

Hong Kong Financial
Reporting Standards
Illustrative Annual Financial
Statements 2010



Hong Kong Financial Reporting Standards

Illustrative Annual Financial Statements 2010

Deloitte.
德勤

IAS PLUS

Foreword

Welcome to our 2010 edition of Hong Kong Financial Reporting Standards – Illustrative Annual Financial Statements.

This publication includes:

- information about the recent developments in Hong Kong Financial Reporting Standards (HKFRSs) and regulatory updates in Hong Kong (see Section 1); and
- a set of illustrative annual financial statements for the year ended 31 December 2010 issued by a Hong Kong listed company, *Hong Kong GAAP Limited* (see Section 2).

In these 2010 illustrative annual financial statements, we have illustrated the impact of the application of a number of new and revised HKFRSs. Two key HKFRSs that are effective for 2010 are HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*, as revised in 2008.

Other new and revised HKFRSs that are not yet effective for the year ended 31 December 2010 generally allow earlier application in advance of their effective dates. Due consideration should be given to these HKFRSs. Even if an entity does not early apply any of these new and revised HKFRS, it is required to disclose the potential financial impact in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in its financial statements for the year ended 31 December 2010.

We have not included a presentation and disclosure checklist (that is applicable to the 2010 HKFRS annual financial statements) in this publication. However, the checklist is available for download on our IAS Plus website (www.iasplus.com).

We hope that 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 financial reporting in future via our IAS Plus website (www.iasplus.com).

Stephen Taylor
Partner
Deloitte Touche Tohmatsu
December 2010

Contents

| | Page |
|---|-------------|
| Section 1 - What's new for 2010 annual financial statements and beyond? | 5 |
| • Overview of new and revised Hong Kong Financial Reporting Standards | 5 |
| • Regulatory update in Hong Kong | 20 |
| Section 2 - HKFRS Illustrative Annual Financial Statements 2010 | 23 |

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 (renamed as IFRS Interpretations Committee) |
| 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 |

What's new for 2010 annual financial statements and beyond?

I. Overview of new and revised Hong Kong Financial Reporting Standards

A number of new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") are effective for the year ended 31 December 2010. Some of these new and revised HKFRSs may have significant impact on the financial performance and/or financial position of entities for the year ended 31 December 2010.

Other new and revised HKFRSs that are not yet effective for the year ended 31 December 2010 generally allow earlier application in advance of their effective dates. For example, HKFRS 9 *Financial Instruments* (that is effective for annual periods beginning on or after 1 January 2013) permits earlier application and may have impact on the classification and measurement of financial assets and financial liabilities. Some entities may wish to early apply some of these HKFRSs. Even when an entity does not want to apply any of these new and revised HKFRSs in advance of their effective dates, it should understand the changes under the new and revised HKFRSs in order to satisfy the requirements in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. HKAS 8 requires entities to disclose in their financial statements the possible impact of the initial application of new and revised HKFRSs that are in issue but are not yet effective.

To help you get well-prepared for the changes, this section provides you with a high level overview of the new and revised HKFRSs. As always, we recommend that you make reference to the details set out in the relevant HKFRSs to identify all of the changes that may have an impact based on your particular circumstances.

Specifically, this section includes the following:

- Overview of new and revised HKFRSs; and
- Regulatory update in Hong Kong.

HKFRS Illustrative Annual Financial Statements 2010

Overview of new and revised HKFRSs

New and revised HKFRSs that are effective for the year ended 31 December 2010

| New Standard | Effective for annual periods beginning on or after | Application |
|-----------------------------------|--|---|
| <i>HKFRS for Private Entities</i> | Immediately effective upon issue on 30 April 2010 | Specific transitional requirements to the <i>HKFRS for Private Entities</i> |

| Revised Standards | Effective for annual periods beginning on or after | Application |
|--|--|--|
| HKFRS 1 (Revised) <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> | 1 July 2009 | Applicable to entities that prepare their first financial statements for a period beginning on or after 1 July 2009 |
| HKFRS 3 (Revised) <i>Business Combinations</i> and HKAS 27 (Revised) <i>Consolidated and Separate Financial Statements</i> | 1 July 2009 | HKFRS 3 (Revised) – Prospective application, with specific transitional provisions HKAS 27 (Revised) – Retrospective application, with specific transitional provisions |

| Amendments to Standards | Effective for annual periods beginning on or after | Application |
|--|--|---|
| Amendments to HKFRS 1 - <i>Additional Exemptions for First-time Adopters</i> | 1 January 2010 | Retrospective application |
| Amendments to HKFRS 2 - <i>Group Cash-settled Share-based Payment Transactions</i> | 1 January 2010 | Retrospective application |
| Amendments to HKFRS 5 as part of <i>Improvements to HKFRSs</i> issued in 2008 | 1 July 2009 | Prospective application, but subject to the transitional provisions of HKAS 27(Revised) |
| Amendments to HKAS 39 - <i>Eligible Hedged Items</i> | 1 July 2009 | Retrospective application |
| <i>Improvements to HKFRSs</i> issued in 2009 | 1 July 2009 or 1 January 2010, as appropriate | Retrospective or prospective application, as appropriate |

| New Interpretations | Effective for annual periods beginning on or after | Application |
|---|---|---------------------------|
| HK (IFRIC) – Int 17 <i>Distributions of Non-cash Assets to Owners</i> | 1 July 2009 | Prospective application |
| HK (IFRIC) – Int 18 <i>Transfers of Assets from Customers</i> | Transfers of assets from customers received on or after 1 July 2009 | Prospective application |
| Hong Kong Interpretation 5 <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> (issued in November 2010) | Immediately effective upon issuance | Retrospective application |

| Revised Hong Kong Interpretations | Effective for annual periods beginning on or after |
|--|--|
| HK – Int 4 (Revised) <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> | Immediately effective upon issue in December 2009 |

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued***HKFRS for Private Entities
(Immediately effective upon issue in April 2010)***

On 30 April 2010, the HKICPA issued the *HKFRS for Private Entities*. This new Standard, which is immediately effective upon issue, provides an alternative framework that can be applied by private entities in place of the full set of HKFRSs in issue. However, there is no obligation for private entities to adopt it if they wish to continue applying full HKFRSs or *The SME Financial Reporting Framework and Financial Reporting Standard* (SME-FRF&FRS).

Private entities are defined to be entities that have no public accountability and that are required, or choose, to publish general purpose financial statements for external users. Entities whose debt or equity instruments are publicly traded are considered to have public accountability. In addition, entities whose primary businesses are to hold and to manage financial resources entrusted to them by a broad group of clients are considered to have public accountability, e.g. banks, building societies, credit unions, insurance companies and pension funds.

The *HKFRS for Private Entities* is a slightly modified version of the *IFRS for Small and Medium-sized Entities* issued by the IASB in July 2009. The modification relates to the income tax requirements. The HKICPA has replaced the recognition and measurement principles contained in Section 29 *Income Tax of the IFRS for SMEs* with those contained in HKAS 12 *Income Taxes*, while retaining the relevant disclosures in the *IFRS for SMEs*, except that the *HKFRS for Private Entities* has restricted the amount of deferred tax recognised in relation to the fair value gain of investment properties to the amount that would be payable upon its sale to an unrelated market participant at fair value at the end of the reporting period.

A subsidiary that is part of a consolidated group that uses full HKFRSs, or IFRSs, is not prohibited from using the new Standard in its individual financial statements, provided that the subsidiary itself does not have public accountability.

***HKFRS 1 (Revised) First-time Adoption of Hong Kong Financial Reporting Standards
(Applicable to entities that prepare their first HKFRS financial statements for a period beginning on or after 1 July 2009)***

A revised version of HKFRS 1 was issued in 2008, with the objective to improve the structure of the Standard.

***HKFRS 3 (Revised) Business Combinations &
HKAS 27 (Revised) Consolidated and Separate Financial Statements
(Effective for annual periods beginning on or after 1 July 2009)***

HKFRS 3 (Revised) and HKAS 27 (Revised) were published as a package in 2008, together with consequential amendments to other Standards, most notably HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The most significant changes introduced by the revised Standards include the following:

- Costs incurred to effect a business combination (e.g. finder's fees, advisory, legal, accounting, valuation, and other professional or consulting fees) are expensed in the period when they are incurred. (Costs incurred to issue debt or equity securities continue to be recognised in accordance with HKAS 32 and HKAS 39).
- Where the acquirer has a pre-existing equity interest in the entity acquired, it remeasures that previously-held interest to fair value when it obtains control over the acquiree and recognises any resulting gain or loss in profit or loss.
- The term 'non-controlling interest' (NCI) replaces 'minority interest'. At the acquisition date, the acquirer may choose, on a transaction-by-transaction basis, whether to measure NCI at fair value, or at the NCI's proportionate share of the net identifiable assets of the entity acquired. HKFRS 3 (Revised) was further amended as part of *Improvements of HKFRSs* issued in 2010. The amendments to HKFRS 3 (Revised) specify that the option to measure NCI either at fair value or at the proportionate share of the acquiree's net identifiable assets at the acquisition date applies only to NCI that are present ownership interests and that entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other types of NCI should be measured at their acquisition-date fair value, unless there is another measurement basis required by other HKFRSs.

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued

- Goodwill is measured at the acquisition date as the difference between:
 - the aggregate of (a) the acquisition-date fair value of the consideration transferred; (b) the amount of any NCI in the acquiree; and (c) the acquisition-date fair value of any previously-held equity interest in the entity acquired; and
 - the recognised amount of net identifiable assets acquired and the liabilities assumed.
- In the consolidated financial statements of a parent, once control of a subsidiary is obtained, all subsequent increases and decreases in ownership interests in that subsidiary that do not involve the loss of control are treated as transactions with owners. Goodwill is not remeasured or adjusted. Instead, 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.
- Consideration for an acquisition, including contingent consideration, is measured at fair value at the acquisition date. Changes in contingent consideration that is classified as an asset or a liability and that results from events after the acquisition date (e.g. the acquiree meeting an earnings target or reaching a specified share price) are recognised in profit or loss.
- The revised HKAS 27 requires an entity to attribute the NCI's share of profit or loss to the NCI even if this results in the NCI having a deficit balance.
- When a parent ceases to have control of a subsidiary, the parent derecognises all assets, liabilities and NCI at their carrying amounts. Any interest retained in the former subsidiary is recognised at its fair value at the date control is lost. Any gain or loss arising on loss of control is recognised in profit or loss.
- Other important changes arising from the revision of HKFRS 3 include:
 - widening the scope to include business combinations between mutual entities and business combinations achieved by contract alone;
 - the introduction of specific guidance on whether replacement share-based payment awards are part of the consideration transferred, and measurement of reacquired rights on initial recognition. HKFRS 3 (Revised) was further amended as part of *Improvements of HKFRSs* issued in 2010 in order to give more guidance on the accounting for share-based payment awards held by the acquiree's employees (see below for details of the amendments to HKFRS 3 as part of *Improvements to HKFRSs* (issued in 2010)); and
 - clarification that an entity needs to reassess the classification of contractual arrangements on acquisition with the exception of insurance contracts and leases (for which the original classification as finance or operating is retained). This is particularly relevant when looking at financial instruments, embedded derivatives and hedging relationships.

For transitional provisions, entities should refer to these Standards for details. HKFRS 3 (Revised) is to be applied prospectively to business combinations of which the acquisition date is on or after the beginning of annual periods beginning on or after 1 July 2009.

Amendments to HKFRS 1: Additional Exemptions for First-time Adopters
(Effective for annual periods beginning on or after 1 January 2010)

Under some national GAAPs, exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area. The amendments to HKFRS 1 permit a first-time adopter that has previously used this basis of accounting to elect to measure the related oil and gas assets at the date of transition to HKFRSs on the following basis:

- exploration and evaluation assets at amounts determined under the entity's previous GAAP; and
- oil and gas assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP.

The entity should allocate this amount to the cost centre's underlying assets on a pro-rata basis using reserve volumes or reserve values as of that date. Entities electing to use the exemption are required to test both exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to HKFRSs. The exploration and evaluation assets are tested in accordance with HKFRS 6 *Exploration for and Evaluation of Mineral Resources* and development and production assets are tested in accordance with HKAS 36 *Impairment of Assets*. Any identified impairment losses must be recognised at the date of transition.

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued**Amendments to HKFRS 2: Group Cash-settled Share-based Payment Transactions
(Effective for annual periods beginning on or after 1 January 2010)**

HKFRS 2 *Share-based Payment* has been amended to provide additional guidance on the accounting for share-based payment transactions among group entities. The amendments state that the entity receiving the goods or services will recognise the transaction as an equity-settled share-based payment transaction only if:

- the awards granted are its own equity instruments; or
- it has no obligation to settle the transaction.

In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment.

The entity responsible for settling the transaction will recognise it as an equity-settled share-based payment only if the transaction is settled in its own equity instruments. In all other circumstances, the transaction will be recognised by the entity that settles the award as a cash-settled share-based payment.

As the classification may be different at the subsidiary and parent level, the amount recognised by the entity receiving the goods or services may differ from the amount recognised by the entity settling the transaction and in the consolidated financial statements. Intragroup repayment arrangements will not affect the application of the principles described above for the classification of group-settled share-based payment transactions.

The scope of HKFRS 2 has also been amended to clarify that the Standard applies to all share-based payment transactions, whether or not the goods or services received under the share-based payment transaction can be individually identified. Any unidentifiable goods and services are measured on the grant date as the difference between the fair values of the share-based payment and the identifiable goods and services.

Guidance in these areas was previously provided in HK (IFRIC) – Int 8 *Scope of HKFRS 2* and HK (IFRIC) – Int 11 *HKFRS 2 – Group and Treasury Share Transactions* and as a result, these Interpretations will be withdrawn from the effective date of the amendments.

**Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
(Effective for annual periods beginning on or after 1 July 2009)**

The amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* deal with a situation where a parent is committed to a sale plan involving loss of control of a subsidiary. The amendments clarify 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 parent will retain a non-controlling interest after the sale.

**Amendments to HKAS 39: Eligible Hedged Items
(Effective for annual periods beginning on or after 1 July 2009)**

The amendments to HKAS 39 provide clarification on two issues in relation to hedge accounting.

- Identifying inflation as a hedged risk - 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. This may be the case where an entity acquires or issues inflation-linked debts. In such circumstances, the entity has a cash flow exposure to changes in future inflation that may be cash flow hedged. The amendments, therefore, do not permit an entity to designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge as such a component is not considered separately identifiable and reliably measurable. The amendments also clarify that 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.

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued

- **Hedging with options** - HKAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. 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). The amendments make clear that the intrinsic value, not the time value, of an option reflects a one-sided risk and therefore an option designated in its entirety cannot be perfectly effective. The time value of a purchased option is not a component of the forecast transaction that impacts profit or loss. Therefore, if an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise. Alternatively, an entity may choose to exclude time value as permitted by the Standard in order to improve hedge effectiveness. As a result of this designation, changes in the time value of the option will be recognised immediately in profit or loss.

Improvements to HKFRSs issued in 2009

(Effective date for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate)

The Improvements includes amendments to 12 HKFRSs that are summarised below.

| Standard | Subject of amendment | Details |
|-----------------|---|--|
| HKFRS 2 | Scope of HKFRS 2 and revised HKFRS 3 | Amendment to confirm that, in addition to business combinations as defined by HKFRS 3(2008) <i>Business Combinations</i> , contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of HKFRS 2 <i>Share-based Payment</i> . |
| HKFRS 5 | Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations | Amendment to clarify that HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Consequently, disclosures in other HKFRSs do not apply to such assets (or disposal groups) unless: <ul style="list-style-type: none"> • those HKFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or • the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of HKFRS 5's measurement requirements and the information is not disclosed elsewhere in the financial statements. |
| HKFRS 8 | Disclosure of information about segment assets | Minor textual amendment to the Standard, and amendment to the Basis for Conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. |
| HKAS 1 | Current/non-current classification of the liability component of convertible instruments | Clarification that the potential settlement of a liability by the issue of equity is not relevant to the classification of the liability component as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. |
| HKAS 7 | Classification of expenditures on unrecognised assets | Amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. |
| HKAS 17 | Classification of leases of land and buildings | Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of HKAS 17. |

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued

| Standard | Subject of amendment | Details |
|---------------------|--|--|
| HKAS 18 | Determining whether an entity is acting as a principal or as an agent | Additional guidance has been added to the appendix to HKAS 18 <i>Revenue</i> regarding the determination as to whether an entity is acting as a principal or an agent. |
| HKAS 36 | Unit of accounting for goodwill impairment test | Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of HKFRS 8 <i>Operating Segments</i> (i.e. before the aggregation of segments with similar economic characteristics). |
| HKAS 38 | Additional consequential amendments arising from HKFRS 3(as revised in 2008) | Amendment to paragraphs 36 and 37 of HKAS 38 <i>Intangible Assets</i> to clarify the requirements under HKFRS 3(as revised in 2008) regarding accounting for intangible assets acquired in a business combination. |
| HKAS 38 | Measuring the fair value of an intangible asset acquired in a business combination | Amendment to paragraphs 40 and 41 of HKAS 38 to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. |
| HKAS 39 | Treating loan prepayment penalties as closely related derivatives | Amendment to clarify that prepayment options, of which the exercise prices are to compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract. |
| HKAS 39 | Scope exemption for business combination contracts | Amendment to the scope exemption in paragraph 2(g) of HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> to clarify that: <ul style="list-style-type: none"> • it only applies to binding forward contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date; • the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and • the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions. |
| HKAS 39 | Cash flow hedge accounting | Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. |
| HKAS 39 | Hedging using internal contracts | Amendment to clarify that entities should no longer use hedge accounting for transactions between segments in their separate financial statements. |
| HK (IFRIC) – Int 9 | Scope of HK(IFRIC) - Int 9 and HKFRS 3(as revised in 2008) | Amendment to confirm that, in addition to business combinations as defined by HKFRS 3 (as revised in 2008), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of HK (IFRIC) – Int 9. |
| HK (IFRIC) – Int 16 | Amendment to the restriction on the entity that can hold hedging instruments | Amendment to clarify that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged. |

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued

***HK (IFRIC) – Int 17 Distributions of Non-cash Assets to Owners
(Effective for annual periods beginning or after 1 July 2009)***

HK (IFRIC) – Int 17 provides guidance on the accounting treatment when an entity distributes assets other than cash as dividends to its owners.

HK (IFRIC) – Int 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. Under HK (IFRIC) – Int 17, the dividend should be measured at the fair value of the assets to be distributed, and any difference between the carrying amount of the dividend payable and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. This accounting treatment will result in a change in practice in many jurisdictions.

HK (IFRIC) – Int 17 does not apply to distributions of non-cash assets where the asset is ultimately controlled by the same party or parties before and after the distribution (e.g. distributions of non-cash assets between entities under common control).

HK (IFRIC) – Int 17 has resulted in consequential amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the accounting treatment of the non-cash assets held for distribution. Specifically, the amendments to HKFRS 5 specify that assets to be distributed to owners should be classified as "assets classified as held for distribution to owners" and measured at the lower of their carrying amounts and fair value less costs to distribute.

***HK (IFRIC) – Int 18 Transfers of Assets from Customers
(Effective for transfers of assets from customers received on or after 1 July 2009)***

HK (IFRIC) – Int 18 was issued to address divergent practice in the accounting by recipients for transfers of property, plant and equipment from 'customers'.

HK (IFRIC) – Int 18 concludes that the entity receiving the item of property, plant and equipment recognises it in its statement of financial position when it meets the definition of an asset under the *Framework for the Preparation and Presentation of Financial Statements*. HK (IFRIC) – Int 18 emphasises that, if the entity controls the asset, it should recognise it, whilst noting that right of ownership may not of itself be sufficient to establish control.

Where an entity determines that the item of property, plant and equipment qualifies for recognition as an asset, HK (IFRIC) – Int 18 then directs the entity to recognise the asset in accordance with HKAS 16 *Property, Plant and Equipment*, and to measure its cost on initial recognition at its fair value.

If only one service is included in the agreement (e.g. connecting to the utility network with ongoing goods or services charged at the same rates as for other customers), the entity recognises revenue (the credit resulting from the initial recognition of the asset) when that service is performed in accordance with paragraph 20 of HKAS 18. If more than one service is identified, the fair value of the consideration received is allocated between the services, and the recognition criteria of HKAS 18 are then applied to each service individually. If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

When an entity receives a transfer of cash from a customer, it must first determine whether the agreement is within the scope of HK (IFRIC) – Int 18. If it is, the analysis as to whether the item transferred is an asset of the entity and, if so, how to account for the credit side of the transaction is the same as above.

New and revised HKFRSs that are effective for the year ended 31 December 2010 – continued

***Hong Kong Interpretation 5: Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
(Effective immediately upon issue in November 2010)***

On 29 November 2010, the HKICPA issued Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*.

This Interpretation requires that the classification of a term loan as a current or a non-current liability in accordance with paragraph 69(d) of HKAS 1 *Presentation of Financial Statements* should be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the reporting date.

Therefore, the Interpretation requires that amounts payable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time should be classified by the borrower as current liabilities in the statement of financial position.

The Interpretation is immediately effective upon issuance and requires retrospective application.

***Amendments to Hong Kong Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
(Effective immediately upon issue in December 2009)***

The Interpretation is immediately effective upon issuance and requires retrospective application. This Interpretation was revised in December 2009 as a consequence of amendments to HKAS 17 as part of *Improvements to HKFRSs* issued in May 2009 (see above). The amendments to HKAS 17 remove the specific guidance that stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. Following the amendments to HKAS 17, the scope of HK-Int 4 has been expanded to cover all land leases, including those classified as finance leases.

HKFRS Illustrative Annual Financial Statements 2010

New and revised HKFRSs that are available for early application for the year ended 31 December 2010

The following new and revised HKFRSs are not mandatorily effective for the year ended 31 December 2010. However, they are available for early application. Paragraph 30 of HKAS 8 requires entities to consider and disclose the potential impact of new and revised HKFRSs that are in issue but are not yet effective.

The list below reflects a cut off date of 30 November 2010.

| New Standards | Effective for annual periods beginning on or after | Application |
|--|--|--|
| HKFRS 9 <i>Financial Instruments</i> (as revised in November 2010) | 1 January 2013 | Retrospective application, with specific transitional provisions |

| Revised Standards | Effective for annual periods beginning on or after | Application |
|--|--|--|
| HKAS 24 (Revised) <i>Related Party Disclosures</i> | 1 January 2011 | Retrospective application Earlier application is permitted, either of the whole revised version or of the partial exemption for government-related entities |

| Amendments to Standards | Effective for annual periods beginning on or after | Application |
|---|--|--|
| Amendments to HKFRS 1 <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> | 1 July 2010 | Retrospective application, with specific transitional provisions |
| Amendments to HKFRS 7 <i>Disclosures – Transfers of Financial Assets</i> | 1 July 2011 | Retrospective application; need not provide the disclosures required by the amendments for any period presented that begins before the date of initial application of the amendments |
| Amendments to HKAS 32 <i>Classification of Rights Issues</i> | 1 February 2010 | Retrospective application |
| <i>Improvements to HKFRSs</i> (issued in 2010) | 1 July 2010 or 1 January 2011, as appropriate | Retrospective or prospective application, as appropriate |

| New Interpretations | Effective for annual periods beginning on or after | Application |
|--|--|---|
| HK (IFRIC) – Int 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i> | 1 July 2010 | Retrospective application (from the beginning of the earliest comparative period presented) |

| Amendments to Interpretations | Effective for annual periods beginning on or after | Application |
|---|--|--|
| Amendments to HK (IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirement</i> | 1 January 2011 | Retrospective application, with specific transitional provisions |

New and revised HKFRSs that are available for early application for the year ended 31 December 2010 - continued

***HKFRS 9 Financial Instruments (as issued in November 2009 and revised in November 2010)
(Effective for annual periods beginning on or after 1 January 2013)***

HKFRS 9 (as issued in 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 is effective from 1 January 2013, with early application permitted. HKFRS 9 contains a number of transitional provisions.

Under HKFRS 9, all recognised financial assets that are currently in the scope of HKAS 39 will be subsequently measured at either amortised cost or fair value. A debt instrument that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement.

All equity investments within the scope of HKAS 39 are to be measured in the statement of financial position at fair value, with the gains and losses recognised in profit or loss. Only if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at fair value through other comprehensive income (FVTOCI), with only dividend income generally recognised in profit or loss.

In November 2010, the HKICPA issued a revised version of HKFRS 9 that adds the requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change relates to the presentation of changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

New and revised HKFRSs that are available for early application for the year ended 31 December 2010 - continued

HKAS 24 (Revised) Related Party Disclosures
(Effective for annual periods beginning on or after 1 January 2011)

The amendments to HKAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

The previous version of HKAS 24 contained no specific exemption for government-related entities. Many entities, particularly in an environment where government control is pervasive, found it problematic in practice to identify all government-related entities, and to quantify all related party transactions and balances with those entities.

As a result, the amendments to HKAS 24 provide a partial exemption from the disclosure requirements of HKAS 24 for government-related entities. Specifically, a reporting entity is exempt from the general disclosure requirements of HKAS 24 in relation to related party transactions and outstanding balances (including commitments) with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

The amendments to HKAS 24 also simplify the definition of a related party, clarify the intended meaning and eliminate a number of inconsistencies. Some important changes / clarifications in relation to the definition of a related party are as follows:

- two entities that are both subject to control or joint control by the same party, are related to each other;
- if one party controls or jointly controls an entity and at the same time have significant influence over another entity, the entities are related to each other; and
- if two entities are both subject to significant influence by the same entity, the entities are not related to each other.

Amendments to HKFRS 1 Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
(Effective for annual periods beginning on or after 1 July 2010)

The HKICPA introduced amendments to HKFRS 7 *Improving Disclosures about Financial Instruments* in 2009. These amendments expanded the disclosures required, for each class of financial instruments, in respect of fair value measurements recognised in the statement of financial position, introduced a three-level fair value hierarchy and clarified the scope of items to be included in the maturity analyses required under HKFRS 7. The transitional provisions set out in the amendments to HKFRS 7 provide relief in the first year of application from providing comparative information for the disclosures required by the amendments. However, no amendment was made to HKFRS 1 to accommodate the relief at that time.

Therefore, in 2010, the HKICPA issued amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*, titled *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*. The amendments to HKFRS 1 relieve first-time adopters of HKFRSs from providing the additional disclosures introduced in the amendments to HKFRS 7 issued in 2009.

Amendments to HKFRS 7 Financial Instruments: Disclosures – Disclosures – Transfers of Financial Assets
(Effective for annual periods beginning on or after 1 July 2011)

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

New and revised HKFRSs that are available for early application for the year ended 31 December 2010 - continued

***Amendments to HKAS 32: Classification of Rights Issues
(Effective for annual periods beginning on or after 1 February 2010)***

Under the amendments to HKAS 32, rights, options and warrants otherwise meeting the definition of equity instruments in paragraph 11 of HKAS 32 issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

***Improvements to HKFRSs issued in 2010
(Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate)***

The Improvements includes amendments to 7 HKFRSs that are summarised below.

| Standard | Subject of amendment | Details |
|----------|---|--|
| HKFRS 1 | Accounting policy changes in the year of adoption | Amendment to clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 <i>Interim Financial Reporting</i> but before its first HKFRS financial statements are issued, it should explain those changes and update the reconciliations between previous GAAP and HKFRSs. The requirements in HKAS 8 do not apply to such changes. |
| | Revaluation basis as deemed cost | Clarification that a first-time adopter is permitted to use an event driven fair value as 'deemed cost' at the measurement date for measurement events that occurred after the date of transition to HKFRSs but during the period covered by the first HKFRS financial statements. Any resulting adjustment should be recognised directly in equity at the measurement date. |
| | Use of deemed cost for operations subject to rate regulation | Amendment to specify that a first time adopter may elect to use the previous GAAP carrying amount of items of property plant and equipment or intangibles that are, or were, used in operations subject to rate regulations. This election is available on an item by item basis. |
| HKFRS 3 | Measurement of non-controlling interests | Amendment to specify that the option to measure non-controlling interests either at fair value or at the proportionate share of the acquiree's net identifiable assets at the acquisition date under HKFRS 3 (as revised in 2008) applies only to non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other types of non-controlling interests should be measured at their acquisition date fair value, unless there is another measurement basis is required by other HKFRSs. |
| | Un-replaced and voluntary replaced share-based payment awards | <p>Amendment to specify that the current requirement to measure awards of the acquirer that replace acquiree share-based payment transactions in accordance with HKFRS 2 at the acquisition date ('market-based measure') applies also to share-based payment transactions of the acquiree that are not replaced.</p> <p>Amendment to specify that the current requirement to allocate the market-based measure of replacement awards between the consideration transferred for the business combination and post-combination remuneration applies to all replacement awards regardless of whether the acquirer is obliged to replace the awards or does so voluntarily.</p> |

New and revised HKFRSs that are available for early application for the year ended 31 December 2010 - continued

| Standard | Subject of amendment | Details |
|------------------|--|---|
| | Transitional requirements for contingent consideration from a business combination that occurred before the effective date of HKFRS 3(as revised in 2008) | Amendment to clarify that HKAS 32 <i>Financial Instruments: Presentation</i> , HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures</i> do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of HKFRS 3 (as revised in 2008). |
| HKFRS 7 | Clarification of disclosures | Amendment to encourage qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. Amendment to clarify the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. |
| HKAS 1 | Clarification of presentation of items of other comprehensive income in the statement of changes in equity | Amendment to clarify that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. |
| HKAS 27 | Transitional requirements for consequential amendments as a result of HKAS 27 <i>Consolidated and Separate Financial Statements</i> (as revised in 2008) to HKAS 21, HKAS 28 and HKAS 31 | Amendment to clarify that the amendments made to HKAS 21 <i>The Effects of Changes in Foreign Rates</i> , HKAS 28 <i>Investments in Associates</i> and HKAS 31 <i>Interests in Joint Ventures</i> as a result of HKAS 27 (as revised in 2008) should be applied prospectively (with the exception of paragraph 35 of HKAS 28 and paragraph 46 of HKAS 31, which should be applied retrospectively). |
| HKAS 34 | Significant events and transactions | Amendment to emphasise the principle in HKAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. Amendment to clarify how to apply this principle in respect of financial instruments and their fair values. |
| HK(IFRIC)-Int 13 | Fair value of award credit | Amendment to clarify that the 'fair value' of award credits should take into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale, and any expected forfeitures. |

HK (IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments
(Effective for annual periods beginning on or after 1 July 2010)

HK (IFRIC)-Int 19 addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as "debt for equity swaps"). HK (IFRIC)-Int 19 concludes that equity instruments issued to extinguish an obligation constitute "consideration paid" in the context of paragraph 41 of HKAS 39. The equity instruments issued should be measured at the fair value at the date of extinguishment of the liabilities, unless that fair value of the equity instruments is not readily determinable, in which case the equity instruments should be measured at the fair value of the liabilities extinguished.

New and revised HKFRSs that are available for early application for the year ended 31 December 2010 - continued**Amendments to HK (IFRIC) – Int 14: Prepayments of a Minimum Funding Requirement (Effective for annual periods beginning on or after 1 January 2011)**

HK (IFRIC) – Int 14 has been amended to remedy an unintended consequence of HK (IFRIC) – Int 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

HK (IFRIC) – Int 14 (as originally issued) did not consider that a plan surplus may result from a prepayment of future minimum funding contributions and therefore, unintentionally reduced the economic benefits available in accordance with paragraph 58 of HKAS 19 arising from voluntary prepayments of minimum funding contributions. If an entity is subject to minimum funding requirements for contributions relating to future benefits, paragraph 20 of HK (IFRIC) – Int 14 (as originally issued) limited the economic benefit available in the form of reductions in future contributions to the present value of:

- (a) the estimated future service cost in each year; less
- (b) the estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

Under the amended paragraph 20 of HK (IFRIC) – Int 14, if there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions (and, therefore, the surplus that should be recognised as an asset) is comprised of:

- (a) any amount that reduces future minimum funding requirement contributions for future services because the entity made a prepayment (i.e. any amount that the entity has paid before being required to do so); and
- (b) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in that period if there were no prepayment of those contributions as described in (a).

