KA SHUI INTERNATIONAL HOLDINGS LIMITED

嘉瑞國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 822)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

HIGHLIGHTS

- Turnover decreased by 7.5% to HK$633,832,000 (2008: HK$685,134,000)
- Gross profit increased by 35.9% to HK$142,254,000 (2008: HK$104,680,000)
- Profit attributable to owners of the Company grew by 337.8% to HK$37,800,000 (2008: HK$8,635,000)
- Basic earnings per share rose sharply to HK4.30 cents (2008: HK0.98 cents)
- Proposed a final dividend of HK1.1 cents per share (2008: HK0.6 cents per share)
- Despite a decline in turnover, profit attributable to owners of the Company recorded a substantial increase mainly due to a remarkable improvement in gross profit margin from last year's 15.3% to this year's 22.4%

FINANCIAL RESULTS

The Board of Directors (the "Board") of Ka Shui International Holdings Limited (the "Company") is pleased to announce the final results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009, together with the comparative figures for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Turnover	*4*	**633,832**	685,134
Cost of sales		**(491,578)**	(580,454)
Gross profit		**142,254**	104,680
Other income	*5*	**3,742**	4,710
Selling and distribution expenses		**(7,577)**	(9,654)
General and administrative expenses		**(86,472)**	(75,165)
Profit from operations		**51,947**	24,571
Finance costs	*6*	**(1,610)**	(2,449)
Share of loss of a jointly controlled entity		**—**	(1,292)
Loss on disposal of a jointly controlled entity		**(298)**	—
Impairment loss on available-for-sale financial assets		**—**	(6,303)
Profit before tax		**50,039**	14,527
Income tax expense	*7*	**(12,239)**	(5,892)
Profit for the year attributable to owners of the Company		**37,800**	8,635
Earnings per share	*9*		
— Basic *(HK cents)*		**4.30**	0.98
— Diluted *(HK cents)*		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
Profit for the year	**37,800**	8,635
Other comprehensive income, net of tax:		
Exchange differences on translating foreign operations	**33**	13,230
Less: Reclassification adjustments for exchange differences to profit or loss upon disposal of a jointly controlled entity	**(922)**	–
	(889)	13,230
Total comprehensive income for the year attributable to owners of the Company	**36,911**	21,865

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment		**355,626**	323,326
Prepaid land lease payments		**48,435**	35,625
Club membership		**718**	718
Investment in a jointly controlled entity		**—**	7,470
Available-for-sale financial assets		**—**	—
Deposits paid for acquisition of property, plant and equipment and prepaid land lease payments		**18,484**	30,090
		423,263	397,229
Current assets			
Inventories		**130,533**	125,116
Trade receivables	*10*	**111,755**	97,445
Prepayments, deposits and other receivables		**15,662**	10,155
Current tax assets		**1,600**	1,118
Pledged bank deposits		**2,230**	4,282
Bank and cash balances		**78,171**	74,940
		339,951	313,056
Current liabilities			
Trade payables	*11*	**59,260**	53,306
Deposits received		**1,012**	2,578
Other payables and accruals		**36,880**	27,134
Due to a related company		**2,422**	792
Financial liabilities at fair value through profit or loss		**—**	3,047
Short term borrowings		**40,046**	25,439
Current portion of long term borrowings		**11,300**	9,263
Current portion of obligations under finance leases		**12,275**	13,207
Current tax liabilities		**6,932**	466
		170,127	135,232
Net current assets		**169,824**	177,824
Total assets less current liabilities		**593,087**	575,053
Non-current liabilities			
Long term borrowings		**23,879**	15,083
Obligations under finance leases		**11,916**	18,722
Deferred tax liabilities		**1,608**	1,608
		37,403	35,413
NET ASSETS		**555,684**	539,640
Capital and reserves			
Share capital		**88,000**	88,000
Reserves		**467,684**	451,640
TOTAL EQUITY		**555,684**	539,640

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 1350 GT Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is Room 1210, Exchange Tower, 33 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong.

The Group is principally engaged in the sale and manufacture of zinc, magnesium and aluminium alloy die casting products and components which are mainly sold to customers engaging in the household products, 3C (communication, computer and consumer electronics) products and automotive parts industries.

