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Hong Kong Financial Reporting Standards

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Illustrative Financial Statements 2008

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Foreword

Welcome to the 2008 edition of Hong Kong Financial Reporting Standards – Illustrative Financial Statements.

This publication includes an illustrative 2008 annual report issued by a Hong Kong listed company and a section which gives a summary of the key changes to Hong Kong Financial Reporting Standards in issue as of 31 December 2008 together with a brief update on Listing Rules and other relevant regulatory requirements.

The International Accounting Standards Board (IASB) promised to provide a "stable platform" until 2009. Most new standards and amendments to standards issued by the IASB in the recent years will only be effective for annual periods beginning on 1 January 2009 or after. Since Hong Kong Financial Reporting Standards converged with International Financial Reporting Standards in 2005, the Hong Kong Institute of Certified Public Accountants (HKICPA) has aligned its standard setting with the IASB.

Accordingly, the impact of new interpretations and amendments to standards issued by the HKICPA on the financial statements for the year ended 31 December 2008 is not expected to be pervasive except for entities which are affected by the following interpretations and amendments:

- HK(IFRIC) - Int 11 HKFRS 2 – Group and Treasury Share Transactions
- HK(IFRIC) - Int 12 Service Concession Arrangements
- Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

Due consideration should be given to standards, amendments or interpretations issued but not yet effective. Entities will generally be permitted to adopt a standard or an interpretation on a voluntary basis before its effective date. Even if an entity does not early apply any standard or interpretation, it is required to disclose the potential financial impact under HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

I would also strongly encourage preparers to respond to the challenge of producing annual reports that are clear, unambiguous and tailored specifically to the circumstances of the entity. In particular, under the current financial market conditions, entities should prepare clear and meaningful disclosures to allow users of financial statements to evaluate the implications of the adverse market environment on its financial statements. In October 2008, the IASB published a report on measuring and disclosing the fair value of financial instruments in markets that are no longer active. The report summarises the discussions of the Expert Advisory Panel set up by IASB in May 2008 in response to the credit crisis. I highly recommend entities to follow the guidance in the report as best practice when preparing its financial statements.

We have not included a presentation and disclosure checklist (that is applicable to the 2008 financial statements) in this publication. However, the checklist is available for download on our IAS Plus website (www.iasplus.com).

I hope this publication will help you navigate through the increasingly complex and changing financial reporting requirements in Hong Kong. In addition, please continue to keep up to date with the new international developments that will shape Hong Kong standard setting in future via our IAS Plus website (www.iasplus.com).

Stephen Taylor
Partner
Deloitte Touche Tohmatsu, January 2009

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Abbreviations

AG	=	Accounting Guideline issued by the HKICPA
Alt	=	Alternative
App	=	Appendix to the Listing Rules
EPS	=	Earnings per Share
GEM	=	Growth Enterprise Market of the SEHK
GR	=	Rules Governing the Listing of Securities on the GEM (the GEM Rules)
HKAS(s)	=	Hong Kong Accounting Standard(s) issued by the HKICPA
HKFRS(s)	=	Hong Kong Financial Reporting Standard(s) issued by the HKICPA
HIBOR	=	Hong Kong Inter-Bank Offer Rate
HKICPA	=	Hong Kong Institute of Certified Public Accountants
HK-Int	=	HK Interpretation
HK (IFRIC)-Int	=	HK (IFRIC) Interpretation
HKSA(s)	=	Hong Kong Standard(s) on Auditing issued by the HKICPA
HK (SIC)-Int	=	HK (SIC) Interpretation
IAS(s)	=	International Accounting Standard(s)
IASB	=	International Accounting Standards Board
IFRS(s)	=	International Financial Reporting Standard(s)
IFRIC	=	International Financial Reporting Interpretations Committee of the IASB (also refers to individual interpretations issued by IFRIC)
Preface	=	Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services
LR	=	Rules Governing the Listing of Securities on the SEHK (the Listing Rules)
MD&A	=	Management Discussion and Analysis
PN	=	Practice Note to the Listing Rules
s	=	Section Reference, Hong Kong Companies Ordinance
Sch 10	=	Companies Ordinance, Tenth Schedule
SFO	=	Securities and Futures Ordinance
SEHK	=	The Stock Exchange of Hong Kong Limited

What's new for 2008 financial statements and beyond?

I. Hong Kong Financial Reporting Standards

Introduction

This section outlines all new and revised standards, amendments and interpretations that are effective for the financial year ended 31 December 2008 and later accounting periods which were issued by the HKICPA as at 31 December 2008, so as to provide readers with a convenient reference when considering their implementation.

In July 2006, the IASB acknowledged that entities adopting IFRSs have undergone a period of enormous change in 2005. In order to provide a further period of stability while the changes are fully absorbed by reporting entities, the IASB has made a commitment not to require the adoption of new standards under development or any major amendments to existing standards before 1 January 2009. Although entities are expected to have some breathing space before 1 January 2009, there are a number of interpretations issued by the IFRIC which became effective before 1 January 2009. Equivalent interpretations have also been issued by the HKICPA.

HK(IFRIC) – Int 11 HKFRS 2 – Group and Treasury Share Transactions, which is effective for accounting periods beginning on or after 1 March 2007, affects the accounting of share-based payments in the separate financial statements of the parent and its subsidiary. Entities which provide services under service concession arrangements may be affected by *HK(IFRIC) - Int 12 Service Concession Arrangements* which prescribes the accounting treatment of an operator in a service concession arrangement.

In addition, the IASB published the amendments to *IAS 39 Financial Instruments: Recognition and Measurement* and *IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets* on 13 October 2008 in response to the financial turmoil which resulted from the credit crisis. The HKICPA issued the same amendments to *HKAS 39 Financial Instruments: Recognition and Measurement* and *HKFRS 7 Financial Instruments: Disclosures* on 15 October 2008. The amendments became effective immediately on issuance.

Entities will generally be permitted to adopt a standard or an interpretation on a voluntary basis before their effective dates. Where a standard or interpretation is adopted in advance of its effective date, disclosure of that fact is required.

Even where there is no intention to implement a standard or an interpretation in advance of its effective date, entities need to be aware of new standard or interpretation as they are issued, in order to comply with the requirement included in *HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to disclose in their financial statements the potential impact of the standard or interpretation in issue but not yet effective.

1. An overview of new and revised standards, amendments and interpretations

List of amendments and interpretations that are or have become effective for the financial year ended 31 December 2008

Amendments to standards	Effective for accounting periods beginning on or after:	Application
Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets	Effective immediately on issuance	Specific transitional requirements

New interpretations	Effective for accounting periods beginning on or after:	Application
HK (IFRIC) - Int 11 HKFRS 2 - Group and Treasury Share Transactions	1 March 2007	Retrospective
HK (IFRIC) - Int 12 Service Concession Arrangements	1 January 2008	Retrospective (unless impracticable)
HK (IFRIC) - Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	Specific transitional requirements

List of new and revised standards, amendments and interpretations that are issued but not yet effective for the financial year ended 31 December 2008

New standard	Effective for accounting periods beginning on or after:	Application
HKFRS 8 Operating Segments	1 January 2009	Retrospective

Amendments to standards	Effective for accounting periods beginning on or after:	Application
Improvements to HKFRSs	1 January 2009 except for the amendment to *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations* which is effective for annual periods beginning on or after 1 July 2009	Retrospective/ Prospective
Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	Prospective
Amendment to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2009	Retrospective
Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	Retrospective, specific transitional requirements
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009	Retrospective

List of new and revised standards, amendments and interpretations that are issued but not yet effective for the financial year ended 31 December 2008 (continued)

Revised standards	Effective for accounting periods beginning on or after:	Application
HKFRS 3 (Revised) Business Combinations	1 July 2009	Prospective, specific transitional requirements
HKAS 1 (Revised) Presentation of Financial Statements	1 January 2009	Retrospective
HKAS 23 (Revised) Borrowing Costs	1 January 2009	Prospective, specific transitional requirements
HKAS 27 (Revised) Consolidated and Separate Financial Statements	1 July 2009	Prospective, specific transitional requirements

New interpretations	Effective for accounting periods beginning on or after:	Application
HK (IFRIC) - Int 13 Customer Loyalty Programmes	1 July 2008	Retrospective
HK (IFRIC) - Int 15 Agreements for the Construction of Real Estate	1 January 2009	Retrospective
HK (IFRIC) - Int 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008	Prospective, specific transitional requirements
HK (IFRIC) - Int 17 Distribution of Non-cash Assets to Owners	1 July 2009	Prospective

Summaries and potential impacts

A high level overview of the changes to HKFRSs which are effective for the financial year ended 31 December 2008 (section 1.1) and the new and revised standards, amendments and interpretations that are issued but not yet effective for the financial year ended 31 December 2008 (section 1.2) are provided below. Changes and potential impacts highlighted are not exhaustive. A detailed review of the new, revised and amended HKFRSs is recommended in order to identify changes specific to a particular reporting entity.

1.1 Amendments and interpretations that are or have become effective for the financial year ended 31 December 2008

1.1.1 Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets
(effective immediately on issuance)

- permit reclassification of certain non-derivative held for trading financial assets (debt and equity financial assets) which the entity no longer intends to hold for trading purpose out of the fair value through profit or loss (FVTPL) category subject to specified criteria,

  (a) a debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be reclassified out of FVTPL if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity; and

  (b) any instruments other than (a) above may be reclassified out of FVTPL only in 'rare' circumstances.

- financial liabilities, derivatives and financial assets that are designated as at FVTPL on initial recognition under the 'fair value option' cannot be reclassified;

- do not permit reclassification back into FVTPL;

- at the date of reclassification of financial assets out of FVTPL,

  - all reclassifications must be made at the fair value of the financial asset at that date;
  - any previously recognised gains or losses cannot be reversed;
  - the fair value at the date of reclassification becomes the new cost or amortised cost of the financial asset; and
  - a new effective interest rate will be determined for financial assets measured at amortised cost.

- permit reclassification of a debt instrument that would have met the definition of loans and receivable (if it had not been designated as an available-for-sale investment) from the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity;

- after the reclassification of financial assets out of the available-for-sale category, the amounts previously recognised directly in equity will be reclassified to profit or loss through the effective interest rate;

- subsequent to the reclassification of a financial asset, any increases in estimates of future cash receipts as a result of increased recoverability should be recognised as an adjustment to the effective interest rate of the financial asset from the date of change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of change in estimate;

- effective dates and transition requirements:

  - for reclassifications made before 1 November 2008, an entity can reclassify a financial asset (which must be identified and documented before 1 November) with effect from 1 July 2008 (but not before), or any date thereafter until 31 October 2008; and
  - any reclassification made on or after 1 November 2008 (irrespective of when the accounting period started) is effective from the date of reclassification i.e. reclassifications are made on a real-time basis.

- additional disclosure requirements are introduced in HKFRS 7 to illustrate the financial impact of the reclassifications.

The amendments are a response to calls from constituents to create a 'level playing field' with US GAAP which allows the reclassification of certain financial assets. The IASB has published the amendments to IAS 39 on 13 October 2008 which permits the reclassification of certain held for trading financial assets in limited circumstances. Most importantly, it allows the reclassification of an instrument (not meeting the definition of loans and receivables) out of the FVTPL category if the financial asset is no longer held for trading purpose in 'rare' circumstances. In its press release, the IASB acknowledged that market conditions in the third quarter of 2008 are a possible example of a 'rare' circumstance. The HKICPA adopted the same amendments to HKAS 39 and HKFRS 7 on 15 October 2008.

1.1.2 HK (IFRIC) - Int 11 HKFRS 2 - Group and Treasury Share Transactions **(effective for annual periods beginning on or after 1 March 2007)**

- when an entity receives goods or services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. This is regardless of whether:
  - the entity chooses or is required to purchase equity instruments to satisfy its obligation;
  - the entity or its shareholder(s) grants the right; or
  - the transaction is settled by the entity or by its shareholder(s).
- where a parent grants rights to its equity instruments to employees of its subsidiary, assuming the transaction is accounted for as an equity-settled share-based payment transaction in the consolidated financial statements, the subsidiary should measure the goods or services received using the requirements for equity-settled transactions in HKFRS 2, and should recognise a corresponding increase in equity as a contribution from the parent;
- where a subsidiary grants rights to equity instruments of its parent to its employees:
  - the subsidiary:

    (a) has incurred a liability to transfer cash or other assets of the entity to its employees (being a liability to transfer equity instruments of its parent); and

    (b) accounts for the transaction as a cash-settled share-based payment transaction.
  - in the parent's consolidated financial statements, the transaction is accounted for as equity-settled share-based payment.

The interpretation clarifies the application of *HKFRS 2 Share-based Payment* to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. Although this interpretation focuses on transactions with employees, it also applies to similar share-based payment transactions with suppliers of goods or services other than employees. The interpretation is expected to affect the separate financial statements of the parent and its subsidiary if such arrangements were not accounted for in accordance with the requirements of this interpretation set out above.

1.1.3 HK (IFRIC) - Int 12 Service Concession Arrangements **(effective for annual periods beginning on or after 1 January 2008)**

- addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as toll roads, tunnels, bridges, etc.;
- does not address the accounting for the government (grantor) side of such arrangements;
- for arrangements falling within its scope (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Depending on the terms of the arrangement, the operator will recognise:
  - a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
  - an intangible asset (where the operator's future cash flows are not fixed – e.g. where they will vary according to usage of the infrastructure asset); or
  - both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

This interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements and sets out the general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are continued to be governed by *HK(SIC) - Int 29 Service Concession Arrangements: Disclosures*.

1.1.4 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 addresses three issues:
  - when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of *HKAS 19 Employee Benefits*;
  - how a minimum funding requirement might affect the availability of reductions in future contributions; and
  - when a minimum funding requirement might give rise to a liability.
- economic benefit in the form of a refund or reduction in future contributions is 'available' if the entity has an unconditional right to realise the benefit at some point during the life of the plan or when the plan is settled, even if the benefit is not realisable immediately at the balance sheet date;
- should a minimum funding requirement exist, HK (IFRIC) - Int 14 distinguishes between contributions that are required to cover:

  (a) an existing shortfall for past service on the minimum funding basis; and

  (b) the future accrual of benefits.
- Under (a), the minimum contribution requirement relates to services already received by an entity. To the extent that the contributions payable will not be available for a refund or reduction in future contributions, an entity recognises a liability when the obligation to provide such contributions arises. The liability recognised will either reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of HKAS 19 when the contributions are paid.
- Under (b), an entity should determine the economic benefit available as a reduction in future contributions as the present value of the estimated future service cost in each year and the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

This interpretation applies to all post-employment defined benefits and other long-term employee defined benefits.

1.2 New and revised standards, amendments and interpretations that are issued but not yet effective for the financial year ended 31 December 2008

1.2.1 HKFRS 8 Operating Segments **(effective for annual periods beginning on or after 1 January 2009)**

- requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria;
- operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance;
- if under *HKAS 14 Segment Reporting* an entity identified its primary segments on the basis of the reports provided to the person whom HKFRS 8 regards as the chief operating decision maker, those segments might become the operating segments for the purposes of HKFRS 8;
- does not define segment revenue, segment expense, segment result, segment assets and segment liabilities;
- does not require segment information to be prepared in conformity with the accounting policies adopted for the entity's financial statements;
- entities have more discretion in determining what is included in segment profit or loss under HKFRS 8, limited only by their internal reporting practices;

- requires additional entity-wide disclosures even when an entity has only one reportable segment. These include information about each product and service or groups of products and services;
- requires analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments; and
- requires to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity's revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed.

Upon adoption of HKFRS 8, the identification of an entity's operating segments will be based on the "management approach". Generally the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segment. Such information may be different from what is used to prepare the income statement and balance sheet.

1.2.2 Improvements to HKFRSs (2008)
(effective for annual periods beginning on or after 1 January 2009 except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009)

The improvements to HKFRSs include 35 amendments and can be split into two parts:

- Part I – amendments that result in accounting changes for presentation, recognition or measurement purposes; and
- Part II – amendments that are terminology or editorial changes only, that have no or minimal effect on accounting.

A summary of the key changes that will result in accounting changes for presentation, recognition or measurement purposes are set out below (Part I):

Standard	Subject of amendment	Detail
HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Plan to sell the controlling interest in a subsidiary	Clarifies that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
HKAS 1 Presentation of Financial Statements	Current/non-current classification of derivatives	Clarifies that financial instruments classified as held for trading in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* are not always required to be presented as current assets/liabilities.
HKAS 16 Property, Plant and Equipment	Recoverable amount	Replaces the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount, for consistency with the wording used in *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and *HKAS 36 Impairment of Assets*.
HKAS 16 Property, Plant and Equipment / HKAS 7 Cash Flow Statements	Sale of assets held for rental	Entities that routinely sell items of property, plant and equipment that they have previously held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets should be recognised as revenue in accordance with *HKAS 18 Revenue*.

Standard	Subject of amendment	Detail
HKAS 19 Employee Benefits	Curtailments and negative past service	Clarifies that: • when a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost; • negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and • a curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.
HKAS 19 Employee Benefits	Plan administration costs	Amends the definition of 'return on plan assets' to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.
HKAS 19 Employee Benefits	Guidance on contingent liabilities	Removes the reference to 'recognition' in relation to contingent liabilities as it is inconsistent with *HKAS 37 Provisions, Contingent Liabilities and Contingent Assets*, which states that an entity should not recognise a contingent liability.
HKAS 19 Employee Benefits	Replacement of term 'fall due'	Amends the definitions of 'short-term employee benefits' and 'other long-term employee benefits' to refer to when the benefits are 'due to be settled', rather than when they 'fall due'.
HKAS 20 Accounting For Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest	Amends the standard to require the benefit of such loans be accounted for as a government grant – measured as the difference between the initial carrying amount of the loan determined in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* and the proceeds received.
HKAS 23 Borrowing Costs	Components of borrowing costs	Provides description of specific components to replace the reference to the guidance in *HKAS 39 Financial Instruments: Recognition and Measurement* on effective interest rate.
HKAS 27 Consolidated and Separate Financial Statements	Measurement in separate financial statements of investments in subsidiaries, jointly controlled entities and associates held for sale	Amends the standard to require investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* in the parent's separate financial statements should continue to be measured in accordance with HKAS 39 when classified as held for sale (or included in a disposal group classified as held for sale).
HKAS 28 Investments in Associates / HKAS 32 Financial Instruments: Presentation / HKFRS 7 Financial Instruments: Disclosure	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarifies that disclosures are required for investments in associates accounted for at fair value in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* (i.e. only certain disclosures of HKAS 28 are required in addition to those required by HKFRS 7).

Standard	Subject of amendment	Detail
HKAS 28 Investments in Associates	Impairment of investments in associates	Clarifies that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity accounted investment balance. Such an impairment loss should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.
HKAS 29 Financial Reporting in Hyperinflationary Economies	Description of historical cost financial statements	Amends the standard to reflect the fact that in historical cost financial statements, some assets and liabilities may be measured at current values (e.g. property, plant and equipment measured at fair value).
HKAS 31 Interests in Joint Ventures / HKAS 32 Financial Instruments: Presentation / HKFRS 7 Financial Instruments: Disclosure	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Clarifies that disclosures are required for interests in jointly controlled entities accounted for at fair value in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* (i.e. only certain of HKAS 31's disclosures are required in addition to those required by HKFRS 7).
HKAS 36 Impairment of Assets	Disclosure of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives	Amends the standard to extend the disclosures required when discounted cash flows are used to estimate fair value less costs to sell, to include: • the period over which management has projected cash flows; • the growth rate used to extrapolate cash flow projections; and • the discount rate(s) applied to the cash flow projections.
HKAS 38 Intangible Assets	Advertising and promotional activities	Clarifies the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure. Recognition of an asset would be permitted up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services. Mail order catalogues specifically identified as a form of advertising and promotional activities.
HKAS 38 Intangible Assets	Unit of production method of amortisation	Removes the wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method. Entities may use the unit of production method when the resulting amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset.
HKAS 39 Financial Instruments: Recognition and Measurement	Reclassifying instruments into and out of the classification of at fair value through profit or loss	HKAS 39 prohibits the classification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.
HKAS 39 Financial Instruments: Recognition and Measurement	Designating and documenting hedges at the segment level	Removes the references to the designation of hedging instruments at the segment level.

Standard	Subject of amendment	Detail
HKAS 39 Financial Instruments: Recognition and Measurement	Applicable effective interest rate on cessation of fair value hedge accounting	Clarifies that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 of HKAS 39 should be used for the re-measurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.
HKAS 40 Investment Property / HKAS 16 Property, Plant and Equipment	Property under construction or development for future use as investment property	Amends the standard to bring property under construction or development for future use as an investment property within the scope of HKAS 40. Such property previously fell within the scope of HKAS 16.
HKAS 41 Agriculture	Discount rate for fair value calculations	Previously, HKAS 41 required that the discount rate used to determine fair value should be a pre-tax rate. The amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.
HKAS 41 Agriculture	Additional biological transformation	Removes the prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows. In addition, the definition of 'agricultural activity' has been amended to include the harvest of biological assets.

Of all the above changes, the amendments to HKAS 40/HKAS 16 are expected to be more significant because they represent a change in the accounting treatment of properties under construction or development for future use as investment properties. Under the requirement of the existing HKAS 16 and HKAS 40, a property under construction or development for future use as an investment property is accounted for as property, plant and equipment. The amendments require a property under construction or development for future use an as investment property to be accounted for in accordance with HKAS 40 during the construction period. For entities which measure investment properties using the fair value model, the property under construction or development for future use as an investment property is required to be measured at fair value unless the fair value of the property under construction is not reliably determinable.

1.2.3. Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate (effective for annual period beginning on or after 1 January 2009)

- a first-time adopter that has chosen to account for investments in a subsidiary, a jointly controlled entity or an associate in its separate financial statements at cost may use the "deemed cost" approach. The deemed cost can be determined as either:
  - fair value (determined in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement*) at the entity's date of transition to HKFRSs in its separate financial statements; or
  - the previous GAAP carrying amount of the investment at that date.
- in the separate financial statements of a parent entity/investor,
  - dividends received from subsidiaries, jointly controlled entities and associates should be recognised in profit or loss when the entity's right to receive the dividend is established (i.e. the requirement to distinguish pre- and post- acquisition dividends was removed); and
  - impairment test is required to be performed for an investment in a subsidiary, jointly controlled entity and associate if it received dividends from the investment when:
    - the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or
    - the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared.

The amendments simplify the accounting of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the parent entity/investor. A first time adopter may adopt the fair value or the previous GAAP carrying amount of its investment in a subsidiary, jointly controlled entity or associate as the "deemed cost" in its first set of separate financial statements prepared in accordance with HKFRSs.

1.2.4 Amendment to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations **(effective for annual period beginning on or after 1 January 2009)**

- clarifies that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;
- restricts the definition of vesting conditions to include only service conditions and performance conditions;
- amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets;
- clarifies that all features of a share-based payment arrangement other than service conditions and performance conditions will be considered as non-vesting conditions;
- specifies that when estimating the fair value of equity instruments granted, an entity shall take into account:
  - ➢ all non-vesting conditions; and
  - ➢ vesting conditions that are market conditions (for example, attaining a specified share price of the entity).
- clarifies that a failure by the entity or the counterparty to meet a non-vesting condition will be treated as a cancellation if the entity or the counterparty can choose to meet that non-vesting condition or not.

The amendment clarifies the definition of vesting conditions and the accounting treatment of cancellations resulted from a failure by the entity or the counterparty meeting the non-vesting conditions. Additional guidance is provided with examples in the implementation guidance section of the amendment.

1.2.5 Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations arising on Liquidation (effective for annual period beginning on or after 1 January 2009)

- Under the current requirements of HKAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability.
- Under the amendments, puttable financial instruments will be presented as equity if all of the following criteria are met:

  (a) the holder is entitled to a pro-rata share of the entity's net assets on liquidation;

  (b) the instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features;

  (c) the instrument has no other characteristics that would meet the definition of a financial liability;

  (d) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of the instrument itself); and

  (e) the entity must have no other instrument that has terms equivalent to (d) above and that has the effect of substantially restricting or fixing the residual return to the holders of the puttable financial instruments.
- The criteria for equity classification for instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation are the same as above except (c) and (d) do not apply.
- Instruments of this nature issued by a subsidiary that are held by non-controlling parties and presented as equity in the subsidiary's financial statements will not be presented as equity in the consolidated financial statements as these instruments will not be the most subordinated instrument of the group.

The amendments set out extensive criteria that need to be met in order to present certain instruments that impose an obligation on an entity to deliver to another party a pro-rata share of its net assets only on liquidation as equity. The objective of these amendments is to provide a "short term, limited scope amendment" to specific cases and shall not be cited by analogy.