Further, HK (IFRIC) – Int 14 clarifies that while the amount calculated under (b) above may be negative for a given period (i.e. the estimated minimum funding requirement contribution for that period exceeds the estimated future service cost for that same period), the total amount calculated under (b) can never be less than zero. Accordingly, the economic benefit available as a reduction in future contributions will correspond, as a minimum, to the amount of the prepayment, if any.

II. Regulatory update in Hong Kong

A. Changes to the Listing Rules in Hong Kong

A1. Shortening the deadlines for half-year and annual reporting by Main Board listed entities

On 1 September 2008, the HKEx amended the Listing Rules with respect to the new requirements on deadlines for announcements of the half-year and annual results by Main Board listed entities. The existing deadlines for the release of half-year reports and annual reports within three months and four months respectively have been retained. However, the deadlines for results announcements were accelerated as follows:

- the deadline for the release of half-year results announcements was shortened from three months to two months. The new deadlines are effective for half-year accounting periods ending on or after 30 June 2010;
- the deadline for the release of annual results announcements was shortened from four months to three months. The new deadlines will be effective for annual accounting periods ending on or after 31 December 2010.

The accelerated results announcement deadlines are an important step in improving the timeliness and relevance of periodic financial information and will bring Hong Kong in line with leading international practices. After the amendments, the reporting deadlines for half-year and annual reporting for Main Board listed entities are now in line with those set out for GEM listed entities.

A2. Implementing the phase 2 of the post-vetting regime

The Listing Rules have been amended to remove pre-vetting requirements for listed entities' announcements for major transactions and connected transactions from 1 January 2010. This is the Phase 2 of the post-vetting regime implemented progressively by the HKEx following the removal of the pre-vetting requirements for some categories of announcements, including share/discloseable transactions and issues of securities introduced in 2009.

The HKEx anticipates that it will take a further 12 months for the final phase to be implemented to cover all remaining categories of announcements.

A3. New Listing Rules for Mineral and Exploration Companies

In May 2010, the HKEx published its *Consultation Conclusions on New Listing Rules for Mineral Companies* applicable to both the Main Board and GEM listed issuers, and the *New Rules for Mineral Companies*.

The *New Rules for Mineral Companies* provide clear guidelines to mineral companies and listed issuers participating in the natural resources industry, on information to be provided to investors and shareholders. The aim of the new rules is to ensure investors are provided with material, relevant and reliable information, and to align rules with global standards.

The *New Rules for Mineral Companies* have come into effect on 3 June 2010. The new rules affect listing applicants whose major activity is the exploration for and/or extraction of natural resources and existing listed issuers that engage in major acquisitions (i.e. 25 per cent or greater of existing activities) of mineral or petroleum assets. From the effective date of the new rules, all mineral companies and listed issuers that make statements on mineral or petroleum reserves and resources are required to update such statements once a year in their annual reports.

A4. Consultation Conclusion on Proposed Changes to Requirements for Circulars and Listing Documents of Listed Issuers

In May 2010, the HKEx published its consultation conclusion in response to a consultation paper inviting public comments on proposed changes to certain requirements regarding notifiable transaction and/or connected transaction circulars, and listing documents issued by listed entities. The proposals adopted streamline the requirements for listed issuers' circulars and listing documents and codify existing practices. They are intended to make the contents of these documents relevant for shareholders and eliminate unnecessary burdens on issuers.

A5. Consultation Conclusion on Proposed Changes to the Connected Transaction Rules

In May 2010, the HKEx published its consultation conclusion in response to a consultation paper inviting public comments on a number of proposals about regulation of connected transactions under the Listing Rules. Key conclusions are summarised as follows:

- Introducing new exemptions:
 - exempt transactions with connected persons at the subsidiary level where the size of the subsidiary is insignificant to the issuer;
 - exempt revenue transactions with associates of a substantial shareholder who is a passive investor;
- Relaxing the percentage thresholds for de minimis exemptions for connected transactions;
- Extending the de-minimis exemptions to issues of securities by an issuer's subsidiary (i.e. deemed disposals);
- Exempting provision of financial assistance by an issuer to a connected person in which the issuer is a shareholder provided it is on normal commercial terms, pro-rata and on a several basis;
- Revising the definition of associate; and
- Revising the scope of connected persons, including:
 - Restricting the circumstances in which a non-wholly owned subsidiary is a connected person;
 - Removing "promoter" from the definition of connected person for PRC issuer; removing "PRC Government Body" from the scope of connected person for non-PRC issuer (the current exemption only applies to PRC issuers); and removing the references to "management shareholder" in the GEM Listing Rules.
- Clarifying that the annual review requirements apply to continuing connected transactions subject to reporting and disclosure requirements.

B. Proposed changes to the Company Ordinance in Hong Kong**B1. Rewrite of the Companies Ordinance**

In mid-2006, the Financial Services and the Treasury Bureau (FSTB) launched a major and comprehensive exercise to rewrite the Companies Ordinance. The rewrite aims to make the Companies Ordinance more user-friendly and to provide Hong Kong with a modernised legal infrastructure commensurate with its status as a major international business and financial centre. The Companies Ordinance rewrite exercise is being conducted in two rounds. Since March 2007, three public consultations have been launched and concluded for the first round of the Companies Ordinance rewrite dealing with the topical areas of Accounting and Auditing Provisions; Company Names, Directors' Duties, Corporate Directorship and Registration of Charges and Share Capital, the Capital Maintenance Regime and Statutory Amalgamation Procedure.

Taking into account the views received from the earlier three public consultations, since December 2009, the FSTB has launched two phases of public consultation on the draft provisions of a new Companies Bill (Companies Bill). The Companies Bill aims to enhance corporate governance, ensure effective and better regulation, facilitate the conduct of business and modernise the company law of Hong Kong to meet the needs of business.

One of the objectives of the Companies Bill is to enhance corporate governance in the context of transparency and accountability of companies and their operations, which it aims to achieve by:

- codifying the standard of directors' duty of care, skill and diligence;
- restricting the appointment of corporate directors;
- improving disclosure of company information by requiring public companies and larger private companies to furnish a more analytical and forward-looking business review as part of the directors' report;
- strengthening auditors' rights to obtain information in performing their duties;
- enhancing shareholders' engagement in the decision-making process and facilitating their participation through the use of information technology; and
- fostering shareholder protection by strengthening rules on directors' self-dealing and connected transactions, providing for multiple derivative actions and extending the scope of the unfair prejudice remedy.

The *Companies Bill* is also designed to ensure that the regulatory regime is effective and business-friendly, and accordingly:

- introduces electronic incorporation and an expedited company name approval process to enable companies to be incorporated within one day;
- empowers the Registrar of Companies to tackle 'shadow companies';
- enhances the powers of the Registrar of Companies to help ensure that the information on the public register is accurate and up-to-date and to obtain necessary information for enforcement of the law;
- streamlines those regulations which are outdated and no longer serve any purpose (e.g. removing the share qualification requirement for directors);
- streamlines and updates the regime of registration of charges; and
- improves the enforcement regime by updating the provisions on company investigations, offences and penalties.

To save compliance and business costs, particularly of small and medium-sized entities, the *Companies Bill*:

- allows more companies to take advantage of simplified accounting and reporting requirements;
- allows companies to dispense with annual general meetings by unanimous members' consent;
- introduces cheaper and less time-consuming court-free procedures for the reduction of share capital and intra-group amalgamation; and
- streamlines the buy-back rules for all companies subject to a solvency test.

Finally, in order to modernise the law to meet the needs of modern business and to make it more readable, the *Companies Bill*:

- abolishes the par value regime and adopts a mandatory system of no-par for all companies with a share capital;
- removes the requirement for authorised capital;
- enables scripless holding and trading of shares and debentures;
- allows electronic communications between a company and its members; and
- modernises the language and rearranges the sequence of the provisions of the *Companies Ordinance* in a more logical and user-friendly order.

In August 2010 and October 2010, the FSTB released its Consultation Conclusions on the first and second phases of the *Companies Bill* respectively. The FSTB plans to introduce the new *Companies Bill* into the Legislative Council in early 2011. Thereafter, the FSTB will launch the second round of the *Companies Ordinance* rewrite, which tackles the winding-up and insolvency-related provisions.

HKFRS Illustrative Annual Financial Statements 2010

The illustrative financial statements of Hong Kong GAAP Limited for the year ended 31 December 2010 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 in 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.

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, it should apply HKAS 27 *Consolidated and Separate Financial Statements*. A statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the parent will generally be required, together with supporting notes.

In these 2010 illustrative financial statements, we have illustrated the impact of the application of a number of new and revised Standards and Interpretations (see note 2 to the financial statements for details).

For the purposes of presenting the statement of comprehensive income and statement of cash flows, the various alternatives allowed under HKFRSs for those statements have been illustrated. Preparers should select the alternatives most appropriate to their circumstances and apply the chosen presentation method consistently.

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.

Contents

| | Page |
|---|-------------|
| 1. Index to the notes to the consolidated financial statements | 25 |
| 2. Corporate information | 27 |
| 3. Directors' business review | 28 |
| 4. Corporate governance report | 29 |
| 5. Profiles of directors and senior management | 30 |
| 6. Directors' report | 31 |
| 7. Independent auditor's report | 38 |
| 8. Consolidated statement of comprehensive income | |
| Alt 1 – Single statement presentation, with expenses analysed by function | 39 |
| Alt 2 – Presentation as two statements, with expenses analysed by nature | 41 |
| 9. Consolidated statement of financial position | 43 |
| 10. Consolidated statement of changes in equity | 45 |
| 11. Consolidated statement of cash flows | |
| Alt 1 - Direct method of reporting cash flows from operating activities | 46 |
| Alt 2 - Indirect method of reporting cash flows from operating activities | 47 |
| 12. Notes to the consolidated financial statements | 49 |
| 13. Financial summary | 163 |
| 14. Particulars of major investment properties | 164 |

Index to the notes to the consolidated financial statements

| | Page |
|---|------|
| 1. General information | 49 |
| 2. Application of new and revised Hong Kong Financial Reporting Standards | 49 |
| 3. Significant accounting policies | 58 |
| 4. Critical accounting judgements and key sources of estimation uncertainty | 80 |
| 5. Revenue | 81 |
| 6. Segment information | 82 |
| 7. Investment and other income | 87 |
| 8. Other gains and losses | 88 |
| 9. Finance costs | 89 |
| 10. Income tax expense | 90 |
| 11. Discontinued operations | 92 |
| 12. Assets classified as held for sale | 94 |
| 13. Profit for the year from continuing operations | 94 |
| 14. Directors' emoluments | 96 |
| 15. Employees' emoluments | 97 |
| 16. Dividends | 97 |
| 17. Earnings per share | 98 |
| 18. Property, plant and equipment | 100 |
| 19. Prepaid lease payments | 102 |
| 20. Investment properties | 102 |
| 21. Goodwill | 104 |
| 22. Impairment testing on goodwill | 105 |
| 23. Other intangible assets | 107 |
| 24. Interests in associates | 108 |
| 25. Joint ventures | 110 |
| 26. Held-to-maturity investments | 110 |
| 27. Available-for-sale investments | 111 |
| 28. Finance lease receivables | 112 |
| 29. Inventories | 113 |
| 30. Trade and other receivables | 113 |
| 31. Amounts due from (to) customers for contract work | 115 |
| 32. Amounts due from directors | 115 |
| 33. Held-for-trading investments (other than derivatives) | 116 |
| 34. Bank balances/pledged bank deposits/bank overdrafts | 116 |
| 35. Trade and other payables | 116 |
| 36. Borrowings | 117 |
| 37. Loan from government | 118 |
| 38. Convertible notes | 118 |
| 39. Obligations under finance leases | 119 |

| | | |
|-----|--|-----|
| 40. | Provisions | 120 |
| 41. | Other financial assets/liabilities | 121 |
| 42. | Deferred taxation | 123 |
| 43. | Deferred revenue | 124 |
| 44. | Share capital | 125 |
| 45. | Share premium, reserves and non-controlling interests | 126 |
| 46. | Retirement benefit plans | 130 |
| 47. | Share-based payment transactions | 134 |
| 48. | Capital management | 139 |
| 49. | Financial instruments | 140 |
| 50. | Business combinations | 153 |
| 51. | Disposal of a subsidiary | 156 |
| 52. | Cash and cash equivalents | 157 |
| 53. | Non-cash transactions | 157 |
| 54. | Operating leases | 158 |
| 55. | Commitments | 158 |
| 56. | Pledge of assets | 159 |
| 57. | Contingent liabilities and contingent assets | 159 |
| 58. | Related party transactions | 160 |
| 59. | Subsidiaries | 161 |
| 60. | Information about the statement of financial position of the Company | 162 |
| 61. | Events after the reporting period | 162 |

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

Admiralty Banking Corporation
 Kowloon Bank Limited

Auditor

Deloitte Touche Tohmatsu

Solicitors

Kwan, Lee & Wong

| Source | Hong Kong GAAP Limited |
|-----------------------|--|
| App 16.32 GR 18.41 | <p data-bbox="354 224 1452 268">Directors' business review</p> <p data-bbox="354 280 1452 369">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 their performance during the year and the material factors underlying their results and financial position.</p> <p data-bbox="354 392 1452 448">Both the Listing Rules and the GEM Rules set out a number of matters on which, at a minimum, the directors should comment in their review, including:</p> <ul data-bbox="354 470 1452 806" style="list-style-type: none"> • 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. <p data-bbox="354 828 1452 884">There is no 'model' for such a review. The analysis should focus on the key issues for the particular reporting entity.</p> |

| Source | Hong Kong GAAP Limited |
|---|--|
| App 16.34 App 23.1 App 23.2 GR18.44(2) GR App 16.1 GR App 16.2 | <p data-bbox="363 224 813 264">Corporate governance report</p> <p data-bbox="363 277 1455 336">Listed entities, whether listed on the Main Board or GEM, are required to include a report on corporate governance practices in their annual reports.</p> <p data-bbox="363 358 1235 389">The report should contain, at a minimum, information about the following matters:</p> <ul data-bbox="363 416 807 667" style="list-style-type: none"> • corporate governance practices; • directors' securities transactions; • board of directors; • chairman and chief executive officer; • non-executive directors; • remuneration of directors; • nomination of directors; • auditors' remuneration; and • audit committee. <p data-bbox="363 689 1331 721">In addition, the report should include disclosures regarding details of the following matters:</p> <ul data-bbox="363 748 826 887" style="list-style-type: none"> • share interests of senior management; • shareholders' rights; • investor relations; • internal controls; and • management functions. <p data-bbox="363 909 1455 967">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.</p> <p data-bbox="363 990 1455 1075">In June 2005, 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.</p> |

| Source | Hong Kong GAAP Limited | |
|-----------------------|---|--|
| App 16.12 GR 18.39 | Profiles of directors and senior management | |
| GR 18.44 | Executive directors <p>Gary D.K. Wong, Chairman and Managing Director</p> <p>Mr. Gary D.K. Wong, 54, 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.</p> <p>Daniel D.D. Lee, Finance Director</p> <p>Mr. Daniel D.D. Lee, 50, 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 8 years.</p> <p>Derek S.Y. Wong</p> <p>Mr. Derek S.Y. Wong, 45, 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.</p> <p>Senior management</p> <p>Mr. Bruno Gimeli</p> <p>Mr. Bruno Gimeli, 47, 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.</p> <p>Mr. Richard W.L. Chan</p> <p>Mr. Richard W. L. Chan, 48, is the head of the production department (in relation to leisure goods). He joined the Company in 2007. Before he joined the Company, he held senior positions in a number of large leisure goods manufacturing companies in Hong Kong and the PRC.</p> | Independent non-executive directors <p>Tiara Cheung</p> <p>Ms. Tiara Cheung, 42, was appointed as an independent 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.</p> <p>Florence K.Y. Tang</p> <p>Ms. Florence K.Y. Tang, 55, is one of Hong Kong's leading residents with a distinguished record in the business community. She joined the Board as an independent 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.</p> <p>John Banks</p> <p>Mr. John Banks, 46, was appointed as an independent 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.</p> <p>Mr. William Y.S. Lee</p> <p>William Y.S. Lee, 43, 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.</p> <p>Mr. David K.K. Cheung</p> <p>David K.K. Cheung, 46, is the head of the production department (in relation to electronic equipment) and is primarily responsible for production and product development. He joined the Company in 2003. Before he joined the Company, he held senior positions in a number of large electronic equipment manufacturing companies in Hong Kong.</p> |

| 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 2010. |
| s129D(3)(a) | Principal activities <p>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 59, 24 and 25 respectively to the consolidated financial statements.</p> <p>In prior years, the Group was also engaged in the manufacture of toys and bicycles. These operations were discontinued in the current year (see notes 11 and 12).</p> |
| s129D(3)(b) s129D(3)(c) | Results and appropriations <p>The results of the Group for the year ended 31 December 2010 are set out in the consolidated [income statement and] statement of comprehensive income on pages 41-42/39-40.</p> <p>The directors now recommend the payment of a final dividend of HK23.31 cents per share to the shareholders on the register of members on 25 May 2011, amounting to approximately HK\$4.154 million, and the retention of the remaining profit for the year of approximately HK\$23.416 million.</p> |
| s129D(3)(f) | Fixed assets <p>Details of the movements during the year in the property, plant and equipment and investment properties of the Group are set out in notes 18 and 20 respectively to the consolidated financial statements.</p> |
| s129D(3)(g) App 16.10(4) GR 18.14 LR 10.06(4)(b) GR 13.13(2) | Share capital <p>Details of the movements during the year in the share capital of the Company are set out in note 44 to the consolidated financial statements.</p> <p>During the year, the Company repurchased certain of its own ordinary shares through The Stock Exchange of Hong Kong Limited, details of which are set out in note 44 to the consolidated financial statements. The directors considered that, as the Company's ordinary 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.</p> |
| App 16.29 GR 18.37 GR 24.21 GR 25.33 | Distributable reserves of the Company <p>The Company's reserves available for distribution to shareholders as at 31 December 2010 amounted to approximately HK\$90 million (31 December 2009: HK\$87 million).</p> |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------|---|---|---|---|---|------------------|--|--|--|--------------------|------------------|--------|------|----------------|--------|------|---|------------|-------|--|------------|-------|---------------------|------------------|---------|------|----------------|-------|-------|---|---------|------|--|---------|-------|
| | <p>Directors' report - continued</p> <p>Directors</p> <p>s129D(3)(i) The directors of the Company during the year and up to the date of this report were:</p> <p>Executive directors</p> <p>Gary D.K. Wong Daniel D.D. Lee Derek S.Y. Wong</p> <p>Independent non-executive directors</p> <p>Tiara Cheung Florence K.Y. Tang John Banks</p> <p>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.</p> <p>Directors' service contracts</p> <p>App 16.14 No director proposed for re-election at the forthcoming annual general meeting has a service contract GR 18.24(1) which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).</p> <p>App 16.13(1),(2) Directors' and chief executive's interests in shares and share options</p> <p>PN 5(3.2),(3.3) At 31 December 2010, the interests of certain directors and Mr. Bruno Gimeli, the chief executive of GR18.15(1),(2) the Company and their associates in the shares and share options of the Company and its GR 18.17 associated corporations, as recorded in the register maintained by the Company pursuant to Section GR 18.17A 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:</p> <p>Long positions</p> <p>(a) Ordinary shares of HK\$1 each of the Company</p> <table><thead><tr><th>Name</th><th>Capacity</th><th>Number of issued ordinary shares held</th><th>Percentage of the issued share capital of the Company</th></tr></thead><tbody><tr><td colspan="4">Directors</td></tr><tr><td rowspan="4">Mr. Gary D.K. Wong</td><td>Beneficial owner</td><td>45,000</td><td>0.3%</td></tr><tr><td>Held by spouse</td><td>35,000</td><td>0.2%</td></tr><tr><td>Held by controlled corporations (Note 1)</td><td>10,570,000</td><td>59.3%</td></tr><tr><td></td><td>10,650,000</td><td>59.8%</td></tr><tr><td rowspan="4">Mr. Daniel D.D. Lee</td><td>Beneficial owner</td><td>124,000</td><td>0.7%</td></tr><tr><td>Held by spouse</td><td>4,000</td><td>0.02%</td></tr><tr><td>Held by controlled corporations (Note 2)</td><td>249,000</td><td>1.4%</td></tr><tr><td></td><td>377,000</td><td>2.12%</td></tr></tbody></table> | 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 corporations (Note 2) | 249,000 | 1.4% | | 377,000 | 2.12% |
| 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 corporations (Note 2) | 249,000 | 1.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 377,000 | 2.12% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |


| Source | Hong Kong GAAP Limited | | | |
|-------------------------------------|--|------------------|--|--|
| SFOs 308 GR 18.45 | Directors' report - continued | | | |
| | (b) Share options | | | |
| | <u>Name</u> | <u>Capacity</u> | <u>Number of options held</u> | <u>Number of underlying shares</u> |
| | <u>Directors</u> | | | |
| | Mr. Gary D.K. Wong | Beneficial owner | 60,000 | 60,000 |
| | Mr. Daniel D.D. Lee | Held by spouse | 60,000 | 60,000 |
| | | | <u>120,000</u> | <u>120,000</u> |
| | <u>Chief executive</u> | | | |
| | Mr. Bruno Gimeli | Beneficial owner | <u>60,000</u> | <u>60,000</u> |
| | Notes: | | | |
| App 16.13(1),(2) GR 18.15(1),(2) | 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: | | | |
| | | | <u>Percentage of the issued share capital of the corporation</u> | <u>Number of shares of the Company held by the corporation</u> |
| | ABC Inc. | | 35% | 55,000 |
| | XYE Company Limited | | 35% | 106,000 |
| | Group Holdings Limited | | <u>60%</u> | <u>10,409,000</u> |
| | | | | <u>10,570,000</u> |
| | 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. | | | |
| | 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 2010. | | | |
| | | | | |
| | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|----------------------------------|---------------------|----------------------------------|-----------------------|-----------------------|----------------------------|---------------------|----------------------------|--|------|-----------|---|---|---|---|-----------|--|--------------------|-------|--------|---|----------|---|---|--|-------|--------|---|----------|---|---|--|------|---|--------|---|---|--------|--|---------------------|-------|--------|---|----------|---|---|--|--|------|---|--------|---|---|--------|--|------------------|------|---|--------|---|---|--------|--|-------------------------------------|--|---------|---------|-----------|---|---------|---|--|--|--|--|--|--|--|---|-----------------------|--|---|---|---|---|---|------------------------|--|---|---|---|---|---|--|--------------------------------|--|---|---|---|---|---|------------------------------|--|--|--|--|--|--|--|--|--|-------|--------|---|----------|---|---|--|--|-------|--------|---|----------|---|---|--|--|------|---|--------|----------|---|-------|--|-----------------|--|--------|--------|-----------|---|-------|--|------------------------|--|---------|---------|-----------|---|---------|
| | Directors' report - continued | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Share options | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>The Company</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LR 17.09 GR 23.09 | Particulars of the Company's share option scheme are set out in note 47.1 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: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table><tr><th></th><th>Option type</th><th>Outstanding at beginning of year</th><th>Granted during year</th><th>Exercised during year</th><th>Forfeited during year</th><th>Expired during year</th><th>Outstanding at end of year</th></tr><tr><td colspan="8">Category 1: Directors and chief executive</td></tr><tr><td rowspan="3">PN 5(3.3)(1) Note 3 GR 18.17A(1) Note 3 GR 18.28(7)</td><td>Mr. Gary D.K. Wong</td><td>2009A</td><td>80,000</td><td>-</td><td>(80,000)</td><td>-</td><td>-</td></tr><tr><td></td><td>2009B</td><td>75,000</td><td>-</td><td>(75,000)</td><td>-</td><td>-</td></tr><tr><td></td><td>2010</td><td>-</td><td>60,000</td><td>-</td><td>-</td><td>60,000</td></tr><tr><td></td><td>Mr. Daniel D.D. Lee</td><td>2009A</td><td>30,000</td><td>-</td><td>(30,000)</td><td>-</td><td>-</td></tr><tr><td></td><td></td><td>2010</td><td>-</td><td>60,000</td><td>-</td><td>-</td><td>60,000</td></tr><tr><td></td><td>Mr. Bruno Gimeli</td><td>2010</td><td>-</td><td>60,000</td><td>-</td><td>-</td><td>60,000</td></tr><tr><td></td><td>Total directors and chief executive</td><td></td><td>185,000</td><td>180,000</td><td>(185,000)</td><td>-</td><td>180,000</td></tr><tr><td colspan="8">Category 2: Substantial shareholders</td></tr><tr><td rowspan="2">PN 5(3.4)(1) Note 4 GR 18.17B(1) Note 3</td><td>Mr. Francis F.G. Chan</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Group Holdings Limited</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td></td><td>Total substantial shareholders</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td colspan="8">Category 3: Employees</td></tr><tr><td></td><td></td><td>2009A</td><td>15,000</td><td>-</td><td>(15,000)</td><td>-</td><td>-</td></tr><tr><td></td><td></td><td>2009B</td><td>75,000</td><td>-</td><td>(75,000)</td><td>-</td><td>-</td></tr><tr><td></td><td></td><td>2010</td><td>-</td><td>40,000</td><td>(39,000)</td><td>-</td><td>1,000</td></tr><tr><td></td><td>Total employees</td><td></td><td>90,000</td><td>40,000</td><td>(129,000)</td><td>-</td><td>1,000</td></tr><tr><td></td><td>Total (all categories)</td><td></td><td>275,000</td><td>220,000</td><td>(314,000)</td><td>-</td><td>181,000</td></tr></table> | | 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 | | | | | | | | PN 5(3.3)(1) Note 3 GR 18.17A(1) Note 3 GR 18.28(7) | Mr. Gary D.K. Wong | 2009A | 80,000 | - | (80,000) | - | - | | 2009B | 75,000 | - | (75,000) | - | - | | 2010 | - | 60,000 | - | - | 60,000 | | Mr. Daniel D.D. Lee | 2009A | 30,000 | - | (30,000) | - | - | | | 2010 | - | 60,000 | - | - | 60,000 | | Mr. Bruno Gimeli | 2010 | - | 60,000 | - | - | 60,000 | | Total directors and chief executive | | 185,000 | 180,000 | (185,000) | - | 180,000 | Category 2: Substantial shareholders | | | | | | | | PN 5(3.4)(1) Note 4 GR 18.17B(1) Note 3 | Mr. Francis F.G. Chan | | - | - | - | - | - | Group Holdings Limited | | - | - | - | - | - | | Total substantial shareholders | | - | - | - | - | - | Category 3: Employees | | | | | | | | | | 2009A | 15,000 | - | (15,000) | - | - | | | 2009B | 75,000 | - | (75,000) | - | - | | | 2010 | - | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PN 5(3.3)(1) Note 3 GR 18.17A(1) Note 3 GR 18.28(7) | Mr. Gary D.K. Wong | 2009A | 80,000 | - | (80,000) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2009B | 75,000 | - | (75,000) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2010 | - | 60,000 | - | - | 60,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mr. Daniel D.D. Lee | 2009A | 30,000 | - | (30,000) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2010 | - | 60,000 | - | - | 60,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mr. Bruno Gimeli | 2010 | - | 60,000 | - | - | 60,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Total directors and chief executive | | 185,000 | 180,000 | (185,000) | - | 180,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Category 2: Substantial shareholders | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PN 5(3.4)(1) Note 4 GR 18.17B(1) Note 3 | Mr. Francis F.G. Chan | | - | - | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Group Holdings Limited | | - | - | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Total substantial shareholders | | - | - | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Category 3: Employees | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2009A | 15,000 | - | (15,000) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2009B | 75,000 | - | (75,000) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 2010 | - | 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 2010, the date of grant of the 2010 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\$2.47. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>The subsidiaries</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LR 17.09 GR 23.09 | Particulars of the share option schemes of Kowloon Limited and Subsix Limited, subsidiaries of the Company are set out in notes 47.2.1 and 47.2.2 respectively 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: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table><tr><th></th><th>Option type</th><th>Outstanding at beginning of year</th><th>Granted during year</th><th>Exercised during year</th><th>Forfeited during year</th><th>Expired during year</th><th>Outstanding at end of year</th></tr><tr><td>Employees</td><td>2007</td><td>1,707,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>1,707,000</td></tr></table> | | 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 | 1,707,000 | - | - | - | - | 1,707,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 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 | 1,707,000 | - | - | - | - | 1,707,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | |
|---|--|---|---|---|---|-----------------------|----------------------------|---------------------|----------------------------|------------------------|------------------|------------|-------|---------------------|----------|-------------------------|-----------------------------|-----------------------|---|---|---|
| | Directors' report - continued | | | | | | | | | | | | | | | | | | | | |
| LR 17.07 GR 23.07 | <p>The following table discloses movement in Subsix Limited's share options during the year.</p> <table><tr><th></th><th>Option type</th><th>Outstanding at the acquisition date of Subsix Limited</th><th>Granted during year</th><th>Exercised during year</th><th>Forfeited during year</th><th>Expired during year</th><th>Outstanding at end of year</th></tr><tr><td>Employees</td><td>2009</td><td>5,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>5,000</td></tr></table> | | Option type | Outstanding at the acquisition date of Subsix Limited | Granted during year | Exercised during year | Forfeited during year | Expired during year | Outstanding at end of year | Employees | 2009 | 5,000 | - | - | - | - | 5,000 | | | | |
| | Option type | Outstanding at the acquisition date of Subsix Limited | Granted during year | Exercised during year | Forfeited during year | Expired during year | Outstanding at end of year | | | | | | | | | | | | | | |
| Employees | 2009 | 5,000 | - | - | - | - | 5,000 | | | | | | | | | | | | | | |
| s129D(3)(k) | Arrangements to purchase shares or debentures <p>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.</p> | | | | | | | | | | | | | | | | | | | | |
| s129D(3)(j) App 16.15 GR 18.25 | Directors' interests in contracts of significance <p>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.</p> | | | | | | | | | | | | | | | | | | | | |
| s162A(1)(a) s129D(3)(ia) | Management contract <p>A.B. Consultant Company Limited has a management services contract with the Group for a period of three years starting from 1 January 2009. Mr. Gary D.K. Wong is a director and controlling shareholder of that company which received management service fees amounting to HK\$240,000 (2009: HK\$240,000) during the year.</p> | | | | | | | | | | | | | | | | | | | | |
| App 16.13(3) PN 5(3.2), (3.4) GR 18.16 GR 18.17 GR 18.17B | Substantial shareholders <p>As at 31 December 2010, 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.</p> Long positions <p>(a) Ordinary shares of HK\$1 each of the Company</p> <table><tr><th>Name of shareholder</th><th>Capacity</th><th>Number of issued ordinary shares held</th><th>Percentage of the issued share capital of the Company</th></tr><tr><td>Mr. Francis F.G. Chan</td><td>Beneficial owner</td><td>2,263,000</td><td>12.7%</td></tr><tr><td>Group Holdings Limited</td><td>Beneficial owner</td><td>10,409,000</td><td>58.4%</td></tr></table> <p>(b) Share options</p> <table><tr><th>Name of shareholder</th><th>Capacity</th><th>Number of share options</th><th>Number of underlying shares</th></tr><tr><td>Mr. Francis F.G. Chan</td><td>-</td><td>-</td><td>-</td></tr></table> <p>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 2010.</p> | Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company | Mr. Francis F.G. Chan | Beneficial owner | 2,263,000 | 12.7% | Group Holdings Limited | Beneficial owner | 10,409,000 | 58.4% | Name of shareholder | Capacity | Number of share options | Number of underlying shares | Mr. Francis F.G. Chan | - | - | - |
| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company | | | | | | | | | | | | | | | | | | |
| Mr. Francis F.G. Chan | Beneficial owner | 2,263,000 | 12.7% | | | | | | | | | | | | | | | | | | |
| Group Holdings Limited | Beneficial owner | 10,409,000 | 58.4% | | | | | | | | | | | | | | | | | | |
| Name of shareholder | Capacity | Number of share options | Number of underlying shares | | | | | | | | | | | | | | | | | | |
| Mr. Francis F.G. Chan | - | - | - | | | | | | | | | | | | | | | | | | |

| 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 [Describe connected transactions, if any] |
| LR 8.10(2)(b)&(c) 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 electronic equipment. MNO Ltd., 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 47 to the consolidated financial statements. |
| App 16.20 GR 17.39 | 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 2010. |
| s129D(3)(d),(e) | Charitable donations During the year, the Group made charitable donations amounting to HK\$250,000. 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) | 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 2009 to 10% in the current year. In 2010, the five largest suppliers comprised 34% (2009: 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 2010, the Group's largest customer accounted for 11% (2009: 13%) of its turnover. The five largest customers remain the same as 2009, although their combined contribution to total sales has decreased slightly from 25% to 20% 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. |