In the opinion of the directors of the Company, as at 31 December 2009, Precisefull Limited, a company incorporated in the British Virgin Islands, is the ultimate parent and Mr. Lee Yuen Fat ("Mr. Lee") is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

a. Presentation of Financial Statements

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

b. Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. HKFRS 8 has had no impact on the reported results or financial position of the Group. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to the financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and derivatives which are carried at their fair values.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold, net of returns and allowances to customers during the year.

For management purposes, the Group's operation is currently categorised into three operating divisions — zinc, magnesium and aluminium alloy die casting components. These divisions are the basis of the Group's three reportable segments. The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and different cost measurement.

Segment profits or losses do not include interest income, corporate income, gain or loss from derivative instruments, corporate expenses, finance costs and income tax expense. Segment assets do not include current tax assets, corporate assets, club membership and derivative instruments. Segment liabilities do not include corporate liabilities, derivative instruments, borrowings, obligations under finance leases, dividend payables, current tax liabilities and deferred tax liabilities.

Information about reportable segment profit or loss, assets and liabilities:

	Zinc alloy die casting components *HK$'000*	**Magnesium alloy die casting components** *HK$'000*	**Aluminium alloy die casting components** *HK$'000*	**Total** *HK$'000*
For the year ended 31 December 2009				
Revenue from external customers	**328,989**	**139,997**	**164,846**	**633,832**
Segment profit	**23,887**	**36,877**	**9,150**	**69,914**
Depreciation and amortisation	**13,552**	**12,633**	**10,626**	**36,811**
Additions to segment non-current assets	**30,011**	**4,943**	**7,302**	**42,256**
As at 31 December 2009				
Segment assets	**250,282**	**179,601**	**130,132**	**560,015**
Segment liabilities	**50,182**	**22,871**	**24,645**	**97,698**

	Zinc alloy die casting components *HK$'000*	Magnesium alloy die casting components *HK$'000*	Aluminium alloy die casting components *HK$'000*	Total *HK$'000*
For the year ended 31 December 2008				
Revenue from external customers	382,797	128,489	173,848	685,134
Segment profit	22,841	14,501	4,171	41,063
Depreciation and amortisation	11,933	9,439	9,684	31,056
Additions to segment non-current assets	21,641	36,433	13,207	71,281
As at 31 December 2008				
Segment assets	213,629	155,075	120,440	489,144
Segment liabilities	50,032	14,016	18,804	82,852

	2009 ***HK$'000***	2008 *HK$'000*
Reconciliations of segment profit or loss, assets and liabilities		
Total profit or loss of reportable segments	**69,914**	41,063
Unallocated amounts:		
Interest income	**178**	2,661
Loss on financial liabilities at fair value through profit or loss	**(761)**	(1,487)
Impairment loss on available-for-sale financial assets	**—**	(6,303)
Finance costs	**(1,610)**	(2,449)
Income tax expense	**(12,239)**	(5,892)
Corporate income	**2,073**	26
Corporate expenses	**(19,755)**	(18,984)
Consolidated profit for the year	**37,800**	8,635

	2009	2008
	HK$'000	*HK$'000*
Assets		
Total assets of reportable segments	**560,015**	489,144
Unallocated amounts:		
Current tax assets	**1,600**	1,118
Corporate assets	**200,881**	211,835
Club membership	**718**	718
Investment in a jointly controlled entity	**—**	7,470
Consolidated total assets	**763,214**	710,285

	2009	2008
	HK$'000	*HK$'000*
Liabilities		
Total liabilities of reportable segments	**97,698**	82,852
Unallocated amounts:		
Corporate liabilities	**1,876**	958
Financial liabilities at fair value through profit or loss	**—**	3,047
Short term borrowings	**40,046**	25,439
Long term borrowings	**35,179**	24,346
Obligations under finance leases	**24,191**	31,929
Current tax liabilities	**6,932**	466
Deferred tax liabilities	**1,608**	1,608
Consolidated total liabilities	**207,530**	170,645

	2009	2008
	HK$'000	*HK$'000*
Other material items – depreciation and amortisation		
Total depreciation and amortisation of reportable segments	**36,811**	31,056
Unallocated amounts:		
Depreciation of property, plant and equipment for corporate use	**2,662**	1,451
Consolidated depreciation and amortisation	**39,473**	32,507