1.2.6 Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items **(effective for annual period beginning on or after 1 July 2009)**

The amendment clarifies that:

- inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument (e.g. an entity acquires or issues inflation-linked debt);
- an entity is not permitted to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge because such a component is not separately identifiable and reliably measurable;
- a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and therefore may be hedged; and
- an entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk), however, an option designated in its entirety cannot be perfectly effective because the intrinsic value, not the time value, of an option only reflects a one-sided risk.

The amendment provides clarification on the instances that inflation can be a hedged risk. In addition, it clarifies that designating the intrinsic value of an option to hedge a one-sided risk should provide a higher hedging effectiveness relative to designating the option in its entirety (which includes the time value of the option).

1.2.7 HKFRS 3 (Revised) Business Combinations **(effective for annual period beginning on or after 1 July 2009)**

- under the revised standard, acquisition-related costs (e.g. finder's fees, advisory, legal, accounting, valuation, and other professional or consulting fees; and general administrative costs, including the costs of maintaining an internal acquisitions department) are to be recognised as period expenses in accordance with the appropriate standards;
- acquisition accounting applies only at the point where control is achieved. The implications are:
  - ➢ pre-existing equity interest in the entity acquired may be accounted for as a financial instrument in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement*, as an associate or a joint venture in accordance with *HKAS 28 Investments in Associates* or *HKAS 31 Interests in Joint Ventures*; and
  - ➢ for a 'business combination achieved in stages', previously-held equity interest in the acquiree should be re-measured at acquisition-date fair value and any resulting gain or loss recognised in profit or loss.
- goodwill should be recognised at the acquisition date, being measured as the difference between:

  (a) the aggregate of:

  - the acquisition-date fair value of the consideration transferred;
  - the amount of any non-controlling interest (NCI) in the entity acquired; and
  - in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously-held equity interest in the entity acquired; and

  (b) the net amount of identifiable assets acquired and the liabilities assumed measured in accordance with this standard at the date of acquisition;
- an option available to measure any NCI either at fair value or at the NCI's proportionate share of the net identifiable assets of the entity acquired;
- contingent consideration should be measured at fair value at the acquisition date. Change to the contingent consideration is allowed only when additional information about facts and circumstances that existed at the acquisition date became available during the measurement period which should not exceed one year from the acquisition date. All other changes are recognised in profit or loss;
- where the acquirer and acquiree were parties to a pre-existing relationship (e.g. the acquirer had granted the acquiree a right to use its intellectual property), the standard provides specific guidance on how to account for those pre-existing relationships under different circumstances.

There are significant changes in the revised standard. The revised HKFRS 3 focuses on changes in control as a significant economic event. Under a step acquisition, obtaining control is the event which triggers remeasurement of goodwill. In addition, the acquirer's previously-held equity interest in the acquiree should also be remeasured.

The revised standard puts a greater emphasis on the use of fair value. If an entity chooses to early adopt this standard, it must adopt the revised *HKAS 27 Consolidated and Separate Financial Statements* concurrently.

1.2.8 HKAS 1 (Revised) Presentation of Financial Statements **(effective for annual periods beginning on or after 1 January 2009)**

- majority of the changes made are not substantive;
- textual changes including changes to the titles of the components of a complete set of financial statements (e.g. a 'balance sheet' will in future be referred to as a 'statement of financial position');
- requires to include a statement of financial position as at the beginning of the earliest comparative period whenever an entity retrospectively applies an accounting policy, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements;
- all items of income and expense (including those accounted for directly in equity) must in future be presented either:
  - in a single statement (a 'statement of comprehensive income'); or
  - in two statements (a separate 'income statement' and 'statement of comprehensive income')
- no longer permits to present items of 'other comprehensive income' (e.g. gains and losses on revaluation of property, plant and equipment) separately in the statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity;
- no longer permits to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement; and
- new detailed requirements regarding the presentation of items of other comprehensive income.

The main change relates to the presentation of 'non-owner changes' separately from the statement of changes in equity. Others are mainly textual changes only.

1.2.9 HKAS 23 (Revised) Borrowing Costs **(effective for annual periods beginning on or after 1 January 2009)**

- eliminates the option available under the previous version of the standard to recognise all borrowing costs immediately as an expense;
- to the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised standard requires that they be capitalised as part of the cost of that asset;
- all other borrowing costs should be expensed as incurred; and
- generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised standard. Therefore, if an entity has previously followed an accounting policy of immediately recognising all borrowing costs as an expense:
  - it is not required to retrospectively restate its financial statements for borrowing costs incurred on qualifying assets before the effective date of the standard;
  - nor is it required to apply the capitalisation policy to borrowing costs incurred subsequent to the effective date on projects that had commenced (i.e. that had met HKAS 23's criteria for commencement of capitalisation) before the effective date.

This standard eliminates the option to recognise all borrowing costs immediately as an expense which will only impact entities which are currently applying such accounting policy. Reporting entities have the choice to either apply this standard prospectively or retrospectively from a specified designated date.

1.2.10 HKAS 27 (Revised) Consolidated and Separate Financial Statements (effective for annual period beginning on or after 1 July 2009)

- for acquisitions and disposals that do not result in a change of control,
  - they are accounted for within shareholders' equity as transactions with owners acting in their capacity as owners;
  - no gain or loss is recognised;
  - goodwill is not remeasured; and
  - any difference between the change in the NCI and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.
- for disposals that result in a loss of control,
  - the parent derecognises all assets, liabilities and NCI at their carrying amount;
  - any retained interest in the former subsidiary is recognised at its fair value at the date control is lost; and
  - any gain or loss is recognised in profit or loss.
- an entity is required to attribute the share of total comprehensive income to the NCI even if this results in the NCI having a deficit balance.

The accounting for acquisition and disposal transactions that do not result in a change of control was not covered under existing HKFRSs. The revision of HKAS 27 requires such transactions to be accounted for as transactions between equity holders. Gain or loss will only be recognised for disposals that result in a loss of control in the subsidiary.

1.2.11 HK (IFRIC) – Int 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

- addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction. Common examples are airline and hotel loyalty schemes and credit card reward programmes;
- applies to customer loyalty award credits that:
  - entities grant to their customers as part of a sales transaction under *HKAS 18 Revenue* (a sale of goods, rendering of services or use by the customer of entity assets); and
  - subject to meeting any further qualifying conditions, the customers can redeem for free or discounted goods or services in the future.
- requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction;
- applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them; and
- prohibits the alternative treatment of recognising the full consideration received as revenue and a separate liability for the cost of supplying the awards.

This interpretation addresses the accounting by the entity that grants award credits to its customers, either by supplying goods or services itself and/or by granting rights to claim goods or services from a third party (for example, airline mileage schemes).

1.2.12 HK (IFRIC) – Int 15 Agreements for the Construction of Real Estate **(effective for annual period beginning on or after 1 January 2009)**

- supersedes HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* issued by the HKICPA in 2005;
- clarifies that an agreement for the construction of real estate meets the definition of a construction contract (and should therefore be accounted for in accordance with *HKAS 11 Construction Contracts*) if the buyer is able to specify:
  - the major structural elements of the design of the real estate before construction begins; and/or
  - major structural changes once construction is in progress (whether it exercises that ability or not); and
- other agreements relating to real estate which the buyers have only limited ability to influence the design of the real estate or to specify only minor variations to the basic design are sale of goods agreements to be accounted for in accordance with *HKAS 18 Revenue*:
  - if the recognition criteria set out in paragraph 14 of HKAS 18 are met continuously as construction progresses, revenue is recognised by reference to the stage of completion using the percentage of completion method;
  - in other cases, revenue is recognised when all the criteria in paragraph 14 of HKAS 18 are met (for example, at completion, upon or after delivery).
- requires additional disclosure if an entity considers the revenue recognition criteria under paragraph 14 of HKAS 18 are met continuously and recognises revenue using the percentage of completion method.

Under HK Interpretation 3, Hong Kong property developers are required to account for the real estate sales in accordance with HKAS 18 as sale of goods. HK(IFRIC) – Int 15 clarifies the timing of revenue recognition in relation to real estate sales. If an entity transfers to the buyer control and the significant risks and rewards of ownership of the real estate in its entirety at a single time (e.g. at completion, upon or after delivery), it should recognise revenue only when all the criteria in paragraph 14 of HKAS 18 are satisfied.

1.2.13 HK (IFRIC) – Int 16 Hedges of a Net Investment in a Foreign Operation **(effective for annual period beginning on or after 1 October 2008)**

The interpretation states that:

- the eligible risk for hedges of a net investment in a foreign operation is restricted to the exchange differences arising between the functional currency of a parent and the functional currency of the foreign operation;
- it is irrelevant whether the net investment is held by the parent entity directly or indirectly;
- any foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements;
- for the purpose of testing hedge effectiveness, the change in the fair value of the hedging instrument is computed by reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured; and
- the consensus of this interpretation should not be applied by analogy to other types of hedge accounting.

The interpretation provides guidance and clarifications on net investment hedging of foreign operations.

1.2.14 HK(IFRIC) – Int 17 Distribution of Non-cash Assets to Owners **(effective for annual period beginning on or after 1 July 2009)**

The interpretation requires:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- an entity should measure the dividend payable at the fair value of the net assets to be distributed;
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and
- an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation in accordance with *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

The interpretation requires the distribution of non-cash assets to shareholders to be measured at fair value.

2. Disclosing the fair value of financial instruments when markets become inactive

On 31 October 2008, the IASB published guidance on the application of fair value measurement when markets become inactive – Measuring and Disclosing the Fair Value of Financial Instruments in Markets that are no longer Active (the 'Report'). The Report summarises the discussion of the expert advisory panel (the 'Expert Panel') established by the IASB in May 2008. The Report is separated into two parts. Part 1 describes the practices used for measuring financial instruments when markets are no longer active. Part 2 describes the practices used by entities when disclosing fair values in such situations.

The Report is only a guidance (not new requirements) issued by IASB to assist entities which are reported under IFRS. Such guidance is particularly useful in meeting the requirements of IAS 39 and IFRS 7 in the current financial market conditions. The Report is equally relevant to entities reporting HKFRS.

Although many of the issues discussed in the Report are of more relevance to the financial reporting of banks and financial institutions, it should also be considered by entities holding significant investments in financial products, especially complex financial instruments.

2.1 Description of instruments of particular interest to users

The Report states that not all classes of financial instruments need the same level of details for disclosure purpose. An entity should consider providing enhanced disclosure about financial instruments that are of particular interest to users. Such instruments are likely to be those instruments on which greater emphasis is placed for the entity's internal management purpose or those that are the focus of users' questions. In our local and current context, entities might have entered into complex high risk derivatives and structured products, for example, accumulators, collateralised products and credit-linked notes. In such cases, these entities should produce fair value disclosure which describes the financial instruments in greater details so that users of financial statements are able to evaluate the entity's risk exposure about these instruments.

The following is an example of a disclosure about instruments of particular interest to users extracted from the Report.

The Royal Bank of Scotland Group plc
Annual Report and Accounts 2007
Extract from 'Fair value - Financial instruments'

RBS Group plc super senior tranche exposures to CDOs

Super senior tranches of asset-backed CDOs - the Group is a participant in the US asset-backed securities market: buying residential mortgage-backed securities ('RMBS'), including securities backed by US sub-prime mortgages, and repackaging them into collateralised debt obligations ('CDOs') for sale to investors. The Group retains exposure to some of the super senior tranches of these CDOs. In the second half of 2007, rising mortgage delinquencies and expectations of declining house prices in the US led to a deterioration of the estimated fair value of these exposures. An analysis of the Group's super senior tranche exposures to these CDOs is shown below:

	HIGH GRADE	**MEZZANINE**
Exposure (£m)	6,420	3,040
Exposure after hedges(£m)	3,073	1,790
Weighted average attachment point (1)	29%	46%
% of underlying RMBS sub-prime assets	69%	91%
Of which originated in:		
- 2005 and earlier	24%	23%
- 2006	28%	69%
- 2007	48%	8%
Collateral by rating:		
- investment grade	98%	31%
- non-investment grade	2%	69%
Net exposure (£m)	2,581	1,253
Effective attachment point post write down	40%	62%

Note (1) Attachment point is the minimum level of losses in a portfolio to which a tranche is exposed, as a percentage of the total notional size of the portfolio. For example, a 5-10% tranche has an attachment point of 5% and a detachment point of 10%. When the accumulated loss of the reference pool is no more than 5% of the total initial notional of the pool, the tranche will not be affected. However, when the loss has exceeded 5%, any further loss will be deducted from the tranche's notional principal until the detachment point, 10% is reached.

The Group's valuation of the super senior asset-backed CDO exposures takes into consideration outputs from a proprietary model, market data and appropriate valuation adjustments. There is significant subjectivity in the valuation with very little market activity to provide support for fair value levels at which willing buyers and sellers would transact. The Group's proprietary model predicts the expected cash flows of the underlying mortgages using assumptions about future macroeconomic conditions (including house price appreciation and depreciation) and defaults/delinquencies on these underlying mortgages derived from publicly available data. The resulting cash flows are discounted using a risk adjusted rate. Alternative valuations have been produced using reasonably possible alternative assumptions about macroeconomic conditions including house price appreciation and depreciation, and the effect of regional variations. In addition, the discount rate applied to the model output has been stressed. The output from using these alternative assumptions has been compared with inferred pricing from other published data. The Group believes that reasonably possible alternative assumptions could reduce or increase predicted cumulative losses from the model by up to 20%. Using these alternative assumptions would reduce the fair value by up to £385 million or increase the fair value by up to £235 million.

2.2 Disclosure of valuation techniques and inputs

IFRS/HKFRS 7.27 sets out the disclosure requirements about financial instruments whose fair values are determined by valuation techniques. If the fair value is determined by valuation techniques, it requires the disclosure of the methods and the assumptions applied and whether the fair values determined by valuation techniques are based on assumptions that are, or are not, supported by observable market inputs.

Description of the valuation techniques and inputs are most helpful to users of financial statements if they are specific rather than generic. For financial instruments that are not quoted in an active market, fair values are determined by valuation techniques using market-based and/or non-market-based inputs. In view of the current adverse financial market conditions, disclosures about valuation techniques and inputs become more important, particularly if the financial instruments which are the subject of valuations are complex and risky instruments such as accumulators, equity-linked notes and credit-linked notes.

The following is an example for disclosures about valuation techniques and inputs extracted from the Report.

UBS AG
Q2 2008 Financial Reporting
Extract from note 10b – Valuation Techniques and Inputs

Where possible, financial instruments are marked at prices quoted in active markets. In the current market environment, such price information is typically not available for all instruments linked to the US residential mortgage market, and UBS applies valuation techniques to measure such instruments. Valuation techniques use "market observable inputs", where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters, UBS estimates the non-market observable inputs used in its valuation models.

For the period ended 30 June 2008, UBS used valuation models primarily for super senior RMBS [residential mortgage backed securities] CDO [collateralised debt obligation] tranches referenced to sub-prime RMBSs. The model used to value some of these positions projects losses on the underlying mortgage pools and applies the implications of these projected lifetime losses through to the RMBS and then to the CDO structure. The primary inputs to the model are monthly statistical data on delinquency rates, foreclosure rates and actual losses that describe the current performance of the underlying mortgage pools. These are received near the end of each month and relate to the preceding month's cash flows on the mortgages underlying each RMBS. The other key factor input to the model is an estimate of loss given default, which is a non-market observable input.

In fourth quarter 2007 and first half 2008, UBS used relevant ABX market indices to calibrate its loss projections to ensure that the super senior RMBS CDO model is consistent with observed levels of the indices in the market. Despite the various limitations in the comparability of these indices to UBS's own positions, it was felt that this was the best approach in view of the further deterioration in liquidity and resultant lack of observed transactions to which the model could be calibrated.

The valuation model also considers the impact of variability in projected lifetime loss levels and applies a discount rate for expected cash flows derived from relevant market index prices to value expected cash flows. The external ratings of the RMBSs underlying the CDO tranches or the CDO tranches themselves are inputs to the valuation model only to the extent that they indicate the likely timing of potential "events of default".

The valuation model incorporates the potential timing and impact of such default events based on an analysis of the contractual rights of various parties to the transaction and the estimated performance of the underlying collateral. There is no single market standard for valuation models in this area, such models have inherent limitations, and different assumptions and inputs would generate different results. The super senior RMBS CDO valuation model is used to value a portion of UBS's net long exposures to super senior RMBS CDOs and in cases where UBS holds a gross long position in a super senior RMBS CDO hedged one-to-one with an offsetting short position (since this valuation is necessary to calculate any related credit valuation adjustments).

In cases where liquidation of the RMBS CDO is deemed imminent, and where it is possible to obtain reliable pricing of the underlying instruments, the super senior RMBS CDO valuation model is superseded. Instead, valuation in these cases is based on the estimated aggregate proceeds of the liquidation (using current fair value estimates of the underlying instruments) less any estimated expenses associated with the liquidation.

II. Regulatory Updates

Listing Rules

During 2008, the Stock Exchange of Hong Kong Limited (the 'Stock Exchange') made a number of amendments to the Rules Governing the Listing of Securities on the GEM (GEM Listing Rules) and the Rules Governing the Listing of Securities on the SEHK (Main Board Listing Rules) after the completion of the respective consultation period. It has also published three consultation papers, of which two of them are still under assessment on 31 December 2008.

Consultation Conclusions on the Growth Enterprise Market published in May 2008

- GEM is repositioned as a second board, and as a stepping stone towards the Main Board.
- Listing Rules amendments are introduced to reflect the new role of the market but GEM will largely retain its existing structure.
- Under the GEM Listing Rules amendments, continuing obligations of GEM listed issuers are brought closer to the requirements applicable to the Main Board requirements.
- The revised rules became effective on 1 July 2008 and transitional arrangements are available to certain applications received by the Stock Exchange.
- Key changes are summarised in the following tables:

Key GEM admission arrangements

Requirements	***Previous***	***Revised***
Financial Credentials	"Business of substance and potential"	Operating cash flow ≥ $20 million in aggregate for latest two full financial years
Operating History and Management	24 months active business pursuits (may be reduced to 12 months)	Latest two financial years under substantially the same management
Market Capitalisation	Effectively ≥ $46 million (≥ $500 million for companies with 12 months active business pursuits)	≥ $100 million
Focused Line of Business	Required	Not required
Approval By	GEM Listing Committee	Listing Division

Key changes in GEM to Main Board transfer arrangements

Requirements	***Previous***	***Revised***
Process	Two steps: Delisting on GEM and new listing on Main Board	One step: New method of listing on the Main Board, "Transfer of Listing from GEM"
Cost	Standard initial listing fee for Main Board	Main Board initial listing fee reduced by 50% for GEM transfer applicants
Sponsor(s) or Financial Advisor(s)	Required	Not required
Prospectus	Required	Prospectus replaced by announcements

Consultation Conclusion on Shortening the Deadlines for Half-Year and Annual Reporting by Main Board Issuers published in July 2008

- The reporting deadlines for half-year results announcements will be reduced from three months to two months and annual results announcements from four months to three months.
- The new requirements will come into effect for half-year and annual results announcements covering accounting periods ending on or after 30 June 2010 and 31 December 2010 respectively.

Combined Consultation Conclusion on Proposed Changes to the Listing Rules published in November 2008

- It concluded 15 of the 18 substantive policy issues in the proposals issued in January 2008.
- The remaining three issues relating to public float, general mandates and self-constructed fixed assets remain under assessment and separate conclusions are expected to be published at a later date.
- The amendments to the Listing Rules became effective on 1 January 2009.
- The amendments:
  - ➢ remove the requirement for a qualified accountant and expanded the Code Provisions of Appendix 14 - Code on Corporate Governance Practices regarding internal controls to make specific references to the responsibility of the directors to conduct an annual review of the adequacy of staffing of the financial reporting functions and the oversight role of the audit committee;
  - ➢ align the requirements for material dilution in a major subsidiary and deemed disposal such that the requirement for shareholders' consent will be based on a size test threshold of 25% (i.e. the threshold for a major transaction) and that a written certificate may be accepted in lieu of a physical shareholders' meeting; and
  - ➢ codify the conditional waiver that exempts listed issuers actively engaged in property development as a principal business activity from the shareholders' approval requirement under the Listing Rules in certain scenarios of acquisitions of land or property development projects in Hong Kong from Government or Government-controlled entities through public auctions or tenders.

Other consultation papers

The following consultation papers are not yet finalised as at 31 December 2008.

- Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses (April 2008)
  - ➢ The proposal recommends the distribution of paper application forms for public offers by receiving banks to potential investments without providing a paper prospectus if:
    - electronic prospectus is available online; and
    - other investor protection requirements are satisfied.
- Consultation Paper on Introduction of a Price Control Mechanism during the Closing Auction Session in the Securities Market (November 2008)
  - ➢ This paper discusses the possibility of introducing a price control mechanism for order input during the Closing Auction Session (CAS) in the Hong Kong securities market and the possibility of suspending the CAS.

Other regulatory developments

- During 2008, the Securities and Futures Commission has:
  - ➢ revised the Takeover Code to clarify that the voting threshold and other requirements that are applicable to a privatisation will also apply to a transaction involving a disposal of assets and/or operations by a listed company coupled with the possible delisting of that company; and
  - ➢ revised the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (SFO). The purpose is to exempt open-ended collective investment schemes (for example, REITs) listed locally from the disclosure of interest requirements under Part XV of the SFO.
- In June 2008, the Financial Services and Treasury Bureau issued the Third Public Consultation on Companies Ordinance Rewrite which deals with issues relating to share capital, capital maintenance and statutory amalgamation procedures.

HKFRS Illustrative Financial Statements 2008

The illustrative financial statements of Hong Kong GAAP Limited are intended to illustrate the presentation and disclosure requirements of Hong Kong Financial Reporting Standards (HKFRSs), the Hong Kong Companies Ordinance and the Listing Rules. They also contain additional disclosures that are considered to be best practice, particularly where such disclosures are included in illustrative examples provided with a specific standard.

Hong Kong GAAP Limited is assumed to be a Bermuda incorporated company listed on the Main Board of The Stock Exchange of Hong Kong Limited. For those entities listed on the Growth Enterprise Market, specific disclosure requirements are set out in the GEM Rules. These are largely consistent with the requirements of the Listing Rules and, for readers' convenience, cross-references to the GEM Rules have also been included in the illustrative financial statements.

Hong Kong GAAP Limited is assumed to have presented financial statements in accordance with HKFRSs for a number of years. Therefore, it is not a first-time adopter of HKFRSs. Suggested disclosures are cross-referenced to the relevant standards and interpretations.

The illustrative financial statements do not include separate financial statements for the parent, which may be required by local laws or regulations, or may be prepared voluntarily. Where an entity presents separate financial statements that comply with HKFRSs, the requirements of *HKAS 27 Consolidated and Separate Financial Statements* will apply. A separate income statement, balance sheet, statement of changes in equity and cash flow statement for the parent will generally be required, together with supporting notes.

Note that in these illustrative financial statements, we have frequently included line items for which a nil amount is shown, so as to illustrate items that, although not applicable to Hong Kong GAAP Limited, are commonly encountered in practice. This does not mean that we have illustrated all possible disclosures. Nor should it be taken to mean that, in practice, entities are required to display line items for such "nil" amounts.

For the purposes of presenting the income statement, statement of changes in equity and cash flow statement, the various alternatives allowed under HKFRSs for those statements have been illustrated. Preparers should select the alternatives most appropriate to their circumstances.

A presentation and disclosure checklist that is applicable to 2008 financial statements is not included in this publication. However, the checklist is available for download on our IAS Plus website (www.iasplus.com).

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Source	Hong Kong GAAP Limited

Corporate information

Board of directors

Gary D.K. Wong, Chairman
Daniel D.D. Lee
Derek S.Y. Wong
Tiara Cheung
Florence K.Y. Tang
John Banks

Registered office

35th Floor, The Pacific Tower
33 Front Street
Hamilton HM12
Bermuda

Company secretary

William Y.S. Lee

Registrars

Hong Kong Registrars Limited
Central
Hong Kong

Principal bankers

Wan Chai Banking Corporation
Kowloon Bank Limited

Auditor

Deloitte Touche Tohmatsu

Solicitors

Kwan, Lee & Wong

Source	Hong Kong GAAP Limited

Directors' business review

App 16.32
GR 18.41

Listed entities, whether listed on the Main Board or GEM, are required to present in their annual reports a separate statement containing a discussion and analysis of the entity's performance during the year and the material factors underlying its results and financial position.

Both the Listing Rules and the GEM Rules set out a number of matters on which, as a minimum, the directors should comment in their review, including:

- the group's liquidity and financial resources;
- the capital structure of the group;
- the state of the group's order book;
- significant investments held and their performance;
- details of material acquisitions and disposals during the year;
- comments on segmental information;
- the number and remuneration of employees;
- details of charges on group assets;
- details of future plans for material investments or capital assets and sources of funding;
- gearing ratio;
- foreign exchange exposure and any related hedges; and
- details of contingent liabilities.

