of both loans borrowed from Mr. Su Luo Fu were repaid during the year ended 31 December 2006. The interest payable to Mr. Su Luo Fu as at 31 December 2006 is Nil.

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
(2) Sales of products to a related party:		
— SCA HA *(Note (i))*	**13,762,380**	71,731,771

(i) On 29 March 2007, SCA Hygiene became one of the shareholders of the Company. The related party transactions with SCA HA only include those transactions during the period from 29 March 2007 to 31 December 2007. The corresponding transactions for the year ended 31 December 2006 were presented for comparative purpose.

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

30. Related party transactions (continued)

(b) Significant related party transactions (continued)

	For the year ended 31 December	
	2007	2006
	HK$	*HK$*
(3) Key management compensation:		
Directors		
— Basic salaries, housing allowances, other allowances, benefits-in-kind and other benefits	**4,660,383**	2,457,850
Senior management		
— Basic salaries, housing allowances, other allowances, benefits-in-kind and other benefits	**5,320,326**	1,349,046
	9,980,709	3,806,896

(c) Year-end balances with related parties

	As at 31 December	
	2007	2006
	HK$	*HK$*
(1) Amount due from a related party		
— SCA HA *(Note (i))*	**4,272,969**	10,181,191

(i) On 29 March 2007, SCA Hygiene became one of the shareholders of the Company. The corresponding balance due from SCA HA as at 31 December 2006 which was included in trade receivables, other receivables and prepayments, was presented for comparative purpose.

During the years ended 31 December 2006 and 2007, the maximum balances of the amounts due from related parties are as follows:

	As at 31 December	
	2007	2006
	HK$	*HK$*
— SCA HA	**16,377,775**	23,414,993
— Fu An	**—**	72,443
— Vinda Investment	**—**	18,660

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

30 Related party transactions (continued)

(c) Year-end balances with related parties (continued)

	As at 31 December	
	2007	2006
	HK$	*HK$*
(2) Due to related parties		
— Guangdong Vinda	—	133,771
— Mr. Su Luo Fu	—	53,015
	—	186,786

	As at 31 December	
	2007	2006
	HK$	*HK$*
(3) Dividends payable to related parties		
— Lee Der Fung	—	2,068,966
— Fu An	—	2,033,902
— Cathay Paper	—	1,627,041
— Vinda Investment	—	372,983
	—	6,102,892

The amounts due from and due to related parties, are mainly arising from the above-mentioned transactions, dividend appropriation and other ordinary business transactions.

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

31. Events after the balance sheet date

The significant subsequent event of the Group is as follow:

Establishment of a new subsidiary

A subsidiary, Vinda Paper (Zhejiang) Company Limited ("Vinda Paper (Zhejiang)") was incorporated in Quzhou, Zhejiang province of the PRC on 9 January 2008. The registered capital of Vinda Paper (Zhejiang) is HK$200,000,000. Vinda Paper (Jiangmen) and Vinda Household Paper (China) hold 25% and 75% interests in Vinda Paper (Zhejiang) respectively.

32. Approval of accounts

These consolidated financial statements were approved by the Board of Directors on 18 April 2008.

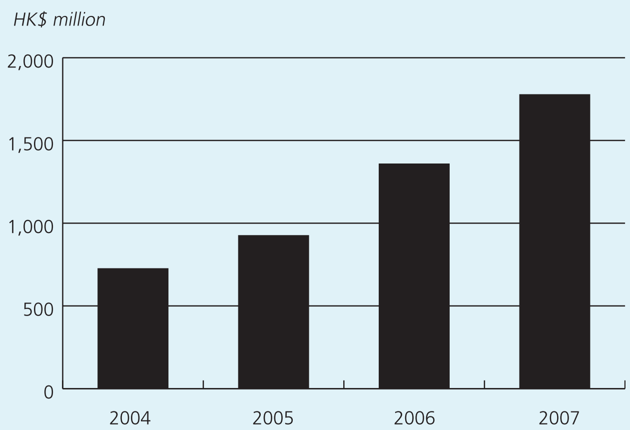
FOUR YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years are as follows:

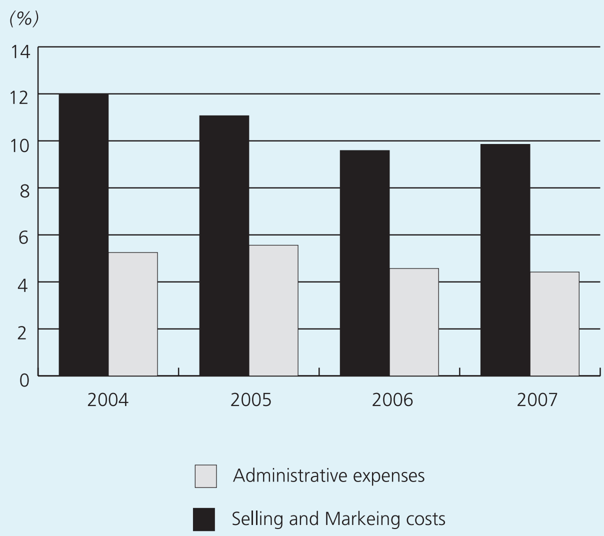
Consolidated Income Statement

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

Revenue



Expenses expressed as % of revenue



Consolidated Balance Sheet

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