	2009	2008
	HK$'000	*HK$'000*
Other material items – additions to non-current assets		
Total additions to non-current assets of reportable segments	**42,256**	71,281
Unallocated amounts:		
Additions to non-current assets for corporate use	**35,276**	59,220
Consolidated additions to non-current assets	**77,532**	130,501

Geographical information:

	Revenue		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**344,842**	413,821	**22,790**	5,723
PRC except Hong Kong	**59,625**	78,943	**400,473**	391,506
Japan	**113,226**	90,934	**—**	—
Others	**116,139**	101,436	**—**	—
Consolidated total	**633,832**	685,134	**423,263**	397,229

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

	2009	**2008**
	HK$'000	*HK$'000*
Zinc alloy die casting components segment		
Customer a	**121,024**	124,672
Customer b	**126,882**	80,827
Magnesium alloy die casting components segment		
Customer a	**5,946**	7,862
Customer c	**112,483**	90,120
Aluminium alloy die casting components segment		
Customer a	**103,200**	84,453

5. OTHER INCOME

	2009	2008
	HK$'000	*HK$'000*
Interest income	**178**	2,661
Compensation from insurance	**180**	—
Rental income	**171**	68
Sales of scrap materials	**641**	1,272
Product development fee income	**—**	24
Gain on disposal of property, plant and equipment	**1,665**	—
Gain on disposal of listed securities	**—**	2
Others	**907**	683
	3,742	4,710

6. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest expenses on bank overdraft and loans	**942**	1,333
Finance lease charges	**668**	1,116
	1,610	2,449

7. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**1,752**	5,290
Over-provision in prior years	**(49)**	(69)
Current tax — PRC enterprise income tax		
Provision for the year	**10,536**	191
Deferred tax	**—**	480
	12,239	5,892

Hong Kong Profits Tax has been provided at a rate of 16.5% (2008: 16.5%) on the estimated assessable profit of Hong Kong incorporated subsidiaries for the year ended 31 December 2009. Two of the Hong Kong incorporated subsidiaries, Ka Fung Metal Manufactory Company Limited and Wing Yu (Far East) Industries Company Limited, are within the scope of the Departmental Interpretation Practice note No. 21 issued by the Inland Revenue Department of Hong Kong, that they conducted their manufacturing operations by entering into processing arrangements within the processing factories in the People's Republic of China (the "PRC"), and hence 50% of the adjusted profits were treated as offshore and not taxable in Hong Kong. No provision for Hong Kong Profits Tax is required for Ka May Metal Manufacturing Company Limited and Ka Shui Technology Limited since they have no assessable profits for the year.

Ka Shui Technology (Huizhou) Company Limited, Ka Fung Industrial Technology (Huizhou) Company Limited and Ample Wealth Property Developments (Huizhou) Limited have no assessable profits since their establishment and hence no provisions were made during the year.

The new PRC Enterprise Income Tax ("EIT") Law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the EIT rate for domestic and foreign enterprise at 25%. The new tax law was effective from 1 January 2008. This rate is applicable to Ka Yi Technology (Huizhou) Company Limited.

According to 國發[2007]第39號 (Guofa [2007]39) issued by the State Council dated 26 December 2007 regarding enterprises established and operating in Shenzhen Special Economic Zone, the applicable EIT rates are as follows:

Year	**EIT rate**
2008	18%
2009	20%
2010	22%
2011	24%
2012	25%

MG Technology (Shenzhen) Company Limited is an enterprise established and operating in Shenzhen Special Economic Zone and hence it would have to file its quarterly EIT returns at 20% EIT rate in 2009.

No provision for income tax in jurisdiction other than Hong Kong and the PRC has been made as the Group has no assessable profit subject to overseas income tax for the year ended 31 December 2009 (2008: Nil).

8. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Interim of HK$0.021 (2008: nil) per ordinary share paid	**18,480**	—
Proposed final of HK$0.011 (2008: HK$0.006) per ordinary share	**9,680**	5,280
	28,160	5,280

9. EARNINGS PER SHARE

Basis earnings per share

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity shareholders of the Company of approximately HK$37,800,000 (2008: HK$8,635,000) and the weighted average number of ordinary shares of 880,000,000 (2008: 880,000,000) in issue during the year.

Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2009 and 2008.

10. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms are generally ranged from 30 to 90 days (2008: 30 to 90 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors. The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is stated as follows:

	2009	2008
	HK$'000	*HK$'000*
0 to 30 days	**69,725**	52,245
31 to 60 days	**24,522**	21,572
61 to 90 days	**13,454**	13,983
91 to 180 days	**3,376**	9,084
Over 180 days	**678**	561
	111,755	97,445

11. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2009	2008
	HK$'000	*HK$'000*
0 to 30 days	**32,061**	26,826
31 to 60 days	**19,569**	16,343
61 to 90 days	**2,037**	7,180
91 to 180 days	**2,994**	1,306
Over 180 days	**2,599**	1,651
	59,260	53,306

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Financial Review

The global financial crisis that broke out since September 2008 has affected the global economies. Governments around the world have swiftly responded with a series of economic stimulation policies to boost market demand and consumer confidence. However, as consumer sentiment was slow to recover and consequently imposed a negative impact on the overall sales of the Group. Nevertheless, the Group's turnover for the year 2009 only recorded a slight decrease of 7.5% to approximately HK$633,832,000 (2008: HK$685,134,000). In order to better deploy its resources, the Group also terminated the production of items with low profit margins which also led to a decline in its turnover. In account of concerted efforts, business started to gradually improve in the second half of the year and the Group's turnover rebounded with a strong momentum towards the end of 2009.

Despite a decrease in its turnover, the Group managed to achieve a substantial growth in its gross profit with an increase of 35.9% to HK$142,254,000 (2008: HK$104,680,000) together with a significant improvement in gross profit margin from 15.3% in the previous year to this year's 22.4%. This remarkable achievement was mainly attributable to exercising stringent cost control measures, terminating the production of items with low profit margins and enhancing manufacturing efficiency by the Group coupled with the turning around of the operating results of Wing Yu (Far East) Industries Company Limited ("Wing Yu") (a wholly-owned subsidiary engaged in surface finishing treatment). Wing Yu was loss making before wholly-owned by the Group in the beginning of 2008 and after the Group's effort in the restructuring of Wing Yu, its operating results began to break-even in the second half of year 2008 and then started to turn around successfully in the year under review. The Management is pleased with the results of Wing Yu and its substantially improved financial performance demonstrates the Group's expertise in management within the manufacturing environment with the ability to turn-around a loss-making company into a profit contributor. Given its proven management expertise and strong balance sheet position, the Group will continue to seek similar opportunities in today's difficult operating environment which put tremendous pressure on the profit margins of small to medium sized manufacturers.

General and administrative expenses had increased by approximately HK$11,307,000 or 15.0% as compared with that of last year. The increase was mainly caused by: (i) payment of land use tax amounting to approximately HK$3,533,000 for the new plant at Daya Bay, Huizhou, the PRC; (ii) an exchange loss of HK$550,000 was recorded in the year whereas an exchange gain of HK$2,794,000 arose in the previous year mainly resulted from the appreciation of Renminbi against Hong Kong dollar/U.S. dollar in 2008. In 2009, Renminbi against Hong Kong dollar/U.S. dollar was relatively stable and therefore no such exchange gain arose; and (iii) a provision of discretionary bonus in the sum of HK$3,000,000 (no such provision in 2008 as a result of unsatisfactory profit gained by the Group) was made to reward our staff for their positive contributions made to the Group during the year under review.

In addition, the Group disposed its office premises located in Tsuen Wan in April 2009 recording a net gain of approximately HK$1,715,000. Meanwhile, the Group rented an office premises in Kowloon Bay as its head office in Hong Kong. In June 2009, the Group acquired an office premises in Kowloon Bay at a consideration of HK$18,998,000. The construction of the newly acquired property was completed in the fourth quarter of 2009. The Group intends to use this newly acquired property as the Group's head office.

Resulting from a substantial increase in gross profit, the profit attributable to owners of the Company for the year recorded a 337.8% increase to approximately HK$37,800,000 as compared with that of last year (2008: HK$8,635,000). Net profit margin for the year also rebounded from 1.3% in 2008 to 6.0% in 2009.