There is no 'model' for such a review. The analysis should focus on the key issues for the particular reporting entity.

Source	Hong Kong GAAP Limited

Corporate governance report

App 16.34
App 23.1
App 23.2
GR18.44(2)
GR App 16.1
GR App 16.2

Listed entities, listed on the Main Board or GEM, are required to include a report on corporate governance practices in their annual reports.

The report should contain at a minimum information of the following matters:

- corporate governance practices;
- directors' securities transactions;
- the board of directors;
- chairman and chief executive officer;
- non-executive directors;
- remuneration of directors;
- nomination of directors;
- auditors' remuneration; and
- audit committee.

App 23.3
GR App 16.3

In addition, the report encourages disclosures regarding details of the following matters:

- share interests of senior management;
- shareholders' rights;
- investor relations;
- internal controls; and
- management functions.

There is no 'model' for a corporate governance report. The content of this report should reflect the corporate governance practices of the particular reporting entity.

The HKICPA published a guideline on internal controls titled "Internal Control and Risk Management - A Basic Framework" in order to provide guidance to entities on how to perform the review in relation to internal controls.

Source	Hong Kong GAAP Limited

App 16.12
GR 18.39

Profiles of directors and senior management

Executive directors

Gary D.K. Wong, Chairman and Managing Director

Mr. Gary D.K. Wong, 53, is a design engineer. He has been with the Group since its formation, holding a number of Board positions before becoming Managing Director in 1998. He has been with the Group for more than 15 years.

Daniel D.D. Lee, Finance Director

Mr. Daniel D.D. Lee, 49, is a chartered accountant and holds a business degree from the University of Ontario. He joined the Board as Finance Director in 2002, having previously held senior positions in a number of manufacturing entities. He has been with the Group for 6 years.

Derek S.Y. Wong

Mr. Derek S.Y. Wong, 44, is an executive director with special responsibility for product development. He is an electronic engineer with previous experience with multi-national conglomerates in the electronics industry. He joined the Board in 2005 and has over 5 year experiences in product development. Derek S.Y. Wong is a brother of Gary D.K. Wong.

Independent non-executive directors

Tiara Cheung

Ms. Tiara Cheung, 41, was appointed as a non-executive director in March 2000 and serves on the Audit Committee of the Company. She worked for a number of years in marketing and public relations positions with Secor Toys Limited before establishing a consultancy practice in 1999.

Florence K.Y. Tang

Ms. Florence K.Y. Tang, 54, is one of Hong Kong's leading residents with a distinguished record in the business community. She joined the Board as a non-executive director in 2006 and serves on the Audit Committee of the Company. She is a member of the Hong Kong Development Corporation and of the Community Development Project.

John Banks

Mr. John Banks, 45, was appointed as a non-executive director in April 2007 and serves on the Audit Committee of the Company. He is a chartered accountant and has many years of experience in corporate finance. Mr. Banks holds directorships in a number of public companies in Hong Kong.

Senior management

GR 18.44

Bruno Gimeli

Mr. Bruno Gimeli, 46, is the chief executive. He is primarily responsible for sales and marketing. He held senior marketing positions with a number of Hong Kong companies before joining the Company in 2003.

Mr. William Y.S. Lee

William Y.S. Lee, 42, is the chief financial controller and the qualified accountant responsible for the financial reporting procedures and internal controls. He also acts as the company secretary, and as the compliance officer responsible for liaison with The Stock Exchange of Hong Kong Limited. He joined the Company in 2002. He is an associate of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries.

Source	Hong Kong GAAP Limited
	Directors' report
s129D(1)	The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.
s129D(3)(a)	**Principal activities**
	The Company acts as an investment holding company and provides corporate management services. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 58, 24 and 25 respectively to the consolidated financial statements.
	In prior years, the Group was also engaged in the manufacture of bicycle and the construction businesses. These operations were discontinued in the current year (see note 11).
s129D(3)(b) s129D(3)(c)	**Results and appropriations**
	The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43.
	The directors now recommend the payment of a final dividend of HK26.31 cents per share to the shareholders on the register of members on 25 May, 2009, amounting to approximately HK$4.688 million, and the retention of the remaining profit for the year of approximately HK$22.688 million.
s129D(3)(f)	**Fixed assets**
	Details of the movements during the year in the fixed assets of the Group are set out in note 18 to the consolidated financial statements.
s129D(3)(g) App 16.10(4) GR 18.14 LR 10.06(4)(b) GR 13.13(2)	**Share capital**
	Details of the movements during the year in the share capital of the Company are set out in note 42 to the consolidated financial statements.
	During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in note 42 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.
App 16.29 GR 18.37 GR 24.21 GR 25.33	**Distributable reserves of the Company**
	The Company's reserves available for distribution to shareholders as at 31 December 2008 amounted to approximately HK$99 million (2007: HK$87 million).

Source	Hong Kong GAAP Limited
	Directors' report - continued
	Directors
s129D(3)(i)	The directors of the Company during the year and up to the date of this report were:
	Executive directors
	Gary D.K. Wong Daniel D.D. Lee Derek S.Y. Wong
	Independent non-executive directors
	Tiara Cheung Florence K.Y. Tang John Banks
	In accordance with the provisions of the Company's Articles of Association, Messr. Daniel D.D. Lee retires by rotation and, being eligible, offers himself for re-election.
	Directors' service contracts
App 16.14 GR 18.24(1)	No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Source	Hong Kong GAAP Limited

Directors' report - continued

App 16.13(1),(2)

Directors' and chief executive's interests in shares and share options

PN 5(3.2),(3.3)
GR18.15(1),(2)
GR 18.17
GR 18.17A

At 31 December 2008, the interests of certain directors and Mr. Bruno Gimeli, the chief executive of the Company and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(a) Ordinary shares of HK$1 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Directors			
Mr. Gary D.K. Wong	Beneficial owner	45,000	0.3%
	Held by spouse	35,000	0.2%
	Held by controlled corporations (Note 1)	10,570,000	59.3%
		10,650,000	59.8%
Mr. Daniel D.D. Lee	Beneficial owner	124,000	0.7%
	Held by spouse	4,000	0.02%
	Held by controlled corporation (Note 2)	249,000	1.4%
		377,000	2.12%

Source	Hong Kong GAAP Limited

Directors' report - continued

SFOs 308
GR 18.45

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Directors			
Mr. Gary D.K. Wong	Beneficial owner	60,000	60,000
Mr. Daniel D.D. Lee	Held by spouse	60,000	60,000
		120,000	120,000
Chief executive			
Mr. Bruno Gimeli	Beneficial owner	60,000	60,000

Notes:

1. Mr. Gary D.K. Wong is deemed to be interested in 10,570,000 ordinary shares of the Company through his beneficial interests in the following corporations:

	Percentage of the issued share capital of the corporation	Number of shares held
ABC Inc.	35%	55,000
XYE Company Limited	35%	106,000
Group Holdings Limited	60%	10,409,000
		10,570,000

2. Mr. Daniel D.D. Lee beneficially owns 10,000 shares of HK$1 each in AAA Co. Ltd., representing approximately 40% of the issued share capital of that company. AAA Co. Ltd. beneficially owns 249,000 ordinary shares of the Company.

App 16.13(1),(2)
GR 18.15(1),(2)

Other than the holdings disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, chief executive and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2008.

Source	Hong Kong GAAP Limited

Directors' report - continued

Share options

The Company

LR 17.09
GR 23.09

Particulars of the Company's share option scheme are set out in note 55 to the consolidated financial statements.

LR 17.07
GR 23.07

The following table discloses movements in the Company's share options during the year:

PN 5(3.3)(1) Note 3; GR 18.17A(1) Note 3; GR 18.28(7)

PN 5(3.4)(1) Note 4; GR 18.17B(1) Note 3

	Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Forfeited during year	Expired during year	Outstanding at end of year
Category 1: Directors and chief executive							
Mr. Gary D.K. Wong	2007A	80,000	-	(80,000)	-	-	-
	2007B	75,000	-	(75,000)	-	-	-
	2008	-	60,000	-	-	-	60,000
Mr. Daniel D.D. Lee	2007A	30,000	-	(30,000)	-	-	-
	2008	-	60,000	-	-	-	60,000
Mr. Bruno Gimeli	2008	-	60,000	-	-	-	60,000
Total directors and chief executive		185,000	180,000	(185,000)	-	-	180,000
Category 2: Substantial shareholders							
Mr. Francis F.G. Chan		-	-	-	-	-	-
YZ Limited		-	-	-	-	-	-
Total substantial shareholders		-	-	-	-	-	-
Category 3: Employees							
	2007A	15,000	-	(15,000)	-	-	-
	2007B	75,000	-	(75,000)	-	-	-
	2008	-	40,000	(39,000)	-	-	1,000
Total employees		90,000	40,000	(129,000)	-	-	1,000
Total all categories		275,000	220,000	(314,000)	-	-	181,000

LR 17.07(2)
GR 23.07(2)

The closing price of the Company's shares immediately before 31 March 2008, the date of grant of the 2008 options, was HK$3.15.

LR 17.07(3)
GR 23.07(3)

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$2.83.

Source	Hong Kong GAAP Limited

Directors' report - continued

The subsidiary

LR 17.09
GR 23.09

Particulars of the share option scheme of Kowloon Limited, a subsidiary of the Company (listed on the GEM Board of The Stock Exchange of Hong Kong Limited), are set out in note 55 to the consolidated financial statements.

LR 17.07
GR 23.07

The following table discloses movements in Kowloon Limited's share options during the year:

	Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Forfeited during year	Expired during year	Outstanding at end of year
Employees	2007	746,000	-	-	-	-	746,000

s129D(3)(k)

Arrangements to purchase shares or debentures

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

s129D(3)(j)
App 16.15
GR 18.25

Directors' interests in contracts of significance

No contract of significance to which the Company, its holding company, fellow subsidiaries or 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.

s162A(1)(a)
s129D(3)(ia)

Management contract

A.B. Consultant Company Limited has a management services contract with the Group for a period of three years starting from 1 January 2007. Mr. Gary D.K. Wong is a director and controlling shareholder of that company which received management service fees amounting to HK$240,000 (2007: HK$240,000) during the year.

Source	Hong Kong GAAP Limited

Directors' report - continued

App 16.13(3)
PN 5(3.2), (3.4)
GR 18.16
GR 18.17
GR 18.17B

Substantial shareholders

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain directors and the chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

(a) Ordinary shares of HK$1 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Francis F.G. Chan	Held by controlled corporation (note)	2,263,000	12.7%
Group Holdings Limited	Beneficial owner	10,409,000	58.4%

(b) Share options

Name of shareholder	Capacity	Number of share options	Number of underlying shares
Mr. Francis F.G. Chan	-	-	-

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2008.

Source	Hong Kong GAAP Limited
	Directors' report - continued
App 16.12B GR 18.39B	**Independent non-executive directors** The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.
App 16.8(1)&(2) LR 14A.45 LR 14A.46 GR 18.09(1),(2) GR 20.45 GR 20.46	**Connected transaction** On 5 January 2008, the Company acquired a property in Shatin from XYZ Company Limited, a company in which Mr. Gary D.K. Wong has a controlling interest. The consideration of HK$1,000,000 was based on an independent valuation carried out by Messrs R & P Trent, Chartered Surveyors.
LR 8.10(2)(b)&(c) GR 18.45 GR 11.04	**Interests in competitors** Mr. Derek S.Y. Wong holds a 80% interest in MNO Ltd., a company engaged in the manufacture of toys and which therefore competes with the Group in certain aspects of its business.
App 16.24B GR 18.29A	**Emolument policy** The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 55 to the consolidated financial statements.
App 16.20 GR 17.39 GR 17.27(2)	**Pre-emptive rights** There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.
App 16.34A LR 13.35 GR17.38A	**Sufficiency of public float** The Company has maintained a sufficient public float throughout the year ended 31 December 2008.
s129D(3)(d),(e)	**Charitable donations** During the year, the Group made charitable donations amounting to HK$250,000.

Source	Hong Kong GAAP Limited

Directors' report - continued

Major customers and suppliers

Details of the Group's transactions with its major suppliers and customers during the year are set out below:

App 16.31(1),(2)
GR 18.40(1),(2)

In order to maintain its competitiveness, especially under the volatile market conditions during the last few months, the Group has continued to search for suitable suppliers to source its raw materials. The Group has successfully reduced purchases from its largest supplier from 20% of total purchases in 2007 to 10% in the current year. In 2008, the five largest suppliers comprised 34% (2007: 45%) of the Group's total purchases, evidencing the purchasing department's commitment to ensuring that the Group is not dependent on any one supplier, and that our purchases are at a fair market price.

App 16.31(3),(4)
GR 18.40(3),(4)

In 2008, the Group's largest customer accounted for 22% (2007: 22%) of turnover. The five largest customers remain the same as 2007, although their combined contribution to total sales has decreased slightly from 45% to 42% in the current year.

App 16.31(5)
GR 18.40(5)

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

s129D(3)(l)

Post balance sheet events

Details of significant events occurring after the balance sheet date are set out in note 60 to the consolidated financial statements.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

s129D(2)

On behalf of the Board

Gary D.K. Wong
Chairman

21 January 2009

Source	Hong Kong GAAP Limited
HKSA 700(18)	**Independent auditor's report**
	Deloitte. 德勤
HKSA 700(20)	To the members of Hong Kong GAAP Limited (incorporated in Bermuda with limited liability)
HKSA 700(22)	We have audited the consolidated financial statements of Hong Kong GAAP Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 151 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the [consolidated statement of changes in equity/statement of recognised income and expense] 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 consolidated financial statements
HKSA 700(28)	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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.
	Auditor's responsibility
HKSA 700(32) HKSA 700(34) Professional Risk Management Bulletin No. 2	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 Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.
HKSA 700(37)	An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.
HKSA 700(38)	We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
	Opinion
HKSA 700(39),(40)	In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.
HKSA 700(50)	Deloitte Touche Tohmatsu Certified Public Accountants
HKSA 700(57)	Hong Kong
HKSA 700(52)	21 January 2009

Source	Hong Kong GAAP Limited			
HKAS 1.8(b) HKAS 1.46(b),(c)	**Consolidated income statement** **for the year ended 31 December 2008**			**[Alt 1]**
HKAS 1.104 HKAS 1.46(d),(e)		**NOTES**	**2008** **HK$'000**	**2007** **HK$'000**
	Continuing operations			
HKAS 1.81(a)	Revenue	5	140,918	151,840
HKAS 1.88	Cost of sales		(87,899)	(91,840)
HKAS 1.83	Gross profit		53,019	60,000
HKAS 1.83	Investment and other income	7	4,339	3,330
HKAS 1.83	Other gains and losses	8	1,462	446
HKAS 1.88	Distribution and selling expenses		(5,087)	(4,600)
HKAS 1.88	Administrative expenses		(16,513)	(19,992)
HKAS 1.81(c)	Share of profits of associates		1,186	1,589
HKAS 1.81(b)	Finance costs	9	(5,034)	(6,023)
HKAS 1.88	Other expenses		(2,656)	(2,612)
HKAS 1.83	Profit before tax		30,716	32,138
HKAS 1.81(d)	Income tax expense	10	(11,650)	(11,801)
HKAS 1.83	Profit for the year from continuing operations		19,066	20,337
	Discontinued operations			
HKAS 1.81(e) HKFRS 5.33(a)	Profit for the year from discontinued operations	11	8,310	9,995
HKAS 1.81(f)	**Profit for the year**	13	27,376	30,332
	Attributable to:			
HKAS 1.82(b)	Equity holders of the Company		23,376	27,569
HKAS 1.82(a) HKAS 27.33	Minority interests		4,000	2,763
			27,376	30,332
HKAS 33.66&67 App 16.4(1)(g) GR 18.50B(1)(m)	**Earnings per share**	17		
	From continuing and discontinued operations			
	Basic (HK cents per share)		104.12	119.84
	Diluted (HK cents per share)		98.10	119.12
	From continuing operations			
	Basic (HK cents per share)		67.11	76.39
	Diluted (HK cents per share)		63.25	75.85

Note: The format outlined above aggregates expenses according to their function.

Source	Hong Kong GAAP Limited			
HKAS 1.8(b) HKAS 1.46(b),(c)	**Consolidated income statement** **for the year ended 31 December 2008**			**[Alt 2]**
HKAS 1.104 HKAS 1.46(d),(e)		**NOTES**	**2008** **HK$'000**	**2007** **HK$'000**
	Continuing operations			
HKAS 1.81(a)	Revenue	5	140,918	151,840
HKAS 1.83	Investment and other income	7	4,339	3,330
HKAS 1.83	Other gains and losses	8	1,462	446
HKAS 1.88 HKAS 1.88	Changes in inventories of finished goods and work in progress		1,270	2,118
HKAS 1.88	Raw materials and consumables used		(78,785)	(85,406)
HKAS 1.88	Employee benefits expense		(9,803)	(11,697)
HKAS 1.88	Depreciation and amortisation expense		(12,412)	(13,878)
HKAS 1.81(c)	Share of profits of associates		1,186	1,589
HKAS 1.81(b)	Finance costs	9	(5,034)	(6,023)
HKAS 1.88	Other expenses		(12,425)	(10,181)
HKAS 1.83	Profit before tax		30,716	32,138
HKAS 1.81(d)	Income tax expense	10	(11,650)	(11,801)
HKAS 1.83	Profit for the year from continuing operations		19,066	20,337
	Discontinued operations			
HKAS 1.81(e) HKFRS 5.33(a)	Profit for the year from discontinued operations	11	8,310	9,995
HKAS 1.81(f)	**Profit for the year**	13	27,376	30,332
	Attributable to:			
HKAS 1.82(b)	Equity holders of the Company		23,376	27,569
HKAS 1.82(a) HKAS 27.33	Minority interests		4,000	2,763
			27,376	30,332
	Earnings per share	17		
HKAS 33.66&67 App 16.4(1)(g) GR 18.50B(1)(m)	From continuing and discontinued operations			
	Basic (HK cents per share)		104.12	119.84
	Diluted (HK cents per share)		98.10	119.12
	From continuing operations			
	Basic (HK cents per share)		67.11	76.39
	Diluted (HK cents per share)		63.25	75.85

Note: The format outlined above aggregates expenses according to their nature.

Source	Hong Kong GAAP Limited			
HKAS 1.8(a) HKAS 1.46(b),(c)	**Consolidated balance sheet** **at 31 December 2008**			
HKAS 1.104 HKAS 1.46(d),(e)		**NOTES**	**2008** **HK$'000**	**2007** **HK$'000**
HKAS 1.51	**Non-current Assets**			
HKAS 1.68(a)	Property, plant and equipment	18	108,235	131,461
HKAS 1.69	Prepaid lease payments	19	2,900	3,000
HKAS 1.68(b)	Investment properties	20	136	132
HKAS 1.69	Goodwill	21	20,253	24,060
HKAS 1.68(c)	Other intangible assets	23	9,739	11,325
HKAS 1.68(e)	Interests in associates	24	8,425	7,269
HKAS 1.68(d), 69	Held-to-maturity investments	26	2,059	1,658
HKAS 1.68(d), 69	Available-for-sale investments	27	8,140	7,858
HKAS 1.69	Finance lease receivables	28	830	717
HKAS 1.68(n), 70	Deferred tax assets	29	1,714	1,023
HKAS 1.68(d), 69	Other financial assets	30	212	140
			162,643	188,643
HKAS 1.51	**Current Assets**			
HKAS 1.68(g)	Inventories	31	18,884	21,794
HKAS 1.69	Finance lease receivables	28	198	188
HKAS 1.68(d), 69	Loan receivables	32	2,981	2,981
HKAS 1.69	Amounts due from directors	33	656	107
HKAS 1.68(h)	Trade and other receivables	34	18,350	16,062
HKAS 1.69	Amounts due from customers for contract work	35	240	230
HKAS 1.69	Tax recoverable		85	60
HKAS 1.68(d), 69	Held-to-maturity investments	26	4,804	3,604
HKAS 1.68(d), 69	Held-for-trading investments	36	12,480	8,448
HKAS 1.68(d), 69	Other financial assets	30	316	257
HKAS 1.69	Pledged bank deposits	37	2,000	2,000
HKAS 1.68(i)	Bank balances and cash	37	18,199	17,778
			79,193	73,509
HKAS 1.68A(a) HKFRS 5.38	Assets classified as held for sale	12	22,336	-
			101,529	73,509
HKAS 1.51	**Current Liabilities**			
HKAS 1.69	Amounts due to customers for contract work	35	36	15
HKAS 1.68(j)	Trade and other payables	38	16,366	21,223
HKAS 1.68(m)	Tax liabilities		5,133	5,868
HKAS 1.69	Borrowings	39	21,899	25,168
HKAS 1.69	Obligations under finance leases	40	9	54
HKAS 1.68(k)	Provisions	41	3,461	3,247
HKAS 1.68(l), 69	Other financial liabilities	30	104	18
HKAS 1.68(i), 69	Bank overdrafts	37	538	378
			47,546	55,971
HKAS 1.68A(b) HKFRS 5.38	Liabilities associated with assets classified as held for sale	12	3,684	-
			51,230	55,971
App 16.4(2)(d) GR 18.50B(2)(d)	**Net Current Assets**		50,299	17,538
App 16.4(2)(e) GR 18.50B(2)(e)	Total Assets less Current Liabilities		212,942	206,181

Source	Hong Kong GAAP Limited			
	Consolidated balance sheet at 31 December 2008 - continued			
		NOTES	2008 HK$'000	2007 HK$'000
	Capital and Reserves			
HKAS 1.69	Share capital	42	17,819	23,005
HKAS 1.69	Share premium and reserves	43	129,216	124,029
HKAS 1.68(p)	Equity attributable to equity holders of the Company		147,035	147,034
HKAS 1.69	Share options reserve of a subsidiary		500	500
HKAS 1.68(o)	Minority interests		23,505	19,505
	Total equity		171,040	167,039
HKAS 1.51	**Non-current Liabilities**			
HKAS 1.68(n), 70	Deferred tax liabilities	29	6,305	4,716
HKAS 1.69	Borrowings	39	28,642	31,713
HKAS 1.68(l), 69	Convertible loan notes	44	4,144	-
HKAS 1.69	Obligations under finance leases	40	5	35
HKAS 1.68(k)	Provisions	41	2,298	2,326
HKAS 1.69	Retirement benefit obligations	56	508	352
HKAS 1.68(l), 69	Other financial liabilities	30	-	-
			41,902	39,142
			212,942	206,181

HKAS 10.17 — The consolidated financial statements on pages 43 to 151 were approved and authorised for issue by the board of directors on 21 January 2009 and are signed on its behalf by:

s129B(1)

Gary D.K. Wong	Daniel D.D. Lee
Chairman and managing director	Finance director

Source	Hong Kong GAAP Limited

HKAS 1.8(c)(i)
HKAS 1.46

Consolidated statement of changes in equity for the year ended 31 December 2008

[Alt 1]

Source		Attributable to equity holders of the Company												
		Share capital HK$'000	Share premium HK$'000	Convertible loan notes equity reserve HK$'000	Properties revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
	At 1 January 2008	23,005	26,474	-	1,653	527	317	246	278	94,534	147,034	500	19,505	167,039
HKAS 1.96(b)	Deficit on revaluation of properties	-	-	-	(610)	-	-	-	-	-	(610)	-	-	(610)
HKFRS 7.23(c)	Gain on cash flow hedges	-	-	-	-	-	-	-	406	-	406	-	-	406
HKFRS 7.20(a)(ii)	Loss on fair value changes of available-for-sale investments	-	-	-	-	(400)	-	-	-	-	(400)	-	-	(400)
HKAS 1.96(b)	Exchange differences arising on translation of foreign operations	-	-	-	-	-	(71)	-	-	-	(71)	-	-	(71)
HKAS 1.96(b)	Deferred tax	-	-	-	152	100	-	-	(101)	-	151	-	-	151
HKAS 1.96(b)	Net (expense) income recognised directly in equity	-	-	-	(458)	(300)	(71)	-	305	-	(524)	-	-	(524)
HKAS 1.96(a)	Profit for the year	-	-	-	-	-	-	-	-	23,376	23,376	-	4,000	27,376
HKFRS 7.23(d)	Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	-	(355)	-	(355)	-	-	(355)
HKFRS 7.23(e)	Transfer to initial carrying amount of non-financial items on cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-
	Deferred tax on transfer to profit or loss	-	-	-	-	-	-	-	89	-	89	-	-	89
	Transfer to profit or loss on disposal of foreign operations	-	-	-	-	-	(120)	-	-	-	(120)	-	-	(120)
HKAS 1.96(c)	Total recognised income and expense for the year	-	-	-	(458)	(300)	(191)	-	39	23,376	22,466	-	4,000	26,466
HKAS 1.97(a)	Recognition of equity-settled share based payments	-	-	-	-	-	-	218	-	-	218	-	-	218
HKAS 1.97(a)	Issue of ordinary shares upon exercise of share options	314	433	-	-	-	-	(285)	-	-	462	-	-	462
HKAS 1.97(a)	Transaction costs attributable to issue of new shares	-	(6)	-	-	-	-	-	-	-	(6)	-	-	(6)
HKAS 1.97(a)	Repurchase of shares	(5,500)	(10,848)	-	-	-	-	-	-	(555)	(16,903)	-	-	(16,903)
HKAS 1.97(a)	Transaction costs attributable to repurchase of shares	-	(227)	-	-	-	-	-	-	-	(227)	-	-	(227)
HKAS 1.97(a)	Issue of convertible notes	-	-	834	-	-	-	-	-	-	834	-	-	834
HKAS 1.97(a)	Dividends recognised as distribution	-	-	-	-	-	-	-	-	(6,635)	(6,635)	-	-	(6,635)
HKAS 1.97(a)	Transfer to retained profits	-	-	-	-	-	-	-	(3)	3	-	-	-	-
	Deferred tax	-	-	(208)	-	-	-	-	-	-	(208)	-	-	(208)
	At 31 December 2008	17,819	15,826	626	1,195	227	126	179	314	110,723	147,035	500	23,505	171,040