| Source | Hong Kong GAAP Limited |
|-------------|--|
| s129D(3)(l) | <p>Directors' report - continued</p> <p>Events after the reporting period</p> <p>Details of significant events occurring after the reporting period are set out in note 61 to the consolidated financial statements.</p> <p>Auditor</p> <p>A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.</p> |
| s129D(2) | <p>On behalf of the Board</p> <p> </p> <p><u>Gary D.K. Wong</u></p> <p>Chairman</p> <p>10 February 2011</p> |

| Source | Hong Kong GAAP Limited |
|---|---|
| HKSA 700(21) | Independent auditor's report  |
| HKSA 700(22) | To the members of Hong Kong GAAP Limited (incorporated in Bermuda with limited liability) |
| HKSA 700(23) | 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 39 to 162, which comprise the consolidated statement of financial position as at 31 December 2010, and the [consolidated income statement,] consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. |
| HKSA 700(25) | Directors' Responsibility for the Consolidated Financial Statements |
| HKSA 700(26), (27) | The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. |
| HKSA 700(28) | Auditor's Responsibility |
| HKSA 700(29) HKSA 700(30) 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 about whether the consolidated financial statements are free from material misstatement. |
| HKSA 700(31), (32) | 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 judgement, 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 of consolidated financial statements that give a true and fair view 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(33) | We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. |
| HKSA 700(34) | Opinion |
| HKSA 700(35) | In our opinion, the consolidated financial statements give a true and fair view of the Group's state of affairs as at 31 December 2010, and of its 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(40), (A37) | Deloitte Touche Tohmatsu Certified Public Accountants |
| HKSA 700(42) | Hong Kong |
| HKSA 700(41) | 10 February 2011 |

| Source | Hong Kong GAAP Limited | | |
|--------------------------------|--|--------------|----------------------------|
| HKAS 1.10(b), 81(a), 51(b),(c) | Consolidated statement of comprehensive income for the year ended 31 December 2010 | | |
| | | | [Alt 1] |
| HKAS 1.113 | | <u>Notes</u> | <u>Year ended 31/12/10</u> |
| HKAS 1.51(d),(e) | | | <u>Year ended 31/12/09</u> |
| | | | <u>HK\$'000</u> |
| | Continuing operations | | |
| HKAS 1.82(a) | Revenue | 5 | 140,918 |
| HKAS 1.85, 99 | Cost of sales | | (87,897) |
| HKAS 1.85 | Gross profit | | 53,021 |
| HKAS 1.85 | Investment and other income | 7 | 3,608 |
| HKAS 1.85 | Other gains and losses | 8 | (1,128) |
| HKAS 1.99 | Distribution and selling expenses | | (11,520) |
| HKAS 1.99 | Administration expenses | | (9,380) |
| HKAS 1.82(b) | Finance costs | 9 | (4,178) |
| HKAS 1.99 | Other expenses | | (1,280) |
| HKAS 1.82(c) | Share of profits of associates | 24 | 1,186 |
| HKAS 1.85 | Gain recognised on disposal of interest in former associate | 24 | 581 |
| HKAS 1.85 | Profit before tax | | 30,910 |
| HKAS 1.82(d) | Income tax expense | 10 | (11,650) |
| HKAS 1.85 | Profit for the year from continuing operations | 13 | 19,260 |
| | Discontinued operations | | |
| HKAS 1.82(e) | Profit for the year from discontinued operations | 11 | 8,310 |
| HKAS 1.82(f) | Profit for the year | | 27,570 |
| | Other comprehensive income, net of income tax | | |
| HKAS 1.82(g) | Exchange differences on translating foreign operations | | (191) |
| HKAS 1.82(g) | Net (loss)/gain on available-for-sale financial assets | | (300) |
| HKAS 1.82(g) | Net gain on hedging instruments in cash flow hedges | | 36 |
| HKAS 1.82(h) | Share of other comprehensive income of associates | | - |
| HKAS 1.85 | Other comprehensive income for the year, net of income tax | | (455) |
| HKAS 1.82(i) | Total comprehensive income for the year | | 27,115 |
| | Profit attributable to: | | |
| HKAS 1.83(a) | Owners of the Company | | 23,570 |
| HKAS 1.83(a) | Non-controlling interests | | 4,000 |
| | | | 27,570 |
| | Total comprehensive income attributable to: | | |
| HKAS 1.83(b) | Owners of the Company | | 23,115 |
| HKAS 1.83(b) | Non-controlling interests | | 4,000 |
| | | | 27,115 |
| | | | 30,498 |
| | <i>Note: The format outlined above aggregates expenses according to their function. See next page for a discussion of the format of the statement of comprehensive income.</i> | | |

| Source | Hong Kong GAAP Limited | | |
|-----------------------------------|---|-------------|---|
| | Consolidated statement of comprehensive income for the year ended 31 December 2010 – continued | | |
| | | <u>Note</u> | <u>Year ended 31/12/10</u> <u>Year ended 31/12/09</u> |
| App 16.4(1)(g) GR 18.50B(1)(m) | Earnings per share | 17 | |
| | From continuing and discontinued operations | | |
| HKAS 33.66 | Basic (HK cents per share) | | <u>105.0</u> <u>119.4</u> |
| HKAS 33.66 | Diluted (HK cents per share) | | <u>98.9</u> <u>118.6</u> |
| | From continuing operations | | |
| HKAS 33.66 | Basic (HK cents per share) | | <u>68.0</u> <u>75.9</u> |
| HKAS 33.66 | Diluted (HK cents per share) | | <u>64.0</u> <u>75.3</u> |
| HKAS 1.90&94 | <p>Note: <i>Alt 1 above illustrates the presentation of comprehensive income in one statement. Alt 2 (see next pages) illustrates the presentation of comprehensive income in two statements.</i></p> <p><i>Whichever presentation is selected, the distinction is retained between items recognised in profit or loss and items recognised in other comprehensive income. The only difference between the one-statement and the two-statement approaches is that, for the latter, a total is struck in the separate income statement at 'profit for the year' (this is the same amount as is presented as a sub-total under the one-statement approach). This 'profit for the year' is then the starting point for the statement of comprehensive income, which is required to be presented immediately following the income statement. Under the two-statement approach, the analysis of 'profit for the year' between the amount attributable to the owners of the parent and the amount attributable to non-controlling interests is presented at the end of the separate income statement.</i></p> <p><i>Irrespective of whether the one-statement or the two-statement approach is followed, for the components of other comprehensive income, additional presentation options are available, as follows.</i></p> <ul style="list-style-type: none"> <i>The individual components of other comprehensive income may be presented net of tax in the statement of comprehensive income (as illustrated on the previous page), or they may be presented gross with a single line deduction for tax (see Alt 2). Whichever option is selected, the income tax relating to each component of other comprehensive income must be disclosed, either in the statement of comprehensive income or in the notes (see note 45).</i> <i>For reclassification adjustments, an aggregated presentation can be adopted, with separate disclosure of the current year gain or loss and reclassification adjustments in the notes (see the previous page and note 45). Alternatively, using a disaggregated presentation, the current year gain or loss and reclassification adjustments are shown separately in the statement of comprehensive income (see Alt 2).</i> | | |

| Source | Hong Kong GAAP Limited | | | |
|--|--|--------------|------------------------------------|------------------------------------|
| HKAS 1.10(b), 81(b), 51(b),(c) | Consolidated income statement for the year ended 31 December 2010 | | | [Alt 2] |
| HKAS 1.113 | | <u>Notes</u> | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| HKAS 1.51(d),(e) | | | | |
| | Continuing operations | | | |
| HKAS 1.82(a) | Revenue | 5 | 140,918 | 151,840 |
| HKAS 1.85 | Investment and other income | 7 | 3,608 | 2,351 |
| HKAS 1.85 | Other gains and losses | 8 | (1,128) | (173) |
| HKAS 1.99 | Changes in inventories of finished goods and work in progress | | (7,134) | 2,118 |
| HKAS 1.99 | Raw materials and consumables used | | (67,625) | (84,037) |
| HKAS 1.99 | Depreciation and amortisation expenses | 13 | (12,412) | (13,878) |
| HKAS 1.99 | Employee benefits expense | 13 | (9,815) | (11,563) |
| HKAS 1.82(b) | Finance costs | 9 | (4,178) | (6,313) |
| HKAS 1.99 | Other expenses | | (13,091) | (9,816) |
| HKAS 1.82(c) | Share of profits of associates | 24 | 1,186 | 1,589 |
| HKAS 1.85 | Gain recognised on disposal of interest in former associate | 24 | 581 | - |
| HKAS 1.85 | Profit before tax | | 30,910 | 32,118 |
| HKAS 1.82(d) | Income tax expense | 10 | (11,650) | (11,885) |
| HKAS 1.85 | Profit for the year from continuing operations | 13 | 19,260 | 20,233 |
| | Discontinued operations | | | |
| HKAS 1.82(e) | Profit for the year from discontinued operations | 11 | 8,310 | 9,995 |
| HKAS 1.82(f) | Profit for the year | | <u>27,570</u> | <u>30,228</u> |
| | Attributable to: | | | |
| HKAS 1.83(a) | Owners of the Company | | 23,570 | 27,465 |
| HKAS 1.83(a) | Non-controlling interests | | 4,000 | 2,763 |
| | | | <u>27,570</u> | <u>30,228</u> |
| App 16.4(1)(g) GR18.50B(1)(m) | Earnings per share | 17 | | |
| | From continuing and discontinued operations | | | |
| HKAS 33.66, 67A | Basic (cents per share) | | <u>105.0</u> | <u>119.4</u> |
| HKAS 33.66, 67A | Diluted (cents per share) | | <u>98.9</u> | <u>118.6</u> |
| | From continuing operations | | | |
| HKAS 33.66, 67A | Basic (cents per share) | | <u>68.0</u> | <u>75.9</u> |
| HKAS 33.66, 67A | Diluted (cents per share) | | <u>64.0</u> | <u>75.3</u> |
| <p><i>Note: The format outlined above aggregates expenses according to their nature.</i></p> <p><i>See the previous page for a discussion of the format of the statement of comprehensive income. Note that where the two-statement approach is adopted (above and on the next page), as required by HKAS 1.12, the income statement must be displayed immediately before the statement of comprehensive income.</i></p> | | | | |

HKFRS Illustrative Annual Financial Statements 2010

| Source | Hong Kong GAAP Limited | | |
|--------------------------------|--|------------------------|------------------------|
| HKAS 1.10(b), 81(b), 51(b),(c) | Consolidated statement of comprehensive income for the year ended 31 December 2010 | | [Alt 2] |
| HKAS 1.113 | | Year ended 31/12/10 | Year ended 31/12/09 |
| HKAS 1.51(d),(e) | | HK\$'000 | HK\$'000 |
| HKAS 1.82(f) | Profit for the year | 27,570 | 30,228 |
| | Other comprehensive income | | |
| HKAS 1.82(g) | Exchange differences on translating foreign operations | | |
| | Exchange differences arising during the year | (71) | 177 |
| | Reclassification adjustments relating to foreign operations disposed of during the year | (120) | - |
| | | (191) | 177 |
| HKAS 1.82(g) | Available-for-sale financial assets | | |
| | Net (loss)/gain arising on revaluation of available-for-sale financial assets during the year | (400) | 76 |
| | Reclassification upon impairment | - | - |
| | Reclassification adjustments relating to available-for-sale financial assets disposed of during the year | - | - |
| | | (400) | 76 |
| HKAS 1.82(g) | Cash flow hedges | | |
| | Gains arising during the year | 406 | 316 |
| | Reclassification adjustments for amounts recognised in profit or loss | (355) | (287) |
| | | 51 | 29 |
| HKAS 1.82(h) | Share of other comprehensive income of associates | - | - |
| | Income tax relating to components of other comprehensive income | 85 | (12) |
| HKAS 1.82(i) | Total comprehensive income for the year | 27,115 | 30,498 |
| | Total comprehensive income attributable to: | | |
| HKAS 1.83(b) | Owners of the Company | 23,115 | 27,735 |
| HKAS 1.83(b) | Non-controlling interests | 4,000 | 2,763 |
| | | 27,115 | 30,498 |

| Source | Hong Kong GAAP Limited | | | |
|-----------------------------------|---|----------------------|------------------------------------|------------------------------------|
| HKAS 1.10(a), (f), 51(b),(c) | Consolidated statement of financial position at 31 December 2010 | | | |
| HKAS 1.113 HKAS 1.51(d),(e) | Notes | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 (restated) | 01/01/09 HK\$'000 (restated) |
| HKAS 1.60 | Non-current assets | | | |
| HKAS 1.54(a) | Property, plant and equipment | 18 | 111,583 | 137,211 |
| HKAS 1.55 | Prepaid lease payments | 19 | 2,300 | 2,400 |
| HKAS 1.54(b) | Investment properties | 20 | 2,086 | 1,942 |
| HKAS 1.55 | Goodwill | 21 | 20,285 | 24,060 |
| HKAS 1.54(c) | Other intangible assets | 23 | 9,739 | 11,325 |
| HKAS 1.54(e) | Interests in associates | 24 | 7,319 | 7,270 |
| HKAS 1.54(d), 55 | Held-to-maturity investments | 26 | 2,059 | 1,658 |
| HKAS 1.54(d), 55 | Available-for-sale investments | 27 | 5,600 | 4,857 |
| HKAS 1.54(o) | Deferred tax assets | 42 | 1,714 | 1,023 |
| HKAS 1.55 | Finance lease receivables | 28 | 830 | 717 |
| HKAS 1.54(d) | Other financial assets | 41 | 212 | 140 |
| | | | <u>163,727</u> | <u>192,603</u> |
| HKAS 1.60 | Current assets | | | |
| HKAS 1.54(g) | Inventories | 29 | 18,367 | 20,095 |
| HKAS 1.54(h) | Trade and other receivables | 30 | 20,995 | 14,792 |
| HKAS 1.55 | Finance lease receivables | 28 | 198 | 188 |
| HKAS 1.55 | Amounts due from directors | 32 | 656 | 107 |
| HKAS 1.55 | Amounts due from customers for contract work | 31 | 240 | 230 |
| HKAS 1.54(d), 55 | Held-to-maturity investments | 26 | 4,804 | 3,604 |
| HKAS 1.54(d), 55 | Held-for-trading investments | 33 | 12,480 | 8,448 |
| HKAS 1.55 | Pledged bank deposits | 34 | 2,000 | 2,000 |
| HKAS 1.54(d) | Other financial assets | 41 | 316 | 257 |
| HKAS 1.54(n) | Current tax assets | | 125 | 60 |
| HKAS 1.54(i) | Cash and bank balances | 34 | 20,836 | 22,388 |
| | | | <u>81,017</u> | <u>72,169</u> |
| HKAS 1.54(j) | Assets classified as held for sale | 12 | 22,336 | - |
| | | | <u>103,353</u> | <u>72,169</u> |
| HKAS 1.60 | Current liabilities | | | |
| HKAS 1.54(k) | Trade and other payables | 35 | 12,087 | 20,488 |
| HKAS 1.55 | Amounts due to customers for contract work | 31 | 36 | 15 |
| HKAS 1.54(m), 55 | Borrowings | 36 | 22,446 | 25,600 |
| HKAS 1.54(m), 55 | Loans from government | 37 | 2,798 | - |
| HKAS 1.54(m) | Other financial liabilities | 41 | 116 | 18 |
| HKAS 1.54(n) | Current tax liabilities | | 5,270 | 5,868 |
| HKAS 1.54(l) | Provisions | 40 | 3,356 | 3,195 |
| HKAS 1.55 | Deferred revenue | 43 | 355 | 240 |
| HKAS 1.55 | Obligations under finance leases | 39 | 9 | 54 |
| HKAS 1.54(m), 55 | Bank overdrafts | 34 | 538 | 378 |
| | | | <u>47,011</u> | <u>55,856</u> |
| HKAS 1.54(p) | Liabilities directly associated with assets classified as held for sale | 12 | 3,684 | - |
| | | | <u>50,695</u> | <u>55,856</u> |
| App 16.4(2)(d) GR 18.50B(2)(d) | Net current assets/(liabilities) | | <u>52,658</u> | <u>16,313</u> |
| App 16.4(2)(e) GR 18.50B(2)(e) | Total assets less current liabilities | | <u>216,385</u> | <u>208,916</u> |
| | <i>Note: As required by HKAS 1.10(f), a statement of financial position is presented at the beginning of the earliest comparative period when the entity has applied new accounting policies retrospectively in the year (see note 2 to the consolidated financial statements).</i> | | | |

| Source | Hong Kong GAAP Limited | | | | |
|------------------------|--|--------------------------------------|-----------------------------|---|---|
| | Consolidated statement of financial position at 31 December 2010 – continued | | | | |
| | | <u>Notes</u> | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 (restated) | <u>01/01/09</u> HK\$'000 (restated) |
| | Capital and reserves | | | | |
| HKAS 1.55 | Share capital | 44 | 17,819 | 23,005 | 23,005 |
| HKAS 1.55 | Share premium and reserves | 45 | <u>128,467</u> | <u>122,757</u> | <u>101,163</u> |
| HKAS 1.54(r) | Equity attributable to owners of the Company | | 146,286 | 145,762 | 124,168 |
| HKAS 1.54(q) | Non-controlling interests | | <u>25,511</u> | <u>21,200</u> | <u>18,437</u> |
| | Total equity | | <u>171,797</u> | <u>166,962</u> | <u>142,605</u> |
| HKAS 1.60 | Non-current liabilities | | | | |
| HKAS 1.54(m),55 | Borrowings | 36 | 31,178 | 31,713 | 28,014 |
| HKAS 1.54(m),55 | Loans from government | 37 | - | 2,610 | - |
| HKAS 1.54(m),55 | Convertible notes | 38 | 4,144 | - | - |
| HKAS 1.55 | Retirement benefit obligations | 46 | 508 | 352 | 739 |
| HKAS 1.54(o) | Deferred tax liabilities | 42 | 6,360 | 4,716 | 4,319 |
| HKAS 1.54(l) | Provisions | 40 | 2,294 | 2,231 | 4,102 |
| HKAS 1.55 | Deferred revenue | 43 | 24 | 297 | 41 |
| HKAS 1.55 | Obligations under finance leases | 39 | 5 | 35 | 51 |
| HKAS 1.54(m) | Other financial liabilities | 41 | <u>75</u> | <u>-</u> | <u>-</u> |
| | | | <u>44,588</u> | <u>41,954</u> | <u>37,266</u> |
| | | | <u>216,385</u> | <u>208,916</u> | <u>179,871</u> |
| HKAS 10.17 s129B(1) | The consolidated financial statements on pages 39 to 162 were approved and authorised for issue by the Board of Directors on 10 February 2011 and are signed on its behalf by: | | | | |
| | <u>Gary D.K.Wong</u> (Chairman and Managing Director) | <u>Daniel D.D. Lee</u> (Director) | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | |
|--|---|------------------------------|------------------------------|---|---|--|---|--|----------------------------------|----------------------|---|-------------------|
| HKAS 1.10(c), 51(b),(c) HKAS 1.106 | Consolidated statement of changes in equity for the year ended 31 December 2010 | | | | | | | | | | | |
| | Attributable to owners of the Company | | | | | | | | | | | |
| HKAS 1.51(d),(e) | | Share capital HK\$'000 | Share premium HK\$'000 | Investments revaluation reserve HK\$'000 | Share options reserve HK\$'000 | Cash flow hedging reserve HK\$'000 | Foreign currency translation reserve HK\$'000 | Convertible notes equity reserve HK\$'000 | Retained earnings HK\$'000 | Subtotal HK\$'000 | Attributable to non- controlling interests HK\$'000 | Total HK\$'000 |
| | Balance at 1 January 2009 | 23,005 | 26,474 | 470 | - | 242 | 140 | - | 73,837 | 124,168 | 18,437 | 142,605 |
| | Profit for the year | - | - | - | - | - | - | - | 27,465 | 27,465 | 2,763 | 30,228 |
| | Other comprehensive income for the year | - | - | 57 | - | 36 | 177 | - | - | 270 | - | 270 |
| | Total comprehensive income for the year | - | - | 57 | - | 36 | 177 | - | 27,465 | 27,735 | 2,763 | 30,498 |
| | Recognition of equity-settled share-based payments | - | - | - | 246 | - | - | - | - | 246 | - | 246 |
| | Payment of dividends | - | - | - | - | - | - | - | (6,387) | (6,387) | - | (6,387) |
| - | Balance at 31 December 2009 | 23,005 | 26,474 | 527 | 246 | 278 | 317 | - | 94,915 | 145,762 | 21,200 | 166,962 |
| | Profit for the year | - | - | - | - | - | - | - | 23,570 | 23,570 | 4,000 | 27,570 |
| | Other comprehensive income (expense) for the year | - | - | (300) | - | 36 | (191) | - | - | (455) | - | (455) |
| | Total comprehensive income (expense) for the year | - | - | (300) | - | 36 | (191) | - | 23,570 | 23,115 | 4,000 | 27,115 |
| | Non-controlling interests arising on the acquisition of Subsix Limited (note 50) | - | - | - | - | - | - | - | - | - | 132 | 132 |
| | Additional non-controlling interests arising on disposal of interest in Subone Limited (note 59) | - | - | - | - | - | - | - | - | - | 179 | 179 |
| | Difference arising on disposal of interest in Subone Limited (note 59) | - | - | - | - | - | - | - | 34 | 34 | - | 34 |
| | Recognition of equity-settled share-based payments | - | - | - | 218 | - | - | - | - | 218 | - | 218 |
| | Issue of ordinary shares under employee share option plan | 314 | 433 | - | (285) | - | - | - | - | 462 | - | 462 |
| | Recognition of the equity component of convertible notes | - | - | - | - | - | - | 834 | - | 834 | - | 834 |
| | Transaction costs attributable to issue of new ordinary shares | - | (6) | - | - | - | - | - | - | (6) | - | (6) |
| | Repurchase of ordinary shares | (5,500) | (11,247) | - | - | - | - | - | (555) | (17,302) | - | (17,302) |
| | Transaction costs attributable to repurchase of ordinary shares | - | (227) | - | - | - | - | - | - | (227) | - | (227) |
| | Income tax relating to transactions with owners | - | - | - | - | - | - | (208) | - | (208) | - | (208) |
| | Payment of dividends | - | - | - | - | - | - | - | (6,396) | (6,396) | - | (6,396) |
| | Balance at 31 December 2010 | 17,819 | 15,427 | 227 | 179 | 314 | 126 | 626 | 111,568 | 146,286 | 25,511 | 171,797 |
| Note: The single-line presentation for other comprehensive income illustrated above reflects the Group's application of the amendments to HKAS 1 arising from Improvements to HKFRSs issued in 2010 in advance of their effective dates. | | | | | | | | | | | | |

HKFRS Illustrative Annual Financial Statements 2010

| Source | Hong Kong GAAP Limited | | |
|-------------------------------|---|--------------|---------------------------------|
| HKAS 1.10(d), 51(b),(c) | Consolidated statement of cash flows for the year ended 31 December 2010 | | [Alt 1] |
| HKAS 1.113 | | <u>Notes</u> | Year ended 31/12/10 HK\$'000 |
| HKAS 1.51(d),(e) HKAS 7.10 | | | Year ended 31/12/09 HK\$'000 |
| | Cash flows from operating activities | | |
| HKAS 7.18(a) | Receipts from customers | | 208,302 |
| | Payments to suppliers and employees | | (163,975) |
| | Net cash outflow from held-for-trading investments | | (4,032) |
| | Cash generated from operations | | 40,295 |
| HKAS 7.31 | Interest paid | | (3,945) |
| HKAS 7.35 | Income taxes paid | | (13,123) |
| | Net cash generated by operating activities | | 23,227 |
| HKAS 7.10 | Cash flows from investing activities | | |
| | Purchase of held-to-maturity investments | | (5,601) |
| | Redemption of held-to-maturity investments | | 4,000 |
| | Purchase of available-for-sale investments | | (783) |
| HKAS 7.31 | Interest received | | 2,563 |
| | Other investment income received | | 889 |
| HKAS 7.37, 38 | Dividends received from associates | | 113 |
| HKAS 7.31 | Other dividends received | | 156 |
| | Amounts advanced to related parties | | (5,637) |
| | Repayments by related parties | | 5,088 |
| | Payments for property, plant and equipment | | (20,183) |
| | Proceeds from disposal of property, plant and equipment | | 10,262 |
| | Payments for investment properties | | (100) |
| | Proceeds from disposal of investment properties | | - |
| | Payments for intangible assets | | (6) |
| | (Increase)/decrease in finance lease receivables | | (123) |
| HKAS 7.39 | Net cash outflow on acquisition of subsidiaries | 50 | (877) |
| HKAS 7.39 | Net cash inflow on disposal of a subsidiary | 51 | 7,566 |
| | Net cash (used in)/generated by investing activities | | (2,673) |
| HKAS 7.10 | Cash flows from financing activities | | |
| | Proceeds from issue of equity shares | | 462 |
| | Proceeds from issue of convertible notes | | 4,950 |
| | Payment for transaction costs attributable to issue of new ordinary shares | | (6) |
| | Payment for repurchase of ordinary shares | | (17,302) |
| | Payment for transaction costs attributable to repurchase of ordinary shares | | (227) |
| | Proceeds from borrowings | | 20,122 |
| | Repayment of borrowings | | (23,811) |
| | Proceeds from government loans | | - |
| HKAS 7.42A | Proceeds on disposal of partial interest in a subsidiary (without losing control) | | 213 |
| | Repayment of obligations under finance leases | | (75) |
| HKAS 7.31 | Dividends paid to owners of the Company | | (6,396) |
| | Net cash used in financing activities | | (22,070) |
| | Net (decrease) increase in cash and cash equivalents | | (1,516) |
| | Cash and cash equivalents at the beginning of year | | 22,010 |
| HKAS 7.28 | Effects of exchange rate changes on the balance of cash held in foreign currencies | | (21) |
| | Cash and cash equivalents at the end of year | 52 | 20,473 |
| | <i>Note: The above illustrates the direct method of reporting cash flows from operating activities.</i> | | |

| Source | Hong Kong GAAP Limited | | |
|-------------------------------|--|------------------------------------|------------------------------------|
| HKAS 1.10(d), 51(b),(c) | Consolidated statement of cash flows for the year ended 31 December 2010 | | [Alt 2] |
| HKAS 1.113 | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| HKAS 1.51(d),(e) HKAS 7.10 | Cash flows from operating activities | | |
| HKAS 7.18(b) | Profit for the year | 27,570 | 30,228 |
| | Adjustments for: | | |
| | Income tax expense recognised in profit or loss | 14,659 | 14,883 |
| | Share of profits of associates | (1,186) | (1,589) |
| | Finance costs recognised in profit or loss | 4,178 | 6,313 |
| | Investment and other income recognised in profit or loss | (3,608) | (2,351) |
| | Gain on disposal of property, plant and equipment | (6) | (67) |
| | Gain arising on change in fair value of investment properties | (50) | (298) |
| | Gain on disposal of a subsidiary | (1,789) | - |
| | Gain on disposal of an associate | (581) | - |
| | (Gain)/loss transferred from equity to profit or loss on sale of available-for-sale financial assets | - | - |
| | Loss transferred from equity to profit or loss on impairment of available-for-sale financial assets | - | - |
| | Impairment loss recognised on trade receivables | 63 | 430 |
| | Reversal of impairment loss on trade receivables | (103) | - |
| | Depreciation and amortisation of non-current assets | 14,179 | 17,350 |
| | Impairment of non-current assets | 1,439 | - |
| | Net foreign exchange (gain)/loss | (78) | 116 |
| | Expense recognised in respect of equity-settled share-based payments | 218 | 246 |
| | Gain arising on effective settlement of legal claim against Subseven Limited | (40) | - |
| | | 54,865 | 65,261 |
| | Movements in working capital | | |
| | Increase in trade and other receivables | (8,551) | (2,951) |
| | Decrease / (increase) in amount due from customers for contract work | 11 | (7) |
| | Decrease in inventories | 1,728 | 5,017 |
| | Increase in held-for-trading investments | (4,032) | (2,247) |
| | Decrease in trade and other payables | (3,792) | (32,674) |
| | Increase/(decrease) in provisions | 224 | (911) |
| | (Decrease)/increase in deferred revenue | (158) | 433 |
| | Cash generated from operations | 40,295 | 31,921 |
| HKAS 7.31 | Interest paid | (3,945) | (6,340) |
| HKAS 7.35 | Income taxes paid | (13,123) | (12,816) |
| | Net cash generated by operating activities | 23,227 | 12,765 |

| Source | Hong Kong GAAP Limited | | |
|---------------|---|--------------|---|
| | Consolidated statement of cash flows for the year ended 31 December 2010 | | [Alt 2 continued] |
| | | <u>Notes</u> | <div> <div>Year ended</div> <div>31/12/10</div> <div>HK\$'000</div> </div> <div> <div>Year ended</div> <div>31/12/09</div> <div>HK\$'000</div> </div> |
| HKAS 7.10 | Cash flows from investing activities | | |
| | Purchase of held-to-maturity investments | | (5,601) (4,850) |
| | Redemption of held-to-maturity investments | | 4,000 3,000 |
| | Purchase of available-for-sale investments | | (783) (1,378) |
| HKAS 7.31 | Interest received | | 2,563 1,153 |
| | Other investment income received | | 889 1,044 |
| HKAS 7.37, 38 | Dividends received from associates | | 113 25 |
| HKAS 7.31 | Other dividends received | | 156 154 |
| | Amounts advanced to related parties | | (5,637) (4,311) |
| | Repayments by related parties | | 5,088 4,286 |
| | Payments for property, plant and equipment | | (20,183) (11,902) |
| | Proceeds from disposal of property, plant and equipment | | 10,262 21,245 |
| | Payments for investment properties | | (100) (22) |
| | Proceeds from disposal of investment properties | | - 58 |
| | Payments for intangible assets | | (6) (358) |
| | (Increase)/decrease in finance lease receivables | | (123) 16 |
| HKAS 7.39 | Net cash outflow on acquisition of subsidiaries | 50 | (877) - |
| HKAS 7.39 | Net cash inflow on disposal of a subsidiary | 51 | 7,566 - |
| | Net cash (used in)/generated by investing activities | | (2,673) 8,160 |
| HKAS 7.10 | Cash flows from financing activities | | |
| | Proceeds from issue of equity shares | | 462 - |
| | Proceeds from issue of convertible notes | | 4,950 - |
| | Payment for transaction costs attributable to issue of new ordinary shares | | (6) - |
| | Payment for repurchase of ordinary shares | | (17,302) - |
| | Payment for transaction costs attributable to repurchase of ordinary shares | | (227) - |
| | Proceeds from borrowings | | 20,122 26,798 |
| | Repayment of borrowings | | (23,811) (31,117) |
| | Proceeds from government loans | | - 3,000 |
| HKAS 7.42A | Proceeds on disposal of partial interest in a subsidiary (without losing control) | | 213 - |
| | Repayment of obligations under finance leases | | (75) (34) |
| HKAS 7.31 | Dividends paid to owners of the Company | | (6,396) (6,387) |
| | Net cash used in financing activities | | (22,070) (7,740) |
| | Net (decrease) increase in cash and cash equivalents | | (1,516) 13,185 |
| | Cash and cash equivalents at the beginning of year | | 22,010 8,770 |
| HKAS 7.28 | Effects of exchange rate changes on the balance of cash held in foreign currencies | | (21) 55 |
| | Cash and cash equivalents at the end of year | 52 | 20,473 22,010 |
| | <i>Note: The above illustrates the indirect method of reporting cash flows from operating activities.</i> | | |

| Source | Hong Kong GAAP Limited |
|---|---|
| HKAS 1.10(e), 51(b),(c) | <p>Notes to the consolidated financial statements for the year ended 31 December 2010</p> <p>1. General information</p> |
| HKAS 1.138(a), (c) HKAS 24.12 | <p>Hong Kong GAAP Limited (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). Its ultimate controlling party is Mr. Gary D.K. Wong. 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.</p> |
| HKAS 1.138(b) | <p>The principal activities of the Company and its subsidiaries (the Group) are described in note 6.</p> |
| HKAS 21.53 | <p>The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.</p> <p>2. Application of new and revised Hong Kong Financial Reporting Standards (HKFRSs)</p> |
| HKAS 8.28 App 16 Note 2.2 GR 18.04 Note Sch 10: 17(6)(b) | <p>The following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) have been applied by the Group in the current year and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new and revised Standards and Interpretations is discussed below. The impact on basic and diluted earnings per share is discussed in note 17.</p> |
| HKFRS 5.44E | <p><u><i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009)</i></u></p> <p>The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRSs other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.</p> <p>Disclosures in these consolidated financial statements have been modified to reflect the above clarification.</p> |
| HKAS 1.139D | <p><u><i>Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2009)</i></u></p> <p>The amendments to HKAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.</p> <p>In line with the amendments to HKAS 1, the Group has classified the liability component of convertible notes issued in the current year as non-current based on when cash settlement is required to be made. This amendment has had no effect on the amounts reported in prior years because the Group has not previously issued instruments of this nature.</p> |

| Source | Hong Kong GAAP Limited |
|-------------------|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued |
| HKAS 7.56 | <p><u>Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)</u></p> <p>The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in HKAS 38 <i>Intangible Assets</i> for capitalisation as part of an internally generated intangible asset in the consolidated statement of cash flows. This change has been applied retrospectively.</p> <p>Specifically, development costs paid in the current year that do not qualify for capitalisation as intangible assets of HK\$302,000 are included in cash flows from operating activities in the consolidated statement of cash flows. Development costs of HK\$317,000 paid in 2009 have been reclassified from investing to operating activities in the consolidated statement of cash flows for consistent presentation.</p> |
| HKFRS 7.44L | <p><u>Amendments to HKFRS 7 Financial Instruments: Disclosures (as part of Improvements to HKFRSs issued in 2010)</u></p> <p>The amendments to HKFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.</p> |
| HKAS 1.139F | <p><u>Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)</u></p> <p>The amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.</p> |
| HKAS 8.28(a) | <p><u>HKFRS 3 (as revised in 2008) Business Combinations</u></p> |
| HKAS 8.28(b) | <p>HKFRS 3(as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.</p> |
| HKAS 8.28(c), (d) | <p>The impact of the application of HKFRS 3(as revised in 2008) is as follows:</p> <ul style="list-style-type: none"> • HKFRS 3(as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Subsix Limited, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of recognised identifiable net assets of the acquiree. • HKFRS 3(as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. • HKFRS 3(as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

acquiree.