(B) BUSINESS REVIEW

Zinc alloy die casting business

Affected by the impact of financial tsunami on the worldwide economy, customers were conscious to minimize their inventory level and became prudent in placing orders for products. As such, sales of zinc alloy die casting products in the year 2009 recorded a 14.1% decrease to HK$328,989,000 (2008: HK$382,797,000), representing 51.9% (2008: 55.9%) of the Group's turnover. The Group anticipates that the market demand for zinc alloy die casting products will be revitalized following the gradual recovery of the global economy. In addition, during the year under review, the Group had developed a thin wall zinc alloy die casting technology with an overseas alloy smelter. This new technology can manufacture ultra thin (0.35 micron) zinc alloy die casting components. The Group expects that this new technology can expand its business for 3C (communication, computer and consumer electronics) products. Thin wall zinc alloy die casting is more environmental friendly and fits in with the energy saving policy of the PRC as less raw materials are required during the production process.

Magnesium alloy die casting business

Benefiting from the rising trend of using notebook computers by consumers, the turnover of magnesium alloy die casting business achieved a growth of 9.0% to HK$139,997,000 (2008: HK$128,489,000) during the year under review. The proportion of which as represented in the Group's turnover also increased from approximately 18.8% in 2008 to 22.1% in 2009. Seizing the growing demand for magnesium alloy die casting components in the notebook computer market, the Group will actively continue its research and development on the application of new magnesium alloys with an aim to expand its customer base.

Aluminium alloy die casting business

The turnover of aluminium alloy die casting business was HK$164,846,000 (2008: HK$173,848,000), representing a 5.2% decrease as compared with the year of 2008. However, its contribution to the Group's turnover increased from approximately 25.3% in last year to 26.0%. Looking ahead, with the use of its newly developed horizontal dual controlled die casting machine, the Group can open up the market for aluminium alloy die casting products with larger size and greater density. Since the dual controlled die casting machine can manufacture larger die casting products with less tonnage than the conventional die casting machine, it can enhance energy saving in the production process. Aluminium alloy die casting products, in terms of global production tonnage, accounted for a substantial proportion of the total die casting output. Since our market share is relatively small at present, the Group anticipates that there will be ample room for further growth in this business segment.

Disposal of Ka Shui Yinguang

In order to open up the magnesium alloy die casting market in the central and western region in the PRC and facilitate the research and development of new magnesium alloys, the Group and Shanxi Wenxi Yinguang Meiye Group Limited Company ("Shanxi Yinguang"), a smelter for magnesium and magnesium alloys in the PRC, established Ka Shui Yinguang Technology (Wenxi) Limited, a sino-foreign equity joint venture enterprise in Shanxi, the PRC, for the production of magnesium alloy die castings and related products in February 2007. The Group owned 40% equity interest in this joint venture. However, the operation and business strategy of this joint venture had been changed and deviated from the initial plan and hence, the Group had finally decided to dispose its 40% equity interest back to Shanxi Yinguang at a consideration of RMB5,500,000 in May 2009. This disposal incurred a loss of approximately HK$298,000.

(C) PROSPECTS

While recovery of the global economy and improvements in operating environment are expected to continue in 2010, there are still many uncertainties in the macro-economic environment. Nevertheless, in view of the strong and long-term relationships established with customers as well as its well diversified business, the Group is set to capture the opportunities arising in the recovering market.

The Group will continue to improve its operational efficiency through technological reform and constant upgrades of equipment. The Group will also exercise stringent cost control measures in order to lower its overall operating costs. In view of the increasing staff cost caused by shortage of labour, the Group will put every effort on production automation as a long-term strategy with an aim to reduce labour costs. During the year under review, certain automatic polishing machines had already been put into use so as to reduce the number of frontline workers, leading to a reduction in labour cost and enhancement of efficiency.

The construction of the first phase of the industrial complex in Daya Bay, Huizhou, the PRC comprising gross floor area of approximately 43,000 sq.m. was completed in April 2009 and the operation of this new production facility had officially commenced in June 2009 to manufacture mainly zinc alloy and aluminum alloy die casting components as well as parts with plastic contents. In this regard, the production capabilities of the Group can be therefore expanded in order to cater for the needs of our major customers and support the long-term business strategies of the Group.