Source	Hong Kong GAAP Limited

HKAS 1.8(c)(i)
HKAS 1.46(b), (c)

Consolidated statement of changes in equity for the year ended 31 December 2008 - continued

[Alt 1]

Source		Attributable to equity holders of the Company												
HKAS 1.97(b), (c) HKAS 1.46(d), (e)		Share capital HK$'000	Share premium HK$'000	Convertible loan notes equity reserve HK$'000	Properties revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
	At 1 January 2007	23,005	26,474	-	54	470	140	-	242	73,444	123,829	-	16,742	140,571
HKAS 1.96(b)	Surplus on revaluation of properties	-	-	-	2,132	-	-	-	-	-	2,132	-	-	2,132
HKFRS 7.23(c)	Gain on cash flow hedges	-	-	-	-	-	-	-	316	-	316	-	-	316
HKFRS 7.20(a)(ii)	Gain on fair value changes of available-for-sale investments	-	-	-	-	76	-	-	-	-	76	-	-	76
HKAS 1.96(b)	Exchange differences arising on translation of foreign operations	-	-	-	-	-	177	-	-	-	177	-	-	177
HKAS 1.96(b)	Deferred tax	-	-	-	(533)	(19)	-	-	(79)	-	(631)	-	-	(631)
HKAS 1.96(b)	Net income (expense) recognised directly in equity	-	-	-	1,599	57	177	-	237	-	2,070	-	-	2,070
HKAS 1.96(a)	Profit for the year	-	-	-	-	-	-	-	-	27,569	27,569	-	2,763	30,332
HKFRS 7.20(a)(ii)	Transfer to profit or loss on sale of available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
HKFRS 7.23(d)	Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	-	(287)	-	(287)	-	-	(287)
HKFRS 7.23(e)	Transfer to initial carrying amount of non-financial items on cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-
	Deferred tax on transfer to profit or loss	-	-	-	-	-	-	-	86	-	86	-	-	86
HKAS 1.96(c)	Total recognised income for the year	-	-	-	1,599	57	177	-	36	27,569	29,438	-	2,763	32,201
HKAS 1.97(a)	Recognition of equity-settled share based payments	-	-	-	-	-	-	246	-	-	246	500	-	746
HKAS 1.97(a)	Dividends recognised as distribution	-	-	-	-	-	-	-	-	(6,479)	(6,479)	-	-	(6,479)
	At 31 December 2007	23,005	26,474	-	1,653	527	317	246	278	94,534	147,034	500	19,505	167,039

Note: *See next page for the discussion of the format of the statement of changes in equity.*

Source	Hong Kong GAAP Limited		
HKAS 1.8(c)(ii) HKAS 1.46(b),(c)	**Consolidated statement of recognised income and expense** **for the year ended 31 December 2008**		**[Alt 2]**
		2008 **HK$'000**	**2007** **HK$'000**
HKAS 16.77(f)	(Deficit)Surplus on revaluation of properties	(610)	2,132
HKFRS 7.23(c)	Gain on cash flow hedges	406	316
HKFRS 7.20(a)(ii)	(Loss)Gain on fair value changes of available-for-sale investments	(400)	76
HKAS 21.52(b)	Exchange differences arising on translation of foreign operations	(71)	177
HKAS 19.93B	Actuarial gains (losses) on defined benefit plans (see note below)	-	-
HKAS 1.96(b)	Deferred tax	151	(631)
HKAS 1.96(b)	Net (expense) income recognised directly in equity	(524)	2,070
HKAS 1.96(a)	Profit for the year	27,376	30,332
HKFRS 7.20(a)(ii)	Transfer to profit or loss on sale of available-for-sale investments	-	-
HKFRS 7.23(d)	Transfer to profit or loss on cash flow hedges	(355)	(287)
HKFRS 7.23(e)	Transfer to initial carrying amount of non-financial items on cash flow hedges	-	-
	Deferred tax on transfer to profit or loss	89	86
	Transfer to profit or loss on disposal of foreign operations	(120)	-
HKAS 1.96(c)	Total recognised income for the year	26,466	32,201
HKAS 1.96(c)	Attributable to:		
	Equity holders of the Company	22,466	29,438
	Minority interests	4,000	2,763
		26,466	32,201

Note: *HKAS 1 requires that the financial statements should include a statement showing either all changes in equity, or changes in equity other than those arising from capital transactions with owners and distributions to owners. The above illustrates an approach which presents those changes in equity that represent income and expense in a separate component of the financial statements. If this method of presentation is adopted, a reconciliation of the opening and closing balances of share capital, reserves and retained profits is required to be provided in the explanatory notes (see notes 42 and 43). An alternative method of presenting changes in equity is illustrated on the previous page.*

The format of the statement is generally an accounting policy choice. However, where the entity has selected the option available under paragraph 93A of HKAS 19, Employee Benefits, to recognise actuarial gains and losses outside profit or loss, those actuarial gains and losses are required to be presented in a statement of recognised income and expense as illustrated above. The entity is not permitted to present such changes in a statement of changes in equity as illustrated in Alt 1 on the previous pages.

Source	Hong Kong GAAP Limited			
HKAS 1.8(d) HKAS 1.46(b),(c)	**Consolidated cash flow statement** **for the year ended 31 December 2008**			**[Alt 1]**
HKAS 1.104		**NOTES**	**2008** **HK$'000**	**2007** **HK$'000**
HKAS 1.46(d), (e)	**Operating activities**			
HKAS 7.10 HKAS 7.18(b)	Profit for the year		27,376	30,332
	Adjustments for:			
	Income tax expense		14,810	14,799
	Finance costs		5,184	6,157
	Investment income		(3,608)	(2,351)
	Gain on disposal of property, plant and equipment		(6)	(67)
	Loss (gain) on fair value changes of investment property		6	(8)
	Gain on disposal of discontinued operations		(1,940)	-
	Impairment loss recognised in respect of trade receivables		40	420
	Share of profits of associates		(1,186)	(1,589)
	Depreciation and amortisation		14,179	17,350
	Amortisation of prepaid lease payments		100	100
	Impairment loss in respect of property, plant and equipment		1,204	-
	Impairment loss in respect of goodwill		15	-
	Net foreign exchange (gain)/loss		(152)	78
	Equity-settled share-based payments expenses		218	746
	Development costs expensed		502	440
	Operating cash flows before movements in working capital		56,742	66,407
	(Increase) decrease in trade and other receivables		(3,943)	2,287
	Increase in inventories		(1,796)	(2,008)
	Increase in held-for-trading investments		(4,032)	(490)
	Decrease in trade and other payables		(725)	(2,627)
	Increase (decrease) in provisions		113	(262)
	Decrease in retirement benefit obligations		156	-
	Increase in amount due from (to) customers for contract work		11	-
	Other [describe]		-	-
	Cash generated from operations		46,526	63,307
HKAS 7.31	Interest paid		(5,240)	(6,184)
HKAS 7.35	Income taxes paid		(13,619)	(10,038)
	Net cash generated by operating activities		27,667	47,085

Source	Hong Kong GAAP Limited			
HKAS 1.8(d) HKAS 1.46(b),(c)	**Consolidated cash flow statement** **for the year ended 31 December 2008 - continued**			**[Alt 1]**
		NOTES	**2008** **HK$'000**	**2007** **HK$'000**
HKAS 7.10	**Investing activities**			
	Purchase of available-for-sale investments		(688)	(3,762)
	Purchase of held-to-maturity investments		(5,489)	-
	Redemption of held-to-maturity investments		4,000	4,000
HKAS 7.31	Interest received		2,315	1,304
	Royalties and other investment income received		1,137	879
HKAS 7.37-38	Dividends received from associates		30	25
HKAS 7.31	Other dividends received		156	154
	Amounts advanced to related parties		(5,637)	(5,088)
	Proceeds from repayment of related party loans		5,088	2,355
	Purchase of property, plant and equipment		(24,853)	(11,902)
	Purchase of investment properties		(10)	(12)
	Increase in finance lease receivables		(123)	-
	Proceeds from disposal of property, plant and equipment		11,231	22,295
	Development costs paid		(508)	(798)
HKAS 7.39	Acquisition of subsidiaries	47	(622)	-
HKAS 7.39	Disposal of a subsidiary	48	7,566	-
	Net cash (used in)/generated in investing activities		(6,407)	9,450
HKAS 7.10	**Financing activities**			
	Proceeds from issue of ordinary shares		462	-
	Proceeds from issue of convertible loan notes		4,950	-
	Payment for share issue expenses		(6)	-
	Payment for repurchase of shares to:			
	- equity holders of the Company		(16,903)	-
	Payment for share repurchase expenses		(227)	-
	Proceeds from borrowings		15,000	12,265
	Repayment of borrowings		(16,800)	(61,622)
	Payment for debt issue costs		(595)	-
	Repayment of obligations under finance leases		(75)	(88)
	Proceeds from settlement of derivatives		164	237
	Payment for settlement of derivatives		(119)	(277)
	Dividends paid to:			
HKAS 7.31	- equity holders of the Company		(6,635)	(6,479)
	- minority interests		-	-
	Net cash used in financing activities		(20,784)	(55,964)
	Net increase in cash and cash equivalents		476	571
	Cash and cash equivalents at the beginning of the financial year		17,400	16,864
HKAS 7.28	Effects of exchange rate changes on the balance of cash held in foreign currencies		(40)	(35)
HKAS 7.45	**Cash and cash equivalents at the end of the financial year**	49	17,836	17,400

Note: The above illustrates the indirect method of reporting cash flows from operating activities.

Source	Hong Kong GAAP Limited			
HKAS 1.8(d) HKAS 1.46(b),(c)	**Consolidated cash flow statement** **for the year ended 31 December 2008**			**[Alt 2]**
HKAS 1.104		**NOTES**	**2008** **HK$'000**	**2007** **HK$'000**
HKAS 1.46(d), (e) HKAS 7.10	**Operating activities**			
HKAS 7.18(a)	Receipts from customers		211,426	214,497
	Payments to suppliers and employees		(160,957)	(150,990)
	Net cash outflow for held for trading investments		(3,943)	(200)
	Cash generated from operations		46,526	63,307
HKAS 7.31	Interest paid		(5,240)	(6,184)
HKAS 7.35	Income taxes paid		(13,619)	(10,038)
	Net cash generated in operating activities		27,667	47,085
HKAS 7.10	**Investing activities**			
	Purchase of available-for-sale investments		(688)	(3,762)
	Purchase of held-to-maturity investments		(5,489)	-
HKAS 7.31	Redemption of held-to-maturity investments		4,000	4,000
	Interest received		2,315	1,304
	Royalties and other investment income received		1,137	879
HKAS 7.37-38	Dividends received from associates		30	25
HKAS 7.31	Other dividends received		156	154
	Amounts advanced to related parties		(5,637)	(5,088)
	Proceeds from repayment of related party loans		5,088	2,355
	Purchase of property, plant and equipment		(24,853)	(11,902)
	Purchase of investment properties		(10)	(12)
	Increase in finance lease receivables		(123)	-
	Proceeds from disposal of property, plant and equipment		11,231	22,295
	Development costs paid		(508)	(798)
HKAS 7.39	Acquisition of subsidiaries	47	(622)	-
HKAS 7.39	Disposal of a subsidiary	48	7,566	-
	Net cash (used in)/generated in investing activities		(6,407)	9,450

Source	Hong Kong GAAP Limited			
	Consolidated cash flow statement			
	for the year ended 31 December 2008 - continued			**[Alt 2]**
		NOTES	**2008** **HK$'000**	**2007** **HK$'000**
HKAS 7.10	**Financing activities**			
	Proceeds from issues of ordinary shares		462	-
	Proceeds from issue of convertible loan notes		4,950	-
	Payment for share issue expenses		(6)	-
	Payment for repurchase of shares to:			
	- equity holders of the Company		(16,903)	-
	Payment for shares repurchase expenses		(227)	-
	Proceeds from borrowings		15,000	12,265
	Repayment of borrowings		(16,800)	(61,622)
	Payment for debt issue costs		(595)	-
	Repayment of obligations under finance leases		(75)	(88)
	Proceeds from settlement of derivatives		164	237
	Payment for settlement of derivatives		(119)	(277)
	Dividends paid to:			
HKAS 7.31	- equity holders of the Company		(6,635)	(6,479)
	- minority interests		-	-
	Net cash used in financing activities		(20,784)	(55,964)
	Net increase in cash and cash equivalents		476	571
	Cash and cash equivalents at the beginning of the financial year		17,400	16,864
HKAS 7.28	Effects of exchange rate changes on the balance of cash held in foreign currencies		(40)	(35)
HKAS 7.45	**Cash and cash equivalents at the end of the financial year**	49	17,836	17,400

Note: The above illustrates the direct method of reporting cash flows from operating activities.

Source	Hong Kong GAAP Limited
HKAS 1.8(e) HKAS 1.46(b),(c) HKAS 1.103(b),(c)	**Notes to the consolidated financial statements** **for the year ended 31 December 2008** **1. General**
s129A(1) HKAS1.126(a),(c) HKAS 24.12	The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate holding company is Group Holdings Limited (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.
HKAS 21.53	The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.
HKAS 1.126(b)	The principal activities of the Company and its subsidiaries (the “Group”) are the manufacture and sale of widgets and toys. The Group was also engaged in the manufacture of bicycles and construction businesses, which were discontinued in the current year (see note 11).
HKAS 8.28 Sch 10: 17(6)(b) App 16 Note 2.2 GR 18.04 Note	**2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)** In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective. HKAS 39 & HKFRS 7 (Amendments) — Reclassification of Financial Assets HK(IFRIC)-Int 11 — HKFRS 2: Group and Treasury Share Transactions HK(IFRIC)-Int 12 — Service Concession Arrangements HK(IFRIC)-Int 14 — HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 8.30
HKAS 8.31

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Note: The above list is complete as of 31 December 2008. The potential impact of any new or revised standards, amendments or interpretations released by the HKICPA after that date, but before the issue of the consolidated financial statements, should also be considered and disclosed.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 1.103(a)
HKAS 1.108
HKAS 1.14
App 16.5
GR 18.19

3. Significant accounting policies

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business or a jointly controlled entity is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

HKAS 31.57

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity (see above).

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

HKAS 18.35(a)
Sch 10:16(4)

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are provided.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

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

Dividend income from investments excluding financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 16.73(a),(b),(c)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent depreciation and impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Freehold land is stated at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of freehold land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than freehold land over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

HKAS 40.75(a)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 11.39(b),(c)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Sch 10:12(14)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using historical cost prevailing at the date of acquisition.

HKAS 23.29(a)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rate bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflected the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

HKAS 20.39(a)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 19.120A(a)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Sch 10:12(15)

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Intangible assets

Intangible assets acquired separately

HKAS 38.118(b)

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

HKAS 38.118(b)

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

HKAS 38.118(b)

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

HKAS 2.36(a)

Inventories

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

HKFRS 7.21

Financial instruments

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

HKFRS 7.B5(c),(g)
HKFRS 7.28(a)

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

HKFRS 7.B5(a)

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 39.9(b)(i)
HKAS 39.9(b)(ii)
HKAS 39.11A
HKAS 39.12

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

HKFRS 7.B5(e)

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables, pledged bank deposits, bank balances and cash, amount due from directors and finance lease receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated certain debt securities as held-to-maturity investments. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

HKFRS 7.B5(b)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. In addition to equity investments, the Group has also designated certain debt securities as available-for-sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.B5(f)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

HKFRS 7.B5(d)

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

HKAS 39.9(b)(i)
HKAS 39.9(b)(ii)
HKAS 39.11A
HKAS 39.12

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including bank and other borrowings, trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

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

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges), or hedges of net investments in foreign operations.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The adjustment to the carrying amount of the hedged item for which the effective interest is used is amortised to profit or loss as soon as an adjustment exists. The adjustment is based on a recalculated effective interest rate at the date the amortisation begins.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Gains and losses deferred in the translation reserve are recognised in profit or loss on disposal of the foreign operation.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation (if appropriate).

Contingent assets

Contingent assets are not recognised. If, in subsequent periods, it has become virtually certain that an inflow of economic benefits will arise, the asset and income are recognised in the period in which the change occurs.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

LR 17.08
GR 23.08

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to suppliers

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustments have been made to equity (share options reserve).

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

4. Critical accounting judgments and key sources of estimation uncertainty

Note: The following are examples of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position of the entity.

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

HKAS 1.113

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Revenue recognition

Note 13 describes the expenditure required in the year for rectification work carried out on goods supplied to one of the Group's major customers. These goods were delivered to the customer in the months of January to July 2008, and shortly thereafter the defects were identified by the customer. Following negotiations, a schedule of works was agreed, which will involve expenditure by the Group until 2010. In the light of the problems identified, management was required to consider whether it was appropriate to recognise the revenue from these transactions of HK$39 million in the current year, in line with the Group's general policy of recognising revenue when goods are delivered, or whether it was more appropriate to defer recognition until the rectification work was complete.

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 *Revenue* and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with recognition of an appropriate provision for the rectification costs.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 1.116
HKAS 1.120

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was HK$20.3 million (2007: HK$24.1 million) after an impairment loss of HK$15,000 (2007: nil) was recognised during 2008. Details of the impairment loss calculation are provided in note 22.

Fair value of derivatives and other financial instruments

As described in notes 27 and 30, the directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The Group's unlisted equity instruments with carrying amount of HK$2.74 million (2007: HK$2.70 million) are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of these equity instruments also includes some assumptions not supported by observable market prices or rates.

For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. The carrying amounts of these derivatives financial assets and derivative financial liabilities are HK$528,000 and HK$98,000 (2007: HK$397,000 and nil) respectively.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

5. Revenue

HKAS 18.35(b)
Sch 10:16(4)

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

Source		2008 HK$'000	2007 HK$'000
	Continuing operations		
HKAS 18.35(b)	Revenue from sales of goods	140,469	151,035
HKAS 18.35(b)	Revenue from rendering of services	449	805
		140,918	151,840
	Discontinued operations		
HKAS 18.35(b)	Revenue from sales of goods	35,655	49,944
HKAS 11.39(a)	Construction contract revenue	28,750	27,899
		64,405	77,843
Sch 10:16(2)		205,323	229,683

App 16.7
GR 18.08
HKAS 14.81
HKAS 1.126(b)

6. Business and geographical segments

Business segments

For management purposes, the Group is currently organised into four operating divisions – widgets, bicycles, construction and toys. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Widgets	the manufacture and sale of widgets.
Toys	the manufacture and sale of toys.
Bicycles	the manufacture of bicycles including leisure bicycles, mountain bicycles and children's bicycles.
Construction	the construction and renovation of residential properties.

Other operations include the development and sale of computer software for specialised business applications, and the leasing out of specialised storage equipment.

During the financial year, the Group disposed of its bicycle business and the Board of Directors announced a plan to dispose of the construction business (see note 11).

Segment information about these businesses is presented below.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

2008

Source		Continuing operations					Discontinued operations			
		Widgets HK$'000	Toys HK$'000	Other HK$'000	Eliminations HK$'000	Total HK$'000	Bicycles HK$'000	Construction HK$'000	Total HK$'000	Consolidated HK$'000
	REVENUE									
HKAS 14.51	External sales	75,949	63,455	1,514	-	140,918	35,515	28,890	64,405	205,323
	Inter-segment sales	2,515	806	-	(3,321)	-	-	-	-	-
HKAS 14.67	Total	78,464	64,261	1,514	(3,321)	140,918	35,515	28,890	64,405	205,323

Source	
HKAS 14.75	Inter-segment sales are charged at prevailing market rates.

Source		Widgets HK$'000	Toys HK$'000	Other HK$'000	Eliminations HK$'000	Total HK$'000	Bicycles HK$'000	Construction HK$'000	Total HK$'000	Consolidated HK$'000
	RESULT									
HKAS 14.52	Segment result	29,123	9,942	1,011	-	40,076	5,474	4,206	9,680	49,756
	Unallocated income					4,542			1,940	6,482
	Unallocated corporate expenses					(15,088)			(150)	(15,238)
HKAS 14.64	Share of profits of associates					1,186			-	1,186
	Profit before tax					30,716			11,470	42,186
	Income tax expense					(11,650)			(3,160)	(14,810)
HKAS 14.67	Profit for the year					19,066			8,310	27,376

BALANCE SHEET

Source		Widgets HK$'000	Bicycles HK$'000	Construction HK$'000	Toys HK$'000	Other HK$'000	Consolidated HK$'000
	ASSETS						
	Segment assets	98,750	-	20,901	72,513	8,346	200,510
HKAS 14.55	Interests in associates						8,425
HKAS 14.66	Unallocated corporate assets						55,237
HKAS 14.67	Consolidated total assets						264,172
	LIABILITIES						
HKAS 14.56	Segment liabilities	10,003	-	3,254	7,135	220	20,612
	Unallocated corporate liabilities						72,520
HKAS 14.67	Consolidated total liabilities						93,132

OTHER INFORMATION

Source		Continuing operations				Discontinued operations			
		Widgets HK$'000	Toys HK$'000	Other HK$'000	Total HK$'000	Bicycles HK$'000	Construction HK$'000	Total HK$'000	Consolidated HK$'000
HKAS 14.57	Capital additions	13,287	7,752	435	21,474	-	4,274	4,274	25,748
HKAS 14.58	Depreciation and amortisation	7,275	5,137	-	12,412	477	1,290	1,767	14,179
HKAS 36.130	Impairment losses on property, plant and equipment	1,204	-	-	1,204	-	-	-	1,204
HKAS 36.130	Impairment losses on goodwill	-	15	-	15	-	-	-	15
HKAS 36.130	Impairment losses on receivables	40	-	-	40	-	-	-	40
HKAS 14.61	Write-down of inventories	-	-	-	-	-	-	-	-

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

2007

Source		Continuing operations					Discontinued operations			
		Widgets HK$'000	Toys HK$'000	Other HK$'000	Eliminations HK$'000	Total HK$'000	Bicycles HK$'000	Construction HK$'000	Total HK$'000	Consolidated HK$'000
	REVENUE									
HKAS 14.51	External sales	79,895	69,542	2,403	-	151,840	49,153	28,690	77,843	229,683
	Inter-segment sales	1,872	650	-	(2,522)	-	-	-	-	-
HKAS 14.67	Total	81,767	70,192	2,403	(2,522)	151,840	49,153	28,690	77,843	229,683
HKAS 14.75	Inter-segment sales are charged at prevailing market rates.									
HKAS 14.52	RESULT									
	Segment result	29,640	10,343	984	-	40,967	9,636	3,491	13,127	54,094
	Unallocated income					3,356			-	3,356
	Unallocated corporate expenses					(13,774)			(134)	(13,908)
HKAS 14.64	Share of profits of associates					1,589			-	1,589
	Profit before tax					32,138			12,993	45,131
	Income tax expense					(11,801)			(2,998)	(14,799)
HKAS 14.67	Profit for the year					20,337			9,995	30,332

BALANCE SHEET

Source		Widgets HK$'000	Bicycles HK$'000	Construction HK$'000	Toys HK$'000	Other HK$'000	Consolidated HK$'000
	ASSETS						
	Segment assets	98,034	10,012	20,012	70,658	7,970	206,686
HKAS 14.55	Interests in associates						7,269
HKAS 14.66	Unallocated corporate assets						48,197
HKAS 14.67	Consolidated total assets						262,152
	LIABILITIES						
HKAS 14.56	Segment liabilities	11,662	955	2,552	6,105	214	21,488
	Unallocated corporate liabilities						73,625
HKAS 14.67	Consolidated total liabilities						95,113

OTHER INFORMATION

Source		Continuing operations				Discontinued operations			
		Widgets HK$'000	Toys HK$'000	Other HK$'000	Total HK$'000	Bicycles HK$'000	Construction HK$'000	Total HK$'000	Consolidated HK$'000
HKAS 14.57	Capital additions	6,952	3,483	-	10,435	325	1,500	1,825	12,260
HKAS 14.58	Depreciation and amortisation	7,587	6,291	-	13,878	736	2,736	3,472	17,350
HKAS 36.130	Impairment losses on property, plant and equipment	-	-	-	-	-	-	-	-
HKAS 36.130	Impairment losses on goodwill	-	-	-	-	-	-	-	-
HKAS 36.130	Impairment losses on trade receivables	310	110	-	420	-	-	-	420
HKAS 14.61	Write-down of inventories	-	-	-	-	-	-	-	-

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 14.81

Geographical segments

The Group's four divisions operate in three principal geographical areas – the Peoples' Republic of China (excluding Hong Kong) (the "PRC"), Hong Kong and Malaysia. The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods and services:

HKAS 14.69(a)

	Revenue from external customers	
	2008 HK$'000	2007 HK$'000
PRC	136,607	151,814
Hong Kong	35,898	43,562
Malaysia	25,485	25,687
European countries	7,333	8,620
	205,323	229,683

Revenue from the Group's discontinued operations was derived mainly from the PRC and Hong Kong.