- HKFRS 3(as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

Note: When HKFRS 3(as revised in 2008) was issued, it was unclear as to whether the new requirements for contingent consideration should be applied to contingent consideration arising from business combinations that took place before the application of HKFRS 3(as revised in 2008). Consequently, amendments were made to HKFRS 3 as part of Improvements to HKFRSs issued in 2010 to clarify that the new requirements for contingent consideration set out in HKFRS 3(as revised in 2008) should not be applied to business combinations whose acquisition date preceded the application of HKFRS 3(as revised in 2008). The amendments are effective for annual periods beginning on or after 1 July 2010, with earlier application permitted. At the date of the application of HKFRS 3(as revised in 2008), where entities have outstanding contingent consideration arrangements arising from business combinations whose acquisition dates preceded the application of HKFRS 3(as revised in 2008), they should consider early application of the amendments.

HKAS 8.28(a)
HKAS 8.28(b), (d)
HKAS 8.28(c)

As part of *Improvements to HKFRSs* issued in 2010, HKFRS 3(as revised in 2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of *Improvements to HKFRSs* issued in 2010, HKFRS 3(as revised in 2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date ('market-based measure').

The amendments to HKFRS 3(as revised in 2008) as part of *Improvements to HKFRSs* issued in 2010 (as described above) have been applied in advance of their effective dates (annual periods beginning on or after 1 July 2010). Specifically, the amendments have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions and have affected the accounting for the acquisition of Subsix Limited in the current year. All outstanding share options held by the employees of Subsix Limited had vested before the date of the acquisition and were not replaced by the Group. As required by the amendments, all outstanding vested share options held by the employees of Subsix Limited have been measured at their market-based measure in accordance with HKFRS 2 at the acquisition date and included as part of non-controlling interests. The market-based measure of these outstanding options at the acquisition date is CU5,000. The application of the amendments has resulted in an additional amount of CU1,000 (being the difference between the market-based measure of CU5,000 and the grant-date measure of CU4,000) being recognised in the non-controlling interests in Subsix Limited.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--|----------------------|---|----|--|---|---|----|--|----|--|-------|--|----|--|------------------------------------|---|----|--|---|--|---|---|-------|---|-------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 8.28(f)(i) | <p>In the current year, the above changes in policies have affected the accounting for the acquisition of Subsix Limited and Subseven Limited, as follows:</p> <p><i>Consolidated statement of financial position</i></p> <table> <tr> <td></td><td style="text-align: right;">31/12/10 HK\$'000</td></tr> <tr> <td>Excess of the fair value of the non-controlling interests in Subsix Limited over their share of the recognised identifiable net assets (reflected in the non-controlling interests)</td><td style="text-align: right;">61</td></tr> <tr> <td>Outstanding vested share options held by the employees of Subsix Limited measured in accordance with HKFRS 2 at the date of the acquisition (reflected in the non-controlling interests)</td><td style="text-align: right;">1</td></tr> <tr> <td>Liability recognised in respect of the fair value of contingent consideration that would not have been recognised under the previous version of the Standard (reflected in 'other financial liabilities')</td><td style="text-align: right;">75</td></tr> <tr> <td>Adjustment to the cost of the acquisition to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (reflected in profit or loss)</td><td style="text-align: right;">40</td></tr> <tr> <td>Acquisition-related costs expensed when incurred (reflected in profit or loss)</td><td style="text-align: right;">(145)</td></tr> <tr> <td>Additional goodwill recognised as result of the application of HKFRS 3(2008)</td><td style="text-align: right;">32</td></tr> </table> <p><i>Consolidated statement of comprehensive income</i></p> <table> <tr> <td></td><td style="text-align: right;">Year ended 31/12/10 HK\$'000</td></tr> <tr> <td>Gain recognised to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (included in 'other gains and losses')</td><td style="text-align: right;">40</td></tr> <tr> <td>Cost of share-based payment awards allocated to post-combination service</td><td style="text-align: right;">-</td></tr> <tr> <td>Decrease (increase) in fair value of liabilities recognised for contingent consideration</td><td style="text-align: right;">-</td></tr> <tr> <td>Acquisition-related costs expensed when incurred (included in 'other expenses')</td><td style="text-align: right;">(145)</td></tr> <tr> <td>Decrease in profit for the year as a result of the application of HKFRS 3(2008)</td><td style="text-align: right;">(105)</td></tr> </table> <p>Results in future periods may be affected by future impairment losses relating to the increased goodwill, and by changes in the fair value of contingent consideration recognised as a financial liability.</p> | | 31/12/10 HK\$'000 | Excess of the fair value of the non-controlling interests in Subsix Limited over their share of the recognised identifiable net assets (reflected in the non-controlling interests) | 61 | Outstanding vested share options held by the employees of Subsix Limited measured in accordance with HKFRS 2 at the date of the acquisition (reflected in the non-controlling interests) | 1 | Liability recognised in respect of the fair value of contingent consideration that would not have been recognised under the previous version of the Standard (reflected in 'other financial liabilities') | 75 | Adjustment to the cost of the acquisition to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (reflected in profit or loss) | 40 | Acquisition-related costs expensed when incurred (reflected in profit or loss) | (145) | Additional goodwill recognised as result of the application of HKFRS 3(2008) | 32 | | Year ended 31/12/10 HK\$'000 | Gain recognised to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (included in 'other gains and losses') | 40 | Cost of share-based payment awards allocated to post-combination service | - | Decrease (increase) in fair value of liabilities recognised for contingent consideration | - | Acquisition-related costs expensed when incurred (included in 'other expenses') | (145) | Decrease in profit for the year as a result of the application of HKFRS 3(2008) | (105) |
| | 31/12/10 HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Excess of the fair value of the non-controlling interests in Subsix Limited over their share of the recognised identifiable net assets (reflected in the non-controlling interests) | 61 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Outstanding vested share options held by the employees of Subsix Limited measured in accordance with HKFRS 2 at the date of the acquisition (reflected in the non-controlling interests) | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Liability recognised in respect of the fair value of contingent consideration that would not have been recognised under the previous version of the Standard (reflected in 'other financial liabilities') | 75 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adjustment to the cost of the acquisition to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (reflected in profit or loss) | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Acquisition-related costs expensed when incurred (reflected in profit or loss) | (145) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional goodwill recognised as result of the application of HKFRS 3(2008) | 32 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Year ended 31/12/10 HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain recognised to reflect the effective settlement by Subseven Limited to the Group in relation to the Group's lawsuit against Subseven Limited (included in 'other gains and losses') | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of share-based payment awards allocated to post-combination service | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Decrease (increase) in fair value of liabilities recognised for contingent consideration | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Acquisition-related costs expensed when incurred (included in 'other expenses') | (145) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Decrease in profit for the year as a result of the application of HKFRS 3(2008) | (105) | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited |
|----------------------------------|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued |
| HKAS 8.28(a) | <i>HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements</i> |
| HKAS 8.28(b),(d) HKAS 8.28(c) | <p>The application of HKAS 27(as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries of the Group.</p> <p>Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27(as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.</p> <p>When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.</p> <p>These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.</p> |
| HKAS 8.28(f)(i) HKAS 7.42A | <p>The application of the revised Standard has affected the accounting for the Group's disposal of part of its interest in Subone Limited in current year. The change in policy has resulted in the difference of HK\$34,000 between the consideration received of HK\$213,000 and the non-controlling interests recognised of HK\$179,000 being recognised directly in equity, instead of in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK\$34,000. In addition, the cash consideration received in the current year of HK\$213,000 has been included in cash flows from financing activities.</p> |
| HKAS 27.45 | <p>In addition, under HKAS 27(as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of the revised Standard has resulted in share options reserve relating to the employee share option plan of Kowloon Limited, a subsidiary of the Company, being included as part of non-controlling interest in the consolidated statement of changes in equity. Previously, the share options reserve was presented separately in the consolidated statement of changes in equity.</p> |
| HKAS 8.28(a) | <i>HKAS 28 (as revised in 2008) Investments in Associates</i> |
| HKAS 28.41E | <p>The principle adopted under HKAS 27(as revised in 2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss. In addition, as part of <i>Improvements to HKFRSs</i> issued in 2010, HKAS 28(as revised in 2008) has been amended to clarify that the consequential amendments to HKAS 28 in relation to transactions where the investor loses significant influence over an associate should be applied prospectively. The Group has applied the amendments to HKAS 28(as revised in 2008) as part of <i>Improvements to HKFRSs</i> issued in 2010 in advance of their effective dates (annual periods beginning on or after 1 July 2010).</p> |
| HKAS 8.28(b) to 8(f)(i) | <p>This change in policy has affected the accounting for the partial disposal of the Group's interest in E Plus Limited in the current year. The difference of HK\$104,000 between the carrying amount of the interest retained in E Plus Limited and its fair value has been recognised in profit or loss in the current year, net of a deferred tax expense of HK\$32,000. Had the Group's previous accounting policy been followed, the carrying amount of the investment retained would have been regarded as cost for the purpose of subsequent accounting as an available-for-sale investment under HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and the movement in fair value (and related deferred tax) would have been recognised in other comprehensive income. The profit reported for 2010 has therefore been increased by HK\$72,000 as a result of the change in accounting policy. This increase will be offset by a decrease in profits of an equivalent amount when the investment is disposed of in future accounting periods.</p> |

| Source | Hong Kong GAAP Limited |
|--|--|
| <p>HKAS 8.28(a) HKAS 17.68A, 69A HKAS 17.15A HKAS 8.28(b) to 8(f)(i)</p> | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p><u><i>Amendments to HKAS 17 Leases</i></u></p> <p>As part of <i>Improvements to HKFRSs</i> issued in 2009, HKAS 17 <i>Leases</i> has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.</p> <p>In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK\$1,800,000 and HK\$1,700,000 as at 1 January 2009 and 31 December 2009 respectively being reclassified to property, plant and equipment.</p> <p>As at 31 December 2010, leasehold land that qualifies for finance lease classification with the carrying amount of HK\$1,600,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.</p> |
| <p>HKAS 8.28(a)</p> | <p><u><i>Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i></u></p> |
| <p>HKAS 8.28(b) to 8(f)(i)</p> | <p>Hong Kong Interpretation 5 <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.</p> <p>In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.</p> <p>As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK\$10,180,000 and HK\$9,430,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2009 and 1 January 2009 respectively. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK\$11,000,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.</p> <p>Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities (see note 49.2.3).</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

New and revised Standards and Interpretations applied with no material effects on the consolidated financial statements

The following new and revised Standards and Interpretations have also been applied in these consolidated financial statements. The application of these new and revised Standards and Interpretations has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*

The amendments provide two exemptions when adopting HKFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The amendments clarify the scope of HKFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to HKFRSs* issued in 2008)

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

HK (IFRIC) -Int 17 *Distributions of Non-cash Assets to Owners*

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

HK (IFRIC) -Int 18 *Transfers of Assets from Customers*

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with HKAS 18 *Revenue*.

Improvements to HKFRSs issued in 2009

Except for the amendments to HKFRS 5, HKAS 1, HKAS 7 and HKAS 17 as described earlier, the application of *Improvements to HKFRSs* issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | |
|--|--|---------------------|--|----------------------|---|---------|--|------------------------------|--|----------------------|--|----------------------------------|---|---------------------|--|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> | | | | | | | | | | | | | | |
| | <p><i>New and revised Standards and Interpretations in issue but not yet effective</i></p> | | | | | | | | | | | | | | |
| | <p><i>Note: Entities are required to disclose in their financial statements the potential impact of new and revised Standards and Interpretations that have been issued but are not yet effective. The disclosures below reflect a cut off date of 30 November 2010. The potential impact of the application of any new and revised Standards and Interpretations issued by the HKICPA after 30 November 2010 should also be considered and disclosed.</i></p> | | | | | | | | | | | | | | |
| <p>HKAS 8.30 HKAS 8.31 Sch 10:17(6)(b)</p> | <p>The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:</p> <table border="0"> <tr> <td>HKFRSs (Amendments)</td><td><i>Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28¹</i></td></tr> <tr> <td>HKFRS 1 (Amendments)</td><td><i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters²</i></td></tr> <tr> <td>HKFRS 9</td><td><i>Financial Instruments³</i></td></tr> <tr> <td>HKAS 24 (as revised in 2009)</td><td><i>Related Party Disclosures⁴</i></td></tr> <tr> <td>HKAS 32 (Amendments)</td><td><i>Classification of Rights Issues⁵</i></td></tr> <tr> <td>HK (IFRIC) – Int 14 (Amendments)</td><td><i>Prepayments of a Minimum Funding Requirement⁴</i></td></tr> <tr> <td>HK (IFRIC) – Int 19</td><td><i>Extinguishing Financial Liabilities with Equity Instruments²</i></td></tr> </table> <p>¹ Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate. ² Effective for annual periods beginning on or after 1 July 2010. ³ Effective for annual periods beginning on or after 1 January 2013. ⁴ Effective for annual periods beginning on or after 1 January 2011. ⁵ Effective for annual periods beginning on or after 1 February 2010.</p> | HKFRSs (Amendments) | <i>Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28¹</i> | HKFRS 1 (Amendments) | <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters²</i> | HKFRS 9 | <i>Financial Instruments³</i> | HKAS 24 (as revised in 2009) | <i>Related Party Disclosures⁴</i> | HKAS 32 (Amendments) | <i>Classification of Rights Issues⁵</i> | HK (IFRIC) – Int 14 (Amendments) | <i>Prepayments of a Minimum Funding Requirement⁴</i> | HK (IFRIC) – Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments²</i> |
| HKFRSs (Amendments) | <i>Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28¹</i> | | | | | | | | | | | | | | |
| HKFRS 1 (Amendments) | <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters²</i> | | | | | | | | | | | | | | |
| HKFRS 9 | <i>Financial Instruments³</i> | | | | | | | | | | | | | | |
| HKAS 24 (as revised in 2009) | <i>Related Party Disclosures⁴</i> | | | | | | | | | | | | | | |
| HKAS 32 (Amendments) | <i>Classification of Rights Issues⁵</i> | | | | | | | | | | | | | | |
| HK (IFRIC) – Int 14 (Amendments) | <i>Prepayments of a Minimum Funding Requirement⁴</i> | | | | | | | | | | | | | | |
| HK (IFRIC) – Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments²</i> | | | | | | | | | | | | | | |
| <p>HKAS 8.30(a)</p> | <p>HKFRS 9 <i>Financial Instruments</i> (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 <i>Financial Instruments</i> (as revised in November 2010) adds requirements for financial liabilities and for derecognition.</p> <ul style="list-style-type: none"> Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss. | | | | | | | | | | | | | | |
| | <p>HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.</p> | | | | | | | | | | | | | | |
| <p>HKAS 8.30(b)</p> | <p>The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.</p> | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited |
|------------------------------|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued |
| HKAS 8.30(a) | <p>The amendments to HKFRS 7 titled <i>Disclosures – Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.</p> |
| HKAS 8.30(b) | <p>The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.</p> |
| HKAS 8.30(a) | <p>HKAS 24 <i>Related Party Disclosures</i> (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.</p> |
| HKAS 8.30(b) | <p>The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because [some counterparties (please specify)] that did not previously meet the definition of a related party may come within the scope of the Standard.</p> |
| HKAS 8.30(a) HKAS 8.30(b) | <p>The amendments to HKAS 32 titled <i>Classification of Rights Issues</i> address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.</p> |
| HKAS 8.30(a) HKAS 8.30(b) | <p>HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.</p> |
| HKAS 8.30(a) HKAS 8.30(b) | <p>[Describe the potential impact of the application of other new and revised HKFRSs.]</p> |

| Source | Hong Kong GAAP Limited |
|---|--|
| <p>HKAS 1.112(a) HKAS 1.117 App 16.5 GR 18.19</p> | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>3. Significant accounting policies</p> <p><i>Note: The following are examples of the types of accounting policies that might be disclosed in this entity's financial statements. Entities are required to disclose in the summary of significant accounting policies the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. An accounting policy may be significant because of the nature of the entity's operations even if amounts for the current and prior periods are not material.</i></p> <p><i>In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations.</i></p> <p><i>Each entity considers the nature of its operations and the policies that users of its financial statements would expect to be disclosed for that type of entity. It is also appropriate to disclose each significant accounting policy that is not specifically required by HKFRSs, but that is selected and applied in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</i></p> <p><i>For completeness, in these illustrative financial statements, accounting policies have been provided for some immaterial items, although this is not required under HKFRSs.</i></p> |
| <p>HKAS 1.16</p> | <p>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.</p> |
| <p>HKAS 1.17(b)</p> | <p>The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.</p> <p>The principal accounting policies are set out below.</p> <p><u>Basis of consolidation</u></p> <p>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.</p> <p>The results of subsidiaries acquired or disposed of during the year are included in the consolidated [statement of comprehensive income/income statement] from the effective date of acquisition and up to the effective date of disposal, as appropriate.</p> <p>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.</p> <p>All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.</p> <p>Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.</p> <p><u>Allocation of total comprehensive income to non-controlling interests</u></p> <p>Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued***Changes in the Group's ownership interests in existing subsidiaries**Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations*Business combinations that took place on or after 1 January 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- 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* are measured in accordance with that Standard.

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated [statement of comprehensive income/income statement]. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

HKAS 31.57

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

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 in a business combination (see the accounting policy above).

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

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 non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their 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. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.</p> <p>Sales of goods that result in award credits for customers, under the Group's Maxi-Points Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.</p> <p>Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:</p> <ul style="list-style-type: none"> • installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period; • servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and • revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred. <p>The Group's policy for recognition of revenue from construction contracts is described at the accounting policy below.</p> <p>Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).</p> <p>Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.</p> <p>The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.</p> <p>Construction contracts</p> <p>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 end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative 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 the amount can be measured reliably and its receipt is considered probable.</p> <p>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.</p> <p>When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.</p> |

HKAS 11.39(b),
(c)

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

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 the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position 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 recognised 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 on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially 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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

| Source | Hong Kong GAAP Limited |
|---------------|---|
| Sch 10:12(14) | <p data-bbox="363 241 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 322 663 349"><u>Leasehold land for own use</u></p> <p data-bbox="363 378 1442 624">When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.</p> <p data-bbox="363 654 1410 759">To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.</p> <p data-bbox="363 788 584 815">Foreign currencies</p> <p data-bbox="363 844 1442 1039">In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.</p> <p data-bbox="363 1068 1422 1120">Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:</p> <ul data-bbox="363 1149 1437 1456" style="list-style-type: none"> • exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; • exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and • exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items. <p data-bbox="363 1485 1447 1702">For the purposes of presenting 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) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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 not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

| Source | Hong Kong GAAP Limited |
|-----------------|--|
| HKAS 19.120A(a) | <p data-bbox="363 237 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 320 647 349"><i>Retirement benefit costs</i></p> <p data-bbox="363 376 1370 432">Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.</p> <p data-bbox="363 459 1437 678">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 the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year 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 benefits become vested.</p> <p data-bbox="363 705 1449 846">The retirement benefit obligation recognised in the consolidated statement of financial position 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.</p> <p data-bbox="145 873 256 929">LR 17.08 GR 23.08</p> <p data-bbox="363 873 783 902"><i>Share-based payment arrangements</i></p> <p data-bbox="363 929 1430 981"><u><i>Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement</i></u></p> <p data-bbox="363 1008 1444 1122">For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).</p> <p data-bbox="363 1149 1433 1263">At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.</p> <p data-bbox="363 1290 1366 1346">For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.</p> <p data-bbox="363 1373 1445 1480">When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When 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 earnings.</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Share options granted by an acquiree to its employees in an equity-settled share-based payment arrangement

When share options in an equity-settled share-based payment transaction (acquiree awards) are replaced by share options of the Company or its subsidiaries (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with HKFRS 2 *Share-based Payment* ("market-based measure") at the acquisition date.

The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

However, when the acquiree awards expire as a consequence of a business combination and the Group replaces those awards when it does not have an obligation to do so, the replacement awards are measured at their market-based measure in accordance with HKFRS 2. All of the market-based measure of the replacement awards is recognised as remuneration cost for post-combination service.

At the acquisition date, when the outstanding share options held by the employees of an acquiree are not exchanged for share options of the Company and its subsidiaries, the share options granted by the acquiree are measured at their market-based measure at the acquisition date. If those share options have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if those share options have not vested by the acquisition date, the market-based measure of the unvested share options is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of those share options. The balance is recognised as remuneration cost for post-combination service.

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 [statement of comprehensive income/income statement] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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.

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p data-bbox="363 241 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 322 1449 488">Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.</p> <p data-bbox="363 517 1433 651">Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.</p> <p data-bbox="146 680 322 734">HKAS 16.73(a), (b)</p> <p data-bbox="363 680 716 707"><i>Property, plant and equipment</i></p> <p data-bbox="363 736 1423 873">Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.</p> <p data-bbox="363 902 1433 1068">Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.</p> <p data-bbox="363 1097 1401 1205">Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.</p> <p data-bbox="363 1234 1433 1288">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.</p> <p data-bbox="363 1317 1439 1424">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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.</p> <p data-bbox="146 1453 322 1480">HKAS 40.75(a)</p> <p data-bbox="363 1453 619 1480"><i>Investment properties</i></p> <p data-bbox="363 1509 1449 1646">Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.</p> <p data-bbox="363 1675 1449 1812">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 the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.</p> |

| Source | Hong Kong GAAP Limited |
|----------------|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> |
| | <p><i>Intangible assets</i></p> |
| | <p><u><i>Intangible assets acquired separately</i></u></p> |
| HKAS 38.118(b) | <p>Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.</p> |
| | <p><u><i>Research and development expenditure</i></u></p> |
| | <p>Expenditure on research activities is recognised as an expense in the period in which it is incurred.</p> |
| | <p>An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:</p> |
| | <ul style="list-style-type: none"> • the technical feasibility of completing the intangible asset so that it will be available for use or sale; • the intention to complete the intangible asset and use or sell it; • the ability to use or sell the intangible asset; • how the intangible asset will generate probable future economic benefits; • the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and • the ability to measure reliably the expenditure attributable to the intangible asset during its development. |
| | <p>The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.</p> |
| HKAS 38.118(b) | <p>Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.</p> |
| | <p><u><i>Intangible assets acquired in a business combination</i></u></p> |
| | <p>Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).</p> |
| HKAS 38.118(b) | <p>Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.</p> |
| | <p><u><i>Derecognition of intangible assets</i></u></p> |
| | <p>An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.</p> |

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

HKAS 2.36(a)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting periods, 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 recognised in accordance with HKAS 18 *Revenue*.

HKFRS 7.21

Financial instruments

Financial assets and financial liabilities are recognised 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.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 debt instrument 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

HKFRS 7.B5(e)

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p data-bbox="363 237 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 320 895 349">A financial asset is classified as held for trading if:</p> <ul data-bbox="363 376 1378 546" style="list-style-type: none"> <li data-bbox="363 376 1262 405">• it has been acquired principally for the purpose of selling it in the near future; or <li data-bbox="363 432 1378 490">• on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or <li data-bbox="363 517 1230 546">• it is a derivative that is not designated and effective as a hedging instrument. <p data-bbox="145 573 304 656">HKAS 39.9 HKAS 39.11A HKAS 39.12</p> <p data-bbox="363 573 1418 629">A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:</p> <ul data-bbox="363 656 1445 965" style="list-style-type: none"> <li data-bbox="363 656 1445 714">• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or <li data-bbox="363 741 1445 853">• 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 <li data-bbox="363 880 1445 965">• it forms part of a contract containing one or more embedded derivatives, and HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> permits the entire combined contract (asset or liability) to be designated as at FVTPL. <p data-bbox="145 992 320 1021">HKFRS 7.B5(e)</p> <p data-bbox="363 992 1453 1128">Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated [statement of comprehensive income/income statement]. Fair value is determined in the manner described in note 49.</p> <p data-bbox="363 1155 671 1184"><i>Held-to-maturity investments</i></p> <p data-bbox="363 1211 1445 1348">Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).</p> <p data-bbox="145 1375 320 1404">HKFRS 7.B5(b)</p> <p data-bbox="363 1375 967 1404"><i>Available-for-sale financial assets (AFS financial assets)</i></p> <p data-bbox="363 1431 1414 1514">AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.</p> <p data-bbox="363 1541 1430 1711">AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).</p> <p data-bbox="363 1738 1430 1874">AFS 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 investments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including [trade and other receivables, bank balances and cash, and other [describe]]) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

HKFRS 7.B5(f),
37(b)

For AFS equity investments, a significant or prolonged decline in the fair value of the security 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
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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 (see the accounting policy below).

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

| Source | Hong Kong GAAP Limited |
|--|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.</p> <p>In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss 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.</p> |
| HKFRS 7.21 | <p><u><i>Financial liabilities and equity instruments</i></u></p> <p>Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.</p> |
| HKFRS 7.21 | <p><u><i>Equity instruments</i></u></p> <p>An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.</p> <p>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.</p> <p><u><i>Financial liabilities at FVTPL</i></u></p> <p>Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.</p> <p>A financial liability is classified as held for trading if:</p> <ul style="list-style-type: none"> • it has been acquired principally for the purpose of repurchasing it in the near term; or • on initial recognition it is part of a portfolio of identified 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 HKAS 39.11A HKAS 39.12 | <p>A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:</p> <ul style="list-style-type: none"> • 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 <i>Financial Instruments: Recognition and Measurement</i> permits the entire combined contract (asset or liability) to be designated as at FVTPL. |

| Source | Hong Kong GAAP Limited |
|---------------|--|
| HKFRS 7.B5(e) | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated [statement of comprehensive income/income statement]. Fair value is determined in the manner described in note 49.</p> <p><i>Other financial liabilities</i></p> <p>Other financial liabilities (including borrowings and other [describe]) are subsequently measured at amortised cost using the effective interest method.</p> <p><i>Effective interest method</i></p> <p>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 (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.</p> <p>Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.</p> |
| HKFRS 7.21 | <p><u><i>Convertible notes</i></u></p> <p>Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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.</p> <p>At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.</p> <p>The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to [share premium/other equity [describe]]. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to [retained profits/other equity [describe]]. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.</p> <p>Transaction costs that relate to the issue of the convertible 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 recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.</p> |
| HKFRS 7.21 | <p><u><i>Derivative financial instruments</i></u></p> <p>Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.</p> <p><u><i>Embedded derivatives</i></u></p> <p>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 FVTPL.</p> |

| Source | Hong Kong GAAP Limited |
|------------|---|
| HKFRS 7.21 | <p data-bbox="363 237 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 320 561 349"><u>Hedge accounting</u></p> <p data-bbox="363 376 1409 432">The Group designates certain derivatives as hedging instruments for [fair value hedges, cash flow hedges, or hedges of net investments in foreign operations].</p> <p data-bbox="363 459 1442 595">At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the 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 is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.</p> <p data-bbox="363 622 560 651"><u>Fair value hedges</u></p> <p data-bbox="363 678 1422 842">Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the consolidated [statement of comprehensive income/income statement] relating to the hedged item.</p> <p data-bbox="363 869 1428 981">Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.</p> <p data-bbox="363 1008 560 1037"><u>Cash flow hedges</u></p> <p data-bbox="363 1064 1436 1176">The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.</p> <p data-bbox="363 1202 1449 1395">Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated [statement of comprehensive income/income statement] as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.</p> <p data-bbox="363 1422 1420 1585">Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated 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 gain or loss accumulated in equity is recognised immediately in profit or loss.</p> <p data-bbox="363 1612 877 1641"><u>Hedges of net investments in foreign operations</u></p> <p data-bbox="363 1668 1442 1805">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 other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.</p> <p data-bbox="363 1832 1433 1917">Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – 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 payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p data-bbox="363 237 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 320 1243 349">4. Critical accounting judgements and key sources of estimation uncertainty</p> <div data-bbox="363 389 1455 517" style="background-color: #e0ffe0; padding: 10px;"> <p data-bbox="363 389 1455 501"><i>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 by the significance of judgements and estimates made to the results and financial position of the entity.</i></p> </div> <p data-bbox="363 546 1455 683">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 underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.</p> <p data-bbox="363 712 1455 824">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.</p> <p data-bbox="145 846 288 875">HKAS 1.122</p> <p data-bbox="363 846 957 875"><i>Critical judgements in applying accounting policies</i></p> <p data-bbox="363 904 1455 987">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 the consolidated financial statements.</p> <p data-bbox="363 1016 587 1046"><u>Revenue recognition</u></p> <p data-bbox="363 1075 1455 1290">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 2010, 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 2012. 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\$19 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.</p> <p data-bbox="363 1319 1455 1534">In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 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, management is 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 the recognition of an appropriate provision for the rectification costs.</p> <p data-bbox="145 1563 343 1592">HKAS 1.125, 129</p> <p data-bbox="363 1563 805 1592"><i>Key sources of estimation uncertainty</i></p> <p data-bbox="363 1621 1455 1704">The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</p> <p data-bbox="363 1733 608 1762"><u>Impairment of goodwill</u></p> <p data-bbox="363 1792 1455 1897">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 management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.</p> <p data-bbox="363 1926 1455 1977">The carrying amount of goodwill as at 31 December 2010 was HK\$20.3 million (31 December 2009: HK\$24.1 million). Details of the impairment loss calculation are set out in note 22.</p> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Valuation of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 27, 41 and 49 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

5. Revenue

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

An analysis of the Group's revenue for the year from continuing operations is as follows:

| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
|---|---------------------------------------|---------------------------------------|
| HKAS 18.35(b) HKAS 18.35(b) HKAS 11.39(a) | | |
| Revenue from the sale of goods | 119,232 | 128,852 |
| Revenue from the rendering of services | 16,388 | 18,215 |
| Construction contract revenue | 5,298 | 4,773 |
| | <u>140,918</u> | <u>151,840</u> |

See note 6 for an analysis of revenue by major products and services.