Riding on the growth momentum of notebook computers, the Group is poised for further expansion in this aspect in the forthcoming future. In fact, the growing popularity of notebook computers seems to ensure its replacement of desktop computers in the long run. Given the low penetration rate of notebook computers in global markets, especially the Asia Pacific region, notebook computers have immense growth potential. In addition, the introduction of new computer operating systems will also prompt a drive for the replacement of traditional desktop computers. This trend is highly positive for our future business growth. In this regard, the Group will continue to put more emphasis on the research and development on the application of new magnesium alloys for notebook computers together with various surface finishing technologies with an aim to increase its market share.

To strengthen its market competitive edge and leading position, the Group expanded into plastics injection moulding business in late 2008, with an aim to become a vertically integrated one-stop service provider. Since some of our finished products are composed of metal alloy and plastic components, customers can reduce their costs in logistics and quality control as they do not need to outsource the production of metal alloy and plastic components to various suppliers. This one-stop service model had been fully supported by our customers in return for more orders being placed to us for the manufacture of metal alloy and plastic components simultaneously during the year under review. In view of this, the Group will further promote its competitive advantages in this aspect and capture more business opportunities.

During the year, the Group's previous plan to establish a joint venture with a PRC entity to develop rare earth magnesium alloys had been temporarily put on hold as it is expected that the demand for raw materials would decrease drastically following the outbreak of the financial tsunami. However, the Group has not discontinued the research and development on rare earth magnesium alloys. Preliminary results have showed that various rare earth magnesium alloys have distinct positive impacts on metal flow and mechanical properties and the salt spray test has also proved that the corrosion resistance of these magnesium alloys can be remarkably improved. The rare earth magnesium alloys can be well applied on the manufacture of notebook computer casings as they can enhance yield rate and in turn lower the production costs.

In 2009, the research and development on the horizontal dual controlled die casting machine, which is one of the sponsored projects under the "Eleventh Five-Year Plan" of the PRC, was completed and is expected to become operational in year 2010. This machine has a unique feature for reducing or even eliminating the porosities in die casting components, especially in the thick sections, thus leading to a higher yield rate and reduction of production costs. The Group intends to extend the use of this machine for the production of automobile parts with greater density in order to open up new revenue streams.

The impact of the financial tsunami had forced a large number of less competitive manufacturing corporations went out of business in 2009. In this regard, a massive consolidation has been undergoing for all the manufacturing industries in the PRC. The Group is in the view that some of these ailing corporations might be fundamentally sound but only be hindered by short-term liquidity and management deficiencies. As such, the Group will actively seek for every possible merger and acquisition opportunity with a view to enhance its competitiveness and sustain long-term business growth.

The Group will continue to strengthen its organization and execution capabilities in pursuit of excellence in operational performance so as to create better returns for its shareholders and investors

(D) Liquidity and Financial Resources

As at 31 December 2009, the Group had bank and cash balances of approximately HK$78,171,000 (31 December 2008: HK$74,940,000), most of which were either denominated in U.S. dollars, Renminbi or Hong Kong dollars.

Total interest-bearing borrowings of the Group as at 31 December 2009 were approximately HK$99,416,000 (31 December 2008: HK$81,714,000), comprising bank loans and overdrafts of approximately HK$40,046,000 (31 December 2008: HK$25,439,000) repayable within one year or on demand, term loans of approximately HK$35,179,000 (31 December 2008: HK$24,346,000) with maturity of not more than four years and obligations under finance leases of approximately HK$24,191,000 (31 December 2008: HK$31,929,000). All of these borrowings were denominated in Hong Kong dollars to which the interest rates applied were primarily subject to floating interest rate.

As at 31 December 2009, the gearing ratio (a ratio of the sum of total interest-bearing borrowings and obligations under finance leases divided by total equity) of the Group was approximately 17.9% (31 December 2008: 15.1%)

As at 31 December 2009, the net current assets of the Group were approximately HK$169,824,000 (31 December 2008: HK$177,824,000), which consisted of current assets of approximately HK$339,951,000 (31 December 2008: HK$313,056,000) and current liabilities of approximately HK$170,127,000 (31 December 2008: HK$135,232,000), representing a current ratio of approximately 2.0 (31 December 2008: 2.3).