HKAS 14.69(b),(c)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
PRC	139,132	147,799	12,598	6,748
Hong Kong	39,256	36,428	8,643	2,888
Malaysia	21,684	22,009	4,507	2,624
European countries	438	450	-	-
	200,510	206,686	25,748	12,260

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

7. Investment and other income

Source		Continuing operations		Discontinued operations		Consolidated	
		2008	2007	2008	2007	2008	2007
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
HKAS 18.35(b)(iii)	Interest income on:						
	Bank deposits	1,650	741	-	-	1,650	741
	Available-for-sale investments	154	148	-	-	154	148
	Other loans and receivables	66	5	-	-	66	5
	Held-to-maturity investments	445	410	-	-	445	410
	Total Interest income	2,315	1,304	-	-	2,315	1,304
HKAS 18.35(b)(iv)	Royalties	579	428	-	-	579	428
HKAS 18.35(b)(v)	Dividends from equity securities	156	154	-	-	156	154
HKAS 20.39(b)	Government grant received for staff re-training	731	979	-	-	731	979
	Other	558	465	-	-	558	465
		4,339	3,330	-	-	4,339	3,330

Sch 10:13(1)(g) Included above is income from listed investments of HK$471,000 (2007: HK$444,000) and from unlisted investments of HK$284,000 (2007: HK$268,000).

Investment and other income analysed by category of asset is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Available-for-sale financial assets	310	302	-	-	310	302
Loans and receivables (including cash and bank balances)	1,716	746	-	-	1,716	746
Held-to-maturity investments	445	410	-	-	445	410
Non-financial assets	1,868	1,872	-	-	1,868	1,872
	4,339	3,330	-	-	4,339	3,330

Revenue recognised in respect of financial assets designated as at fair value through profit or loss is disclosed in note 8.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

8. Other gains and losses

Source		Continuing operations 2008 HK$'000	Continuing operations 2007 HK$'000	Discontinued operations 2008 HK$'000	Discontinued operations 2007 HK$'000	Consolidated 2008 HK$'000	Consolidated 2007 HK$'000
HKAS 16.68	Gain on disposal of property, plant and equipment	6	67	-	-	6	67
HKAS 21.52(a)	Net foreign exchange gains/(loss)	122	(127)	30	49	152	(78)
HKFRS 7.20(a)	Change in fair value of financial assets designated as at FVTPL	-	-	-	-	-	-
HKFRS 7.20(a)	Change in fair value of financial assets classified as held for trading	(8)	10	-	-	(8)	10
HKFRS 7.20(a)	Change in fair value of financial liabilities designated as at FVTPL	-	-	-	-	-	-
HKFRS 7.20(a)	Change in fair value of financial liabilities classified as held for trading	-	-	-	-	-	-
HKAS 40.76(d)	Change in fair value of investment property	(6)	8	-	-	(6)	8
HKFRS 7.20(a)	Recycling of gain/(loss) from equity on disposal of available-for-sale investments	-	-	-	-	-	-
HKFRS 7.24(b)	Hedge ineffectiveness on cash flow hedges	89	68	-	-	89	68
HKFRS 7.24(c)	Hedge ineffectiveness on net investment hedges	-	-	-	-	-	-
	Impairment loss recognised in respect of property, plant and equipment	1,204	-	-	-	1,204	-
	Impairment loss recognised in respect of goodwill	15	-	-	-	15	-
HKFRS 7.20(e)	Impairment losses on financial assets						
	- trade receivables	40	420	-	-	40	420
	- available-for-sale equity investments	-	-	-	-	-	-
	- available-for-sale debt invesments	-	-	-	-	-	-
	- held-to-maturity financial assets	-	-	-	-	-	-
	- loans carried at amortised cost	-	-	-	-	-	-
		1,462	446	30	49	1,492	495

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

9. Finance costs

Source		Continuing operations		Discontinued operations		Consolidated	
		2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Sch 10:13(1)(b)	Interest on:						
	Bank and other borrowings						
	- wholly repayable within five years	4,171	5,225	150	134	4,321	5,359
	- not wholly repayable within five years	721	801	-	-	721	801
	Finance leases	15	24	-	-	15	24
	Effective interest expense on convertible loan notes	110	-	-	-	110	-
	Unwinding of discounts on provisions	28	-	-	-	28	-
	Imputed interest expense on non-current interest-free loan from the immediate holding company	-	-	-	-	-	-
HKFRS 7.20(b)	Total borrowing costs	5,045	6,050	150	134	5,195	6,184
HKAS 23.29(b) App 16.22(2) GR 18.22	Less: amounts capitalised	(11)	(27)	-	-	(11)	(27)
		5,034	6,023	150	134	5,184	6,157
HKFRS 7.24(a)(i)	Increase in fair value of interest rate swaps	(35)	(27)	-	-	(35)	(27)
HKFRS 7.24(a)(ii)	Decrease in fair value of fixed-rate borrowings attributable to hedged risk	35	27	-	-	35	27
		-	-	-	-	-	-
		5,034	6,023	150	134	5,184	6,157

HKAS 23.29(c) — Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8% (2007: 7.8%) per annum to expenditure on qualifying assets.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

10. Income tax expense

HKAS 12.79
Sch 10:13(1)(c)

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Current tax:						
Hong Kong	1,524	998	360	730	1,884	1,728
PRC Enterprise Income Tax	8,523	7,926	2,796	2,258	11,319	10,184
Other jurisdictions	34	55	-	-	34	55
	10,081	8,979	3,156	2,988	13,237	11,967
(Over) under provision of current tax in prior years:						
Hong Kong	(300)	-	-	-	(300)	-
PRC Enterprise Income Tax	-	2,380	-	-	-	2,380
	(300)	2,380	-	-	(300)	2,380
Deferred tax (note 29):						
Current year	1,899	924	4	10	1,903	934
Attributable to a change in tax rate	(30)	(482)	-	-	(30)	(482)
	1,869	442	4	10	1,873	452
	11,650	11,801	3,160	2,998	14,810	14,799

Sch 10:17(3)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2007: 30%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 12.81(c)

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Profit before tax:		
Continuing operations	30,716	32,138
Discontinued operations	11,470	12,993
	42,186	45,131
Tax at PRC Enterprise Income Tax rate of 25% (2007: 30%)	10,547	13,539
Tax effect of share of profits of associates	(297)	(477)
Tax effect of expenses not deductible for tax purpose	5,186	1,260
Tax effect of income not taxable for tax purpose	(86)	(581)
(Over) under provision in respect of prior years	(300)	2,380
Tax effect of [tax losses/deductible temporary differences] not recognised	-	-
Utilisation of [tax losses/deductible temporary differences] previously not recognised	-	-
Effect of different tax rates of group entities operating in jurisdictions other than PRC	(210)	(840)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(30)	(482)
Tax charge for the year	14,810	14,799

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

11. Discontinued operations

Disposal of the bicycle business

HKFRS 5.30
HKFRS 5.41

On 28 September 2008, the Board of Directors entered into a sale agreement to dispose of the Group's bicycle business. The proceeds of sale substantially exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognised on the reclassification of these operations as held for sale. The disposal of the bicycle business is consistent with the Group's long-term policy to focus its activities in the widget and toy manufacturing industries. The disposal was completed on 30 November 2008, on which date control of the bicycle business passed to the acquirer. Details of the assets and liabilities disposed of are disclosed in note 48.

Plan to dispose of the construction business

HKFRS 5.30
HKFRS 5.41

On 30 November 2008, the Board of Directors announced a plan to dispose of the Group's construction business, which involves the construction and renovation of residential properties in Hong Kong. The disposal is consistent with the Group's long-term policy to focus its activities in the widget and toy manufacturing industries. The Group is actively seeking a buyer for its construction business and expects to complete the sale by 31 July 2009. On initial reclassification of these operations as held for sale, the Group has not recognised any impairment losses.

HKFRS 5.34

The combined results and cash flows of the discontinued operations (i.e. the bicycle and construction businesses) included in the consolidated income statement and the consolidated cash flow statement are set out below.

Source		2008 HK$'000	2007 HK$'000
HKFRS 5.33(b)	**Profit for the year from discontinued operations**		
HKFRS 5.34	Revenue	64,405	77,843
	Expenses	(54,875)	(64,850)
	Profit before tax	9,530	12,993
HKAS 12.81(h) HKFRS 5.33(b)(iv)	Income tax expense	(2,675)	(2,998)
		6,855	9,995
HKFRS 5.33(b)(iii)	Loss on remeasurement to fair value less costs to sell	-	-
	Gain on disposal of operations (including HK$0.12 million reversal of translation reserve on disposal of a subsidiary)	1,940	-
HKAS 12.81(h) HKFRS 5.33(b)(iv)	Income tax expense	(485)	-
		1,455	-
	Profit for the year from discontinued operations	8,310	9,995
HKFRS 5.33(c)	**Cash flows from discontinued operations**		
	Net cash flows from operating activities	6,381	7,078
	Net cash flows from investing activities	2,767	-
	Net cash flows from financing activities	(5,000)	-
	Net cash flows	4,148	7,078

The construction business has been classified and accounted for at 31 December 2008 as a disposal group held for sale (see note 12).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

12. Non-current assets held for sale

	2008 HK$'000	2007 HK$'000
Freehold land held for sale (Note 1)	1,260	-
Assets related to the construction business (Note 2)	21,076	-
	22,336	-
Liabilities associated with assets held for sale (Note 2)	3,684	-

Notes:

HKFRS 5.41

1) The Group intends to dispose of a parcel of freehold land it no longer utilises in the next 10 months. The property located on the freehold land was previously used in the Group's toy operations and has been fully depreciated. A search is underway for a buyer. No impairment loss was recognised on reclassification of the freehold land as held for sale as at 31 December 2008.

HKFRS 5.41
HKFRS 5.38

2) As described in note 11, the Group is seeking to dispose of its construction business and anticipates that the disposal will be completed by 31 July 2009. The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

Source		2008 HK$'000	2007 HK$'000
	Goodwill	1,147	-
	Property, plant and equipment	16,944	-
HKAS 2.36(c)	Inventories	830	-
	Trade and other receivables	1,980	-
	Bank balances and cash	175	-
	Assets of construction business classified as held for sale	21,076	-
	Trade and other payables	(3,254)	-
	Current tax liabilities	-	-
	Deferred tax liabilities	(430)	-
	Liabilities of construction business associated with assets classified as held for sale	(3,684)	-
	Net assets of construction business classified as held for sale	17,392	-

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

13. Profit for the year

Profit for the year has been arrived at after charging (crediting):

Source		Continuing operations		Discontinued operations		Consolidated	
		2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
	Depreciation for property, plant and equipment	10,820	12,322	1,767	3,472	12,587	15,794
HKAS 38.118(d)	Amortisation of other intangible assets (included in [cost of sales/ depreciation and amortisation expense/ administrative expenses/ other expenses])	1,592	1,556	-	-	1,592	1,556
Sch 10:13(1)(a)	Total depreciation and amortisation	12,412	13,878	1,767	3,472	14,179	17,350
Sch 10:15	Auditor's remuneration	2,000	1,850	150	130	2,150	1,980
HKAS 38.126	Research and development costs	602	540	-	-	602	540
HKAS 40.75(f)	Gross rental income from investment properties	(11)	(16)	-	-	(11)	(16)
	Less:						
	Direct operating expenses from investment properties that generated rental income during the year	1	2	-	-	1	2
	Direct operating expenses from investment properties that did not generate rental income during the year	-	-	-	-	-	-
		(10)	(14)	-	-	(10)	(14)

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Profit for the year has been arrived at after charging (crediting):

Source		Continuing operations		Discontinued operations		Consolidated	
		2008	2007	2008	2007	2008	2007
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
HKAS 1.93	Employee benefits expense:						
	Post employment benefits						
HKAS 19.46	Defined contribution plans	146	120	14	28	160	148
HKAS 19.120A(g)	Defined benefit plans	586	556	-	-	586	556
		732	676	14	28	746	704
HKFRS 2.50	Share-based payments						
HKFRS 2.51(a)	Equity-settled share-based payments	218	746	-	-	218	746
HKFRS 2.51(a)	Cash-settled share-based payments	-	-	-	-	-	-
		218	746	-	-	218	746
HKAS 19.142	Termination benefits	-	-	-	-	-	-
	Other employee benefits	8,853	10,275	4,561	3,756	13,414	14,031
		9,803	11,697	4,575	3,784	14,378	15,481
HKAS 2.36(d)	Cost of inventories recognised as an expense	86,780	90,100	34,118	43,120	120,898	133,220

HKAS 1.86

Costs of HK$4.17 million (2007: nil) have been recognised during the year in respect of rectification work to be carried out on goods supplied to one of the Group's major customers, which have been included in [cost of sales/cost of inventories and employee benefits expense]. The amount represents the estimated cost of work to be carried out in accordance with an agreed schedule of works up to 2010. HK$1.112 million of the provision has been utilised in the current year, with a provision of HK$3.058 million carried forward to meet anticipated expenditure in 2009 and 2010 (see note 41).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

s161
s161A
App 16.24
GR 18.28

14. Directors' emoluments

The emoluments paid or payable to each of the six (2007: six) directors were as follows:

	Gary D.K. Wong HK$'000	Daniel D.D. Lee HK$'000	Derek S.Y. Wong HK$'000	Tiara Cheung HK$'000	Florence K.Y. Tang HK$'000	John Banks HK$'000	Total 2008 HK$'000
2008							
Fees	-	-	-	100	100	100	300
Other emoluments							
Salaries and other benefits	600	200	200	-	-	-	1,000
Contributions to retirement benefits schemes	5	5	5	-	-	-	15
Share-based payments	60	60	-	-	-	-	120
Discretionary and performance related incentive payments (Note)	80	70	70	-	-	-	220
Total emoluments	745	335	275	100	100	100	1,655

	Gary D.K. Wong HK$'000	Daniel D.D. Lee HK$'000	Derek S.Y. Wong HK$'000	Tiara Cheung HK$'000	Florence K.Y. Tang HK$'000	John Banks HK$'000	Total 2007 HK$'000
2007							
Fees	-	-	-	100	100	100	300
Other emoluments:							
Salaries and other benefits	580	150	150	-	-	-	880
Contributions to retirement benefits schemes	5	5	5	-	-	-	15
Share-based payments	160	35	-	-	-	-	195
Discretionary and performance related incentive payments (Note)	-	100	90	-	-	-	190
Total emoluments	745	290	245	100	100	100	1,580

Note: The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

App 16.25
GR 18.30

15. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	200	180
Contributions to retirement benefits schemes	5	10
Share-based payment expense	55	40
Discretionary and performance related incentive payments	-	-
	260	230

Their emoluments were all within HK$1,000,000 to HK$2,000,000.

HKAS 1.95
Sch 10:13(1)(j)

16. Dividends

	2008 HK$'000	2007 HK$'000
Dividends recognised as distributions during the year:		
Interim, paid - HK10.00 cents per share (2007: nil)	2,300	-
Final, paid - HK18.84 cents per share (2007: HK28.16 cents)	4,335	6,479
	6,635	6,479

HKAS 1.125(a)
HKAS 10.13

Subsequent to the balance sheet date, the final dividend of HK26.31 cents (2007: HK18.84 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 33.70

17. Earnings per share

Note: HKAS 33 Earnings per Share, requires that earnings per share (EPS) information be presented by entities whose ordinary shares or potential ordinary shares are publicly traded, or by entities that are in the process of issuing ordinary shares or potential ordinary shares in public securities markets. If other entities choose to disclose EPS information voluntarily in financial statements that comply with HKFRSs, such disclosures should comply fully with the requirements of HKAS 33.

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

HKAS 33.70(a)

	2008 HK$'000	2007 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	23,376	27,569
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes (net of tax)	83	-
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	(66)	(56)
Earnings for the purpose of diluted earnings per share	23,393	27,513

HKAS 33.70(b)

	2008 '000	2007 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	22,450	23,005
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	193	91
Convertible loan notes	1,203	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	23,846	23,096

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

HKAS 33.70(a)

Earnings figures are calculated as follows:

	2008 HK$'000	2007 HK$'000
Profit for the year attributable to equity holders of the Company	23,376	27,569
Less:		
Profit for the year from discontinued operations	(8,310)	(9,995)
Earnings for the purpose of basic earnings per share from continuing operations	15,066	17,574
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes (net of tax)	83	-
Adjustment to the share of profit of a subsidiary based on dilution of its earnings per share	(66)	(56)
Earnings for the purpose of diluted earnings per share from continuing operations	15,083	17,518

HKAS 33.70(b)

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

HKAS 33.68

From discontinued operations

Basic earnings per share for the discontinued operations is HK37.02 cents per share (2007: HK43.45 cents per share) and diluted earnings per share for the discontinued operations is HK34.85 cents per share (2007: HK43.28 cents per share), based on the profit for the year from the discontinued operations of HK$8.310 million (2007: HK$9.995 million) and the denominators detailed above for both basic and diluted earnings per share.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

18. Property, plant and equipment

Source		Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Total HK$'000
HKAS 16.73(d)(e)	COST OR VALUATION					
HKAS 16.74(b)	At 1 January 2007	14,871	10,056	306	157,164	182,397
Sch 10:12(8)	Exchange adjustments	-	2	-	-	2
	Additions	-	1,205	-	10,697	11,902
	Surplus on revaluation	2,097	35	-	-	2,132
	Disposals	-	-	-	(27,286)	(27,286)
	At 31 December 2007	16,968	11,298	306	140,575	169,147
	Exchange adjustments	-	-	-	-	-
	Additions	-	1,610	-	23,243	24,853
	Acquired on acquisition of subsidiaries	-	-	-	454	454
	Deficit on revaluation	(610)	-	-	-	(610)
	Reclassified as held for sale	(1,260)	(1,357)	-	(22,045)	(24,662)
	Disposals	(1,530)	(1,184)	(16)	(19,771)	(22,501)
	At 31 December 2008	13,568	10,367	290	122,456	146,681
HKAS 16.73(a)	Comprising					
	At cost	-	-	290	122,456	122,746
	At valuation 2008	13,568	10,367	-	-	23,935
		13,568	10,367	290	122,456	146,681
	DEPRECIATION AND IMPAIRMENT					
	At 1 January 2007	-	(1,521)	(30)	(25,397)	(26,948)
	Exchange adjustments	-	(2)	-	-	(2)
	Provided for the year	-	(892)	(55)	(14,847)	(15,794)
	Eliminated on revaluation	-	-	-	-	-
	Eliminated on disposals	-	-	-	5,058	5,058
	At 31 December 2007	-	(2,415)	(85)	(35,186)	(37,686)
	Exchange adjustments	-	-	-	-	-
	Provided for the year	-	(721)	(53)	(11,813)	(12,587)
HKAS 36.126(a)	Impairment loss recognised	-	-	-	(1,204)	(1,204)
	Reclassified as held for sale	-	153	-	6,305	6,458
	Eliminated on disposals	-	102	4	6,467	6,573
	At 31 December 2008	-	(2,881)	(134)	(35,431)	(38,446)
	CARRYING AMOUNTS					
	At 31 December 2008	13,568	7,486	156	87,025	108,235
	At 31 December 2007	16,968	8,883	221	105,389	131,461

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 16.73(c)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 20-30 years
Leasehold improvements	15-20%
Plant and equipment	7-20%

HKAS 36.130 (a) to (g)

During the year, the Group carried out a review of the recoverable amount of its manufacturing plant and equipment used in the Group's widget segment, having regard to its ongoing programme of modernisation and the introduction of new product lines. The review led to the recognition of an impairment loss of HK$1.09 million (2007: nil), that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 9% per annum. The discount rate used when the recoverable amount of these assets was previously estimated in 2007 was 8% per annum.

HKAS 36.131

Additional impairment losses recognised in respect of property, plant and equipment in the year amounted to HK$0.114 million (2007: nil). These losses are attributable to greater than anticipated wear and tear.

HKAS 36.126(a)

The impairment losses have been included in the line item [cost of sales/other expenses] in the consolidated income statement.

Freehold land and buildings carried at revalued amounts

HKAS 16.77 (a) to (d)

An independent valuation of the Group’s land and buildings was performed by Messrs. [XYZ] to determine the fair value of the freehold land and buildings as at 31 December 2008 (2007: 31 December 2007). A revaluation decrease of HK$0.61 million (2007: increase of HK$2.097 million) was recognised in relation to freehold land. The valuation was arrived at by reference to recent market transactions on arm's length terms.

HKAS 16.77(e)

Had the Group’s freehold land and buildings (other than freehold land and buildings classified as held for sale or included in a disposal group) been measured on a historical cost basis, their carrying amount would have been as follows:

	2008 HK$’000	2007 HK$’000
Freehold land	11,710	14,500
Buildings	6,455	8,860

HKAS 17.31(a)

The carrying amount of plant and equipment includes an amount of HK$18,000 (2007: HK$36,000) in respect of assets held under finance leases.

HKAS 16.74(a)
Sch 10:12(4)

The Group has pledged freehold land and buildings having a carrying amount of approximately HK$21 million (2007: HK$26 million) to secure general banking facilities granted to the Group.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Sch 10:12(9)

19. Prepaid lease payments

	2008 HK$'000	2007 HK$'000
The Group's prepaid lease payments comprise:		
Land in Hong Kong:		
Long lease	-	-
Medium term lease	1,700	1,750
Short lease	-	-
Land outside Hong Kong:		
Long lease	-	-
Medium term lease	1,300	1,350
Short lease	-	-
	3,000	3,100
Analysed for reporting purposes as:		
Current assets (included in trade and other receivables)	100	100
Non-current assets	2,900	3,000
	3,000	3,100

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

20. Investment properties

HKAS 40.76

	HK$'000
FAIR VALUE	
At 1 January 2007	112
Exchange adjustments	-
Additions	12
Net increase in fair value	8
At 31 December 2007	132
Exchange adjustments	-
Additions	10
Net decrease in fair value	(6)
At 31 December 2008	136

HKAS 40.75(d),(e)

The fair value of the Group's investment properties at 31 December 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by Messrs. [XYZ], independent qualified professional valuers not connected with the Group. Messrs. [XYZ] are members of the Hong Kong Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

HKAS 40.75(b)

All of the Group's property interests held under operating leases to earn rentals purposes are measured using the fair value model and are classified and accounted for as investment properties.

HKAS 40.75(g)
Sch 10:12(4)

All of the Group's investment properties have been pledged to secure general banking facilities granted to the Group.

Sch 10:12(9)

The carrying amount of investment properties shown above comprises:

	2008 HK$'000	2007 HK$'000
Land in Hong Kong:		
Long lease	-	-
Medium-term lease	136	132
Land outside Hong Kong:		
Long lease	-	-
Medium-term lease	-	-
Short lease	-	-
	136	132

HKAS 40.75

Note: The entity is required to disclose the methods and significant assumptions applied in determining the fair value of investment property including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which should also be disclosed). Accordingly, for investment properties whose fair values would not be determined based on current prices in active markets for similar properties in the same location and condition, detailed disclosures should be provided regarding the significant inputs and assumptions made during the valuation process.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 3.74
HKFRS 3.75

21. Goodwill

	HK$'000
COST	
At 1 January 2007	24,060
Exchange adjustments	-
Acquired on acquisition of a subsidiary	-
Eliminated on disposal of a subsidiary	-
At 31 December 2007	24,060
Exchange adjustments	-
Acquired on acquisition of subsidiaries	435
Eliminated on disposal of a subsidiary	(3,080)
Reclassified as held for sale	(1,147)
At 31 December 2008	20,268
IMPAIRMENT	
At 1 January 2007	-
Impairment loss recognised	-
At 31 December 2007	-
Impairment loss recognised	(15)
Reclassified as held for sale	-
At 31 December 2008	(15)
CARRYING AMOUNTS	
At 31 December 2008	20,253
At 31 December 2007	24,060

HKFRS 3.76
HKAS 36.130

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's toy operations was impaired by HK$15,000 (2007: nil). The recoverable amount of the toy operations was assessed by reference to value in use. A discount factor of 15% (2007: 10.5%) per annum was applied in the value in use model.