| Source | Hong Kong GAAP Limited |
|--|--|
| <p>App 16.7 GR 18.08 HKFRS 8.2</p> | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>6. Segment information</p> <p><i>Note: The following segment information is required by HKFRS 8 Operating Segments to be presented in the consolidated financial statements of a group with a parent (and in the separate or individual financial statements of an entity):</i></p> <ul style="list-style-type: none"> • whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or • that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. |
| <p>HKFRS 8.22 HKAS 1.138(b)</p> | <p>Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. In addition, for 'electronic equipment' and 'leisure goods' operations, the information reported to the Board of Directors is further analysed based on the different classes of customers.</p> <p>Specifically, the Group's reportable segments under HKFRS 8 are as follows:</p> <p>Electronic equipment - wholesalers - retail outlets - internet sales</p> <p>Leisure goods - wholesalers - retail outlets</p> <p>Computer software - Installation of computer software for specialised business applications</p> <p>Construction - Construction of residential properties.</p> <p>The leisure goods segments supply sports shoes and equipment, and outdoor play equipment.</p> <p>Two operations (the manufacture and sale of toys and bicycles) were discontinued in the current year. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are described in more detail in note 11.</p> |

| Source | Hong Kong GAAP Limited | | | |
|---------------|---|--|---------------------------------|---|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | Segment revenues and results | | | |
| HKFRS 8.23(a) | The following is an analysis of the Group's revenue and results from continuing operations by reportable segment. | | | |
| | | Segment revenue Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | Segment profit Year ended 31/12/10 HK\$'000 |
| | | Year ended 31/12/09 HK\$'000 | Year ended 31/12/09 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Electronic equipment - wholesalers | 37,509 | 39,641 | 6,705 |
| | - retail outlets | 20,194 | 22,534 | 7,265 |
| | - internet sales | 27,563 | 29,699 | 6,632 |
| | Leisure goods - wholesalers | 13,514 | 18,332 | 3,252 |
| | - retail outlets | 20,452 | 18,646 | 4,921 |
| | Computer software | 16,388 | 18,215 | 3,749 |
| | Construction | 5,298 | 4,773 | 362 |
| HKFRS 8.28(a) | Total for continuing operations | 140,918 | 151,840 | 32,886 |
| | Share of profits of associates | | | 1,186 |
| | Gain recognised on disposal of interest in former associate | | | 581 |
| | Investment and other income | | | 3,608 |
| | Other gains and losses | | | (1,128) |
| | Central administration costs | | | (2,045) |
| | Finance costs | | | (4,178) |
| HKFRS 8.28(b) | Profit before tax (continuing operations) | | | 30,910 |
| HKFRS 8.23(b) | Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2009: nil). | | | |
| HKFRS 8.27 | The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' salaries, share of profits of associates, gain recognised on disposal of interest in former associate, investment and other income, other gains or losses, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. | | | |

| Source | Hong Kong GAAP Limited | | | | |
|--|---|---|----------|----------|--------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | |
| | Segment assets and liabilities | | | | |
| | | 31/12/10 | 31/12/09 | 01/01/09 | |
| | | HK\$'000 | HK\$'000 | HK\$'000 | |
| HKFRS 8.23, 28(c) | Segment assets | | | | |
| | Electronic equipment - wholesalers | 43,101 | 35,968 | 48,708 | |
| | - retail outlets | 28,596 | 36,724 | 45,382 | |
| | - internet sales | 28,189 | 38,711 | 38,697 | |
| | Leisure goods - wholesalers | 35,351 | 33,942 | 31,926 | |
| | - retail outlets | 33,032 | 34,432 | 35,119 | |
| | Computer software | 26,045 | 21,783 | 20,128 | |
| | Construction | 15,801 | 16,623 | 14,001 | |
| | Total segment assets | 210,115 | 218,183 | 233,961 | |
| | Assets relating to toy and bicycle operations (now discontinued) | 22,336 | 19,272 | 19,429 | |
| | Unallocated | 34,629 | 27,317 | 20,865 | |
| | Consolidated assets | 267,080 | 264,772 | 274,255 | |
| | HKFRS 8.23, 28(d) | Segment liabilities | | | |
| | | Electronic equipment - wholesalers | 9,473 | 10,129 | 22,684 |
| - retail outlets | | 3,559 | 4,016 | 7,076 | |
| - internet sales | | 2,547 | 2,757 | 7,719 | |
| Leisure goods - wholesalers | | 1,556 | 2,052 | 5,789 | |
| - retail outlets | | 846 | 2,229 | 3,216 | |
| Computer software | | 707 | 828 | 1,207 | |
| Construction | | 510 | 203 | 4,637 | |
| Total segment liabilities | | 19,198 | 22,214 | 52,328 | |
| Liabilities relating to toy and bicycle operations (now discontinued) | | 3,684 | 4,982 | 8,338 | |
| Unallocated | | 72,401 | 70,614 | 70,984 | |
| Consolidated liabilities | | 95,283 | 97,810 | 131,650 | |
| HKFRS 8.27 | | For the purposes of monitoring segment performance and allocating resources between segments: | | | |
| | | <ul style="list-style-type: none">all assets are allocated to reportable segments other than interests in associates, held-to-maturity investments, available-for-sale investments, held-for-trading investments, other financial assets, and current and deferred tax assets. Goodwill is allocated to reportable segments as described in note 22. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; andall liabilities are allocated to reportable segments other than current and deferred tax liabilities, other financial liabilities, borrowing, obligations under finance leases, loans from government, and convertible notes. Liabilities for which segments are jointly liable are allocated in proportion to segment assets. | | | |

| Source | Hong Kong GAAP Limited | | | | |
|-------------------------|--|--|--|-------------------|-------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | |
| | Other segment information | | | | |
| HKFRS 8.23(e), 24(b) | | <div>Depreciation and amortisation</div> <div><div>Year ended 31/12/10</div><div>Year ended 31/12/09</div></div> <div><div>HK\$'000</div><div>HK\$'000</div></div> | <div>Additions to non-current assets</div> <div><div>Year ended 31/12/10</div><div>Year ended 31/12/09</div></div> <div><div>HK\$'000</div><div>HK\$'000</div></div> | | |
| | Electronic equipment - wholesalers | 3,689 | 4,595 | 4,696 | 2,506 |
| | - retail outlets | 2,076 | 2,066 | 1,770 | 1,023 |
| | - internet sales | 2,067 | 1,942 | 4,205 | 2,382 |
| | Leisure goods - wholesalers | 1,514 | 1,508 | 3,880 | 1,547 |
| | - retail outlets | 1,589 | 2,240 | 4,234 | 2,901 |
| | Computer software | 957 | 987 | 1,692 | 1,560 |
| | Construction | 520 | 540 | 290 | 363 |
| | | <div>12,412</div> | <div>13,878</div> | <div>20,767</div> | <div>12,282</div> |
| HKFRS 8.23(i) | In addition to the depreciation and amortisation reported above, impairment losses of HK\$1.204 million (2009: nil) and HK\$235,000 (2009: nil) were recognised in respect of property, plant and equipment and goodwill respectively. These impairment losses were attributable to the following reportable segments: | | | | |
| | | | | | HK\$'000 |
| | <i>Impairment losses recognised for the year in respect of property, plant and equipment:</i> | | | | |
| | Electronic equipment - wholesalers | | | | 529 |
| | - retail outlets | | | | 285 |
| | - internet sales | | | | 390 |
| | | | | | <div>1,204</div> |
| | <i>Impairment losses recognised for the year in respect of goodwill:</i> | | | | |
| | Construction | | | | <div>235</div> |
| HKFRS 8.23(f) | Rectification costs of HK\$4.17 million disclosed in note 13 relate to the 'electronic equipment – wholesalers' reportable segment. | | | | |
| | Revenue from major products and services | | | | |
| HKFRS 8.32 | The Group's revenue from continuing operations from its major products and services were as follows: | | | | |
| | | <div>Year ended 31/12/10</div> <div>HK\$000</div> | <div>Year ended 31/12/09</div> <div>HK\$000</div> | | |
| | Electronic equipment | 85,266 | 91,874 | | |
| | Sports shoes and equipment | 21,003 | 22,850 | | |
| | Outdoor play equipment | 12,963 | 14,128 | | |
| | Installation of computer software | 16,388 | 18,215 | | |
| | Construction | <div>5,298</div> | <div>4,773</div> | | |
| | | <div>140,918</div> | <div>151,840</div> | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------|--|---------------------|---------------------------------|----------------|---------------------|--|--|---------------------|---------------------|----------|----------|--|----------|----------|----------|----------|-----|--------|--------|--------|--------|-----------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------------------|-------|-------|-------|-------|--|----------------|----------------|----------------|----------------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>Geographical information</p> <p>The Group operates in three principal geographical areas – the People's Republic of China (excluding Hong Kong) (the PRC), Hong Kong and Malaysia.</p> <p>The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets* by location of assets are detailed below:</p> <table> <tr> <th></th> <th colspan="2">Revenue from external customers</th> <th colspan="2">Non-current assets*</th> </tr> <tr> <th></th> <th>Year ended 31/12/10</th> <th>Year ended 31/12/09</th> <th>31/12/10</th> <th>31/12/09</th> </tr> <tr> <th></th> <th>HK\$'000</th> <th>HK\$'000</th> <th>HK\$'000</th> <th>HK\$'000</th> </tr> <tr> <td>PRC</td> <td>54,202</td> <td>63,971</td> <td>71,485</td> <td>93,043</td> </tr> <tr> <td>Hong Kong</td> <td>55,898</td> <td>53,562</td> <td>52,597</td> <td>55,745</td> </tr> <tr> <td>Malaysia</td> <td>25,485</td> <td>25,687</td> <td>16,085</td> <td>19,341</td> </tr> <tr> <td>European countries</td> <td>5,333</td> <td>8,620</td> <td>5,826</td> <td>8,809</td> </tr> <tr> <td></td> <td><u>140,918</u></td> <td><u>151,840</u></td> <td><u>145,993</u></td> <td><u>176,938</u></td> </tr> </table> <p>* Non-current assets excluding those relating to toy and bicycle operations and excluding financial instruments, deferred tax assets, post-employment benefit assets and assets from insurance contracts.</p> <p>Information about major customers</p> <p>Included in revenues arising from sales of electronic equipment of HK\$85.3 million (2009: HK\$91.9 million) are revenues of approximately HK\$15.6 million (2009: HK\$19.8 million) which arose from sales to the Group's largest customer (the wholesalers segment). No other single customers contributed 10% or more to the Group's revenue for both 2010 and 2009.</p> | | Revenue from external customers | | Non-current assets* | | | Year ended 31/12/10 | Year ended 31/12/09 | 31/12/10 | 31/12/09 | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | PRC | 54,202 | 63,971 | 71,485 | 93,043 | Hong Kong | 55,898 | 53,562 | 52,597 | 55,745 | Malaysia | 25,485 | 25,687 | 16,085 | 19,341 | European countries | 5,333 | 8,620 | 5,826 | 8,809 | | <u>140,918</u> | <u>151,840</u> | <u>145,993</u> | <u>176,938</u> |
| | Revenue from external customers | | Non-current assets* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Year ended 31/12/10 | Year ended 31/12/09 | 31/12/10 | 31/12/09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PRC | 54,202 | 63,971 | 71,485 | 93,043 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hong Kong | 55,898 | 53,562 | 52,597 | 55,745 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Malaysia | 25,485 | 25,687 | 16,085 | 19,341 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| European countries | 5,333 | 8,620 | 5,826 | 8,809 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>140,918</u> | <u>151,840</u> | <u>145,993</u> | <u>176,938</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 8.33(a), (b) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 8.34 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | |
|-------------------------------------|---|---------------------------------------|---------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 7. Investment and other income | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Continuing operations | | |
| HKAS 18.35(b)(iii) HKFRS 7.20(b) | Interest income on: | | |
| | Bank deposits | 2,098 | 790 |
| | Available-for-sale investments | 154 | 148 |
| | Other loans and receivables | 66 | 5 |
| | Held-to-maturity investments | 245 | 210 |
| | Total interest income | 2,563 | 1,153 |
| HKAS 18.35(b)(v) HKAS 20.39(b) | Dividends from equity investments | 156 | 154 |
| | Government grants received for staff re-training | 731 | 979 |
| | Rental income from investment properties | 18 | 14 |
| | Other | 140 | 51 |
| | | 3,608 | 2,351 |
| Sch 10:13(1)(g) | Included above is income from listed investments of HK\$421,000 (2009: HK\$401,000) and from unlisted investments of HK\$134,000 (2009: HK\$111,000). | | |
| HKFRS 7.20(b) | The following is an analysis of investment and other income. | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Available-for-sale investments | 154 | 148 |
| | Loans and receivables (including cash and bank balances) | 2,164 | 795 |
| | Held-to-maturity investments | 245 | 210 |
| HKFRS 7.20(b) | Total interest income earned on financial assets that are not designated as at fair value through profit or loss | 2,563 | 1,153 |
| | Dividend income earned on available-for-sale financial assets | 156 | 154 |
| | Investment income earned on non-financial assets | 889 | 1,044 |
| | | 3,608 | 2,351 |
| | Income relating to financial assets classified as at fair value through profit or loss is included in 'other gains and losses' in note 8. | | |

| Source | Hong Kong GAAP Limited | | |
|---------------|---|---------------------------------------|---------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 8. Other gains and losses | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Continuing operations | | |
| HKAS 1.98(c) | Gain on disposal of property, plant and equipment | 6 | 67 |
| HKAS 40.76(d) | Gain arising on change in fair value of investment properties | 50 | 298 |
| HKAS 21.52(a) | Net foreign exchange gains/(loss) | 78 | (166) |
| HKFRS 7.20(a) | Gain/(loss) arising on change in fair value of financial assets designated as at FVTPL | - | - |
| HKFRS 7.20(a) | Gain/(loss) arising on change in fair value of financial assets classified as held for trading | 8 | (10) |
| HKFRS 7.20(a) | Gain/(loss) arising on change in fair value of financial liabilities designated as at FVTPL | - | - |
| HKFRS 7.20(a) | Gain/(loss) arising on change in fair value of financial liabilities classified as held for trading | - | - |
| HKFRS 7.20(a) | Cumulative gain/(loss) reclassified from equity to profit or loss on disposal of available-for-sale investments | - | - |
| HKFRS 7.24(b) | Hedge ineffectiveness in cash flow hedges | 89 | 68 |
| HKFRS 7.24(c) | Hedge ineffectiveness in net investment hedges | - | - |
| HKAS 36.126 | Impairment loss recognised in respect of property, plant and equipment | (1,204) | - |
| HKAS 36.126 | Impairment loss recognised in respect of goodwill | (235) | - |
| HKFRS 7.20(e) | Impairment losses on financial assets | | |
| | - trade receivables | (63) | (430) |
| | - available-for-sale equity investments | - | - |
| | - available-for-sale debt investments | - | - |
| | - held-to-maturity investments | - | - |
| | - loans carried at amortised cost | - | - |
| | Reversal of impairment losses on trade receivables | 103 | - |
| | Gain on effective settlement of legal claim against Subseven Limited (note 50) | 40 | - |
| | | <u>(1,128)</u> | <u>(173)</u> |

| Source | Hong Kong GAAP Limited | | |
|--|--|--|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 9. Finance costs | | |
| | | Year ended <u>31/12/10</u> HK\$'000 | Year ended <u>31/12/09</u> HK\$'000 |
| | Continuing operations | | |
| Sch 10:13(1)(b) | Interest on: | | |
| | Bank and other borrowings | | |
| | - wholly repayable within five years | 3,067 | 5,485 |
| | - not wholly repayable within five years | 794 | 850 |
| | Finance leases | 2 | 5 |
| | Interest on interest-free government loans | 188 | - |
| | Interest on convertible notes | 110 | - |
| | Unwinding of discounts on provisions | 28 | - |
| | | <u>4,189</u> | <u>6,340</u> |
| HKFRS 7.20(b) HKAS 23.26(a) App 16.22(2) GR 18.22 | Total borrowing costs | 4,189 | 6,340 |
| | Less: amounts capitalised in the cost of qualifying assets | <u>(11)</u> | <u>(27)</u> |
| | | <u>4,178</u> | <u>6,313</u> |
| HKFRS 7.24(a)(i) | Fair value gain on interest rate swaps in a designated fair value hedge accounting relationship | (35) | (27) |
| HKFRS 7.24(a)(ii) | Loss arising on fair value adjustment to hedged item in a designated fair value hedge accounting relationship | <u>35</u> | <u>27</u> |
| | | <u>-</u> | <u>-</u> |
| | | <u>4,178</u> | <u>6,313</u> |
| HKAS 23. 26(b) | The weighted average capitalisation rate on funds borrowed generally is 8.0% per annum (2009: 7.8% per annum). Finance costs relating to financial liabilities classified as at fair value through profit or loss are included in 'other gains and losses' in note 8. | | |

| Source | Hong Kong GAAP Limited | | |
|-------------------------------|--|------------------------------------|------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 10. Income tax expense (relating to continuing operations) | | |
| | <i>Income tax recognised in profit or loss</i> | | |
| HKAS 12.79 Sch 10:13(1)(c) | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Current tax: | | |
| | Hong Kong | 4,389 | 4,952 |
| | PRC Enterprise Income Tax | 5,513 | 5,790 |
| | Other jurisdictions | 34 | 55 |
| | | <u>9,936</u> | <u>10,797</u> |
| | Under/(over) provision in prior year: | | |
| | Hong Kong | - | - |
| | PRC Enterprise Income Tax | - | - |
| | Other jurisdictions | - | - |
| | | <u>-</u> | <u>-</u> |
| | Deferred tax (note 42): | | |
| | Current year | 1,714 | 1,088 |
| | Attributable to a change in tax rate | - | - |
| | | <u>1,714</u> | <u>1,088</u> |
| | Total income tax recognised in profit or loss | <u>11,650</u> | <u>11,885</u> |
| Sch 10:17(3) | Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. | | |

| Source | Hong Kong GAAP Limited | | |
|---------------|---|------------------------------------|------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKAS 12.81(c) | The tax charge for the year can be reconciled to the profit per the consolidated [statement of comprehensive income/income statement] as follows: | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Profit before tax (from continuing operations) | 30,910 | 32,118 |
| | Tax at PRC Enterprise Income Tax rate of 25% (2009: 25%) | 7,728 | 8,030 |
| | Tax effect of share of profits of associates | (297) | (397) |
| | Tax effect of expenses not deductible for tax purpose | 4,515 | 5,673 |
| | Tax effect of income not taxable for tax purpose | (86) | (581) |
| | Under/(over) provision in prior year | - | - |
| | 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) |
| | Income tax expense for the year (relating to continuing operations) | 11,650 | 11,885 |
| HKAS 12.81(a) | Income tax recognised directly in equity | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Current tax | | |
| | [please describe] | - | - |
| | Deferred tax | | |
| | Arising on transactions with owners: | | |
| | Initial recognition of the equity component of convertible notes | 208 | - |
| | Others [please describe] | - | - |
| | | 208 | - |
| | Total income tax recognised directly in equity | 208 | - |

| Source | Hong Kong GAAP Limited | | |
|--------------------------|--|------------------------------------|------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKAS 12.81(ab) | <i>Income tax recognised in other comprehensive income</i> | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | <i>Current tax</i> [describe] | - | - |
| | <i>Deferred tax</i> Arising on income and expenses recognised in other comprehensive income: | | |
| | Revaluations of available-for-sale financial assets | (100) | 19 |
| | Revaluations of financial instruments treated as cash flow hedges | 101 | 79 |
| | Other [please describe] | - | - |
| | | 1 | 98 |
| | Arising on reclassification of cumulative gain of effective hedging instruments recognised in relation to cash flow hedges from equity to profit or loss | (86) | (86) |
| | Total income tax recognised in other comprehensive income | (85) | 12 |
| | 11. Discontinued operations | | |
| | <i>Disposal of toy manufacturing operations</i> | | |
| HKFRS 5.30 HKFRS 5.41 | On 28 September 2010, the Company entered into a sale agreement to dispose of Subzero Limited, which carried out all of the Group's toy manufacturing operations. The disposal of the toy manufacturing operations is consistent with the Group's long-term policy to focus its activities in the electronic equipment and other leisure goods markets. The disposal was completed on 30 November 2010, on which date control of the toy manufacturing operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in note 51. | | |
| | <i>Plan to dispose of the bicycle business</i> | | |
| HKFRS 5.30 HKFRS 5.41 | On 30 November 2010, the Board of Directors announced a plan to dispose of the Group's bicycle business. The disposal is consistent with the Group's long-term policy to focus its activities in the electronic equipment and other leisure goods markets. The Group is actively seeking a buyer for its bicycle business and expects to complete the sale by 31 July 2011. The net proceeds of sale are expected to exceed the carrying amount of the related net assets and, accordingly, no impairment losses were recognised, neither when the operation was reclassified as held for sale nor at the end of the reporting period. | | |
| | <i>Analysis of profit for the year from discontinued operations</i> | | |
| | The combined results of the discontinued operations (i.e. toy and bicycle businesses) included in the consolidated [statement of comprehensive income/income statement] and consolidated statement of cash flows are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year. | | |

| Source | Hong Kong GAAP Limited | | |
|-----------------|--|---------------------------------------|---------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| HKFRS 5.33(b) | <u>Profit for the year from discontinued operations</u> | | |
| | Revenue | 64,435 | 77,892 |
| | Other gains | 30 | 49 |
| | Expenses | (54,935) | (64,948) |
| | | | |
| HKAS 12.81(h) | Profit before tax | 9,530 | 12,993 |
| | Attributable income tax expense | (2,524) | (2,998) |
| | | 7,006 | 9,995 |
| | | | |
| | Loss on remeasurement to fair value less costs to sell | - | - |
| | Gain on disposal of operation (including HK\$0.12 million reclassification of foreign currency translation reserve from equity to profit or loss on disposal of the operation (note 51)) | 1,789 | - |
| HKAS 12.81(h) | Attributable income tax expense | (485) | - |
| | | 1,304 | - |
| HKFRS 5.33(d) | Profit for the year from discontinued operations (attributable to owners of the Company) | 8,310 | 9,995 |
| | Profit for the year from discontinued operations include the following: | | |
| Sch 10:13(1)(a) | Depreciation and amortisation | 1,767 | 3,472 |
| Sch 10:15 | Auditor's remuneration | 150 | 130 |
| HKFRS 5.33(c) | <u>Cash flows from discontinued operations</u> | | |
| | Net cash inflows from operating activities | 6,381 | 7,078 |
| | Net cash inflows from investing activities | 2,767 | - |
| | Net cash outflows from financing activities | (5,000) | - |
| | | | |
| | Net cash inflows | 4,148 | 7,078 |
| | The bicycle business has been classified and accounted for at 31 December 2010 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 2010 – continued | | |
| | 12. Assets classified as held for sale | | |
| | | <u>31/12/10</u> <u>HK\$'000</u> | <u>31/12/09</u> <u>HK\$'000</u> |
| | | | <u>01/01/09</u> <u>HK\$'000</u> |
| | Leasehold land (Note 1) | 1,260 | - |
| | Assets related to bicycle business (Note 2) | 21,076 | - |
| | | <u>22,336</u> | <u>-</u> |
| | Liabilities directly associated with assets classified as held for sale (Note 2) | <u>3,684</u> | <u>-</u> |
| | Notes: | | |
| HKFRS 5.41 | 1) The Group intends to dispose of a parcel of leasehold land it no longer utilises in the next 12 months. The property located on the leasehold land was previously used in the Group's toy manufacturing operations and has been fully depreciated. A search is underway for a buyer. No impairment loss was recognised on reclassification of the land as held for sale nor at 31 December 2010. | | |
| HKFRS 5.41 HKFRS 5.38 | 2) As described in note 11, the Group is seeking to dispose of its bicycle business and anticipates that the disposal will be completed by 31 July 2011. The major classes of assets and liabilities of the bicycle business at the end of the reporting period are as follows: | | |
| | | | <u>31/12/10</u> <u>HK\$'000</u> |
| | Goodwill | | 1,147 |
| | Property, plant and equipment | | 16,944 |
| | Inventories | | 830 |
| | Trade receivables | | 1,980 |
| | Cash and bank balances | | <u>175</u> |
| | Assets of bicycle business classified as held for sale | | <u>21,076</u> |
| | Trade payables | | (3,254) |
| | Current tax liabilities | | - |
| | Deferred tax liabilities | | <u>(430)</u> |
| | Liabilities of bicycle business associated with assets classified as held for sale | | <u>(3,684)</u> |
| | Net assets of bicycle business classified as held for sale | | <u>17,392</u> |
| | 13. Profit for the year from continuing operations | | |
| HKFRS 5.33(d) | Profit for the year from continuing operations is attributable to: | | |
| | | <u>Year ended</u> <u>31/12/10</u> <u>HK\$'000</u> | <u>Year ended</u> <u>31/12/09</u> <u>HK\$'000</u> |
| | Owners of the Company | 15,260 | 17,470 |
| | Non-controlling interests | <u>4,000</u> | <u>2,763</u> |
| | | <u>19,260</u> | <u>20,233</u> |

| Source | Hong Kong GAAP Limited | | |
|-------------------------------|---|---------------------------------------|---------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | Profit for the year from continuing operations has been arrived at after charging (crediting): | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| HKAS 16.73(e) (vii) | Depreciation of property, plant and equipment | 10,820 | 12,322 |
| 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 |
| HKAS 1.104 Sch 10:13(1)(a) | Total depreciation and amortisation | 12,412 | 13,878 |
| Sch 10:15 | Auditor's remuneration | 2,000 | 1,850 |
| HKAS 38.126 | Research and development costs | 502 | 440 |
| HKAS 40.75(f) | Gross rental income from investment properties | (18) | (14) |
| | Less: | | |
| | Direct operating expenses from investment properties that generated rental income during the year | 1 | 2 |
| | Direct operating expenses from investment properties that did not generate rental income during the year | - | - |
| | | (17) | (12) |
| | Employee benefits expense: | | |
| | Post employment benefits | | |
| HKAS 19.46 | Defined contribution plans | 160 | 148 |
| HKAS 19.120A(g) | Defined benefit plans | 586 | 556 |
| | | 746 | 704 |
| HKFRS 2.50 | Share-based payments | | |
| HKFRS 2.51(a) | Equity-settled share-based payments | 218 | 246 |
| HKFRS 2.51(a) | Cash-settled share-based payments | - | - |
| | | 218 | 246 |
| HKAS 19.142 | Termination benefits | - | - |
| | Other employee benefits | 8,851 | 10,613 |
| HKAS 1.104 | Total employee benefits expense | 9,815 | 11,563 |
| HKAS 2.36(d) | Cost of inventories recognised as an expense | 86,780 | 90,100 |
| HKAS 1.97 | Costs of HK\$4.17 million (2009: 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]. The amount represents the estimated cost of work to be carried out in accordance with an agreed schedule of works up to 2012. 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 2011 and 2012 (see note 40). | | |

s161
s161A
App 16.24
GR 18.28

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

14. Directors' emoluments

The emoluments paid or payable to each of the six (2009: six) directors were as follows:

| 2010 | 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 HK\$'000 |
|---|--|---|---|--------------------------------------|--|------------------------------------|---------------------------|
| 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 |
| 2009 | 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 HK\$'000 |
| 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) | 50 | 70 | 70 | - | - | - | 190 |
| Total emoluments | 795 | 260 | 225 | 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 2010 – continued | | | | | | | | | | | | | | | | | | |
| App 16.25 GR 18.30 | 15. Employees' emoluments <p>Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining two (2009: two) individuals were as follows:</p> <table><tr><td></td><td>Year ended 31/12/10 HK\$'000</td><td>Year ended 31/12/09 HK\$'000</td></tr><tr><td>Salaries and other benefits</td><td>200</td><td>180</td></tr><tr><td>Contributions to retirement benefits schemes</td><td>5</td><td>10</td></tr><tr><td>Share-based payment expense</td><td>55</td><td>40</td></tr><tr><td>Discretionary and performance related incentive payments</td><td>-</td><td>-</td></tr><tr><td></td><td><u>260</u></td><td><u>230</u></td></tr></table> <p>Their emoluments were all within HK\$nil to 1,000,000.</p> | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 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 | - | - | | <u>260</u> | <u>230</u> |
| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 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 | - | - | | | | | | | | | | | | | | | | | |
| | <u>260</u> | <u>230</u> | | | | | | | | | | | | | | | | | |
| Sch 10:13(1)(j) | 16. Dividends <table><tr><td></td><td>Year ended 31/12/10 HK\$'000</td><td>Year ended 31/12/09 HK\$'000</td></tr><tr><td>Dividends recognised as distributions during the year:</td><td></td><td></td></tr><tr><td>2010 Interim, paid - HK10.00 cents per share (2009: nil)</td><td>2,300</td><td>-</td></tr><tr><td>2009 Final, paid - HK17.80 cents per share (2009: 2008 Final, paid HK27.76 cents per share)</td><td><u>4,096</u></td><td><u>6,387</u></td></tr><tr><td></td><td><u>6,396</u></td><td><u>6,387</u></td></tr></table> | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | Dividends recognised as distributions during the year: | | | 2010 Interim, paid - HK10.00 cents per share (2009: nil) | 2,300 | - | 2009 Final, paid - HK17.80 cents per share (2009: 2008 Final, paid HK27.76 cents per share) | <u>4,096</u> | <u>6,387</u> | | <u>6,396</u> | <u>6,387</u> | | | |
| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | | | | | | | | | | | | | | | | | |
| Dividends recognised as distributions during the year: | | | | | | | | | | | | | | | | | | | |
| 2010 Interim, paid - HK10.00 cents per share (2009: nil) | 2,300 | - | | | | | | | | | | | | | | | | | |
| 2009 Final, paid - HK17.80 cents per share (2009: 2008 Final, paid HK27.76 cents per share) | <u>4,096</u> | <u>6,387</u> | | | | | | | | | | | | | | | | | |
| | <u>6,396</u> | <u>6,387</u> | | | | | | | | | | | | | | | | | |
| HKAS 1.137(a) HKAS 10.13 | <p>Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2010 of HK23.31 cents per share (2009: HK22.98 cents per share in respect of the year ended 31 December 2009) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.</p> | | | | | | | | | | | | | | | | | | |

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

17. Earnings per share

Note: HKAS 33 Earnings per Share requires that earnings per share (EPS) information be presented in the consolidated financial statements of a group with a parent (and in the separate or individual financial statements of an entity):

- *whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets); or*
- *that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.*