(E) Exposure to Foreign Exchange Risk

Most of the Group's transactions were conducted in US dollars, Hong Kong dollars or Renminbi. As such, the Group is aware of the potential foreign currency risk that may arise from the fluctuation of exchange rates between US dollars, Hong Kong dollars and Renminbi. During the year under review, the exchange rates between US dollars, Hong Kong dollars and Renminbi were fairly stable. The Group will closely evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimize its exposure whenever necessary.

(F) Contingent Liabilities

As at 31 December 2009, the Group had no material contingent liabilities.

(G) Charge on Assets

As at 31 December 2009, the Group's banking facilities were secured by guarantees given by the following assets: (a) the Group's bank deposits; (b) lessors' title to the leased assets under finance leases; and (c) a property situated in Hong Kong owned by the Group.

(H) Human Resources

As at 31 December 2009, the Group had approximately 3,400 full-time employees (31 December 2008: 2,200). The Group attributes its success to the hard work and dedication of its staff as a whole, therefore, they are deemed to be the most valuable assets of the Group. In order to attract and retain high caliber staff, the Group provides competitive salary package, including retirement scheme, medical benefit and bonus. The Group's remuneration policy and structure is determined based on market trends, the performance of individual staff as well as the financial performance of the Group. The Group has also adopted a share option scheme as incentive and reward for those qualifying staff who have made contribution to the Group.

The Group provides regular training courses for different level of staff and holds various training programs together with PRC institutes and external training bodies. Apart from academic and technical training, the Group also organizes different kinds of recreational activities, including New Year gathering, various sport competitions and interest groups. The aim is to promote interaction among staff, establish harmonious team spirit and promote healthy lifestyle.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK1.1 cents per share for the year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company on Thursday, 3 June 2010. Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Thursday, 3 June 2010, the final dividend will be paid on or about Monday, 14 June 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 1 June 2010 to Thursday, 3 June 2010, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 31 May 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2009.

AUDIT COMMITTEE

The Company established the Audit Committee in June 2007. The primary duties of the Audit Committee are to review and approve the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee comprises four independent non-executive Directors, namely Mr. Yeow Hoe Ann, John, Mr. Sun Kai Lit Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *BBS, MH, JP* and Mr. Andrew Look and is chaired by Mr. Yeow Hoe Ann John, a qualified accountant with extensive experience in financial reporting and controls.

NOMINATION COMMITTEE

The Nomination Committee was set up in June 2007 for the purpose of making recommendations to the Board on the appointment of directors and the management of the Board succession. The members of the Nomination Committee are Mr. Sun Kai Lit Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *BBS, MH, JP*, Mr. Yeow Hoe Ann John, Mr. Andrew Look and Dr. Keung Wing Ching. Mr. Sun Kai Lit Cliff *BBS, JP* is the Chairman of the Nomination Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in June 2007. The major duties of the Remuneration Committee include reviewing and determining the terms of remuneration packages, the award of bonuses and other compensation payable to directors and senior management. The Remuneration Committee comprises four independent non-executive directors, namely Mr. Sun Kai Lit Cliff *BBS, JP*, Ir Dr. Lo Wai Kwok *BBS, MH, JP*, Mr. Yeow Hoe Ann John, Mr. Andrew Look and Dr. Keung Wing Ching. The Chairman of the Remuneration Committee is Mr. Sun Kai Lit Cliff *BBS, JP*, an independent non-executive director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 of all directors, all directors have confirmed that they have fully complied with the required standard set out in the Model Code for the year ended 31 December 2009.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2009.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our sincere appreciation to our customers, suppliers and shareholders for their continuing support, and our management and staff for their dedication and contribution to the Group throughout the year.

By order of the Board
LEE YUEN FAT
Chairman

Hong Kong, 16 April 2010

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Lee Yuen Fat, Dr. Keung Wing Ching, Mr. Wong Wing Chuen and Mr. Chan Tat Cheong, Alan, and four independent non-executive directors, namely Mr. Sun Kai Lit Cliff BBS, JP*, Ir Dr. Lo Wai Kwok* BBS, MH, JP*, Mr. Yeow Hoe Ann John and Mr. Andrew Look.*