The main factor contributing to the impairment of the cash-generating unit was the failure of one of the newer product ranges to contribute to sales to the extent that product testing had predicted. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary. The goodwill is included in the 'toys' reportable segment disclosed in note 6.

Particulars regarding impairment testing on goodwill are disclosed in note 22.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

22. Impairment testing on goodwill

HKAS 36.134
HKAS 36.135

As explained in note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 21 has been allocated to the following cash generating units (CGUs). The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2008 and 2007 is allocated as follows:

	2008 HK$'000	2007 HK$'000
Widget operations - PRC	8,500	8,500
Widget operations - Malaysia	4,000	4,000
Widget operations - Hong Kong	3,000	3,000
Construction operations - Hong Kong	-	1,147
Bicycle operations	-	3,080
Toy operations	4,318	4,333
Other operations	435	-
	20,253	24,060

Widget operations - PRC and Hong Kong

The widget operations in PRC and Hong Kong produce similar products, and their recoverable amounts are based on many of the same key assumptions. The recoverable amount of both CGUs is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15% (2007: 9.5%) per annum.

Cash flow projections during the budget period for both CGUs are also based on the same expected gross margins during the budget period and the same raw materials price inflation during the budget period. Both sets of cash flows beyond that five year period have been extrapolated using a steady 5% per annum growth rate. This growth rate exceeds by 0.5 percentage points the long-term average growth rate for the international widgets market. However, among other factors, the widget operations - PRC and Hong Kong benefit from the protection of a 20-year patent on its Series Z widgets granted in 2005, which is still acknowledged as being one of the top widget models in the market. Management believes that a 5% per annum growth rate is reasonable in the light of that patent, and of other widget-related products being developed, and its intentions of focusing its operations in this industry.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Widget operations - Malaysia

The recoverable amount of the widget operations - Malaysia unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15% (2007: 10.5%) per annum. Cash flows beyond that five-year period have been extrapolated using a steady 5% per annum growth rate. This growth rate exceeds by 0.5 percentage points the long-term average growth rate for the international widgets market. However, the management believes, as described above, that this rate is reasonable.

Toy operations

The recoverable amount of the toy operations unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 15% (2007: 10.5%) per annum. Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the toy operations operate.

The key assumptions used in the value in use calculations for the widget and toy operations are as follows:

Budgeted market share and sales	Average market share and sales in the period immediately before the budget period is expected to be unchanged over the budget period. Due to the potential economic downturn, the level of budgeted sales is expected to reduce by 10% in the coming year. After that, it is expected to remain stable over the remaining budget period. The values assigned to the assumptions reflect past experience, except for the growth factor, which is consistent with management plans for focusing operations in the widget and toy industries. Management believes that the planned market share growth and budgeted sales over the budget period is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period is expected to remain unchanged over the budget period. Although the management expects efficiency improvements will contribute to reducing production costs, it considers the current unfavourable market conditions will impose pressure on the Group to reduce selling price in order to maintain its competitiveness. After taking into account these factors, the management considers that it is reasonable to expect a stable gross margin over the next five years.
Raw materials price inflation	Raw material price inflation is estimated by reference to forecast consumer price indices during the budget period for the countries from which raw materials are purchased. The values assigned to the key assumptions are consistent with external sources of information.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 38.118(c), (e)

23. Other intangible assets

Source		Capitalised development cost HK$'000	Patents HK$'000	Trademarks HK$'000	Licenses HK$'000	Total HK$'000
	COST					
	At 1 January 2007	3,230	5,825	4,711	6,940	20,706
	Exchange adjustments	-	-	-	-	-
	Additions	358	-	-	-	358
	Acquired on acquisition of a subsidiary	-	-	-	-	-
	Disposals or classified as held for sale	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	At 31 December 2007	3,588	5,825	4,711	6,940	21,064
	Exchange adjustments	-	-	-	-	-
	Additions	6	-	-	-	6
	Acquired on acquisition of a subsidiary	-	-	-	-	-
	Disposals or classified as held for sale	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	At 31 December 2008	3,594	5,825	4,711	6,940	21,070
	AMORTISATION AND IMPAIRMENT					
	At 1 January 2007	(1,000)	(874)	(3,533)	(2,776)	(8,183)
	Exchange adjustments	-	-	-	-	-
	Provided for the year	(682)	(291)	(236)	(347)	(1,556)
	Disposals or classified as held for sale	-	-	-	-	-
HKAS 36.130(b)	Impairment losses recognised	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	At 31 December 2007	(1,682)	(1,165)	(3,769)	(3,123)	(9,739)
	Exchange adjustments	-	-	-	-	-
	Provided for the year	(718)	(291)	(236)	(347)	(1,592)
	Disposals or classified as held for sale	-	-	-	-	-
HKAS 36.130(b)	Impairment losses recognised	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	At 31 December 2008	(2,400)	(1,456)	(4,005)	(3,470)	(11,331)
	CARRYING AMOUNTS					
	At 31 December 2008	1,194	4,369	706	3,470	9,739
	At 31 December 2007	1,906	4,660	942	3,817	11,325

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 38.118(d)

The amortisation expense has been included in the line item [depreciation and amortisation expense/administrative expenses/other expenses] in the consolidated income statement.

HKAS 38.118(a)

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Capitalised development cost	5 years
Patents	20 years
Trademarks	20 years
Licenses	20 years

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

24. Interests in associates

Source		2008 HK$'000	2007 HK$'000
Sch 10:9(1)(a)	Cost of investments in associates		
	Listed in Hong Kong	1,856	1,856
	Unlisted	3,824	3,824
	Share of post-acquisition profits, net of dividends received	2,745	1,589
		8,425	7,269
HKAS 28.37(a)	Fair value of listed investments	2,221	3,078

s129(1)&(2)
s129(4)&(5)

As at 31 December 2008 and 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital /registered capital held by the Group	Proportion of voting power held	Principal activities
A Plus Limited	Incorporated	Malaysia	Malaysia	Ordinary	17%	17% (Note 1)	Transport
B Plus Limited	Incorporated	Japan	Japan	Ordinary	56%	56% (Note 2)	Finance
C Plus Limited	Incorporated	Malaysia	Malaysia	Ordinary	25%	25%	Transport

Notes:

HKAS 28.37(c),(d)

1) The Group is able to exercise significant influence over A Plus Limited because it has the power to appoint two out of the six directors of that company.

HKAS 27.40(d)

2) The Group holds 56% of the issued share capital of B Plus Limited and controls 56% of the voting power in general meeting. However, under a shareholders' agreement, the other shareholder controls the composition of the board of directors of B Plus Limited and therefore the Group does not control B Plus Limited. The directors of the Company consider that the Group does exercise significant influence over B Plus Limited and it is therefore classified as an associate of the Group.

HKAS 28.37(e)

The financial year end date for B Plus Limited is 31 Oct. For the purpose of applying the equity method of accounting, the consolidated financial statements of B Plus Limited for the year ended 31 October 2008 (2007: 31 October 2007) have been used as the Group considers that it is impracticable for B Plus Limited to prepare a separate set of financial statements as of 31 December. Appropriate adjustments have been made accordingly for the effects of significant transactions between that date and 31 December 2008.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 28.37(b)

The summarised financial information in respect of the Group's associates is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	42,932	38,178
Total liabilities	(14,848)	(12,218)
Net assets	28,084	25,960
Group's share of net assets of associates	8,425	7,269
Revenue	12,054	11,904
Profit for the year	3,953	5,479
Group's share of profits of associates for the year	1,186	1,589

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

25. Joint ventures

HKAS 31.56
s129(1)&(2)
s129(4)&(5)

As at 31 December 2008 and 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
A JV Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	25%	25%	Manufacture of electronic equipment
B JV Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	40%	40%	Rental

HKAS 31.56

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2008 HK$'000	2007 HK$'000
Current assets	1,800	1,850
Non-current assets	8,993	9,854
Current liabilities	936	785
Non-current liabilities	5,858	5,521
Income	2,124	2,005
Expenses	1,787	1,763

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.7

26. Held-to-maturity investments

Held-to-maturity investments comprise:

	2008 HK$'000	2007 HK$'000
Debt securities (Note)	6,863	5,262
Analysed for reporting purposes as:		
Current assets	4,804	3,604
Non-current assets	2,059	1,658
	6,863	5,262

Note:

HKFRS 7.7

The debt securities are listed in Hong Kong and carry fixed interest at 6%-7.5% (2007: 6.5%-7.5%) per annum, payable monthly, and will mature from March 2009 to March 2010 (2007: June 2008 to March 2010).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

27. Available-for-sale investments

HKFRS 7.7
Sch 10:9(1)(a)
Sch 10:9(3)

Available-for-sale investments comprise:

	2008 HK$'000	2007 HK$'000
Listed investments:		
- Equity securities listed in Hong Kong	3,200	3,036
- Equity securities listed elsewhere	-	-
- Debt securities listed in Hong Kong (Note 1)	2,200	2,122
	5,400	5,158
Unlisted securities:		
- Equity securities (Note 2)	2,740	2,700
Total	8,140	7,858
Analysed for reporting purposes as :		
Current assets	-	-
Non-current assets	8,140	7,858
	8,140	7,858

Notes:

1) The Group holds listed redeemable notes with fixed interest of 7% (2007: 7%) per annum. The notes are redeemable at par value in 2010 (2007: redeemable at par value in 2010).

HKAS 28.37(d)

2) The Group holds 20% (2007: 20%) of the ordinary share capital of Rocket Corp Limited, a company involved in the refining and distribution of fuel products. The directors of the Company do not believe that the Group is able to exercise significant influence over Rocket Corp Limited as the other 80% of the ordinary share capital is controlled by one shareholder, who also manages the day-to-day operations of that company.

HKFRS 7.27(c)

The unlisted equity securities are measured at fair value. Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 5.2% (2007: 4.9%) and a risk adjusted discount factor of 12.2% (2007: 11.9%) are used.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

28. Finance lease receivables

HKAS 17.47
HKFRS 7.7

Certain of the Group's widget storage equipment are leased out under finance leases. All leases are denominated in Hong Kong dollars. All interest rates inherent in the leases are fixed at the respective contract dates over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Finance lease receivables comprise:				
Within one year	282	279	198	188
In more than one year but not more than five years	1,074	909	830	717
In more than five years	-	-	-	-
	1,356	1,188	1,028	905
Less: unearned finance income	(328)	(283)	N/A	N/A
Present value of minimum lease payment receivables	1,028	905	1,028	905
Analysed for reporting purposes as:				
Current assets			198	188
Non-currents assets			830	717
			1,028	905

HKAS 17.47(c)

The average effective interest rate of the above finance leases is approximately 10.5% (2007: 11%) per annum. Unguaranteed residual values of assets leased under finance leases are estimated at HK$37,000 (2007: HK$42,000).

HKFRS 7.15

Finance lease receivable balances are secured over the storage equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

29. Deferred taxation

The following are the major deferred tax balances recognised and movements thereon during the current and prior year:

HKAS 12.81(a),(g)

Deferred tax liabilities:

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Revaluation of properties HK$'000	Convertible loan notes HK$'000	Hedging instruments HK$'000	Undistributed profits of associates HK$'000	Available-for-sale investments HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	2,540	650	-	-	110	570	202	352	4,424
Charge (credit) to consolidated income statement for the year	585	(12)	-	-	-	150	-	406	1,129
Charge to equity for the year	-	-	533	-	79	-	19		631
Recycled to income	-	-	-	-	(86)	-	-	-	(86)
Effect of change in tax rate	(397)	(85)	-	-	-	-	-	-	(482)
At 31 December 2007	2,728	553	533	-	103	720	221	758	5,616
Charge (credit) to consolidated income statement for the year	1,606	(214)	-	(9)	-	400	-	243	2,026
Charge (credit) to equity for the year	-	-	(152)	208	101	-	(100)	-	57
Recycled to income	-	-	-	-	(89)	-	-	-	(89)
Acquisition/disposals	(606)	-	-	-	-	-	-	-	(606)
Effect of change in tax rate	(22)	-	-	-	-	-	-	(8)	(30)
At 31 December 2008	3,706	339	381	199	115	1,120	121	993	6,974

HKAS 12.81(a),(g)

Deferred tax assets:

	Doubtful debts HK$'000	Provisions HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	72	1,692	50	1,814
Credit (charge) to consolidated income statement for the year	179	(20)	(50)	109
Charge to equity for the year	-	-	-	-
At 31 December 2007	251	1,672	-	1,923
Credit (charge) to consolidated income statement for the year	(8)	42	-	34
Charge to equity for the year	-	-	-	-
Acquisition/disposals	(4)	-	-	(4)
At 31 December 2008	239	1,714	-	1,953

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 HK$'000	2007 HK$'000
Deferred tax assets	1,714	1,023
Deferred tax liabilities	(6,305)	(4,716)
	(4,591)	(3,693)
Deferred tax liabilities associated with assets held for sale (note 12)	(430)	-
	(5,021)	(3,693)

HKAS 12.82A

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to HK$18 million as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

HKAS 12.81(e)

At the balance sheet date, the Group has unused tax losses of HK$3 million (2007: HK$3 million) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

HKFRS 7.7

30. Other financial assets/liabilities

HKFRS 7.31

	Current		Non-current	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Other Financial Assets				
Derivatives under hedge accounting				
Fair value hedges – Interest rate swaps	72	37	212	140
Cash flow hedges – Foreign currency forward contracts	244	220	-	-
Other [describe]	-	-	-	-
	316	257	212	140
Other Financial Liabilities				
Financial guarantee contracts	6	18	-	-
Derivatives under hedge accounting				
Fair value hedges – Interest rate swaps	5	-	-	-
Cash flow hedges – Foreign currency forward contracts	93	-	-	-
Other [describe]	-	-	-	-
	98	-	-	-
	104	18	-	-

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Fair value hedges:

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate Hong Kong dollar borrowings by swapping a proportion of the fixed-rate borrowings from fixed rates to floating rates. The interest rate swaps and the corresponding borrowings have the same terms and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

2008

Notional amount	Maturity	Swaps
HK$1,000,000	30/09/2009	8% for HIBOR + 3.75%
HK$2,000,000	31/05/2010	6% for HIBOR + 3.85%
HK$3,000,000	31/12/2011	7% for HIBOR + 4.00%

2007

Notional amount	Maturity	Swaps
HK$1,000,000	15/04/2008	6% for HIBOR + 3.25%
HK$1,000,000	30/09/2009	8% for HIBOR + 3.75%

HKFRS 7.34(a)

Note: The table above provides an example of summary quantitative data about exposure to interest rate risk at the reporting date that an entity may provide internally to key management personnel.

During the year, the hedge was 100% (2007: 100%) effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was adjusted by HK$35,000 (2007: HK$27,000) which was included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

HKFRS 7.27

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Cash flow hedges:

At balance sheet date, the Group had the following foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast sales and foreign currency denominated monetary items.

The terms of the foreign exchange contracts have been negotiated to match the terms of the respective designated hedged items.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Major terms of these contracts are as follows:

2008

Notional amount	Maturity	Exchange rates
Buy RMB 5.5 million	15/03/2009	HK$1: RMB0.8838
Sell RMB 1 million	15/06/2009	HK$1: RMB0.8927
Sell RMB 3.3 million	30/04/2009	HK$1: RMB0.8833
Sell RMB 1.7 million	30/06/2009	HK$1: RMB0.8925

2007

Notional amount	Maturity	Exchange rates
Buy RMB 4 million	31/03/2008	HK$1: RMB0.9460
Sell RMB 1 million	30/06/2008	HK$1: RMB0.9439
Sell RMB 4.5 million	15/07/2008	HK$1: RMB0.9377

HKFRS 7.34(a)

Note: The table above provides an example of summary quantitative data about exposure to foreign exchange risk at the reporting date that an entity may provide internally to key management personnel.

During the current year, fair value gains of HK$0.406 million (2007: HK$0.316 million) have been deferred in equity and are expected to be released to the consolidated income statement at various dates in the coming six months after the balance sheet date, the period in which sales are expected to occur.

At the start of the third quarter of 2008, the Group reduced its forecasts on sales of widgets due to increased local competition. The Group had previously hedged HK$1.079 million of future sales of which HK$0.097 million are no longer expected to occur, and HK$0.982 million remain highly probable. Accordingly, the Group had recycled HK$3,000 of gains on foreign currency forward contracts relating to forecast transactions that are no longer expected to occur from the hedging reserve into profit and loss.

HKFRS 7.23(d)

During the year, gains and losses transferred from equity into profit or loss are included in the following line items in the consolidated income statement:

	2008 HK$'000	2007 HK$'000
Revenue	355	302
Other gains and losses	-	-
Finance costs	-	-
Other expenses	-	(15)
Income tax expense	(89)	(86)
Other [describe]	-	-
	266	201

HKFRS 7.27

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

31. Inventories

Source		2008 HK$'000	2007 HK$'000
HKAS 2.36(b)	Raw materials	4,972	8,322
	Work in progress	1,980	2,454
	Finished goods	12,762	11,018
		19,714	21,794
	Classified as part of a disposal group held for sale (see note 12)	(830)	-
		18,884	21,794

HKAS 1.52 — Inventories of HK$1.29 million (2007: HK$0.86 million) are expected to be recovered after more than twelve months.

HKFRS 7.7
HKFRS 7.31

32. Loan receivables

	2008 HK$'000	2007 HK$'000
Loan to associates	2,981	2,981

The Group has provided short-term loans to associates which are renewable on an annual basis. The effective interest for the current year is 5% (2007: 5%) per annum.

HKFRS 7.7

33. Amounts due from directors

s161B — Directors' current accounts/loans to officers disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Director	Terms of loan	Balance at 31/12/2008 HK$'000	Balance at 1/1/2008 HK$'000	Maximum amount outstanding during the year HK$'000
Gary D.K. Wong	Secured on property, repayable within one year, interest free (Note)	440	-	480
Daniel D.D. Lee	Unsecured, repayable within one year, interest free	216	107	216
		656	107	

Note:

HKFRS 7.15 — The loan is secured over a property owned by Gary D.K. Wong. The Group is not permitted to sell or repledge the collateral in the absence of default by that director.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

34. Trade and other receivables

	2008 HK$'000	2007 HK$'000
Trade receivables	18,034	16,700
Less: Allowance for doubtful debts	(798)	(758)
	17,236	15,942
Deferred consideration (note 48)	960	-
Prepaid lease payments	100	100
Other [describe]	54	20
Total trade and other receivables	18,350	16,062

App 16.4(2)(b)(ii)
GR 18.50B(2)(b)(ii)

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2008 HK$'000	2007 HK$'000
0-60 days	15,674	14,909
61-90 days	1,100	700
91-120 days	462	333
	17,236	15,942

HKFRS 7.36(c),37

The average credit period on sales of goods is 60 days. The Group has provided fully for all receivables over 120 days because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable.

HKFRS 7.36(c)

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 80% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

HKFRS 7.36(c),37

Included in the Group's trade receivable balance are debtors with a carrying amount of HK$1.562 million (2007: HK$1.033 million) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 84 days (2007: 85 days).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.37(a)

Ageing of trade receivables which are past due but not impaired

	2008 HK$'000	2007 HK$'000
61-90 days	1,100	700
91-120 days	462	333
Total	1,562	1,033

HKFRS 7.16

Movement in the allowance for doubtful debts

Source		2008 HK$'000	2007 HK$'000
	Balance at beginning of the year	758	464
HKFRS 7.20(e)	Impairment losses recognised on receivables	40	420
	Amounts written off as uncollectible	-	(32)
	Amounts recovered during the year	-	(94)
	Impairment losses reversed	-	-
	Unwind of discount	-	-
	Balance at end of the year	798	758

HKFRS 7.37(b)
HKFRS 7.37(c)

Included in the allowance for doubtful debts made for the year are individually impaired trade receivables with a balance of HK$40,000 (2007: HK$52,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

HKFRS 7.37(b)

Ageing of impaired trade receivables

	2008 HK$'000	2007 HK$'000
60-90 days	5	5
91-120 days	6	11
120+ days	29	36
Total	40	52

Included in the trade receivables are amounts due from related parties amounted to HK$636,000 (2007: HK$632,000). No impairment has been made to receivables from related parties (see note 57).

Transfer of financial assets

HKFRS 7.13
HKFRS 7.14(a)

During the year, the Group transferred HK$1,052,000 (2007: nil) of trade receivables to an unrelated entity. As part of the transfer, the Group provided the transferee a credit guarantee over the expected losses of those receivables. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 39). At 31 December 2008, the carrying amount of the transferred short-term receivables is HK$946,000 (2007: nil). The carrying amount of the associated liability is HK$923,000 (2007: nil).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

35. Amounts due from (to) customers for contract work

Source		2008 HK$'000	2007 HK$'000
	Contracts in progress at the balance sheet date		
HKAS 11.40	Contract costs incurred plus recognised profits less recognised losses	1,517	1,386
	Less: progress billings	(1,313)	(1,171)
		204	215
HKAS 11.42	Analysed for reporting purposes as:		
	Amounts due from contract customers	240	230
	Amounts due to contract customers	(36)	(15)
		204	215

HKAS 11.40(c)

At 31 December 2008, retentions held by customers for contract works amounted to HK$75,000 (2007: HK$69,000). Advances received from customers for contract work amounted to HK$14,000 (2007: nil).

36. Held-for-trading investments (other than derivatives)

HKFRS 7.7
Sch 10.9(1)(a)
Sch 10.9(3)

Held-for-trading investments include:

	2008 HK$'000	2007 HK$'000
Listed securities:		
- Equity securities listed in Hong Kong	10,250	6,480
- Equity securities listed elsewhere	2,230	1,968
	12,480	8,448

HKFRS 7.27

Fair values are determined with reference to quoted market bid prices.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

37. Bank balances/pledged bank deposits/bank overdrafts

Bank balances carry interest at market rates which range from 2% to 4% (2007: 3.5% to 4%) per annum. The pledged bank deposits carry fixed interest rate of 3.5% (2007: 4.25%) per annum. Bank overdrafts carry interest at market rates which range from 6.5% to 9.5% (2007: 6% to 6.75%) per annum.

HKFRS 7.14

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$2 million (2007: HK$2 million) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

38. Trade and other payables

	2008 HK$'000	2007 HK$'000
Trade payables	16,276	21,128
Other payables	90	95
	16,366	21,223

App 16.4(2)(c)(ii)
GR 18.50B(2)(c)(ii)

The following is an aged analysis of trade payables at the balance sheet date:

	2008 HK$'000	2007 HK$'000
0-60 days	9,950	11,366
61-90 days	4,803	6,233
>90 days	1,523	3,529
	16,276	21,128

HKFRS 7.7

The average credit period of purchases is 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Included above are payables to related parties amounted to HK$380,000 (2007: HK$217,000) (see note 57).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

39. Borrowings

Source		2008 HK$'000	2007 HK$'000
	Bank loans (Note 1)	14,982	17,404
	Bills of exchange (Note 2)	358	916
	Collateralised borrowings (Note 3)	923	-
	Loans from related parties (Note 4)	12,917	34,124
	Loans from other entities (Note 5)	21,361	4,437
		50,541	56,881
Sch 10:10	Secured	15,960	17,739
	Unsecured	34,581	39,142
		50,541	56,881
App 16.22 (1) GR 18.21	Carrying amount repayable:		
	On demand or within one year	21,899	25,168
	More than one year, but not exceeding two years	14,074	16,167
	More than two years but not more than five years	8,921	9,218
	More than five years	5,647	6,328
		50,541	56,881
	Less: Amounts due within one year shown under current liabilities	(21,899)	(25,168)
		28,642	31,713

HKFRS 7.7
HKFRS 7.14

Notes:

1) Secured by a mortgage over the Group's freehold land and buildings (see note 54) and bear interest at HIBOR + 4.75% (2007: HIBOR + 4.75%) per annum. The weighted average effective interest rate on the bank loans is 8.1% (2007: 8.32%) per annum.

2) Bills of exchange with a variable interest rate were issued in 2008. The weighted average effective interest rate on the bills is 6.8% (2007: 6.8%) per annum.

3) Secured by a charge over certain of the Group's trade receivables (see notes 34 and 54).

4) Bear interest at HIBOR + 4.5% (2007: HIBOR + 4.5%) per annum. Interest of 7.0% - 8.2% per annum is charged on the outstanding loan balances (2007: 8.0% - 8.2% per annum) (see note 57).