If other entities choose to disclose EPS information voluntarily in financial statements that comply with HKFRSs, the disclosures in relation to EPS information 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 owners of the Company is based on the following data:

| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
|---------------|---|---------------------------------------|---------------------------------------|
| HKAS 33.70(a) | <u>Earnings</u> | | |
| | Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | 23,570 | 27,465 |
| | Effect of dilutive potential ordinary shares: | | |
| | Adjustment in relation to share options issued by subsidiaries of the Company | (83) | (70) |
| | Interest on convertible notes (net of tax) | 92 | - |
| | Earnings for the purpose of diluted earnings per share | <u>23,579</u> | <u>27,395</u> |
| HKAS 33.70(b) | <u>Number of shares</u> | | |
| | | Year ended 31/12/10 '000 | Year ended 31/12/09 '000 |
| | 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 notes | <u>1,203</u> | <u>-</u> |
| | Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>23,846</u> | <u>23,096</u> |

| Source | Hong Kong GAAP Limited | | | | | |
|------------------|--|------------------------------------|---|---|---|---|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | |
| | From continuing operations | | | | | |
| | The calculation of the basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data: | | | | | |
| HKAS 33.70(a) | Earnings figures are calculated as follows: | | | | | |
| | | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | | |
| | Profit for the year attributable to owners of the Company | | 23,570 | 27,465 | | |
| | Less: | | | | | |
| | Profit for the year from discontinued operations | | (8,310) | (9,995) | | |
| | Earnings for the purpose of basic earnings per share from continuing operations | | 15,260 | 17,470 | | |
| | Effect of dilutive potential ordinary shares: | | | | | |
| | Adjustment in relation to share options issued by subsidiaries of the Company | | (83) | (70) | | |
| | Interest on convertible notes (net of tax) | | 92 | - | | |
| | Earnings for the purpose of diluted earnings per share from continuing operations | | 15,269 | 17,400 | | |
| 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 (2009: HK43.45 cents per share) and diluted earnings per share for the discontinued operations is HK34.85 cents per share (2009: HK43.28 cents per share), based on the profit for the year from the discontinued operations of HK\$8.310 million (2009: HK\$9.995 million) and the denominators detailed above for both basic and diluted earnings per share. | | | | | |
| | Impact of changes in accounting policies | | | | | |
| HKAS 8.28(f)(ii) | Changes in the Group's accounting policies during the year are described in detail in note 2. The table below summarises that impact on both basic and diluted earnings per share. | | | | | |
| | Increase (decrease) in profit for the year | | Increase (decrease) in basic earnings per share | | Increase (decrease) in diluted earnings per share | |
| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | Year ended 31/12/10 Cents per share | Year ended 31/12/09 Cents per share | Year ended 31/12/10 Cents per share | Year ended 31/12/09 Cents per share |
| | Changes in accounting policies relating to: | | | | | |
| | - Business combinations | (105) | - | (0.46) | - | (0.44) |
| | - Changes in ownership interests in subsidiaries | (34) | - | (0.15) | - | (0.14) |
| | - Disposal of associates | 72 | - | 0.32 | - | 0.30 |
| | | (67) | - | (0.29) | - | (0.28) |

| Source | Hong Kong GAAP Limited | | | | | | |
|--|---|-------------------|-----------|-----------------------------------|------------------------|--|----------|
| HKAS 16.73(a) HKAS 16.73(d), (e) Sch 10:12(8) | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | |
| | 18. Property, plant and equipment | | | | | | |
| | | Leasehold land | Buildings | Property under construction | Plant and equipment | Equipment under finance lease | Total |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | Cost | | | | | | |
| | Balance at 1 January 2009 | 19,055 | 13,859 | 113 | 157,794 | 630 | 191,451 |
| | Additions | - | 1,008 | 197 | 10,657 | 40 | 11,902 |
| | Disposals | - | - | - | (25,788) | - | (25,788) |
| | Transferred to investment property | - | - | (310) | - | - | (310) |
| | Effect of foreign currency exchange differences | (860) | - | - | (1,498) | - | (2,358) |
| | Balance at 31 December 2009 | 18,195 | 14,867 | - | 141,165 | 670 | 174,897 |
| | Additions | - | - | - | 20,183 | - | 20,183 |
| | Disposals | (1,439) | - | - | (12,401) | (624) | (14,464) |
| | Derecognised on disposal of a subsidiary | - | - | - | (8,419) | - | (8,419) |
| | Acquisitions through business combinations | - | - | - | 512 | - | 512 |
| | Reclassified as held for sale | (1,260) | (1,357) | - | (22,045) | - | (24,662) |
| | Effect of foreign currency exchange differences | 309 | - | - | 1,673 | - | 1,982 |
| | Balance at 31 December 2010 | 15,805 | 13,510 | - | 120,668 | 46 | 150,029 |
| | Accumulated depreciation and impairment | | | | | | |
| | Balance at 1 January 2009 | (2,132) | (1,551) | - | (22,887) | (378) | (26,948) |
| | Eliminated on disposals of assets | - | - | - | 4,610 | - | 4,610 |
| | Depreciation expense | (1,002) | (947) | - | (13,715) | (130) | (15,794) |
| | Effect of foreign currency exchange differences | (3) | (2) | - | 451 | - | 446 |
| | Balance at 31 December 2009 | (3,137) | (2,500) | - | (31,541) | (508) | (37,686) |
| | Eliminated on disposals of assets | - | 106 | - | 3,602 | 500 | 4,208 |
| | Eliminated on disposal of a subsidiary | - | - | - | 2,757 | - | 2,757 |
| | Eliminated on reclassification as held for sale | 140 | 153 | - | 6,165 | - | 6,458 |
| HKAS 36.126(a) | Impairment losses recognised in profit or loss | - | - | - | (1,204) | - | (1,204) |
| HKAS 36.126(b) | Reversals of impairment losses recognised in profit or loss | - | - | - | - | - | - |
| | Depreciation expense | (801) | (774) | - | (11,002) | (10) | (12,587) |
| | Effect of foreign currency exchange differences | - | - | - | (392) | - | (392) |
| | Balance at 31 December 2010 | (3,798) | (3,015) | - | (31,615) | (18) | (38,446) |
| | Carrying amounts | | | | | | |
| | Balance at 31 December 2010 | 12,007 | 10,495 | - | 89,053 | 28 | 111,583 |
| | Balance at 31 December 2009 | 15,058 | 12,367 | - | 109,624 | 162 | 137,211 |
| | Balance at 1 January 2009 | 16,923 | 12,308 | 113 | 134,907 | 252 | 164,503 |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|--|-----------------|----------------------------|-----------------|--|---------------------|----------|-------------------------------|-----|--|------------|---|---|-------------------|-------|-------|--|--------------|--------------|-------------------------|--|--|----------|---|---|------------|-------|--------|-------------------|-------|-------|-------------|---|---|--|---------------|---------------|--|---------------|---------------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 16.73(c) | <p>The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:</p> <table><tr><td>Leasehold land</td><td>Over the term of the lease</td></tr><tr><td>Buildings</td><td>Over the shorter of the term of the lease, and 20 – 30 years</td></tr><tr><td>Plant and equipment</td><td>7 – 20%</td></tr><tr><td>Equipment under finance lease</td><td>20%</td></tr></table> | Leasehold land | Over the term of the lease | Buildings | Over the shorter of the term of the lease, and 20 – 30 years | Plant and equipment | 7 – 20% | Equipment under finance lease | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Leasehold land | Over the term of the lease | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Buildings | Over the shorter of the term of the lease, and 20 – 30 years | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Plant and equipment | 7 – 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equipment under finance lease | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>Impairment losses recognised in the current year</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 36.130(a) to (g) HKAS 36.131 | <p>During the year, as the result of the unexpected poor performance of a manufacturing plant, the Group carried out a review of the recoverable amount of that manufacturing plant and the related equipment. These assets are used in the Group's electronic equipment reportable segments. The review led to the recognition of an impairment loss of HK\$1.09 million, which 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. No impairment assessment was performed in 2009 as there was no indication of impairment.</p> <p>Additional impairment losses recognised in respect of property, plant and equipment in the year amounted to HK\$0.114 million. These losses are attributable to greater than anticipated wear and tear. These assets are also used in the Group's electronic equipment reportable segments.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 36.126(a) | <p>The impairment losses have been included in the ["other gains and losses"] line item in the consolidated [statement of comprehensive income/income statement].</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sch 10:12(9) Sch 10:31(c) | <p>The carrying value of properties shown above comprises:</p> <table><tr><td></td><td><u>31/12/10</u></td><td><u>31/12/09</u></td></tr><tr><td></td><td>HK\$'000</td><td>HK\$'000</td></tr><tr><td>Land in Hong Kong:</td><td></td><td></td></tr><tr><td> Long lease</td><td>-</td><td>-</td></tr><tr><td> Medium-term lease</td><td>1,600</td><td>1,700</td></tr><tr><td></td><td><u>1,600</u></td><td><u>1,700</u></td></tr><tr><td>Land outside Hong Kong:</td><td></td><td></td></tr><tr><td> Freehold</td><td>-</td><td>-</td></tr><tr><td> Long lease</td><td>7,507</td><td>10,210</td></tr><tr><td> Medium-term lease</td><td>2,900</td><td>3,148</td></tr><tr><td> Short lease</td><td>-</td><td>-</td></tr><tr><td></td><td><u>10,407</u></td><td><u>13,358</u></td></tr><tr><td></td><td><u>12,007</u></td><td><u>15,058</u></td></tr></table> | | <u>31/12/10</u> | <u>31/12/09</u> | | HK\$'000 | HK\$'000 | Land in Hong Kong: | | | Long lease | - | - | Medium-term lease | 1,600 | 1,700 | | <u>1,600</u> | <u>1,700</u> | Land outside Hong Kong: | | | Freehold | - | - | Long lease | 7,507 | 10,210 | Medium-term lease | 2,900 | 3,148 | Short lease | - | - | | <u>10,407</u> | <u>13,358</u> | | <u>12,007</u> | <u>15,058</u> |
| | <u>31/12/10</u> | <u>31/12/09</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Land in Hong Kong: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Medium-term lease | 1,600 | 1,700 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>1,600</u> | <u>1,700</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Land outside Hong Kong: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Freehold | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long lease | 7,507 | 10,210 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Medium-term lease | 2,900 | 3,148 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Short lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>10,407</u> | <u>13,358</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>12,007</u> | <u>15,058</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>Assets pledged as security</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 16.74(a) Sch 10:12(4) | <p>Leasehold land and buildings with a carrying amount of approximately HK\$22.5 million (31 December 2009: approximately HK\$27.4 million) have been pledged to secure general banking facilities granted to the Group.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | |
|--------------|--|--|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| Sch 10:12(9) | 19. Prepaid lease payments | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 |
| | The Group's prepaid lease payments comprise: | | |
| | Land outside Hong Kong | | |
| | Long lease | - | - |
| | Medium term lease | 2,400 | 2,500 |
| | Short lease | - | - |
| | | <u>2,400</u> | <u>2,500</u> |
| | Analysed for reporting purposes as: | | |
| | Current assets (included in trade and other receivables) | 100 | 100 |
| | Non-current assets | <u>2,300</u> | <u>2,400</u> |
| | | <u>2,400</u> | <u>2,500</u> |
| | 20. Investment properties | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 |
| | Completed investment properties | 126 | 132 |
| | Investment properties under construction | <u>1,960</u> | <u>1,810</u> |
| | | <u>2,086</u> | <u>170</u> |
| | | | |
| | | <u>Year ended</u> <u>31/12/10</u> HK\$'000 | <u>Year ended</u> <u>31/12/09</u> HK\$'000 |
| HKAS 40.76 | At fair value | | |
| | Completed investment properties | | |
| | Balance at beginning of year | 132 | 170 |
| | Additions | - | 12 |
| | Disposals | - | (58) |
| | Gain (loss) on property revaluation | - | 8 |
| | Effect of foreign currency exchange differences | <u>(6)</u> | <u>-</u> |
| | Balance at end of year | <u>126</u> | <u>132</u> |
| | Investment properties under construction | | |
| | Balance at beginning of year | 1,810 | - |
| | Investment properties under construction transferred to investment properties (Note) | - | 1,510 |
| | Additions | 100 | 10 |
| | Disposals | - | - |
| | Gain (loss) on property revaluation | 50 | 290 |
| | Effect of foreign currency exchange differences | <u>-</u> | <u>-</u> |
| | Balance at end of year | <u>1,960</u> | <u>1,810</u> |
| | Total investment properties | <u>2,086</u> | <u>1,942</u> |
| | Note: For the year ended 31 December 2009, investment property under construction with carrying amount of HK\$310,000 and prepaid lease payments with carrying amount of HK\$1,200,000 were transferred from property, plant and equipment and prepaid lease payments respectively to investment properties following the application of the amendments to HKAS 40 <i>Investment Property</i> (as part of <i>Improvements to HKFRSs</i> issued in 2008). | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------|--|-----------------------------|-----------------------------|-----------------------------|--------------------|--|--|------------|---|---|-------------------|-------|-------|-------------------------|--|--|------------|---|---|-------------------|---|---|-------------|---|---|--|--------------|--------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 40.75(d), (e) | The fair values of the Group's investment properties (including investment properties under construction) at 31 December 2010 and 2009 have been arrived at on the basis of a valuation carried out at that date by Messrs. [XYZ], independent qualified professional valuers not connected to the Group. Messrs. [XYZ] are members of the [Hong Kong Institute of Valuers], and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to [market evidence of transaction prices for similar properties / others (please specify)]. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 40.75(b) | All of the Group's property interests held under operating leases to earn rentals 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 (including investment properties under construction) have been pledged to secure general banking facilities granted to the Group. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sch 10:12(9) | <p>The carrying amount of investment properties shown above comprises:</p> <table><tr><td></td><td><u>31/12/10</u> HK\$'000</td><td><u>31/12/09</u> HK\$'000</td></tr><tr><td>Land in Hong Kong:</td><td></td><td></td></tr><tr><td> Long lease</td><td>-</td><td>-</td></tr><tr><td> Medium-term lease</td><td>2,086</td><td>1,942</td></tr><tr><td>Land outside Hong Kong:</td><td></td><td></td></tr><tr><td> Long lease</td><td>-</td><td>-</td></tr><tr><td> Medium-term lease</td><td>-</td><td>-</td></tr><tr><td> Short lease</td><td>-</td><td>-</td></tr><tr><td></td><td><u>2,086</u></td><td><u>1,942</u></td></tr></table> | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | Land in Hong Kong: | | | Long lease | - | - | Medium-term lease | 2,086 | 1,942 | Land outside Hong Kong: | | | Long lease | - | - | Medium-term lease | - | - | Short lease | - | - | | <u>2,086</u> | <u>1,942</u> |
| | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Land in Hong Kong: | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Medium-term lease | 2,086 | 1,942 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Land outside Hong Kong: | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Medium-term lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Short lease | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>2,086</u> | <u>1,942</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 40.75 | <p><i>Note: HKAS 40 requires entities to disclose the methods and significant assumptions applied in determining the fair value of investment properties. Entities are also required to include a statement as to whether the determination of fair value is supported by market evidence or is more heavily based on other factors.</i></p> | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | |
|----------------|---|-----------------|-----------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 21. Goodwill | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> |
| | | HK\$'000 | HK\$'000 |
| HKFRS 3.B67(d) | Cost | | |
| | Balance at beginning of year | 24,060 | 23,920 |
| | Additional amounts recognised from business combinations occurring during the year (note 50) | 478 | - |
| | Derecognised on disposal of a subsidiary (note 51) | (3,080) | - |
| | Reclassified as held for sale (note 12) | (1,147) | - |
| | Effect of foreign currency exchange differences | 209 | 140 |
| | Other [describe] | - | - |
| | Balance at end of year | <u>20,520</u> | <u>24,060</u> |
| | Accumulated impairment losses | | |
| | Balance at beginning of year | - | - |
| HKAS 36.126(a) | Impairment losses recognised in the year | (235) | - |
| | Derecognised on disposal of a subsidiary | - | - |
| | Reclassified as held for sale | - | - |
| | Effect of foreign currency exchange differences | - | - |
| | Balance at end of year | <u>(235)</u> | <u>-</u> |
| | Carrying amounts | | |
| | Balance at 31 December 2010 | | <u>20,285</u> |
| | Balance at 31 December 2009 | | <u>24,060</u> |
| | Balance at 1 January 2009 | | <u>23,920</u> |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

22. Impairment testing on goodwill

HKAS 36.134,
135

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Leisure goods – retail outlets
- Electronic equipment – internet sales
- Construction operations – Murphy Construction
- Construction operations – other.

Before recognition of impairment losses, the carrying amount of goodwill (other than goodwill relating to discontinued operations) was allocated to cash-generating units as follows:

| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 |
|---|----------------------|----------------------|
| Leisure goods – retail outlets | 10,162 | 9,620 |
| Electronic equipment – internet sales | 8,623 | 8,478 |
| Construction operations – Murphy Construction | 235 | 235 |
| Construction operations – other | 1,500 | 1,500 |
| | <u>20,520</u> | <u>19,833</u> |

Leisure goods – retail outlets

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 15% per annum (2009: 12.5% per annum).

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond that five-year period have been extrapolated using a steady 5% per annum growth rate which is the projected long-term average growth rate for the international leisure goods market. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash-generating unit.

Electronic equipment – internet sales

The recoverable amount of the 'electronic equipment – internet sales' segment and cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 15% per annum (2009: 12.5% per annum). Cash flows beyond that five-year period have been extrapolated using a steady 11% per annum growth rate. This growth rate exceeds by 0.5 percentage points the long-term average growth rate for the international electronic equipment market. However, among other factors, the internet sales cash-generating unit benefits from the protection of a 20-year patent on the Series Z electronic equipment, granted in 2005, which is still acknowledged as being one of the top models in the market. The directors believe that an 11% per annum growth rate is reasonable in the light of that patent, and of other products being developed, and their intention to focus the Group's operations on this market. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

| Source | Hong Kong GAAP Limited | | | | | | |
|-------------------------------|--|-----------------------|---|-----------------------|--|-------------------------------|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> | | | | | | |
| | <p><i>Construction operations – Murphy Construction</i></p> | | | | | | |
| HKAS 36.130 | <p>The goodwill associated with Murphy Construction arose when that business was acquired by the Group in 2004. The business has continued to operate on a satisfactory basis, but without achieving any significant increase in market share. During the year, the government of A Land introduced new regulations requiring registration and certification of builders for government contracts. In the light of the decision to focus the Group's construction activities through the other operating units in Subthree Limited, the directors have decided not to register Murphy Construction for this purpose, which means that it has no prospects of obtaining future contracts. The directors have consequently determined to write off the goodwill directly related to Murphy Construction amounting to HK\$235,000. No other write-down of the assets of Murphy Construction is considered necessary. Contracts in progress at the end of the year will be completed without loss to the Group.</p> <p>The impairment loss has been included in the 'other expenses' line item in the consolidated [statement of comprehensive income/income statement].</p> <p><i>Construction operations – other</i></p> <p>The recoverable amount of the Group's remaining construction operations has been determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 15% per annum (2009: 12.5% per annum). Cash flows beyond that five-year period have been extrapolated using a steady 8% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the construction market in A Land. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.</p> <p>The key assumptions used in the value in use calculations for the leisure goods and electronic equipment cash-generating units are as follows:</p> <table border="0"> <tr> <td data-bbox="354 1149 670 1178">Budgeted market share</td><td data-bbox="670 1149 1452 1339">Average market share in the period immediately before the budget period, plus a growth of 1-2% of market share per year. The values assigned to the assumption reflect past experience, except for the growth factor, which is consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.</td></tr> <tr> <td data-bbox="354 1368 670 1397">Budgeted gross margin</td><td data-bbox="670 1368 1452 1507">Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience, except for efficiency improvements. The directors expect efficiency improvements of 3 - 5% per year to be reasonably achievable.</td></tr> <tr> <td data-bbox="354 1536 670 1565">Raw materials price inflation</td><td data-bbox="670 1536 1452 1641">Forecast consumer price indices during the budget period for the countries from which raw materials are purchased. The values assigned to the key assumption are consistent with external sources of information.</td></tr> </table> | Budgeted market share | Average market share in the period immediately before the budget period, plus a growth of 1-2% of market share per year. The values assigned to the assumption reflect past experience, except for the growth factor, which is consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable. | Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience, except for efficiency improvements. The directors expect efficiency improvements of 3 - 5% per year to be reasonably achievable. | Raw materials price inflation | Forecast consumer price indices during the budget period for the countries from which raw materials are purchased. The values assigned to the key assumption are consistent with external sources of information. |
| Budgeted market share | Average market share in the period immediately before the budget period, plus a growth of 1-2% of market share per year. The values assigned to the assumption reflect past experience, except for the growth factor, which is consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable. | | | | | | |
| Budgeted gross margin | Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience, except for efficiency improvements. The directors expect efficiency improvements of 3 - 5% per year to be reasonably achievable. | | | | | | |
| Raw materials price inflation | Forecast consumer price indices during the budget period for the countries from which raw materials are purchased. The values assigned to the key assumption are consistent with external sources of information. | | | | | | |

| Source | Hong Kong GAAP Limited | | | | | |
|--------------------|---|------------------------------------|----------|------------|----------|----------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | |
| | 23. Other intangible assets | | | | | |
| | | Capitalised development cost | Patents | Trademarks | Licences | Total |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| HKAS 38.118(c),(e) | Cost | | | | | |
| | Balance at 1 January 2009 | 3,230 | 5,825 | 4,711 | 6,940 | 20,706 |
| | Additions | - | - | - | - | - |
| | Additions from internal developments | 358 | - | - | - | 358 |
| | Acquisitions through business combinations | - | - | - | - | - |
| | Disposals or reclassified as held for sale | - | - | - | - | - |
| | Effect of foreign currency exchange differences | - | - | - | - | - |
| | Other [describe] | - | - | - | - | - |
| | Balance at 31 December 2009 | 3,588 | 5,825 | 4,711 | 6,940 | 21,064 |
| | Additions | - | - | - | - | - |
| | Additions from internal developments | 6 | - | - | - | 6 |
| | Acquisitions through business combinations | - | - | - | - | - |
| | Disposals or reclassified as held for sale | - | - | - | - | - |
| | Effect of foreign currency exchange differences | - | - | - | - | - |
| | Other [describe] | - | - | - | - | - |
| | Balance at 31 December 2010 | 3,594 | 5,825 | 4,711 | 6,940 | 21,070 |
| | Accumulated amortisation and impairment | | | | | |
| | Balance at 1 January 2009 | (1,000) | (874) | (3,533) | (2,776) | (8,183) |
| | Amortisation expense | (682) | (291) | (236) | (347) | (1,556) |
| HKAS 36.130(b) | Disposals or reclassified as held for sale | - | - | - | - | - |
| | Impairment losses recognised in profit or loss | - | - | - | - | - |
| HKAS 36.130(b) | Reversals of impairment losses recognised in profit or loss | - | - | - | - | - |
| | Effect of foreign currency exchange differences | - | - | - | - | - |
| | Other [describe] | - | - | - | - | - |
| | Balance at 31 December 2009 | (1,682) | (1,165) | (3,769) | (3,123) | (9,739) |
| | Amortisation expense | (718) | (291) | (236) | (347) | (1,592) |
| HKAS 36.130(b) | Disposals or reclassified as held for sale | - | - | - | - | - |
| | Impairment losses recognised in profit or loss | - | - | - | - | - |
| HKAS 36.130(b) | Reversals of impairment losses recognised in profit or loss | - | - | - | - | - |
| | Effect of foreign currency exchange differences | - | - | - | - | - |
| | Other [describe] | - | - | - | - | - |
| | Balance at 31 December 2010 | (2,400) | (1,456) | (4,005) | (3,470) | (11,331) |
| | Carrying amounts | | | | | |
| | Balance at 31 December 2010 | 1,194 | 4,369 | 706 | 3,470 | 9,739 |
| | Balance at 31 December 2009 | 1,906 | 4,660 | 942 | 3,817 | 11,325 |
| | Balance at 1 January 2009 | 2,230 | 4,951 | 1,178 | 4,164 | 12,523 |
| HKAS 38.118(a) | The following useful lives are used in the calculation of amortisation: | | | | | |
| | Capitalised development costs | 5 years | | | | |
| | Patents | 20 years | | | | |
| | Trademarks | 20 years | | | | |
| | Licences | 20 years | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | |
|--------------------------------|---|---------------------------|-----------------------------------|---|-------------------------------------|--|--|---------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | | |
| | 24. Interests in associates | | | | | | | |
| | Details of the Group's interests in associates are as follows: | | | | | | | |
| Sch 10:9(1)(a) | | | | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 | |
| | Cost of investments in associates | | | | | | | |
| | Listed in Hong Kong | | | | 1,856 | 1,856 | | 1,856 |
| | Unlisted | | | | 2,624 | 2,824 | | 2,824 |
| | Share of post-acquisition profits and other comprehensive income, net of dividends received | | | | 2,839 | 2,590 | | 1,026 |
| | | | | | 7,319 | 7,270 | | 5,706 |
| s129(1)&(2) s129(4)&(5) | As at 31 December 2010 and 2009, the Group had interests in the following associates: | | | | | | | |
| | <u>Name of entity</u> | <u>Form of entity</u> | <u>Place of incorporation</u> | <u>Principal place of operation</u> | <u>Class of shares held</u> | <u>Proportion of nominal value of issued capital held by the Group</u> | <u>Proportion of voting power held</u> | <u>Principal activities</u> |
| | A Plus Limited | Incorporated | A Land | A Land | Ordinary | 17% | 17% (Note 1) | Transport |
| | B Plus Limited | Incorporated | B Land | B Land | Ordinary | 56% | 56% (Note 2) | Finance |
| | C Plus Limited | Incorporated | Hong Kong | Hong Kong | Ordinary | 25% | 25% (Note 3) | 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 under the Articles of Association of that company. | | | | | | | |
| HKAS 28.37(d) HKAS 27.41(b) | 2) The Group holds 56% of the issued share capital of B Plus Limited. 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 have significant influence over B Plus Limited and it is therefore classified as an associate of the Group. | | | | | | | |
| HKAS 28.37(a) | 3) As at 31 December 2010, the fair value of the Group's interest in C Plus Limited, of which its shares are listed on The Stock Exchange of Hong Kong Limited, was HK\$2.2 million (31 December 2009: HK\$2.0 million) and the carrying amount of the Group's interest was HK\$2.0 million (31 December 2009: HK\$1.9 million). | | | | | | | |
| HKAS 28.37(e) | The financial year end date for B Plus Limited is 31 October. For the purpose of applying the equity method of accounting, the consolidated financial statements of B Plus Limited for the year ended 31 October 2010 (2009: 31 October 2009) 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 2010. | | | | | | | |

HKAS 28.37(b)

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

| | 31/12/10 HK\$'000 | 31/12/09 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 | 7,319 | 7,270 |
| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| Total revenue | 12,054 | 11,904 |
| Total profit for the year | 3,953 | 5,479 |
| Group's share of profits of associates | 1,186 | 1,589 |
| Group's share of other comprehensive income of associates | - | - |

In the prior year, the Group held a 40% interest in E Plus Limited and accounted for the investment as an associate. In December 2010, the Group transferred a 30% interest in E Plus Limited to a third party for proceeds of HK\$1.245 million (received in January 2011). The Group has retained the remaining 10% interest as an available-for-sale investment whose fair value at the date of disposal was HK\$360,000. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows:

| | HK\$'000 |
|--|----------------|
| Proceeds of disposal | 1,245 |
| Plus: fair value of investment retained (10%) | 360 |
| Less: carrying amount of the 40% investment on the date of loss of significant influence | <u>(1,024)</u> |
| Gain recognised | 581 |

The gain recognised in the current year comprises a realised profit of HK\$477,000 (being the proceeds of HK\$1.245 million less HK\$768,000 carrying amount of the interest disposed of) and a unrealised profit of HK\$104,000 (being the fair value less the carrying amount of the 10% interest retained). A current tax expense of HK\$119,000 arose on the gain realised in the current year, and a deferred tax expense of HK\$26,000 has been recognised in respect of the portion of the profit recognised that is not taxable until the remaining interest is disposed of.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------------|---|---|------------------------------|-----------------------------|---|---------------------------------|---|---------------------------------|----------------------|-------------------------------------|---------------------|------------|------------|-------------------------|--------------|--------------|-------------------------------------|---|---|--------------|--------------|--------------|--------------|--------------|-------------------------------------|----------------------------|----------|----------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>25. Joint ventures</p> <p>As at 31 December 2010 and 2009, the Group had interests in the following significant jointly controlled entities:</p> <table><tr><th>Name of entity</th><th>Form of entity</th><th>Place of incorporation</th><th>Principal place of operation</th><th>Class of shares held</th><th>Proportion of nominal value of issued capital held by the Group</th><th>Proportion of voting power held</th><th>Principal activities</th></tr><tr><td>A JV Limited</td><td>Incorporated</td><td>Hong Kong</td><td>Hong Kong</td><td>Ordinary</td><td>25%</td><td>25%</td><td>Manufacture of electronic equipment</td></tr><tr><td>B JV Limited</td><td>Incorporated</td><td>Hong Kong</td><td>Hong Kong</td><td>Ordinary</td><td>40%</td><td>40%</td><td>Manufacture of electronic equipment</td></tr></table> | Name of entity | Form of entity | Place of incorporation | Principal place of operation | Class of shares 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% | Manufacture of electronic equipment | | | |
| Name of entity | Form of entity | Place of incorporation | Principal place of operation | Class of shares 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% | Manufacture of electronic equipment | | | | | | | | | | | | | | | | | | | | | |
| HKAS 31.56 s129(1)&(2) s129(4)&(5) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 31.56 | <p>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:</p> <table><tr><td></td><td><u>31/12/10</u> HK\$'000</td><td><u>31/12/09</u> HK\$'000</td></tr><tr><td>Current assets</td><td><u>1,800</u></td><td><u>1,850</u></td></tr><tr><td>Non-current assets</td><td><u>8,993</u></td><td><u>9,854</u></td></tr><tr><td>Current liabilities</td><td><u>936</u></td><td><u>785</u></td></tr><tr><td>Non-current liabilities</td><td><u>5,858</u></td><td><u>5,521</u></td></tr><tr><td></td><td><u>Year ended 31/12/10 HK\$'000</u></td><td><u>Year ended 31/12/09 HK\$'000</u></td></tr><tr><td>Income</td><td><u>2,124</u></td><td><u>2,005</u></td></tr><tr><td>Expenses</td><td><u>1,787</u></td><td><u>1,763</u></td></tr><tr><td>Other comprehensive income</td><td><u>-</u></td><td><u>-</u></td></tr></table> | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | Current assets | <u>1,800</u> | <u>1,850</u> | Non-current assets | <u>8,993</u> | <u>9,854</u> | Current liabilities | <u>936</u> | <u>785</u> | Non-current liabilities | <u>5,858</u> | <u>5,521</u> | | <u>Year ended 31/12/10 HK\$'000</u> | <u>Year ended 31/12/09 HK\$'000</u> | Income | <u>2,124</u> | <u>2,005</u> | Expenses | <u>1,787</u> | <u>1,763</u> | Other comprehensive income | <u>-</u> | <u>-</u> |
| | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current assets | <u>1,800</u> | <u>1,850</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-current assets | <u>8,993</u> | <u>9,854</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current liabilities | <u>936</u> | <u>785</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-current liabilities | <u>5,858</u> | <u>5,521</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>Year ended 31/12/10 HK\$'000</u> | <u>Year ended 31/12/09 HK\$'000</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income | <u>2,124</u> | <u>2,005</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expenses | <u>1,787</u> | <u>1,763</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other comprehensive income | <u>-</u> | <u>-</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.7 HKFRS 7.8(b) | <p>26. Held-to-maturity investments</p> <p>Held-to-maturity investments comprise:</p> <table><tr><td></td><td><u>31/12/10</u> HK\$'000</td><td><u>31/12/09</u> HK\$'000</td><td><u>01/01/09</u> HK\$'000</td></tr><tr><td>Debt securities (Note)</td><td><u>6,863</u></td><td><u>5,262</u></td><td><u>3,412</u></td></tr><tr><td>Analysed for reporting purposes as:</td><td></td><td></td><td></td></tr><tr><td> Current assets</td><td><u>4,804</u></td><td><u>3,604</u></td><td><u>2,200</u></td></tr><tr><td> Non-current assets</td><td><u>2,059</u></td><td><u>1,658</u></td><td><u>1,212</u></td></tr><tr><td></td><td><u>6,863</u></td><td><u>5,262</u></td><td><u>3,412</u></td></tr></table> | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 | Debt securities (Note) | <u>6,863</u> | <u>5,262</u> | <u>3,412</u> | Analysed for reporting purposes as: | | | | Current assets | <u>4,804</u> | <u>3,604</u> | <u>2,200</u> | Non-current assets | <u>2,059</u> | <u>1,658</u> | <u>1,212</u> | | <u>6,863</u> | <u>5,262</u> | <u>3,412</u> | | | |
| | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Debt securities (Note) | <u>6,863</u> | <u>5,262</u> | <u>3,412</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| Analysed for reporting purposes as: | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current assets | <u>4,804</u> | <u>3,604</u> | <u>2,200</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-current assets | <u>2,059</u> | <u>1,658</u> | <u>1,212</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>6,863</u> | <u>5,262</u> | <u>3,412</u> | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.7 | <p>Note: The debt securities are listed in Hong Kong and carry fixed interest at 6%-7.5% (2009: 6.5%-7.5%) per annum, payable monthly, and will mature from March 2011 to March 2012 (2009: March 2010 to March 2012). None of these assets has been past due or impaired at the end of the reporting period.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | |
|--|---|----------------------|----------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 27. Available-for-sale investments | | |
| HKFRS 7.7 HKFRS 7.8(d) Sch 10:9(1)(a) Sch 10:9(3) | Available-for-sale investments comprise: | | |
| | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 |
| | | | 01/01/09 HK\$'000 |
| | Listed investments: | | |
| | - Equity securities listed in Hong Kong | 2,560 | 2,315 |
| | - Debt securities listed in Hong Kong (Note 1) | 2,200 | 2,122 |
| | | 4,760 | 4,437 |
| | Unlisted securities: | | |
| | - Equity securities (Note 2) | 840 | 420 |
| | Total | 5,600 | 4,857 |
| | Analysed for reporting purposes as: | | |
| | Current assets | - | - |
| | Non-current assets | 5,600 | 4,857 |
| | | 5,600 | 4,857 |
| | Notes: | | |
| | 1) The Group holds listed redeemable notes with fixed interest of 7% (2009: 7%) per annum. The notes are redeemable at par value in 2012 (2009: redeemable at par value in 2012). The notes are held with a single counterparty with an AA credit rating. The Group holds no collateral over this balance. | | |
| HKAS 28.37(d) | 2) The Group holds 20% (2009: 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. | | |
| | At 31 December 2010, the Group also holds a 10% interest in E Plus Limited (see note 24). | | |
| HKFRS 7.27B(e) | The unlisted equity securities are measured at fair value and are classified as Level 3 fair value measurement (see note 49.3.1). 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 4.8 - 5.2% (2009: 4.9%) and a risk adjusted discount factor of 12.2 - 13.6% (31 December 2009: 11.9%) are used. If these inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the unlisted equity securities would decrease/increase by HK\$80,000 (31 December 2009: HK\$40,000). | | |