5) Fixed rate loans with a financial institution amounted to approximately HK$ 6 million (2007: HK$ 2 million) with maturity periods not exceeding 3 years (2007: 2 years). The weighted average effective interest rate on the fixed rate loans is 7.15% (2007: 8.10%) per annum. The Group enters into interest rate swaps to exchange fixed rate interest for variable rate interest in order to hedge against the fair value interest rate risk (see note 30). The remaining balance of approximately HK$ 15.4 million (2007: HK$ 2.4 million) carries interest at HIBOR + 3.75% (2007: HIBOR + 3%) per annum, ranging from 6.5% - 9% (2007: 7.3% - 8.5%) per annum during the current year.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.18

During 2008, the Group was late in paying interest for the first quarter on one of its loans with a carrying amount of HK$5 million. The delay arose because of a temporary lack of funds on the date interest was payable due to a technical problem on settlement. The interest payment outstanding of HK$107,500 was repaid in full on the following day, including the additional interest and penalty. The lender did not request accelerated repayment of the loan and the terms of the loan were not changed. Management has reviewed the Group's settlement procedures to ensure that such circumstances do not recur.

40. Obligations under finance leases

HKAS 17.31(e)
HKFRS 7.7

The Group leased certain of its manufacturing equipment under finance leases. The average lease term is 5 years (2007: 5 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.5% to 5.5% (2007: 3.75% - 6%) per annum. These leases have no terms of renewal or purchase options and escalation clauses. No arrangements have been entered into for contingent rental payments.

HKAS 17.31(b)

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Amounts payable under finance leases:				
Within one year	10	58	9	54
In more than one year but not more than five years	6	44	5	35
In more than five years	-	-	-	-
	16	102	14	89
Less: future finance charges	(2)	(13)	N/A	N/A
Present value of lease obligations	14	89	14	89
Less: Amount due for settlement within 12 months (shown under current liabilities)			(9)	(54)
Amount due for settlement after 12 months (HKAS 1.52)			5	35

Sch 10:10

The Group's obligations under finance leases are secured by the charge over the leased assets.

HKFRS 7.31

Financial lease obligations are denominated in Hong Kong dollars, currency other than the functional currency of the group entity.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 37.84
Sch 10:6&7

41. Provisions

	Employee benefits HK$'000 (Note 1)	Rectification work HK$'000 (Note 2)	Warranties HK$'000 (Note 3)	Total HK$'000
At 1 January 2008	4,388	-	1,185	5,573
Additional provisions recognised	-	4,170	744	4,914
Utilisation of provision	(3,174)	(1,112)	(515)	(4,801)
Unwinding of discount	-	-	28	28
Acquisition of Subsix Limited	45	-	-	45
Other [describe]	-	-	-	-
At 31 December 2008	1,259	3,058	1,442	5,759

	2008 HK$'000	2007 HK$'000
Analysed for reporting purposes as:		
Current liabilities	3,461	3,247
Non-current liabilities	2,298	2,326
	5,759	5,573

HKAS 37.85

Notes:

HKFRS 3.50

1) The provision for employee benefits represents annual leave and vested long service leave entitlements accrued and compensation claims made by employees. On the acquisition of Subsix Limited, the Group recognised an additional contingent liability in respect of employees' compensation claims outstanding against that Company, which will be settled in February 2009.

2) The provision for rectification work relates to the estimated cost of work agreed to be carried out for the rectification of goods supplied to one of the Group's major customers (see note 13). Anticipated expenditure for 2009 is HK$1.94 million, and for 2010 is HK$1.118 million. These amounts have not been discounted for the purpose of measuring the provision for rectification work, because the effect is not material.

3) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Group's warranty program for electronic toys. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 1.76(a)
Sch 10:2

42. Share capital

	Number of shares		Share Capital	
	2008	2007	2008	2007
	'000	'000	HK$'000	HK$'000
Authorised				
200 million ordinary shares of HK$1 each	200,000	200,000	200,000	200,000
Issued and fully paid				
At beginning of year	23,005	23,005	23,005	23,005
Repurchase of shares	(5,500)	-	(5,500)	-
Exercise of share options	314	-	314	-
At end of year	17,819	23,005	17,819	23,005

During the year, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares at HK$1 each	Price per share		Aggregate consideration paid
		Highest	Lowest	
	'000	HK$	HK$	HK$'000
November 2008	3,000	3.15	2.85	9,172
December 2008	2,500	3.05	2.90	7,731

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKAS 1.76(b)

43. Share premium and reserves

	Attributable to equity holders of the Company											
	Share premium HK$'000	Convertible loan notes equity reserve HK$'000	Properties revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	26,474	-	1,653	527	317	246	278	94,534	124,029	500	19,505	144,034
Deficit on revaluation of properties	-	-	(610)	-	-	-	-	-	(610)	-	-	(610)
Gain on cash flow hedges	-	-	-	-	-	-	406	-	406	-	-	406
Loss on fair value changes of available-for-sale investments	-	-	-	(400)	-	-	-	-	(400)	-	-	(400)
Exchange differences arising on translation of foreign operations	-	-	-	-	(71)	-	-	-	(71)	-	-	(71)
Deferred tax	-	-	152	100	-	-	(101)	-	151	-	-	151
Net (expenses) income recognised directly in equity	-	-	(458)	(300)	(71)	-	305	-	(524)	-	-	(524)
Profit for the year	-	-	-	-	-	-	-	23,376	23,376	-	4,000	27,376
Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(355)	-	(355)	-	-	(355)
Transfer to initial carrying amount of non-financial items on cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax on transfer to profit or loss	-	-	-	-	-	-	89	-	89	-	-	89
Transfer to profit or loss on disposal of foreign operation	-	-	-	-	(120)	-	-	-	(120)	-	-	(120)
Total recognised income and expense for the year	-	-	(458)	(300)	(191)	-	39	23,376	22,466	-	4,000	26,466
Recognition of equity-settled share based payments	-	-	-	-	-	218	-	-	218	-	-	218
Transaction costs attributable to issue of new shares	(6)	-	-	-	-	-	-	-	(6)	-	-	(6)
Issue of ordinary shares upon exercise of share options	433	-	-	-	-	(285)	-	-	148	-	-	148
Repurchase of shares	(10,848)	-	-	-	-	-	-	(555)	(11,403)	-	-	(11,403)
Transaction costs attributable to repurchase of shares	(227)	-	-	-	-	-	-	-	(227)	-	-	(227)
Issue of convertible notes	-	834	-	-	-	-	-	-	834	-	-	834
Dividends recognised as distribution	-	-	-	-	-	-	-	(6,635)	(6,635)	-	-	(6,635)
Transfer to retained profits	-	-	-	-	-	-	(3)	3	-	-	-	-
Deferred tax	-	(208)	-	-	-	-	-	-	(208)	-	-	(208)
At 31 December 2008	15,826	626	1,195	227	126	179	314	110,723	129,216	500	23,505	153,221

Note: *Where the entity has adopted the approach to present changes in equity representing income and expense in a separate component of the financial statements as illustrated in Alt 2 on page 49, a reconciliation of opening and closing balances of share capital (note 42), share premium and reserves should be given in the notes.*

Source

Hong Kong GAAP Limited

Notes to the consolidated financial statements
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	Attributable to equity holders of the Company											
	Share premium HK$'000	Convertible loan notes equity reserve HK$'000	Properties revaluation reserve HK$'000	Investments revaluation reserve HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000	Share options reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	26,474	-	54	470	140	-	242	73,444	100,824	-	16,742	117,566
Surplus on revaluation of properties	-	-	2,132,	-	-	-	-	-	2,132	-	-	2,132
Gain on cash flow hedges	-	-	-	-	-	-	316	-	316	-	-	316
Gain on fair value changes of available-for-sale investments	-	-	-	76	-	-	-	-	76	-	-	76
Exchange differences arising on translation of foreign operations	-	-	-	-	177	-	-	-	177	-	-	177
Deferred tax	-	-	(533)	(19)	-	-	(79)	-	(631)	-	-	(631)
Net income (expense) recognised directly in equity	-	-	1,599	57	177	-	237	-	2,070	-	-	2,070
Profit for the year	-	-	-	-	-	-	-	27,569	27,569	-	2,763	30,332
Transfer to profit or loss on sale of available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(287)	-	(287)	-	-	(287)
Transfer to initial carrying amount of non-financial items on cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax on transfer to profit or loss	-	-	-	-	-	-	86	-	86	-	-	86
Total recognised income for the year	-	-	1,599	57	177	-	36	27,569	29,438	-	2,763	32,201
Recognition of equity-settled share based payments	-	-	-	-	-	246	-	-	246	500	-	746
Dividends recognised as distribution	-	-	-	-	-	-	-	(6,479)	(6,479)	-	-	(6,479)
At 31 December 2007	26,474	-	1,653	527	317	246	278	94,534	124,029	500	19,505	144,034

Note: *See previous page for the explanation inclusion of this note.*

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

44. Convertible loan notes

HKFRS 7.7

4.5 million Hong Kong dollar denominated convertible loan notes were issued by the Company on 1 September 2008 at an issue price of HK$1.10 per note. Each note entitles the holder to convert to one ordinary share at a conversion price of HK$1.25.

Conversion may occur at any time between 1 July 2011 and 31 August 2011. If the notes have not been converted, they will be redeemed on 1 September 2011 at HK$1.00. Interest of 5.5% per annum is payable annually until the notes are converted or redeemed.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading “convertible loan notes equity reserve”. The effective interest rate of the liability component is 8% per annum.

The movement of the liability component of the convertible loan notes for the year is set out below:

	HK$'000
Proceeds of issue	4,950
Equity component	(834)
Liability component at date of issue	4,116
Interest charged	110
Interest paid	(82)
Liability component at 31 December 2008	4,144

Source	Hong Kong GAAP Limited

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HKAS 1.124A
HKAS 1.124B

45. Capital risk management

Note: The following are <u>examples</u> of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and based on information provided internally to the entity's key management personnel.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes borrowings, convertible loan notes and obligations under finance leases), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

Gearing ratio

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 20-25% determined as the proportion of net debt to equity. Based on the committee's recommendations, the Group expects to increase its gearing ratio closer to 25% through the issue of new debt and the payment of dividends.

The gearing ratio at the year end was as follows:

	2008 HK$'000	2007 HK$'000
Debt (i)	54,699	56,970
Cash and cash equivalents(note 49)	(17,836)	(17,400)
Net debt	36,863	39,570
Equity (ii)	171,040	167,039
Net debt to equity ratio	22%	24%

(i) Debt comprises long-term and short-term borrowings, obligations under finance leases and convertible loan notes as detailed in notes 39, 40 and 44 respectively.

(ii) Equity includes all capital and reserves of the Group.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
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46. Financial instruments

46.1 Categories of financial instruments

Source		2008 HK$'000	2007 HK$'000
	Financial assets		
	Fair value through profit or loss		
HKFRS 7.8(a)	Held for trading	12,480	8,448
HKFRS 7.8(a)	Designated as at FVTPL (see below)	-	-
	Derivative instruments in designated hedge accounting relationships	528	397
HKFRS 7.8(b)	Held-to-maturity investments	6,863	5,262
HKFRS 7.8(c)	Loans and receivables (including cash and cash equivalents)	43,227	38,808
HKFRS 7.8(d)	Available-for-sale investments	8,140	7,858
	Financial liabilities		
	Fair value through profit or loss		
HKFRS 7.8(e)	Held for trading	-	-
HKFRS 7.8(e)	Designated as at FVTPL (see below)	-	-
	Derivative instruments in designated hedge accounting relationships	98	-
HKFRS 7.8(f)	Amortised cost	71,499	78,387
	Financial guarantee contracts	6	18

Loans or receivables designated as at FVTPL

Source		2008 HK$'000	2007 HK$'000
	Carrying amount of loans or receivables designated as at FVTPL	-	-
HKFRS 7.9(c)	Cumulative changes in fair value attributable to changes in credit risk	-	-
HKFRS 7.9(c)	Changes in fair value attributable to changes in credit risk recognised during the year	-	-

HKFRS 7.9(b),(d) **Credit derivatives over loans or receivables at fair value**

	2008 HK$'000	2007 HK$'000
Opening fair value	-	-
Additions during the year	-	-
Realised during the year	-	-
Change in fair value	-	-
Closing fair value	-	-

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Financial liabilities designated as at FVTPL

Source		2008 HK$'000	2007 HK$'000
HKFRS 7.10(b)	Difference between carrying amount and maturity amount		
	Fair value	-	-
	Amount payable at maturity	-	-
		-	-
HKFRS 7.10(a)	Cumulative changes in fair value attributable to changes in credit risk (i)	-	-
HKFRS 7.10(a)	Changes in fair value attributable to change in credit risk recognised during the period (i)	-	-

HKFRS 7.11

(i) The change in fair value attributable to change in credit risk was calculated as the difference between total change in fair value of financial liabilities designated as at FVTPL and the change in fair value of financial liabilities designated as at FVTPL due to change in market risk factors alone. The change in fair value due to market risk factors was calculated using benchmark interest yield curves as at the balance sheet date holding credit risk margin constant. The fair value of financial liabilities designated as at FVTPL was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

HKFRS 7.31

46.2 Financial risk management objectives and policies

The Group's Corporate Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade derivative financial instruments for speculative purposes.

The Corporate Treasury function reports monthly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

HKFRS 7.33(c)

There has been no change to the Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.33

46.2.1 Market risk

HKFRS 7.22

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- forward foreign exchange contracts to hedge the exchange rate risk in relation to foreign currency denominated monetary items and sales of widgets to PRC; and
- interest rate swaps to mitigate the fair value interest rate risk.

Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analysis.

HKFRS 7.41

46.2.1.1 Value at Risk (VaR) analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

Historical VaR (99%, one-day) by risk type	Average		Minimum		Maximum		Year end	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Foreign exchange	980	1,340	546	943	1,200	1,600	980	1,350
Interest rate	115	60	85	45	150	95	105	55
Diversification	(45)	(40)	-	-	-	-	(55)	(50)
Total VaR exposure	1,050	1,360	-	-	-	-	1,030	1,355

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk and interest rate risk are set out below.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.33, 34

46.2.1.2 Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 28% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 90% of costs are denominated in the group entity's respective functional currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
RMB	8,297	7,469	1,574	1,671
Euro	186	135	-	-
Other	-	-	-	-

The Group requires all its group entities to use foreign exchange forward contracts to eliminate the currency exposures on any individual transactions in excess of HK$0.5 million. Other transaction that involves less than HK$0.5 million may also be hedged on a case-by-case basis. The foreign exchange forward contracts must be in the same currency as the hedged item. On this basis, the Group has entered into such forward contracts in relation to the foreign currency denominated monetary assets and monetary liabilities amounting to RMB1 million and RMB5.5 million (2007: RMB1 million and RMB4 million) respectively. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness (see note 30 for details).

Sensitivity analysis

HKFRS 7.B8

The Group is mainly exposed to the effects of fluctuation in RMB and Euro.

HKFRS 7.40(b)
HKFRS 7.40(c)
HKFRS 7.34(a)

The following table details the Group's sensitivity to a 5% and 10% (2007: 5%) increase and decrease in Hong Kong dollars against RMB and Euro respectively. As a result of the volatile financial market in 2008, the management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing foreign currency risk against Euro. Hence, 5% and 10% (2007: 5%) are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges. It also includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Hong Kong dollars strengthen 5% (2007: 5%) against RMB and 10% (2007: 5%) against Euro. For a 5% (2007: 5%) weakening of the Hong Kong dollars against RMB and 10% (2007: 5%) against Euro, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

Source		Impact of RMB			Impact of Euro		
		2008	2007		2008	2007	
		HK$'000	HK$'000		HK$'000	HK$'000	
	Sensitivity rate	5%	5%		10%	5%	
HKFRS 7.40(a)	Profit or loss	220	172	(i)	16	5	(iii)
HKFRS 7.40(a)	Other equity	35	50	(ii)	-	-	

(i) This is mainly attributable to the exposure outstanding on receivables and payables denominated in RMB not subject to cash flow hedge at year end.

(ii) This is as a result of the changes in fair value of derivative instruments designated as cash flow hedges in relation to the Group's foreign currency forecast sales.

(iii) This is mainly attributable to the exposure to outstanding payables denominated in Euro at the year end.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.42

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. RMB denominated sales are seasonal with lower sales volumes in the last quarter of the financial year, which results in a reduction in RMB receivables at year end.

HKFRS 7.22
HKFRS 7.33
HKFRS 7.34

46.2.1.3 Interest rate risk management

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings from a financial institution (see note 39 for details of these borrowings). In relation to these fixed-rate borrowings, the Group enters into interest rate swaps to hedge against its exposures to changes in fair values of those borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is applied (see note 30 for details).

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see note 39 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

HKFRS 7.34(c)

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

Sensitivity analysis

HKFRS 7.40(b)
HKFRS 7.34(a)
HKFRS 7.40(c)

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 100 basis points (2007: 50 basis points) increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. As a result of the volatile financial market, the management adjusted the sensitivity rate from 50 basis points to 100 basis points in the current year for the purpose of analysing interest rate risk.

HKFRS 7.40(a)

If interest rates had been 100 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's:

- post tax profit for the year ended 31 December 2008 would decrease/increase by HK$340,000 (2007: decrease/increase by HK$205,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings and the interest rate swaps which were designated as hedging instruments of fair value hedges; and

- other equity reserves would decrease/increase by HK$15,000 (2007: decrease/increase by HK$7,500) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKFRS 7.33, 34

46.2.1.4 Other price risks

HKFRS 7.34(c)

The Group is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities operating in banking, telecommunication and construction industry sectors quoted in The Stock Exchange of Hong Kong Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

HKFRS 7.40(b)
HKFRS 7.40(c)

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 15% in the current year as a result of the volatile financial market.

HKFRS 7.40(a)

If equity prices had been 15% higher/lower (2007: 5% higher/lower):

- post-tax profit for the year ended 31 December 2008 would increase/decrease by HK$1,410,000 (2007: increase/decrease by HK$320,000). This is mainly due to the changes in fair value of held-for-trading investments; and

- other equity reserves would increase/decrease by HK$660,000 (2007: increase/decrease by HK$215,000) as a result of the changes in fair value of available-for-sale investments.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

46.2.2 Credit risk

HKFRS 7.36
HKFRS 7.B9

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 51.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investments at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

HKFRS 7.34(c)

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

HKFRS 7.34(c)

The table below shows the credit limit and balance of 6 major counterparties (including liquid funds) at the balance sheet date using the Standard and Poor's credit rating symbols.

			31/12/2008		31/12/2007	
Counterparty	**Location**	**Rating**	**Credit limit HK$'000**	**Carrying amount HK$'000**	**Credit limit HK$'000**	**Carrying amount HK$'000**
Solar Bank	PRC	AA	10,000	7,940	10,000	7,900
AMA Bank	Malaysia	AA	10,000	4,800	10,000	4,650
North China Limited	PRC	A	9,000	3,450	9,000	3,360
Asia Win Limited	Malaysia	A	8,000	2,300	8,000	2,350
Top One Limited	Germany	B	2,000	1,100	2,000	900
Fortune Holding Limited	Italy	BB	800	750	800	700

46.2.3 Liquidity risk management

HKFRS 7.33, 39(b)

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at 31 December 2008, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$2 million (2007: HK$1 million) and HK$5 million (2007: HK$3 million) respectively.

Source	Hong Kong GAAP Limited

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Liquidity tables

HKFRS 7.34, 35, 39(a)

The following tables detail the Group's remaining contractual maturity for its financial liabilities as well as derivative and certain non-derivative financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash inflows/(outflows) are presented. Whereas they require gross settlement, the undiscounted gross inflows and (outflows) on these derivatives are shown in the tables.

HKFRS 7.34(a)

Note: The tables below include the weighted average interest rate and the presentation of the corresponding carrying amount in the consolidated balance sheet as an example of summary quantitative data about exposure to interest rates at the reporting date that an entity may provide internally to key management personnel.

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount as at 31/12/2008 HK$'000
2008								
Non-derivative financial assets								
Equity securities	-	548	6,592	4,137	4,403	-	15,680	15,680
Debt securities	6.7%	18	88	4,766	3,000	-	7,872	7,172
Bank balances and deposits	5.5%	3,208	9,710	5,290	-	-	18,208	17,689
Others	-	6,133	3,845	6,820	438	-	17,236	17,236
		9,907	20,235	21,013	7,841	-	58,996	57,777
Non-derivative financial liabilities								
Trade and other payables	-	(7,726)	(8,640)	-	-	-	(16,366)	(16,366)
Borrowings								
- fixed rate	7.2%	(36)	(72)	(321)	(7,287)	-	(7,716)	(6,000)
- variable rate	8.1%	(1,735)	(4,825)	(22,389)	(16,035)	(6,898)	(51,882)	(44,541)
Convertible loan notes	5.5%	-	-	(248)	(4,912)	-	(5,160)	(4,144)
Bank overdrafts	6.0%	(547)	-	-	-	-	(547)	(538)
Finance lease liability	4.0%	(1)	(2)	(7)	(6)	-	(16)	(14)
Financial guarantee contracts	-	-	-	-	-	-	-	-
		(10,045)	(13,539)	(22,965)	(28,240)	(6,898)	(81,687)	(71,603)
		(138)	6,696	(1,952)	(20,399)	(6,898)	(22,691)	(13,826)

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

Liquidity tables – continued

	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount as at 31/12/2008 HK$'000
2008							
Derivatives - net settlement							
Interest rate swaps	13	38	16	212	-	279	279
Foreign exchange forward contracts	(5)	(21)	9	-	-	(17)	(17)
	8	17	25	212	-	262	262
Derivatives - gross settlement							
Foreign exchange forward contracts							
- inflow	-	6,054	5,077	-	-	11,131	11,131
- outflow	-	(5,811)	(5,152)	-	-	(10,963)	(10,963)
	-	243	(75)	-	-	168	168

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount as at 31/12/2007 HK$'000
2007								
Non-derivative financial assets								
Equity securities	-	-	5,817	2,233	3,434	-	11,484	11,484
Debt securities	6.7%	20	1,165	2,630	1,818	-	5,633	5,262
Bank balances and deposits	4.0%	2,988	8,440	3,673	-	-	15,101	14,656
Others	-	5,050	4,772	6,120	-	-	15,942	15,942
		8,058	20,194	14,656	5,252	-	48,160	47,344
Non-derivative financial liabilities								
Trade and other payables	-	(8,726)	(8,089)	(4,408)	-	-	(21,223)	(21,223)
Borrowings								
- fixed rate	8.1%	(14)	(28)	(120)	(2,324)	-	(2,486)	(2,000)
- variable rate	8.2%	(7,701)	(5,409)	(17,389)	(30,517)	(6,850)	(67,866)	(54,881)
Bank overdrafts	6.0%	(392)	-	-	-	-	(392)	(378)
Finance lease liability	4.5%	(5)	(10)	(43)	(44)	-	(102)	(89)
Financial guarantee contracts	-	-	-	-	-	-	-	-
		(16,838)	(13,536)	(21,960)	(32,885)	(6,850)	(92,069)	(78,571)
		(8,780)	6,658	(7,304)	(27,633)	(6,850)	(43,909)	(31,227)

Source	Hong Kong GAAP Limited

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Liquidity tables - continued

	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount as at 31/12/2007 HK$'000
2007							
Derivatives - net settlement							
Interest rate swaps	12	5	20	140	-	177	177
Foreign exchange forward contracts	(10)	(15)	(9)	-	-	(34)	(34)
	2	(10)	11	140	-	143	143
Derivatives - gross settlement							
Foreign exchange forward contracts		-	-				
- inflow	-	3,423	5,316	-	-	8,739	8,739
- outflow	-	(3,240)	(5,245)	-	-	(8,485)	(8,485)
	-	183	71	-	-	254	254

At the year end, it was not probable that the counterparty to the financial guarantee contracts will claim under the contract. Consequently, the carrying amount of financial guarantee contracts of HK$6,000 (2007: HK$18,000) has not been presented above.

46.3 Fair value of financial instruments

HKFRS 7.27

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

HKFRS 7.25
HKFRS 7.29(a)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values:

	2008		2007	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Financial assets				
Held-to-maturity investments:				
Debt securities	6,863	6,880	5,262	5,273
Finance lease receivables	1,028	1,033	905	923
Financial liabilities				
Convertible loan notes	4,144	4,150	-	-
Obligations under finance leases	14	13	89	85
Fixed-rate borrowings	6,000	6,023	2,000	2,017

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
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HKFRS 3.67

47. Acquisition of subsidiaries

HKFRS 3.67

On 28 July 2008, the Group acquired 100% of the issued share capital of Subsix Limited and Subseven Limited for considerations of HK$430,000 and HK$792,000 respectively. The amount of goodwill arising as a result of the acquisition was HK$435,000 in aggregate.

The net assets acquired in the transaction and the goodwill arising are as follows:

HKFRS 3.67

	Subsix Limited			Subseven Limited			
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Total Fair value
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net assets acquired:							
Bank balances and cash	200	-	200	-	-	-	200
Trade and other receivables	87	-	87	105	-	105	192
Inventories	-	-	-	57	-	57	57
In-process R&D	-	-	-	-	-	-	-
Plant and equipment	50	35	85	312	57	369	454
Trade and other payables	(23)	-	(23)	(35)	-	(35)	(58)
Deferred tax liabilities	(2)	(2)	(4)	-	(9)	(9)	(13)
Contingent liabilities	-	(45)	(45)	-	-	-	(45)
	312	(12)	300	439	48	487	787
Goodwill							435
							1,222

HKFRS 3.67
HKAS 7.40

Total consideration satisfied by:	
Cash	822
Freehold land and buildings	400
	1,222
Net cash outflow arising on acquisition:	
Cash consideration paid	(822)
Bank balances and cash acquired	200
	(622)

HKFRS 3.67

Goodwill arose in the business combinations because the cost of the combinations included a premium paid to acquire Subsix Limited. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Subsix Limited and Subseven Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Source	Hong Kong GAAP Limited
	Notes to the consolidated financial statements for the year ended 31 December 2008 - continued
HKFRS 3.67	Subsix Limited and Subseven Limited contributed HK$35,000 and HK$13,000 to the Group's profit for the period between the date of acquisition and the balance sheet date respectively.
HKFRS 3.70	If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been HK$146.9 million, and profit for the year would have been HK$27.6 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

48. Disposal of a subsidiary

HKFRS 5.41(a) — The Group discontinued its bicycle business operations at the time of disposal of its subsidiary, Sub A Ltd. The net assets of Sub A Ltd. at the date of disposal were as follows:

Source		2008 HK$'000
HKAS 7.40(d)	Net assets disposed of:	
	Property, plant and equipment	5,662
	Inventories	2,756
	Trade and other receivables	1,074
HKAS 7.40(c)	Bank balances and cash	288
	Trade and other payables	(909)
	Borrowings	(4,342)
	Deferred tax liabilities	(615)
		3,914
	Attributable goodwill	3,080
	Release of translation reserve	(120)
		6,874
HKAS 7.40(a)	Gain on disposal	1,940
HKAS 7.40(b)	Total consideration	8,814
	Satisfied by:	
	Cash	7,854
	Deferred consideration (note 34)	960
		8,814
HKAS 7.42	Net cash inflow arising on disposal:	
	Cash consideration	7,854
	Bank balances and cash disposed of	(288)
		7,566

The impact of Sub A Ltd. on the Group's results and cash flows in the current and prior years are disclosed in note 11.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

49. Cash and cash equivalents

HKAS 7.45

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

	2008 HK$'000	2007 HK$'000
Bank balances and cash	18,199	17,778
Bank overdrafts	(538)	(378)
	17,661	17,400
Cash and cash equivalents included in a disposal group held for sale (note 12)	175	-
	17,836	17,400

50. Non-cash transactions

HKAS 7.43

During the year ended 31 December 2008, the Group disposed of property, plant and equipment with an aggregate fair value of HK$0.4 million to acquire the subsidiaries indicated in note 47. This disposal is not reflected in the consolidated cash flow statement.

During the year ended 31 December 2007, the Group acquired an equipment amounted to HK$40,000 under a finance lease.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKAS 37.86
Sch 10:12(5)

51. Contingent liabilities and contingent assets

Source		2008 HK$'000	2007 HK$'000
	Contingent liabilities		
	Court proceedings (Note 1)	-	-
HKAS 31.54(a)	Contingent liabilities incurred by the Group arising from interests in joint ventures (Note 2)	110	116
	Financial guarantees given to banks (Note 3)	970	1,050
	Contingent assets		
HKAS 37.89	Faulty goods claim (Note 4)	140	-

Notes:

1) A subsidiary of the Group is a defendant in a legal action involving the alleged failure of the subsidiary to supply goods in accordance with the terms of contract. The directors believe, based on legal advice, that the action can be successfully defended and therefore no losses (including claims for costs) will be incurred. The legal claim is expected to be settled in the course of the next eighteen months.

2) A number of contingent liabilities have arisen as a result of the Group's interests in joint ventures. The amount disclosed represents the aggregate amount of such contingent liabilities for which the Group as an investor is liable. The extent to which an outflow of funds will be required is dependent on the future operations of the joint ventures being more or less favourable than currently expected. The Group is not contingently liable for the liabilities of other venturers in its joint ventures.

3) This represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety, of which HK$0.5 million (2007: HK$0.55 million) has been utilised by the bank's borrowers. As at balance sheet date, an amount of HK$6,000 (2007: HK$18,000) has been recognised in the consolidated balance sheet as liabilities.

4) A subsidiary of the Group has a claim outstanding against a supplier for the supply of faulty products. Based on negotiations to date the directors believe that it is probable that their claim will be successful and that compensation of HK$0.14 million will be recovered.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

52. Operating leases

The Group as lessee

Source		2008 HK$'000	2007 HK$'000
	Minimum lease payments paid under operating leases during the period:		
HKAS 17.35(c)	Premises	2,008	2,092
Sch 10:13(1)(i)	Other assets [describe]	-	-
		2,008	2,092

HKAS 17.35(a) — At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 HK$'000	2007 HK$'000
Within one year	1,734	1,908
In the second to fifth years inclusive	3,568	4,336
Over five years	1,618	2,526
	6,920	8,770

HKAS 17.35(d) — Operating leases relate to warehouse facilities with lease terms of between 3 to 7 years (2007: 2 to 7 years), with an option to extend for a further 3 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group as lessor

HKAS 17.56(c) — Property rental income earned during the year was HK$11,000 (2007: HK$16,000). All of the Group's investment properties are held for rental purposes. They are expected to generate rental yields of 7% on an ongoing basis. All of the properties held have committed tenants for the next 4 years.

HKAS 17.56(a) — At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2008 HK$'000	2007 HK$'000
Within one year	10	18
In the second to fifth year inclusive	44	22
After five years	-	-
	54	40

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

53. Commitments

Source		2008 HK$'000	2007 HK$'000
HKAS 16.74(c) Sch 10:12(6)	Commitments for the acquisition of property, plant and equipment	4,856	6,010

HKAS 40.75(h) In addition, the Group has entered into a contract for the management and maintenance of its investment properties for the next 5 years, which will give rise to an annual charge of HK$3,500 (2007: HK$3,250).

54. Pledged of assets

Assets with the following carrying amounts have been pledged to secure borrowings of the Group (see note 39):

Source		2008 HK$'000	2007 HK$'000
HKAS 16.74(a)	Freehold land and buildings	21,054	25,851
	Investment properties	136	132
HKFRS 7.14(a)	Trade receivables	946	-
HKFRS 7.14(a)	Bank deposits	2,000	2,000
		24,136	27,983

In addition, the Group's obligations under finance leases (see note 40) are secured by the lessors' title to the leased assets, which have a carrying amount of HK$18,000 (2007: HK$36,000).

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

55. Share-based payment transactions

THE COMPANY

HKFRS 2.45(a)
LR 17.09
GR 23.09

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 28 November 2000 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 27 November 2010. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 181,000 (2007: 275,000), representing 1.1% (2007: 1.2%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the second anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

HKFRS 2.45(d)

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$	Fair value at grant date HK$
2007A	31/03/07	31/03/07 to 30/03/09	1.15	0.95
2007B	30/09/07	30/09/07 t0 29/09/09	1.30	0.85
2008	31/03/08	31/03/08 to 30/03/10	3.15	0.99

HKFRS 2.46, 47(a)
LR 17.08
GR 23.08

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2007, and 31 December 2008, vested at the date of grant.

The fair value of the share options granted during the financial year is HK$0.99 (2007: HK$0.95 and HK$0.85) each. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

Inputs into the model

	Option type		
	2007A	**2007B**	**2008**
Grant date share price	1.14	1.27	3.15
Exercise price	1.15	1.30	3.15
Expected volatility	70.20%	70.40%	56.10%
Option life	2 years	2 years	2 years
Dividend yield	13.27%	13.12%	13.00%
Risk-free interest rate	5.13%	5.14%	5.50%
Other [describe]	-	-	-

HKFRS 2.47(a)

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years.

LR 17.08 Note 4
GR 23.08 Note 4

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

HKFRS 2.45(b)
LR 17.07
GR 23.07

The following table discloses movements of the Company's share options held by employees and directors during the year.

Option type	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2008
2007A	125,000	-	(125,000)	-	-	-
2007B	150,000	-	(150,000)	-	-	-
2008	-	220,000	(39,000)	-	-	181,000
	275,000	220,000	(314,000)	-	-	181,000
Exercisable at the end of the year						181,000
Exercise price	HK$1.23	HK$3.15	HK$1.47	-	-	HK$3.15

The following table discloses movements of the Company's share options held by employees and directors during prior year:

Option type	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2007
2007A	-	125,000	-	-	-	125,000
2007B	-	150,000	-	-	-	150,000
	-	275,000	-	-	-	275,000
Exercisable at the end of the year						275,000
Exercise price	-	HK$1.23	-	-	-	HK$1.23

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKFRS 2.45(c)
LR 17.07
GR 23.07

The following share options granted under the employee share option plan were exercised during the financial year:

Options type	Number exercised	Exercise date	Share price at exercise date HK$
2007A	30,000	05/01/08	2.50
2007A	45,000	31/01/08	2.25
2007A	50,000	15/03/08	3.00
2007B	65,000	03/07/08	2.95
2007B	85,000	28/08/08	2.75
2008	39,000	15/04/08	3.50
	314,000		

THE SUBSIDIARY

HKFRS 2.45(a)
LR 17.09
GR 23.09

A subsidiary of the Company, Kowloon Limited (the "Subsidiary") also operates a share option scheme (the "Subsidiary's Scheme"). The Subsidiary's Scheme was adopted pursuant to a resolution passed on 17 May 2001 for the primary purpose of providing incentives to directors and eligible employees of the Subsidiary, and will expire on 16 May 2011. Under the Subsidiary's Scheme, the board of directors of the Subsidiary may grant options to eligible employees, including directors of the Subsidiary, to subscribe for shares in the Subsidiary.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Subsidiary's Scheme was 746,000 (2007: 746,000), representing 4% (2007: 4%) of the shares of the Subsidiary in issue at that date. The total number of shares in respect of which options may be granted under the Subsidiary's Scheme is not permitted to exceed 10% of the shares of the Subsidiary in issue at any point in time, without prior approval from the Subsidiary's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Subsidiary in issue at any point in time, without prior approval from the Subsidiary's shareholders. Options granted to independent non-executive directors of the Subsidiary in excess of 0.1% of the Subsidiary's share capital or with a value in excess of HK$ 5 million must be approved in advance by the Subsidiary's shareholders.

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the second anniversary of the date of grant. The exercise price is determined by the directors of the Subsidiary, and will not be less than the higher of (i) the closing price of the Subsidiary's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Subsidiary's share.

HKFRS 2.45(d)

Details of the options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$	Fair value at grant date HK$
2007	01/04/07	01/04/07 to 31/03/09	1.32	0.67

HKFRS 2.46, 47(a)
LR 17.08
GR 23.08

In accordance with the terms of the Subsidiary's share-based arrangement, options issued during the year ended 31 December 2007 vested at the date of grant.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

The fair value of the share options granted for the financial year ended 31 December 2007 is HK$0.67 each. Options were priced using the binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 5 years.

Inputs into the model

	Option type 2007
Grant date share price	1.32
Exercise price	1.32
Expected volatility	60.70%
Option life	2 years
Dividend yield	2.38%
Risk-free interest rate	5.25%
Other [describe]	-

LR 17.08 Note 4
GR 23.08 Note 4

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

HKFRS 2.45(b)
LR 17.07
GR 23.07

The following table discloses movements of the Subsidiary's share options held by employees and directors of the Subsidiary during the year:

Option type	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2008
2007	746,000	-	-	-	-	746,000
Exercisable at the end of the year						746,000
Exercise price	HK$1.32	-	-	-	-	HK$1.32

The following table discloses movements of the Subsidiary's share options held by employees and directors of the Subsidiary during the year:

Option type	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31/12/2007
2007	-	746,000	-	-	-	746,000
Exercisable at the end of the year						746,000
Exercise price	-	HK$1.32	-	-	-	HK$1.32

HKFRS 2.51(a)
HKFRS 2.50

The Group recognised total expense of HK$218,000 for the year ended 31 December 2008 (2007: HK$746,000), comprising HK$218,000 (2007: HK$246,000) and nil (2007: HK$500,000) in relation to share options granted by the Company and the Subsidiary respectively.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

56. Retirement benefit plans

Defined contribution plan

App 16.26(1),(2)
GR 18.34(1),(2)

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

HKAS 19.46

The total expense recognised in the consolidated income statement of HK$160,000 (2007: HK$148,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2008, contributions of HK$8,000 (2007: HK$2,000) due in respect of the year ended 31 December 2008 had not been paid over to the plans. The amounts were paid over subsequent to the balance sheet date.

Defined benefit plan

HKAS 19.120A(b)
App 16.26(1),(2)
GR 18.34(1),(2)

The Group operates funded defined benefit plans for qualifying employees of its subsidiaries in Malaysia. Under the plans, the employees are entitled to retirement benefits varying between 40% and 45% of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees.

App 16.26(5)
GR 18.34(5)

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2008 by Mr. F.G. Ho, Fellow of the Institute of Actuaries of A Land. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

HKAS 19.120A(n)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2008 %	2007 %
Discount rate	5.52	5.20
Expected return on plan assets	12.08	10.97
Expected rate of salary increase	5.00	5.00
Expected return on reimbursement rights	-	-
Other [describe]	-	-

App 16.25(5)
GR 18.34(5)

The actuarial valuation showed that the market value of plan assets was HK$4.2 million (2007: HK$4.3 million) and that the actuarial value of these assets represented 71% (2007: 75%) of the benefits that had accrued to members. The shortfall of HK$1.7 million (2007: HK$1.5 million) is to be cleared over the estimated remaining service period of 15 years.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKAS 19.120A(g) Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2008 HK$'000	2007 HK$'000
Current service cost	463	442
Interest on obligation	164	137
Expected return on plan assets	(276)	(249)
Expected return on reimbursement rights	-	-
Actuarial losses recognised in the year	235	226
Past service cost	-	-
Losses (gains) arising from curtailments or settlements	-	-
Adjustments for restrictions on the defined benefit asset	-	-
	586	556

HKAS 19.120A(g) The charge for the year amounted to HK$586,000 (2007: HK$556,000) is included in the employee benefits expense in the consolidated income statement. Of the charge for the year, HK$412,000 (2007: HK$402,000) has been included in cost of sales and the remainder in administrative expenses.

HKAS 19.120A(f) The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

Source		2008 HK$'000	2007 HK$'000
HKAS 19.120A(d)	Present value of funded defined benefit obligation	5,905	5,808
	Fair value of plan assets	(4,202)	(4,326)
		1,703	1,482
HKAS 19.120A(d)	Present value of unfunded defined benefit obligation	-	-
	Deficit	1,703	1,482
	Net actuarial gains and losses not recognised	(873)	(1,098)
	Past service cost not yet recognised	(322)	(32)
	Restrictions on asset recognised	-	-
	Fair value of reimbursement rights recognised as an asset	-	-
	Other [describe]	-	-
	Net liability arising from defined benefit obligation	508	352

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKAS 19.120A(c) Movements in the present value of the defined benefit obligations in the current year were as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	5,808	5,814
Current service cost	463	442
Interest cost	164	137
Contributions from plan participants	-	-
Actuarial losses	230	135
Past service cost	-	-
Losses/(gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Exchange differences on foreign plans	-	-
Benefits paid	(760)	(720)
Other [describe]	-	-
At 31 December	5,905	5,808

HKAS 19.120A(e) Movements in the fair value of the plan assets in the current year were as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	4,326	4,788
Expected return on plan assets	276	249
Actuarial gains(losses)	220	(91)
Exchange differences on foreign plans	-	-
Contributions from the employer	140	100
Contributions from plan participants	-	-
Benefits paid	(760)	(720)
Assets acquired in a business combination	-	-
Assets distributed on settlements	-	-
Other [describe]	-	-
At 31 December	4,202	4,326

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

HKAS 19.120A (j),(l)

The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are as follows:

	Expected return		Fair value of plan assets	
	2008	2007	31/12/2008	31/12/2007
	%	%	HK$'000	HK$'000
Equity instruments	15.01	12.03	1,026	986
Debt instruments	9.59	7.49	1,980	1,850
Property	12.21	12.76	1,196	1,490
Other [describe]	-	-	-	-
Weighted average expected return	12.08	10.97		
			4,202	4,326

HKAS 19.120A(l)

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected return is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

HKAS 19.120A(m)

The actual return on plan assets was HK$0.72 million (2007: HK$0.354 million).

HKAS 19.120A(k)

The plan assets include ordinary shares of the Company with a fair value of HK$0.380 million (2007: HK$0.252 million) and property occupied by a subsidiary of Hong Kong GAAP Limited with a fair value of HK$0.622 million (2007: HK$0.620 million).

HKAS 19.120A(p)

The history of experience adjustments is as follows:

	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Present value of defined benefit obligation	5,905	5,808	5,814	4,113
Fair value of plan assets	(4,202)	(4,326)	(4,788)	(3,298)
Deficit	1,703	1,482	1,026	815
Experience adjustments on plan liabilities	230	135	210	193
Experience adjustments on plan assets	220	(91)	156	148

HKAS 19.120A(q)

The Group expects to make a contribution of HK$0.44 million (2007: HK$0.44 million) to the defined benefit plans during the next financial year.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

57. Related party transactions

HKAS 24.4
HKAS 24.17,18

During the year, the Group entered into the following transactions with related parties:

	Trade sales		Trade purchases		Amounts due from related parties		Amounts due to related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fellow subsidiaries	693	582	439	427	209	197	231	139
Holding company	1,299	981	897	883	398	293	149	78
Associates	398	291	-	-	29	142	-	-

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts due from related parties.

Loans from / to related parties

	2008	2007
	HK$'000	HK$'000
Loan to associates (note 32)	2,981	2,981
Amounts due from directors (note 33)	656	107
	3,637	3,088
Loans from fellow subsidiaries (note 39)	12,917	34,124

In addition to the above, the Group has entered into the following related party transactions with companies controlled by Mr. Gary D.K Wong, a director of the Company:

1) the Group received certain consultancy services, for which a management fee of HK$240,000 (2007: HK$240,000) was charged; and

2) the Group acquired a property in Shatin at a consideration of HK$ 1 million.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements for the year ended 31 December 2008 - continued

HKAS 24.16

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008 HK$'000	2007 HK$'000
Short-term benefits	2,368	2,027
Post-employment benefits	60	139
Other long-term benefits	115	176
Share-based payments	218	246
	2,761	2,588

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

s128(1),(2)
App 16.9(1),(2)
GR 18.10(1),(2)

58. Particulars of principal subsidiaries of the Company

Name of subsidiary	Place/ country of incorporation or registration /operations	Class of share held	Paid up/ registered share capital	Proportion ownership interest held by the Company Directly 2008 %	Directly 2007 %	Indirectly 2008 %	Indirectly 2007 %	Proportion of voting power held by the Company 2008 %	2007 %	Principal activities
Kowloon Limited	Hong Kong	Ordinary	HK$50,000,000	-	-	56	56	56	56	Manufacture and sale of widgets
Subone Limited	PRC	Registered	RMB5,000,000	-	-	100	100	100	100	Manufacture and sale of toys
Subtwo Limited	Malaysia	Ordinary	USD1,000	-	-	100	100	100	100	Manufacture and sales of widgets
Subthree Limited	Hong Kong	Ordinary	HK$100	-	-	100	100	100	100	Construction
Subfour Limited	British Virgin Island	Ordinary	USD100	100	100	-	-	100	100	Investment holding
Subsix Limited	Singapore	Ordinary	USD5,000	-	-	100	-	100	-	e-business solutions
Subseven Limited	PRC	Registered	RMB10,000,000	-	-	100	-	100	-	e-business solutions
Sub A Limited	Singapore	Ordinary	HK$100	-	-	-	100	-	100	Manufacture of bicycles

s128(4)&(5)
App 16 Note 9.2
GR 18.10

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Subone Limited and Subseven Limited are wholly foreign owned enterprises.

Source	Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2008 - continued

59. Balance sheet information of the Company

Balance sheet information of the Company at the balance sheet date includes:

	2008 HK$'000	2007 HK$'000
Unlisted investments in subsidiaries	133,030	133,030
Bank balances and cash	2,000	4,000
Other current assets	3,610	3,210
Total assets	138,640	140,240
Share capital (note 42)	17,819	23,005
Reserves	120,821	117,235
Total equity	138,640	140,240

Note: *Section 123(1) and 126(1) of the Companies Ordinance state that both the company's balance sheet and the consolidated balance sheet of a company incorporated in Hong Kong must give a true and fair view. In order to comply with the requirements of the Hong Kong Companies Ordinance, a Hong Kong incorporated company may present the company's balance sheet as a primary statement (together with all relevant notes) within the consolidated financial statements.*

HKAS 10.19
HKAS 10.21

60. Post balance sheet events

On 18 January 2009, the premises of Subthree Limited were seriously damaged by fire. Insurance claims are in process, but the cost of refurbishment is currently expected to exceed the amount that will be reimbursed by HK$8.3 million.

Source	Hong Kong GAAP Limited

App 16.19
GR 18.33

Financial summary

	For the year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000
RESULTS					
Revenue	146,904	118,675	125,849	151,840	140,918
Cost of sales	(90,505)	(73,634)	(75,706)	(91,840)	(87,899)
Gross profit	56,399	45,041	50,143	60,000	53,019
Investment and other income	692	784	1,626	3,330	4,339
Other gains and losses	896	1,620	1,431	446	1,462
Distribution and selling expenses	(4,891)	(3,214)	(4,216)	(4,600)	(5,087)
Administrative expenses	(13,246)	(12,160)	(14,032)	(19,992)	(16,513)
Share of profits of associates	-	-	-	1,589	1,186
Finance costs	(4,321)	(3,610)	(2,480)	(6,023)	(5,034)
Other expenses	(1,230)	(896)	(1,645)	(2,612)	(2,656)
Profit before tax	34,299	27,565	30,827	32,138	30,716
Income tax expense	(12,432)	(10,121)	(11,201)	(11,801)	(11,650)
Profit for the year from continuing operations	21,867	17,444	19,626	20,337	19,066
Profit for the year from discontinued operations	-	-	-	9,995	8,310
	21,867	17,444	19,626	30,332	27,376
Attributable to:					
Equity holders of the Company	21,841	17,390	19,529	27,569	23,376
Minority interests	26	54	97	2,763	4,000
	21,867	17,444	19,626	30,332	27,376
Earnings per share					
Basic (HK cents)	112.8¢	109.6¢	120.3¢	119.8¢	104.1¢
Diluted (HK cents)	110.7¢	101.4¢	118.2¢	119.1¢	98.1¢

Source	Hong Kong GAAP Limited

Financial Summary-continued

	As at 31 December				
	2004	2005	2006	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total Assets	216,847	202,839	236,835	262,152	264,172
Total Liabilities	(91,001)	(75,865)	(86,214)	(95,113)	(93,132)
	125,846	126,974	150,621	167,039	171,040
Equity attributable to equity holders of the Company	115,321	117,303	140,010	147,034	147,035
Share options reserve of a subsidiary	-	-	-	500	500
Minority interests	10,525	9,671	10,611	19,505	23,505
	125,846	126,974	150,621	167,039	171,040

Source	Hong Kong GAAP Limited

App 16.23
GR 18.23

PARTICULARS OF MAJOR INVESTMENT PROPERTIES AT 31 DECEMBER 2008

PROPERTIES HELD FOR INVESTMENT

Location	Type	Lease Term
Carpark Lot 21, XYZ Plaza, 10 XYZ Road, Hong Kong	Carpark	Medium-term Lease
Flat 1402, Dragon Garden 21 Flying Road, Hong Kong	Commercial	Medium-term Lease

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Hong Kong Financial Reporting Standards

Illustrative Financial Statements 2008

Hong Kong Financial Reporting Standards - Illustrative Financial Statements 2008 aims to provide useful guidance to preparers of financial statements reporting under Hong Kong Financial Reporting Standards (HKFRS). This book contains an illustrative 2008 annual report prepared by a fictitious reporting entity (listed in Hong Kong) in accordance with HKFRS and the disclosure requirements of Hong Kong Companies Ordinance and Listing Rules.

Furthermore, this book provides a summary of HKFRS which are effective for the financial year ended 31 December 2008 and those that are issued but not yet effective and their potential impacts, together with a brief update on Listing Rules and other relevant regulatory requirements.

The Illustrative Financial Statements 2008 will help you navigate through the increasingly complex and changing financial reporting requirements in Hong Kong. To keep up to date with the new international accounting developments that will shape Hong Kong standard setting in future, please visit the Deloitte IAS PLUS website (www.iasplus.com).

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