| Source | Hong Kong GAAP Limited | | | |
|----------------------------|---|-------------------------------|-----------------|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | 28. Finance lease receivables | | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> | <u>01/01/09</u> |
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| | Current finance lease receivables | 198 | 188 | 182 |
| | Non-current finance lease receivables | <u>830</u> | <u>717</u> | <u>739</u> |
| | | <u>1,028</u> | <u>905</u> | <u>921</u> |
| | Leasing arrangements | | | |
| HKAS 17.47(f) HKFRS 7.7 | Certain of the group's storage equipment are leased out under finance leases. All leases are denominated in Hong Kong dollars. The average term of finance leases entered into is 4 years. | | | |
| | Amounts receivable under finance leases | | | |
| HKAS 17.47(a) | | <u>Minimum lease payments</u> | | <u>Present value of minimum lease payments</u> |
| | | <u>31/12/10</u> | <u>31/12/09</u> | <u>31/12/10</u> |
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| | Not later than one year | 282 | 279 | 198 |
| | Later than one year and not later than five years | <u>1,074</u> | <u>909</u> | <u>830</u> |
| | | 1,356 | 1,188 | 1,028 |
| HKAS 17.47(b) | Less unearned finance income | <u>(328)</u> | <u>(283)</u> | <u>n/a</u> |
| | Present value of minimum lease payments receivable | 1,028 | 905 | 1,028 |
| HKAS 17.47(d) | Allowance for uncollectible lease payments | <u>-</u> | <u>-</u> | <u>-</u> |
| | | <u>1,028</u> | <u>905</u> | <u>1,028</u> |
| HKAS 17.47(c) | Unguaranteed residual values of assets leased under finance leases at the end of the reporting period are estimated at HK\$37,000 (31 December 2009: HK\$42,000). | | | |
| HKFRS 7.7 | The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 10.5% (31 December 2009: 11%) per annum. | | | |
| 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. | | | |
| HKFRS 7.36(c) | The finance lease receivables at the end of the reporting period are neither past due nor impaired. | | | |

| Source | Hong Kong GAAP Limited | | | |
|---|---|----------------------|----------------------|--------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| HKAS 2.36(b) | 29. Inventories | | | |
| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 | |
| | Raw materials | 4,972 | 4,322 | 4,609 |
| | Work in progress | 4,490 | 4,354 | 4,270 |
| | Finished goods | 8,905 | 11,419 | 16,233 |
| | | 18,367 | 20,095 | 25,112 |
| HKAS 1.61 | Inventories of HK\$1.29 million (31 December 2009: HK\$0.86 million) are expected to be recovered after more than twelve months. | | | |
| | 30. Trade and other receivables | | | |
| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 | |
| | Trade receivables | 19,294 | 15,070 | 12,288 |
| | Allowance for doubtful debts | (798) | (838) | (628) |
| | | 18,496 | 14,232 | 11,660 |
| | Deferred sales proceeds | | | |
| | - toy manufacturing operations (note 51) | 960 | - | - |
| | - partial disposal of E Plus Limited (note 24) | 1,245 | - | - |
| | Prepaid lease payments (note 19) | 100 | 100 | 100 |
| | Other [describe] | 194 | 460 | 597 |
| | | 20,995 | 14,792 | 12,357 |
| App 16.4(2)(b)(ii) GR 18.50B(2)(b) (ii) | The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below includes those classified as part of a disposal group held for sale, net of allowance for doubtful debts: | | | |
| | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | |
| | 0-60 days | 18,914 | 13,099 | |
| | 61-90 days | 1,100 | 800 | |
| | 91-120 days | 462 | 333 | |
| | | 20,476 | 14,232 | |
| HKFRS 7.36(c), 37 | The average credit period on sales of goods is 60 days. No interest is charged on trade receivables for the first 60 days from the date of the invoice. Thereafter, interest is charged at 2% per annum on the outstanding balance. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables between 60 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. | | | |
| HKFRS 7.34(c), 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% (31 December 2009: 75%) 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. Of the trade receivables balance at the end of the year, HK\$6.9 million (31 December 2009: HK\$5.9 million) is due from the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables. | | | |

| Source | Hong Kong GAAP Limited | | |
|-----------------------|---|--|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKFRS 7.37(c) | Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued) are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. | | |
| HKFRS 7.37(a) | <i>Age of receivables that are past due but not impaired</i> | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 |
| | Overdue by: | | |
| | 1-30 days | 300 | 190 |
| | 31-60 days | 211 | 256 |
| | 61-90 days | 251 | 77 |
| | Total | <u>762</u> | <u>523</u> |
| | Average age (days) | <u>62</u> | <u>52</u> |
| HKFRS 7.16 | <i>Movement in the allowance for doubtful debts</i> | | |
| | | Year ended <u>31/12/10</u> HK\$'000 | Year ended <u>31/12/09</u> HK\$'000 |
| | Balance at beginning of the year | 838 | 628 |
| | Impairment losses recognised on receivables | 63 | 430 |
| | Amounts written off during the year as uncollectible | - | (220) |
| | Amounts recovered during the year | - | - |
| | Impairment losses reversed | (103) | - |
| | Foreign exchange translation gains and losses | - | - |
| HKFRS 7.20(e) | Balance at end of year | <u>798</u> | <u>838</u> |
| HKFRS 7.33(a), (b) | In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. | | |
| HKFRS 7.37(b), (c) | Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$63,000 (31 December 2009: HK\$52,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivable and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances. | | |
| HKFRS 7.37(b) | <i>Age of impaired trade receivables</i> | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 |
| | Overdue by: | | |
| | 60-90 days | 353 | 320 |
| | 90-120 days | 191 | 101 |
| | 120+ days | 654 | 717 |
| | Total | <u>1,198</u> | <u>1,138</u> |

| Source | Hong Kong GAAP Limited | | | |
|---------------|--|--|--------------------------------|------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | 31. Amounts due from (to) customers for contract work | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 |
| | <i>Contracts in progress at the end of the reporting period</i> | | | |
| HKAS 11.40 | Contract costs incurred plus recognised profits less recognised losses | 1,517 | 1,386 | 1,291 |
| | Less: progress billings | <u>(1,313)</u> | <u>(1,171)</u> | <u>(1,083)</u> |
| | | <u>204</u> | <u>215</u> | <u>208</u> |
| HKAS 11.42 | Analysed for reporting purposes as: | | | |
| | Amounts due from contract customers | 240 | 230 | 220 |
| | Amounts due to contract customers | <u>(36)</u> | <u>(15)</u> | <u>(12)</u> |
| | | <u>204</u> | <u>215</u> | <u>208</u> |
| HKAS 11.40(c) | At 31 December 2010, retentions held by customers for contract works amounted to HK\$75,000 (31 December 2009: HK\$69,000). Advances received from customers for contract work amounted to HK\$14,000 (31 December 2009: nil). | | | |
| HKFRS 7.7 | 32. 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 | <u>Balance at 31/12/10</u> | <u>Balance at 1/1/10</u> |
| | Gary D.K. Wong | Secured on property, repayable within one year, interest free (Note) | 440 | - |
| | Daniel D.D. Lee | Unsecured, repayable within one year, interest free | <u>216</u> | <u>107</u> |
| | | | <u>656</u> | <u>107</u> |
| HKFRS 7.15 | Note: 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 2010 – continued | | | |
| | 33. Held-for-trading investments (other than derivatives) | | | |
| HKFRS 7.7 Sch 10.9(1)(a) Sch 10.9(3) | Held-for-trading investments include: | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 |
| | Listed securities: | | | |
| | - Equity securities listed in Hong Kong | 10,250 | 6,480 | 4,659 |
| | - Equity securities listed elsewhere | <u>2,230</u> | <u>1,968</u> | <u>1,542</u> |
| | | <u>12,480</u> | <u>8,448</u> | <u>6,201</u> |
| HKFRS 7.27 | Fair values are determined with reference to quoted market bid prices. | | | |
| | 34. Bank balances/pledged bank deposits/bank overdrafts | | | |
| | Bank balances carry interest at market rates which range from 2% to 4% (2009: 3.5% to 4%) per annum. The pledged bank deposits carry fixed interest rate of 3.5% (2009: 4.25%) per annum. Bank overdrafts carry interest at market rates which range from 6.5% to 9.5% (2009: 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 (31 December 2009: 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. | | | |
| | 35. Trade and other payables | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 |
| | Trade payables | 11,997 | 20,393 | 52,917 |
| | Other payables | <u>90</u> | <u>95</u> | <u>245</u> |
| | | <u>12,087</u> | <u>20,488</u> | <u>53,162</u> |
| App 16.4(2)(c)(ii) GR 18.50B(2)(c) (ii) | The following is an analysis of trade payables by age based on the invoice date. The analysis below includes those classified as part of a disposal group classified as held for sale. | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 |
| | 0-60 days | 8,925 | 10,631 | 21,656 |
| | 61-90 days | 4,803 | 6,233 | 20,633 |
| | >90 days | <u>1,523</u> | <u>3,529</u> | <u>10,628</u> |
| | | <u>15,251</u> | <u>20,393</u> | <u>52,917</u> |
| HKFRS 7.7 | The average credit period on purchases of certain goods 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 (31 December 2009: HK\$217,000) (see note 58). | | | |

| Source | Hong Kong GAAP Limited | | |
|--------------------------|--|-----------------|-----------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKFRS 7.8(f) | 36. Borrowings | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> |
| | | HK\$'000 | HK\$'000 |
| | Bank loans (Note 1) | 18,140 | 20,836 |
| | Bills of exchange (Note 2) | 283 | 916 |
| | Collateralised borrowings (Note 3) | 923 | - |
| | Loans from fellow subsidiaries (Note 4) | 12,917 | 31,124 |
| | Loans from other entities (Note 5) | 21,361 | 4,437 |
| | | <u>53,624</u> | <u>57,313</u> |
| Sch 10:10 | Secured | 19,063 | 20,836 |
| | Unsecured | 34,561 | 36,477 |
| | | <u>53,624</u> | <u>57,313</u> |
| App 16.22(1) GR 18.21 | Carrying amount repayable (Note 6): | | |
| | Within one year | 11,446 | 15,420 |
| | More than one year, but not exceeding two years | 16,685 | 16,167 |
| | More than one year, but not more than five years | 8,921 | 9,218 |
| | More than five years | 5,572 | 6,328 |
| | | <u>42,624</u> | <u>47,133</u> |
| | Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | 11,000 | 10,180 |
| | | <u>53,624</u> | <u>57,313</u> |
| | Less: Amounts shown under current liabilities | <u>(22,446)</u> | <u>(25,600)</u> |
| | | <u>31,178</u> | <u>31,713</u> |
| HKFRS 7.7 HKFRS 7.14 | Notes: | | |
| | 1) Secured by a mortgage over the Group's leasehold land and buildings (see note 56) and bear interest at HIBOR + 4.75% (31 December 2009: HIBOR + 4.75%) per annum. The weighted average effective interest rate on the bank loans is 6.1% (31 December 2009: 6.32%) per annum. | | |
| | 2) Bills of exchange with a variable interest rate were issued in 2007. The weighted average effective interest rate on the bills is 6.8% (31 December 2009: 6.8%) per annum. | | |
| | 3) Secured by a charge over certain of the Group's trade receivables (see note 56). | | |
| | 4) Bear interest at HIBOR + 4.5% (31 December 2009: HIBOR + 4.5%) per annum. Interest of 5.0% - 5.2% per annum is charged on the outstanding loan balances (31 December 2009: 6.0% - 6.2% per annum) (see note 58). | | |
| | 5) Fixed rate loans with a financial institution amounted to approximately HK\$6 million (31 December 2009: HK\$2 million) with maturity periods not exceeding 3 years (31 December 2009: 2 years). The weighted average effective interest rate on the fixed rate loans is 6.15% (31 December 2009: 6.10%) 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 41). The remaining balance of approximately HK\$15.4 million (31 December 2009: HK\$2.4 million) carries interest at HIBOR + 3.75% (31 December 2009: HIBOR + 3%) per annum, ranging from 6.5% - 7% (31 December 2009: 7.3% - 8.5%) per annum during the current year. | | |
| | 6) The amounts due are based on the scheduled repayment dates set out in the loan agreements. | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | |
|---|--|-----------------|-----------------|-------------------|-----------------|------------------|-----------------|--------------------------------------|-----------------|---|--------------|---------------|-------------|---|--------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | | | | | | | | | |
| HKFRS 7.18 | <p>During the current year, 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 when interest was payable due to a technical problem on settlement. The interest payment outstanding of HK\$107,500 was repaid in full a week later, 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.</p> <p>37. Loan from government</p> <table><tr><td></td><td><u>31/12/10</u></td><td><u>31/12/09</u></td><td><u>01/01/09</u></td></tr><tr><td></td><td><u>HK\$'000</u></td><td><u>HK\$'000</u></td><td><u>HK\$'000</u></td></tr><tr><td>Loan from government</td><td><u>2,798</u></td><td><u>2,610</u></td><td><u>-</u></td></tr></table> <p>Note: On 17 December 2009, the Group received an interest-free loan of HK\$3 million from the government of A Land to finance staff training over a two-year period. The loan is repayable in full at the end of that two-year period. Using prevailing market interest rates for an equivalent loan of 7.2%, the fair value of the loan is estimated at HK\$2.61 million on initial recognition. The difference of HK\$390,000 between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognised as deferred revenue (see note 43). Interest expenses HK\$188,000 were recognised on this loan in 2010 and HK\$202,000 will be recognised in 2011.</p> | | <u>31/12/10</u> | <u>31/12/09</u> | <u>01/01/09</u> | | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> | Loan from government | <u>2,798</u> | <u>2,610</u> | <u>-</u> | | |
| | <u>31/12/10</u> | <u>31/12/09</u> | <u>01/01/09</u> | | | | | | | | | | | | |
| | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> | | | | | | | | | | | | |
| Loan from government | <u>2,798</u> | <u>2,610</u> | <u>-</u> | | | | | | | | | | | | |
| HKFRS 7.7 | <p>38. Convertible notes</p> <p>On 1 September 2010, the Company issued 4.5 million 5.5% HK dollar denominated convertible notes with the aggregate principal amount of HK\$4.5 million. Each note entitles the holder to convert to ordinary shares at a conversion price of HK\$1.25.</p> <p>Conversion may occur at any time between 1 July 2011 and 31 August 2013. If the notes have not been converted, they will be redeemed on 1 September 2013 at HK\$1 each. Interest of 5.5% will be paid quarterly up until the notes are converted or redeemed.</p> | | | | | | | | | | | | | | |
| HKAS 32.28 | <p>The convertible notes contain two components: liability and equity elements. The equity element is presented in equity heading "convertible notes equity reserve". The effective interest rate of the liability component on initial recognition is 8% per annum.</p> <table><tr><td></td><td>HK\$'000</td></tr><tr><td>Proceeds of issue</td><td>4,950</td></tr><tr><td>Equity component</td><td><u>(834)</u></td></tr><tr><td>Liability component at date of issue</td><td>4,116</td></tr><tr><td>Interest charged calculated at an effective interest rate of 8%</td><td>110</td></tr><tr><td>Interest paid</td><td><u>(82)</u></td></tr><tr><td>Liability component at 31 December 2010</td><td><u>4,144</u></td></tr></table> | | HK\$'000 | Proceeds of issue | 4,950 | Equity component | <u>(834)</u> | Liability component at date of issue | 4,116 | Interest charged calculated at an effective interest rate of 8% | 110 | Interest paid | <u>(82)</u> | Liability component at 31 December 2010 | <u>4,144</u> |
| | HK\$'000 | | | | | | | | | | | | | | |
| Proceeds of issue | 4,950 | | | | | | | | | | | | | | |
| Equity component | <u>(834)</u> | | | | | | | | | | | | | | |
| Liability component at date of issue | 4,116 | | | | | | | | | | | | | | |
| Interest charged calculated at an effective interest rate of 8% | 110 | | | | | | | | | | | | | | |
| Interest paid | <u>(82)</u> | | | | | | | | | | | | | | |
| Liability component at 31 December 2010 | <u>4,144</u> | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | | | |
|----------------------------|---|-------------------------------|--|-----------------|-----------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | |
| | 39. 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 (2009: 5 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.5% to 5.5% (2009: 3.75% - 6%) per annum. The Group has options to purchase the equipment for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments. | | | | |
| | | <u>Minimum lease payments</u> | <u>Present value of minimum lease payments</u> | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> | <u>31/12/10</u> | <u>31/12/09</u> |
| | | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> | <u>HK\$'000</u> |
| HKAS 17.31(b) | Amounts payable under finance leases: | | | | |
| | Within one year | 10 | 58 | 9 | 54 |
| | In more than one year and 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 | | | 5 | 35 |
| Sch 10:10 | The Group's obligations under finance leases are secured by the lessors' title to the leased assets. | | | | |
| HKFRS 7.31 | Financial lease obligations are denominated in Hong Kong dollars, currency other than the functional currency of the relevant group entity. | | | | |

| Source | Hong Kong GAAP Limited | | | | | |
|-----------------------|--|--|--|------------------------------------|---|-------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | |
| | 40. Provisions | | | | | |
| | | Employee benefits (Note 1) HK\$'000 | Rectification work (Note 2) HK\$'000 | Warranties (Note 3) HK\$'000 | Onerous leases (Note 4) HK\$'000 | Total HK\$'000 |
| HKAS 37.84(a) | Balance at 1 January 2010 | 4,388 | - | 295 | 743 | 5,426 |
| HKAS 37.84(b) | Additional provisions recognised | - | 4,170 | 338 | 369 | 4,877 |
| | Acquisition of Subsix Limited | 45 | - | - | - | 45 |
| HKAS 37.84(c) | Reductions arising from payments/other sacrifices of future economic benefits | (3,099) | (1,112) | (90) | (310) | (4,611) |
| HKAS 37.84(d) | Reductions resulting from re- measurement or settlement without cost | - | - | (15) | (100) | (115) |
| HKAS 37.84(e) | Unwinding of discount and effect of changes in the discount rate | - | - | - | 28 | 28 |
| | Other [describe] | - | - | - | - | - |
| HKAS 37.84(a) | Balance at 31 December 2010 | <u>1,334</u> | <u>3,058</u> | <u>528</u> | <u>730</u> | <u>5,650</u> |
| | Analysed for reporting purposes as: | | | | | |
| | | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 | |
| | Current liabilities | | 3,356 | 3,195 | 2,235 | |
| | Non-current liabilities | | <u>2,294</u> | <u>2,231</u> | <u>4,102</u> | |
| | | | <u>5,650</u> | <u>5,426</u> | <u>6,337</u> | |
| | Notes: | | | | | |
| HKFRS 3.B64(j) | 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 of HK\$45,000 in respect of employees' compensation claims outstanding against that company, which will be settled in February 2011. The decrease in the carrying amount of the provision for the current year results from settlement in the current year. | | | | | |
| HKAS 37.85(a), (b) | 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 2011 is HK\$1.94 million, and for 2012 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. | | | | | |
| HKAS 37.85(a), (b) | 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 obligations for warranties under local sale of goods legislation. 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. | | | | | |
| HKAS 37.85(a), (b) | 4) The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The unexpired term of the leases range from 3 to 5 years. | | | | | |

Source

Hong Kong GAAP Limited

HKFRS 7.7
HKFRS 7.31**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued****41. Other financial assets/liabilities**

| | Current | | | Non-current | | |
|---|------------|------------|------------|-------------|------------|------------|
| | 31/12/10 | 31/12/09 | 01/01/09 | 31/12/10 | 31/12/09 | 01/01/09 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other financial assets | | | | | | |
| Derivatives under hedge accounting | | | | | | |
| Fair value hedges – Interest rate swaps | 72 | 37 | 10 | 212 | 140 | 135 |
| Cash flow hedges – Foreign currency forward contracts | 244 | 220 | 191 | - | - | - |
| Other [describe] | - | - | - | - | - | - |
| | <u>316</u> | <u>257</u> | <u>201</u> | <u>212</u> | <u>140</u> | <u>135</u> |
| Other financial liabilities | | | | | | |
| Financial guarantee contracts | 20 | 18 | - | - | - | - |
| Derivatives under hedge accounting | | | | | | |
| Fair value hedges – Interest rate swaps | 5 | - | - | - | - | - |
| Cash flow hedges – Foreign currency forward contracts | 91 | - | - | - | - | - |
| Contingent consideration in relation to the acquisition of Subsix Limited (note 50) | - | - | - | 75 | - | - |
| Other [describe] | - | - | - | - | - | - |
| | <u>96</u> | <u>-</u> | <u>-</u> | <u>75</u> | <u>-</u> | <u>-</u> |
| | <u>116</u> | <u>18</u> | <u>-</u> | <u>75</u> | <u>-</u> | <u>-</u> |

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 fixed-rate borrowings from fixed rates to floating rates. The interest rate swaps and the corresponding borrowings have the same terms and management 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:

2010

| Notional amount | Maturity | Swaps |
|-----------------|------------|----------------------|
| HK\$1,000,000 | 30/09/2011 | 8% for HIBOR + 3.75% |
| HK\$2,000,000 | 31/05/2012 | 5% for HIBOR + 2.01% |
| HK\$3,000,000 | 31/12/2013 | 4% for HIBOR + 1.06% |

2009

| Notional amount | Maturity | Swaps |
|-----------------|------------|----------------------|
| HK\$1,000,000 | 15/04/2010 | 6% for HIBOR + 3.25% |
| HK\$1,000,000 | 30/09/2011 | 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 end of the reporting period that an entity may provide internally to key management personnel.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------------|---|------------------|----------|----------------|---------------------|------------|------------------|--------------------|------------|------------------|----------------------|------------|------------------|----------------------|------------|------------------|-----------------|----------|----------------|-------------------|------------|------------------|--------------------|------------|------------------|----------------------|------------|------------------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>During the year, the hedge was 100% (2009: 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 (2009: 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.</p> <p>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.</p> <p>Cash flow hedges:</p> <p>At the end of the reporting period, 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.</p> <p>The terms of the foreign exchange contracts have been negotiated to match the terms of the respective designated hedged items.</p> <p>Major terms of these contracts are as follows:</p> <p>2010</p> <table><tr><th>Notional amount</th><th>Maturity</th><th>Exchange rates</th></tr><tr><td>Buy RMB 5.5 million</td><td>15/03/2011</td><td>HK\$1: RMB0.8838</td></tr><tr><td>Sell RMB 1 million</td><td>15/06/2011</td><td>HK\$1: RMB0.8927</td></tr><tr><td>Sell RMB 3.3 million</td><td>30/04/2011</td><td>HK\$1: RMB0.8833</td></tr><tr><td>Sell RMB 1.7 million</td><td>30/06/2011</td><td>HK\$1: RMB0.8925</td></tr></table> <p>2009</p> <table><tr><th>Notional amount</th><th>Maturity</th><th>Exchange rates</th></tr><tr><td>Buy RMB 4 million</td><td>31/03/2010</td><td>HK\$1: RMB0.9460</td></tr><tr><td>Sell RMB 1 million</td><td>30/06/2010</td><td>HK\$1: RMB0.9439</td></tr><tr><td>Sell RMB 4.5 million</td><td>15/07/2010</td><td>HK\$1: RMB0.9377</td></tr></table> <p>HKFRS 7.34(a) <i>Note: The table above provides an example of summary quantitative data about exposure to foreign exchange risk at the end of the reporting period that an entity may provide internally to key management personnel.</i></p> <p>During the current year, fair value gains of HK\$0.406 million (2009: HK\$0.316 million) have been recognised in other comprehensive income and accumulated in the cash flow hedging reserve and are expected to be reclassified to profit or loss at various dates in the coming twelve months after the end of the reporting period, the period in which sales are expected to occur.</p> <p>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.</p> | Notional amount | Maturity | Exchange rates | Buy RMB 5.5 million | 15/03/2011 | HK\$1: RMB0.8838 | Sell RMB 1 million | 15/06/2011 | HK\$1: RMB0.8927 | Sell RMB 3.3 million | 30/04/2011 | HK\$1: RMB0.8833 | Sell RMB 1.7 million | 30/06/2011 | HK\$1: RMB0.8925 | Notional amount | Maturity | Exchange rates | Buy RMB 4 million | 31/03/2010 | HK\$1: RMB0.9460 | Sell RMB 1 million | 30/06/2010 | HK\$1: RMB0.9439 | Sell RMB 4.5 million | 15/07/2010 | HK\$1: RMB0.9377 |
| Notional amount | Maturity | Exchange rates | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Buy RMB 5.5 million | 15/03/2011 | HK\$1: RMB0.8838 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell RMB 1 million | 15/06/2011 | HK\$1: RMB0.8927 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell RMB 3.3 million | 30/04/2011 | HK\$1: RMB0.8833 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell RMB 1.7 million | 30/06/2011 | HK\$1: RMB0.8925 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Notional amount | Maturity | Exchange rates | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Buy RMB 4 million | 31/03/2010 | HK\$1: RMB0.9460 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell RMB 1 million | 30/06/2010 | HK\$1: RMB0.9439 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell RMB 4.5 million | 15/07/2010 | HK\$1: RMB0.9377 | | | | | | | | | | | | | | | | | | | | | | | | | | |

Source

Hong Kong GAAP Limited

HKAS 12.81(a),
(g)**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued****42. Deferred taxation**

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

Deferred tax liabilities

| | Accelerated tax depreciation | Intangible assets | Convertible notes | Hedging instruments | Undistribut ed profits of associates | Available-for- sale investments | Investment properties | Others | Total |
|--|------------------------------------|----------------------|----------------------|------------------------|--|---------------------------------------|--------------------------|----------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2009 | 2,540 | 650 | - | 110 | 570 | 202 | - | 335 | 4,407 |
| Charge (credit) to profit or loss | 440 | (97) | - | - | 150 | - | 49 | 655 | 1,197 |
| Charge (credit) to other comprehensive income | - | - | - | (7) | - | 19 | - | - | 12 |
| At 31 December 2009 | 2,980 | 553 | - | 103 | 720 | 221 | 49 | 990 | 5,616 |
| Charge (credit) to profit or loss | 1,606 | (214) | (9) | - | 400 | - | 8 | (47) | 1,744 |
| Charge (credit) to other comprehensive income | - | - | - | 15 | - | (100) | - | - | (85) |
| Recognised directly in equity | - | - | 208 | - | - | - | - | - | 208 |
| Acquisitions/ disposals | (454) | - | - | - | - | - | - | - | (454) |
| At 31 December 2010 | 4,132 | 339 | 199 | 118 | 1,120 | 121 | 57 | 943 | 7,029 |

Deferred tax assets

| | Deferred revenue | Doubtful debts | Provisions | Tax losses | Total |
|-----------------------------------|---------------------|-------------------|------------|------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2009 | 20 | 52 | 1,692 | 50 | 1,814 |
| Credit (charge) to profit or loss | 12 | 167 | (20) | (50) | 109 |
| At 31 December 2009 | 32 | 219 | 1,672 | - | 1,923 |
| Credit (charge) to profit or loss | 10 | (12) | 32 | - | 30 |
| At 31 December 2010 | 42 | 207 | 1,704 | - | 1,953 |

| Source | Hong Kong GAAP Limited | | | |
|---------------|---|-----------------------------|-----------------------------|-----------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes: | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | |
| | Deferred tax assets | 1,714 | 1,023 | |
| | Deferred tax liabilities | <u>(6,360)</u> | <u>(4,716)</u> | |
| | | (4,646) | (3,693) | |
| | Deferred tax liabilities associated with assets held for sale (note 12) | <u>(430)</u> | <u>-</u> | |
| | | <u>(5,076)</u> | <u>(3,693)</u> | |
| HKAS 12.82A | Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the 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 (31 December 2009: HK\$17 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 end of the reporting period, the Group has unused tax losses of HK\$3 million (31 December 2009: 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. | | | |
| | 43. Deferred revenue | | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 | <u>01/01/09</u> HK\$'000 |
| HKAS 20.39(b) | Arising from customer loyalty programme (note 1) | 239 | 147 | 104 |
| | Arising from government grant (note 2) | <u>140</u> | <u>390</u> | <u>-</u> |
| | | <u>379</u> | <u>537</u> | <u>104</u> |
| | Analysed for reporting purposes as: | | | |
| | Current liabilities | 355 | 240 | 63 |
| | Non-current liabilities | <u>24</u> | <u>297</u> | <u>41</u> |
| | | <u>379</u> | <u>537</u> | <u>104</u> |
| | Notes: | | | |
| | 1) The deferred revenue arises in respect of the Group's Maxi-Point Scheme recognised in accordance with HK(IFRIC)-Int 13 <i>Customer Loyalty Programmes</i> . | | | |
| | 2) The deferred revenue arises as a result of the benefit received from an interest-free government loan received in December 2009 (see note 37). The revenue was offset against training costs incurred in 2010 (HK\$250,000) and will be offset against training cost to be incurred in 2011 (HK\$140,000). | | | |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Notes 44 to 45 below set out detailed descriptions and reconciliations for each class of share capital and each component of equity, as required by HKAS 1.79 and HKAS 1.106. HKAS 1 permits some flexibility regarding the level of detail presented in the statement of changes in equity and these supporting notes. As part of Improvements to HKFRSs issued in 2010, the amendments to HKAS 1 clarify that an analysis of other comprehensive income by item for each component of equity can be presented either in the statement of changes in equity or in the notes. For the purposes of the preparation of this model, the Group has early applied the amendments to HKAS 1 (annual periods beginning on or after 1 January 2011) and has elected to present the analysis of other comprehensive income in the notes.

HKAS 1 also allows that some of the details regarding components of other comprehensive income (income tax and reclassification adjustments) may be disclosed in the notes rather than in the statement of comprehensive income. Entities will determine the most appropriate presentation for their circumstances – electing to present much of the detail in the notes (as we have done in these model financial statements) ensures that the primary financial statements are not cluttered by unnecessary detail, but it does result in very detailed supporting notes.

Whichever presentation is selected, entities will need to ensure that the following requirements are met:

- detailed reconciliations are required for each class of share capital (in the statement of changes in equity or in the notes);
- detailed reconciliations are required for each component of equity – separately disclosing the impact on each such component of (i) profit or loss, (ii) each component of other comprehensive income, and (iii) transactions with owners in their capacity as owners (in the statement of changes in equity or in the notes);
- the amount of income tax relating to each component of other comprehensive income should be disclosed (in the statement of comprehensive income or in the notes) and
- reclassification adjustments should be presented separately from the related component of other comprehensive income (in the statement of comprehensive income or in the notes).

HKAS 1.79(a)
Sch 10:2

44. Share capital

| | Number of shares | | Share capital | |
|--|------------------|------------------|----------------------|----------------------|
| | 31/12/10 '000 | 31/12/09 '000 | 31/12/10 HK\$'000 | 31/12/09 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 under the Company's employee share option plan (Note 47) | 314 | - | 314 | - |
| At end of year | 17,819 | 23,005 | 17,819 | 23,005 |

Source Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

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 '000 | Price per share | | Aggregate consideration paid HK\$'000 |
|---------------------|--|-----------------|----------------|--|
| | | Highest HK\$ | Lowest HK\$ | |
| November 2010 | 3,000 | 3.15 | 2.85 | 9,172 |
| December 2010 | 2,500 | 3.50 | 2.90 | 8,130 |
| | | | | <u>17,302</u> |

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

45. Share premium, reserves and non-controlling interests**Share premium and reserves**

| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Share premium | 15,427 | 26,474 | 26,474 |
| Investments revaluation reserve | 227 | 527 | 470 |
| Share options reserve | 179 | 246 | - |
| Cash flow hedging reserve | 314 | 278 | 242 |
| Foreign currency translation reserve | 126 | 317 | 140 |
| Convertible notes equity reserve | 626 | - | - |
| Retained earnings | 111,568 | 94,915 | 73,837 |
| Other [describe] | - | - | - |
| | <u>128,467</u> | <u>122,757</u> | <u>101,163</u> |

HKAS 1.106(d)
HKAS 1.106A

Share premium

| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
|---|------------------------------------|------------------------------------|
| Balance at beginning of year | 26,474 | 26,474 |
| Transaction costs attributable to issue of new ordinary shares | (6) | - |
| Issue of ordinary shares upon exercise of share options | 433 | - |
| Repurchase of ordinary shares | (11,247) | - |
| Transaction costs attributable to repurchase of ordinary shares | (227) | - |
| Balance at end of year | <u>15,427</u> | <u>26,474</u> |

| Source | Hong Kong GAAP Limited | | |
|------------------------------|--|---------------------------------------|---------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKAS 1.106(d) HKAS 1.106A | Investments revaluation reserve | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Balance at beginning of year | 527 | 470 |
| HKFRS 7.20(a) | Net (loss)/gain arising on revaluation of available-for-sale investments | (400) | 76 |
| | Income tax relating to (loss)/gain arising on revaluation of available-for-sale investments | 100 | (19) |
| HKFRS 7.20(a) | Cumulative (gain)/loss reclassified to profit or loss on sale of available-for-sale investments | - | - |
| HKFRS 7.20(a) | Cumulative loss reclassified to profit or loss on impairment of available-for-sale investments | - | - |
| | Balance at end of year | 227 | 527 |
| HKAS 1.79(b) | The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those investments are disposed of or are determined to be impaired. | | |
| HKAS 1.106(d) HKAS 1.106A | Share options reserve | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Balance at beginning of year | 246 | - |
| | Recognition of equity-settled share-based payments | 218 | 246 |
| | Issue of ordinary shares upon exercise of share options | (285) | - |
| | Balance at end of year | 179 | 246 |
| HKAS 1.79(b) | The share options reserve relates to share options granted to employees under the Company's employee share option plan. Further information about share-based payments to employees is set out in note 47.1. | | |
| HKAS 1.106(d) HKAS 1.106A | Cash flow hedging reserve | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Balance at beginning of year | 278 | 242 |
| HKFRS 7.23(c) | Gain recognised in relation to cash flow hedges | 406 | 316 |
| | Income tax relating to gains recognised in other comprehensive income | (101) | (79) |
| HKFRS 7.23(d) | Reclassified to profit or loss | (355) | (287) |
| | Income tax relating to amounts reclassified to profit or loss | 86 | 86 |
| | Other [describe] | - | - |
| | Balance at end of year | 314 | 278 |
| HKAS 1.79(b) | The cash flow hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain and loss arising on changes in fair value of the hedging instrument that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy. | | |

| Source | Hong Kong GAAP Limited | | |
|------------------------------|---|--|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKFRS 7.23(d) | Gains and losses arising on changes in fair value of hedging instruments reclassified from equity into profit or loss during the year are included in the following line items in the consolidated [statement of comprehensive income/income statement]: | | |
| | | <div> <div>Year ended</div> <div>31/12/10</div> <div>HK\$'000</div> </div> | <div> <div>Year ended</div> <div>31/12/09</div> <div>HK\$'000</div> </div> |
| | Increase in revenue | (355) | (287) |
| | Increase in income tax expense | 86 | 86 |
| | Other [describe] | - | - |
| | | <u>(269)</u> | <u>(201)</u> |
| HKAS 1.106(d) HKAS 1.106A | Foreign currency translation reserve | | |
| | | <div> <div>Year ended</div> <div>31/12/10</div> <div>HK\$'000</div> </div> | <div> <div>Year ended</div> <div>31/12/09</div> <div>HK\$'000</div> </div> |
| | Balance at beginning of year | 317 | 140 |
| | Exchange differences arising on translating the net assets of foreign operations | (71) | 177 |
| | Income tax relating to exchange differences arising on translating the net assets of foreign operations | - | - |
| | Reclassified to profit or loss on disposal of foreign operations | (120) | - |
| | Income tax relating to amounts reclassified to profit or loss on disposal of foreign operations | - | - |
| | Other [describe] | - | - |
| | Balance at end of year | <u>126</u> | <u>317</u> |
| HKAS 1.79(b) | Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation. | | |
| HKAS 1.106(d) HKAS 1.106A | Convertible notes equity reserve | | |
| | | <div> <div>Year ended</div> <div>31/12/10</div> <div>HK\$'000</div> </div> | <div> <div>Year ended</div> <div>31/12/09</div> <div>HK\$'000</div> </div> |
| | Balance at beginning of year | - | - |
| | Recognition of the equity component of convertible notes | 834 | - |
| | Deferred tax | (208) | - |
| | Balance at end of year | <u>626</u> | <u>-</u> |
| HKAS 1.79(b) | The convertible notes equity reserve represents the equity component (conversion rights) of the 4.5 million 5.5% convertible notes issued during the year (see note 38). | | |

| Source | Hong Kong GAAP Limited | | | |
|------------------------------|---|---|---|---------------------------|
| HKAS 1.106(d) HKAS 1.106A | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | <i>Non-controlling interests</i> | | | |
| | | Share of net assets of subsidiaries <u>HK\$'000</u> | Share options reserve of subsidiaries <u>HK\$'000</u> | <u>Total HK\$'000</u> |
| | <u><i>Year ended 31 December 2010</i></u> | | | |
| | Balance at beginning of year | 20,005 | 1,195 | 21,200 |
| | Share of profit for the year | 4,000 | - | 4,000 |
| | Non-controlling interests arising on the acquisition of Subsix Limited (note 50) | 127 | 5 | 132 |
| | Additional non-controlling interests arising on disposal of interest in Subone Limited (note 59) | 179 | - | 179 |
| | Other [describe] | - | - | - |
| | Balance at end of year | <u>24,311</u> | <u>1,200</u> | <u>25,511</u> |
| | <u><i>Year ended 31 December 2009</i></u> | | | |
| | Balance at beginning of year | 17,242 | 1,195 | 18,437 |
| | Share of profit for the year | 2,763 | - | 2,763 |
| | Other [describe] | - | - | - |
| | Balance at end of year | <u>20,005</u> | <u>1,195</u> | <u>21,200</u> |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|----------|--------------|--|--|----------|----------|--|---|---|---------------|------|------|--------------------------------|-------|-------|-------------------------------------|------|------|---|---|---|------------------|---|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>46. Retirement benefit plans</p> <p>Defined contribution plan</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| App 16.26(1), (2) GR 18.34(1), (2) | <p>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.</p> <p>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.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 19.46 | <p>The total expense recognised in the consolidated [statement of comprehensive income/income statement] of HK\$160,000 (2009: 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 2010, contributions of HK\$8,000 (31 December 2009: HK\$8,000) due in respect of the year ended 31 December 2010 (2009) reporting period had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.</p> <p>Defined benefit plan</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 19.120A(b) App 16.26(1), (2) GR 18.34(1), (2) | <p>The Group operates a funded defined benefit plan 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.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| App 16.26(5) GR 18.34(5) | <p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2010 by Mr. F.G. Ho, Fellow of the Institute of Actuaries in Malaysia. 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.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 19.120A(n) | <p>The principal assumptions used for the purposes of the actuarial valuations were as follows:</p> <table><tr><td></td><td colspan="2">Valuation at</td></tr><tr><td></td><td>31/12/10</td><td>31/12/09</td></tr><tr><td></td><td>%</td><td>%</td></tr><tr><td>Discount rate</td><td>5.52</td><td>5.20</td></tr><tr><td>Expected return on plan assets</td><td>12.08</td><td>10.97</td></tr><tr><td>Expected rate(s) of salary increase</td><td>5.00</td><td>5.00</td></tr><tr><td>Expected return on reimbursement rights</td><td>-</td><td>-</td></tr><tr><td>Other [describe]</td><td>-</td><td>-</td></tr></table> | | Valuation at | | | 31/12/10 | 31/12/09 | | % | % | Discount rate | 5.52 | 5.20 | Expected return on plan assets | 12.08 | 10.97 | Expected rate(s) of salary increase | 5.00 | 5.00 | Expected return on reimbursement rights | - | - | Other [describe] | - | - |
| | Valuation at | | | | | | | | | | | | | | | | | | | | | | | | |
| | 31/12/10 | 31/12/09 | | | | | | | | | | | | | | | | | | | | | | | |
| | % | % | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 5.52 | 5.20 | | | | | | | | | | | | | | | | | | | | | | | |
| Expected return on plan assets | 12.08 | 10.97 | | | | | | | | | | | | | | | | | | | | | | | |
| Expected rate(s) of salary increase | 5.00 | 5.00 | | | | | | | | | | | | | | | | | | | | | | | |
| Expected return on reimbursement rights | - | - | | | | | | | | | | | | | | | | | | | | | | | |
| Other [describe] | - | - | | | | | | | | | | | | | | | | | | | | | | | |
| App 16.26(5) GR 18.34(5) | <p>The actuarial valuation showed that the market value of plan assets was HK\$4.2 million (2009: HK\$4.3 million) and that the actuarial value of these assets represented 71% (2009: 75%) of the benefits that had accrued to members. The shortfall of HK\$1.7 million (2009: HK\$1.5 million) is to be cleared over the estimated remaining service period of 15 years.</p> | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | |
|-----------------|--|------------------------------------|------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| HKAS 19.120A(g) | Amounts recognised in profit or loss in respect of these defined benefit plans are as follows: | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| | Current service cost | 1,068 | 442 |
| | Interest on obligation | 164 | 137 |
| | Expected return on plan assets | (276) | (249) |
| | Expected return on reimbursement rights | - | - |
| | Actuarial (gains)/losses recognised in the year | (370) | 226 |
| | Past service cost | - | - |
| | Losses/(gains) arising from curtailments or settlements | - | - |
| | Adjustments for restrictions on the defined benefit asset | - | - |
| | | <u>586</u> | <u>556</u> |
| HKAS 19.120A(g) | The expense for the year is included in the employee benefits expense in the consolidated [income statement / statement of comprehensive income]. / Of the expense for the year, HK\$412,000 (2009: HK\$402,000) has been included in the consolidated [income statement/statement of comprehensive income] as cost of sales and the remainder in administration expenses. | | |
| HKAS 19.120A(f) | The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows: | | |
| | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 |
| | | | 01/01/09 HK\$'000 |
| HKAS 19.120A(d) | Present value of funded defined benefit obligation | 5,905 | 5,808 |
| | Fair value of plan assets | <u>(4,202)</u> | <u>(4,326)</u> |
| | | 1,703 | 1,482 |
| HKAS 19.120A(d) | Present value of unfunded defined benefit obligation | - | - |
| | Deficit | 1,703 | 1,026 |
| | Net actuarial 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 | <u>508</u> | <u>352</u> |
| | | | <u>739</u> |

| Source | Hong Kong GAAP Limited | | | |
|-------------------------|--|---------------------------------------|---------------------------------------|---------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| HKAS 19.120A(c) | Movements in the present value of the defined benefit obligation in the current year were as follows: | | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | |
| | Opening defined benefit obligation | 5,808 | 5,814 | |
| | Current service cost | 1,068 | 442 | |
| | Interest cost | 164 | 137 | |
| | Contributions from plan participants | - | - | |
| | Actuarial (gains)/losses | (150) | 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 | (985) | (720) | |
| | Other [describe] | - | - | |
| | Closing defined benefit obligation | 5,905 | 5,808 | |
| HKAS 19.120A(e) | Movements in the present value of the plan assets in the current year were as follows: | | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | |
| | Opening fair value of plan assets | 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] | - | - | |
| | Closing fair value of plan assets | 4,202 | 4,326 | |
| HKAS 19.120A(j), (l) | The major categories of plan assets, and the expected rate of return at the end of the reporting period for each category, are as follows: | | | |
| | | Expected return | | Fair value of plan assets |
| | | 31/12/10 | 31/12/09 | 31/12/10 |
| | | % | % | HK\$'000 |
| | Equity instruments | 15.01 | 12.03 | 1,026 |
| | Debt instruments | 9.59 | 7.49 | 1,980 |
| | Property | 12.21 | 12.76 | 1,196 |
| | Other [describe] | - | - | - |
| | Weighted average expected return | 11.66 | 10.34 | 4,202 |
| 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 returns is based on historical return trends and analysts' predictions of the market for the asset over the life of the related obligation. | | | |
| HKAS 19.120A (m) | The actual return on plan assets was HK\$0.72 million (31 December 2009: HK\$0.354 million). | | | |

| Source | Hong Kong GAAP Limited | | | | | |
|-----------------|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | |
| HKAS 19.120A(k) | The plan assets include ordinary shares of the Company with a fair value of HK\$0.38 million (31 December 2009: HK\$0.252 million) and property occupied by a subsidiary of the Company with a fair value of HK\$0.62 million (31 December 2009: HK\$0.62 million). | | | | | |
| HKAS 19.120A(p) | The history of experience adjustments is as follows: | | | | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> | <u>31/12/08</u> | <u>31/12/07</u> | <u>31/12/06</u> |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | Present value of defined benefit obligation | 5,905 | 5,808 | 5,814 | 5,321 | 4,113 |
| | Fair value of plan assets | <u>(4,202)</u> | <u>(4,326)</u> | <u>(4,788)</u> | <u>(4,418)</u> | <u>(3,298)</u> |
| | Deficit | <u>1,703</u> | <u>1,482</u> | <u>1,026</u> | <u>903</u> | <u>815</u> |
| | Experience adjustments on plan liabilities | <u>230</u> | <u>135</u> | <u>210</u> | <u>198</u> | <u>193</u> |
| | Experience adjustments on plan assets | <u>220</u> | <u>(91)</u> | <u>156</u> | <u>163</u> | <u>148</u> |
| HKAS 19.120A(q) | The Group expects to make a contribution of HK\$0.18 million (2009: HK\$0.14 million) to the defined benefit plan during the next financial year. | | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|----------------------|------------------------|-----------------------------|------------------------|-----------------------------|-------|----------|----------------------|------------------------|------|-------|----------|----------------------|------|------|------|---------------------|----------------------|--------|--------|-------------|---------|---------|---------|----------------|--------|--------|--------|-------------------------|-------|-------|-------|------------------|---|---|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>47. Share-based payment transactions</p> <p>47.1. The Company</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 2.45(a) LR 17.09 GR 23.09 | <p>The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 28 November 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 27 November 2016. 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.</p> <p>At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 181,000 (31 December 2009: 275,000), representing 1.0% (31 December 2009: 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.</p> <p>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.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 2.45(d) | <p>Details of specific categories of options are as follows:</p> <table><tr><th>Option type</th><th>Date of grant</th><th>Exercise period</th><th>Exercise price HK\$</th><th>Fair value at grant date</th></tr><tr><td>2009A</td><td>31/03/09</td><td>31/03/09 to 30/03/11</td><td>1.15</td><td>0.95</td></tr><tr><td>2009B</td><td>30/09/09</td><td>30/09/09 to 29/09/11</td><td>1.30</td><td>0.85</td></tr><tr><td>2010</td><td>31/03/10</td><td>31/03/10 to 30/03/12</td><td>3.15</td><td>0.99</td></tr></table> | Option type | Date of grant | Exercise period | Exercise price HK\$ | Fair value at grant date | 2009A | 31/03/09 | 31/03/09 to 30/03/11 | 1.15 | 0.95 | 2009B | 30/09/09 | 30/09/09 to 29/09/11 | 1.30 | 0.85 | 2010 | 31/03/10 | 31/03/10 to 30/03/12 | 3.15 | 0.99 | | | | | | | | | | | | | | | | |
| Option type | Date of grant | Exercise period | Exercise price HK\$ | Fair value at grant date | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009A | 31/03/09 | 31/03/09 to 30/03/11 | 1.15 | 0.95 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2009B | 30/09/09 | 30/09/09 to 29/09/11 | 1.30 | 0.85 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2010 | 31/03/10 | 31/03/10 to 30/03/12 | 3.15 | 0.99 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 2.46, 47(a) LR 17.08 GR 23.08 | <p>In accordance with the terms of the Scheme, options granted during the financial year ended 31 December 2009, and 31 December 2010, vested at the date of grant.</p> <p>The fair value of the share options is determined 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.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LR 17.08 Note 4 GR 23.08 Note 4 | <p>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.</p> <p>Inputs into the model</p> <table><tr><th></th><th colspan="3">Option type</th></tr><tr><th></th><th>2009A</th><th>2009B</th><th>2010</th></tr><tr><td>Grant date share price</td><td>1.14</td><td>1.27</td><td>3.15</td></tr><tr><td>Exercise price</td><td>1.15</td><td>1.30</td><td>3.15</td></tr><tr><td>Expected volatility</td><td>70.20%</td><td>70.40%</td><td>56.10%</td></tr><tr><td>Option life</td><td>2 years</td><td>2 years</td><td>2 years</td></tr><tr><td>Dividend yield</td><td>13.27%</td><td>13.12%</td><td>13.00%</td></tr><tr><td>Risk-free interest rate</td><td>5.13%</td><td>5.14%</td><td>5.50%</td></tr><tr><td>Other [describe]</td><td>-</td><td>-</td><td>-</td></tr></table> | | Option type | | | | 2009A | 2009B | 2010 | 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] | - | - | - |
| | Option type | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2009A | 2009B | 2010 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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] | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Source

Hong Kong GAAP Limited

HKFRS 2.45(b)
LR 17.07
GR 23.07

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

The following table discloses movements of the Company's share options held by employees and directors during the year.

| <u>Option type</u> | <u>Outstanding at 1/1/10</u> | <u>Granted during the year</u> | <u>Exercised during the year</u> | <u>Forfeited during the year</u> | <u>Expired during the year</u> | <u>Outstanding at 31/12/10</u> |
|---------------------------------------|----------------------------------|--|--|--|--|------------------------------------|
| 2009A | 125,000 | - | (125,000) | - | - | - |
| 2009B | 150,000 | - | (150,000) | - | - | - |
| 2010 | - | 220,000 | (39,000) | - | - | 181,000 |
| | <u>275,000</u> | <u>220,000</u> | <u>(314,000)</u> | <u>-</u> | <u>-</u> | <u>181,000</u> |
| Exercisable at the end of the year | | | | | | <u>181,000</u> |
| Weighted average exercise price | <u>HK\$1.23</u> | <u>HK\$3.15</u> | <u>HK\$2.47</u> | <u>-</u> | <u>-</u> | <u>HK\$3.15</u> |

The following table discloses movements of the Company's share options held by employees and directors during prior year:

| <u>Option type</u> | <u>Outstanding at 1/1/09</u> | <u>Granted during the year</u> | <u>Exercised during the year</u> | <u>Forfeited during the year</u> | <u>Expired during the year</u> | <u>Outstanding at 31/12/09</u> |
|---------------------------------------|----------------------------------|--|--|--|--|------------------------------------|
| 2009A | - | 125,000 | - | - | - | 125,000 |
| 2009B | - | 150,000 | - | - | - | 150,000 |
| | <u>-</u> | <u>275,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>275,000</u> |
| Exercisable at the end of the year | | | | | | <u>275,000</u> |
| Weighted average exercise price | <u>-</u> | <u>HK\$1.23</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>HK\$1.23</u> |

HKFRS 2.45(c)
LR 17.07
GR 23.07

The following share options granted under the employee share option plan were exercised in the current year:

| <u>Options type</u> | <u>Number exercised</u> | <u>Exercise date</u> | <u>Share price at exercise date</u> |
|---------------------|-----------------------------|----------------------|---|
| 2009A | 30,000 | 05/01/10 | 2.50 |
| 2009A | 45,000 | 31/01/10 | 2.25 |
| 2009A | 50,000 | 15/03/10 | 3.00 |
| 2009B | 65,000 | 03/07/10 | 2.95 |
| 2009B | 85,000 | 28/08/10 | 2.75 |
| 2010 | <u>39,000</u> | <u>15/04/10</u> | <u>3.50</u> |
| | <u>314,000</u> | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | |
|---|--|------------------------|-------------------------------|---|-------------------------------|---|------|---------------------|----------------------|-------------|---------|----------------|-------|-------------------------|-------|------------------|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>47.2. The Subsidiaries</p> <p>Employee share option plan of Kowloon Limited</p> | | | | | | | | | | | | | | | | |
| HKFRS 2.45(a) LR 17.09 GR 23.09 | <p>A subsidiary of the Company, Kowloon Limited, also operates a share option scheme (the “Kowloon Limited’s Scheme”). The Kowloon Limited’s Scheme was adopted pursuant to a resolution passed on 17 January 2007 for the primary purpose of providing incentives to directors and eligible employees of Kowloon Limited, and will expire on 16 May 2017. Under the Kowloon Limited’s Scheme, the board of directors of Kowloon Limited may grant options to eligible employees, including directors of Kowloon Limited, to subscribe for shares of Kowloon Limited.</p> <p>At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Kowloon Limited’s Scheme was 1,707,000 (31 December 2009: 1,707,000), representing 4% (2009: 4%) of the shares of Kowloon Limited in issue at that date. The total number of shares in respect of which options may be granted under the Kowloon Limited’s Scheme is not permitted to exceed 10% of the shares of Kowloon Limited in issue at any point in time, without prior approval from the shareholders of Kowloon Limited. 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 Kowloon Limited in issue at any point in time, without prior approval from the shareholders of Kowloon Limited.</p> <p>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 fifth anniversary of the date of grant. The exercise price is determined by the directors of Kowloon Limited, and will not be less than the fair value of each share of Kowloon Limited on the date of grant.</p> | | | | | | | | | | | | | | | | |
| HKFRS 2.45(d) | <p>Details of the options are as follows:</p> <table><tr><th><u>Option type</u></th><th><u>Date of grant</u></th><th><u>Exercise period</u></th><th><u>Exercise price</u> HK\$</th><th><u>Fair value at grant date</u> HK\$</th></tr><tr><td>2007</td><td>01/04/07</td><td>01/04/07 to 31/03/12</td><td>1.32</td><td>0.70</td></tr></table> | <u>Option type</u> | <u>Date of grant</u> | <u>Exercise period</u> | <u>Exercise price</u> HK\$ | <u>Fair value at grant date</u> HK\$ | 2007 | 01/04/07 | 01/04/07 to 31/03/12 | 1.32 | 0.70 | | | | | | |
| <u>Option type</u> | <u>Date of grant</u> | <u>Exercise period</u> | <u>Exercise price</u> HK\$ | <u>Fair value at grant date</u> HK\$ | | | | | | | | | | | | | |
| 2007 | 01/04/07 | 01/04/07 to 31/03/12 | 1.32 | 0.70 | | | | | | | | | | | | | |
| HKFRS 2.46, 47(a) LR 17.08 GR 23.08 | <p>Options that were granted during the year ended 31 December 2007 vested at the date of grant.</p> <p>The fair value of the share options is determined 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.</p> | | | | | | | | | | | | | | | | |
| LR 17.08 Note 4 GR 23.08 Note 4 | <p>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.</p> <p>Inputs into the model</p> <table><tr><th></th><th><u>Option type</u> 2007</th></tr><tr><td>Grant date share price</td><td>1.32</td></tr><tr><td>Exercise price</td><td>1.32</td></tr><tr><td>Expected volatility</td><td>60.70%</td></tr><tr><td>Option life</td><td>5 years</td></tr><tr><td>Dividend yield</td><td>2.38%</td></tr><tr><td>Risk-free interest rate</td><td>5.25%</td></tr><tr><td>Other [describe]</td><td>-</td></tr></table> | | <u>Option type</u> 2007 | Grant date share price | 1.32 | Exercise price | 1.32 | Expected volatility | 60.70% | Option life | 5 years | Dividend yield | 2.38% | Risk-free interest rate | 5.25% | Other [describe] | - |
| | <u>Option type</u> 2007 | | | | | | | | | | | | | | | | |
| Grant date share price | 1.32 | | | | | | | | | | | | | | | | |
| Exercise price | 1.32 | | | | | | | | | | | | | | | | |
| Expected volatility | 60.70% | | | | | | | | | | | | | | | | |
| Option life | 5 years | | | | | | | | | | | | | | | | |
| Dividend yield | 2.38% | | | | | | | | | | | | | | | | |
| Risk-free interest rate | 5.25% | | | | | | | | | | | | | | | | |
| Other [describe] | - | | | | | | | | | | | | | | | | |

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

HKFRS 2.45(b)
LR 17.07
GR 23.07

The following table discloses movements of share options held by employees and directors of Kowloon Limited during the year under the Kowloon Limited's share option scheme:

| <u>Option type</u> | <u>Outstanding at 1/1/2009 & 1/1/2010</u> | <u>Granted during the year</u> | <u>Exercised during the year</u> | <u>Forfeited during the year</u> | <u>Expired during the year</u> | <u>Outstanding at 31/12/2009 & 31/12/2010</u> |
|------------------------------------|---|--------------------------------|----------------------------------|----------------------------------|--------------------------------|---|
| 2007 | 1,707,000 | - | - | - | - | 1,707,000 |
| Exercisable at the end of the year | | | | | | 1,707,000 |
| Exercise price | HK\$1.32 | - | - | - | - | HK\$1.32 |

HKFRS 2.51(a)
HKFRS 2.50

The Group recognised an expense of HK\$218,000 for the year ended 31 December 2010 (2009: HK\$246,000) in relation to share options granted by the Company.

47.2.2. Employee share option plan of Subsix Limited

HKFRS 2.45(a)
LR 17.09
GR 23.09

Subsix Limited has a share option scheme for its executives and senior employees. The outstanding share options were not replaced and were still in existence at the time when the Group acquired Subsix Limited in the current year.

Each employee share option of Subsix Limited converts into one ordinary share of Subsix Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. All outstanding share options granted by Subsix Limited had vested by the date when the Group acquired Subsix Limited.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under Subsix Limited's Scheme was 5,000, representing 1% of the shares of Subsix Limited at that date. The total number of shares in respect of which options may be granted under Subsix Limited's Scheme is not permitted to exceed 10% of the shares of Subsix Limited in issue at any point in time. 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 Subsix Limited in issue at any point in time, without prior approval from Subsix Limited's shareholders.

The following share-based payment arrangements were in existence at the acquisition date:

| <u>Options series</u> | <u>Number</u> | <u>Grant date</u> | <u>Expiry date</u> | <u>Exercise price</u> HK\$ | <u>Market-based measure at the acquisition date of Subsix Limited</u> HK\$ |
|----------------------------------|---------------|-------------------|--------------------|-------------------------------|---|
| (1) Granted on 13 March 2009 | 2,000 | 13/03/09 | 12/03/12 | 0.5 | 1.00 |
| (2) Granted on 18 September 2009 | 3,000 | 18/09/09 | 17/09/12 | 0.5 | 1.00 |

All options vested on their date of grant and expire within three years of their grant.

Source Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued

Market-based measure of share options at the acquisition date

HKFRS 2.46,
47(a)

All outstanding vested share options were measured in accordance with HKFRS 2 *Share-based Payment* at their market-based measure at the acquisition date. The market-based measure of each share option determined at the acquisition date of Subsix Limited is HK\$1.00. 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 behavioral 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 three and a half times the exercise price.

Inputs into the model

| | Option series | |
|------------------------------|---------------|-----------|
| | Series 1 | Series 2 |
| Acquisition date share price | 1.12 | 1.12 |
| Exercise price | 0.50 | 0.50 |
| Expected volatility | 8.10% | 8.50% |
| Option life | 1.7 years | 2.2 years |
| Dividend yield | 3.00% | 3.11% |
| Risk-free interest rate | 5.50% | 5.45% |
| Other [describe] | - | - |

Movements in share options during the year

No more share options were granted and exercised after the Group obtained control over Subsix Limited. The share options outstanding at the end of the year had an exercise price of HK\$1.00, and a weighted average remaining contractual life of 551 days.

Source Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2010 – continuedHKAS 1.134
HKAS 1.135

48. Capital management

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, by the significance of judgements and estimates made to the financial performance and financial position, 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 2009.

The capital structure of the Group consists of net debt (which includes borrowings, loan from government, convertible notes and obligations under finance leases), cash and cash equivalents and equity attributable to owners of the Company (comprising issued share capital, share premium, 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. Based on the committee's recommendation, the Group has a target gearing ratio of 25-30% determined as the proportion of net debt to equity. The Group expects to increase its gearing ratio closer to 30% through the issue of new debts and the payment of dividends.

The gearing ratio at the end of the reporting period was as follows:

| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 |
|---|----------------------|----------------------|
| Debts (Note 1) | 60,580 | 60,012 |
| Cash and cash equivalents (see note 52) | (20,473) | (22,010) |
| Net debt | 40,107 | 38,002 |
| Equity (Note 2) | 146,286 | 145,762 |
| Net debt to equity ratio | 27% | 26% |

Notes:

- 1) Debt comprises long-term and short-term borrowings, loan from government, convertible notes and obligations under finance leases as detailed in notes 36, 37, 38 and 39 respectively.
- 2) Equity includes all capital and reserves attributable to owners of the Company.

| Source | Hong Kong GAAP Limited | | |
|------------------|---|-------------------|-------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 49. Financial instruments | | |
| | 49.1 Categories of financial instruments | | |
| | | <u>31/12/10</u> | <u>31/12/09</u> |
| | | HK\$'000 | HK\$'000 |
| | <u>Financial assets</u> | | <u>01/01/09</u> |
| | | | HK\$'000 |
| | 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) | 44,487 | 39,287 |
| HKFRS 7.8(d) | Available-for-sale investments | 5,600 | 4,857 |
| | | | 3,403 |
| | <u>Financial liabilities</u> | | |
| | 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 | 96 | - |
| HKFRS 7.8(f) | Amortised cost | 73,191 | 80,789 |
| | Financial guarantee contracts | 20 | 18 |
| | Contingent consideration for a business combination | 75 | - |
| | | | - |
| | <u>Loans and receivables designated as at FVTPL</u> | | |
| | Carrying amount of loans and 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) | <u>Credit derivatives over loans and designated as at FVTPL</u> | | |
| | | <u>Year ended</u> | <u>Year ended</u> |
| | | <u>31/12/10</u> | <u>31/12/09</u> |
| | | HK\$'000 | 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 2010 – continued | |
| | <u>Financial liabilities designated as at FVTPL</u> | |
| | | <div> <div>31/12/10</div> <div>31/12/09</div> <div>HK\$'000</div> <div>HK\$'000</div> </div> |
| 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 (Note) | - |
| HKFRS 7.10(a) | Changes in fair value attributable to changes in credit risk recognised during the year (Note) | - |
| HKFRS 7.11 | <p>Note: The change in fair value attributable to change in credit risk is 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 end of the reporting period holding credit risk margin constant. The fair value of financial liabilities designated as at FVTPL is estimated by discounting future cash flows using quoted benchmark interest yield curves as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.</p> | |
| HKFRS 7.31 | 49.2 Financial risk management objectives and policies | |
| | <p>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 foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.</p> | |
| | <p>The Group seeks to minimise the effects of some of these risks by using derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign currency risk, interest rate risk, credit risk, the use of 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.</p> | |
| | <p>The Corporate Treasury function reports monthly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate exposures.</p> | |
| HKFRS 7.33(c) | <p>There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.</p> | |
| HKFRS 7.33 | 49.2.1 Market risk | |
| | <p>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:</p> | |
| | <ul style="list-style-type: none"> forward foreign exchange contracts to hedge the exchange rate risk arising on foreign currency sales; and interest rate swaps to mitigate the fair value interest rate risk. | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|----------------------|----------------------|----------|----------|------------|----------|------------|--|------|------|------|------|------|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------------|-----|-------|-----|-----|-------|-------|-----|-------|---------------|-----|----|----|----|-----|----|-----|----|-----------------|------|------|---|---|---|---|------|------|--------------------|-------|-------|---|---|---|---|-------|-------|--|-------------|--|--------|--|----------------------|----------------------|----------------------|----------------------|-----|-------|-------|-------|-------|------|-----|-----|---|---|------------------------|---|---|---|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analysis.</p> <p>HKFRS 7.33(c) There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.</p> <p>HKFRS 7.41 <i>49.2.1.1 Value at Risk (VaR) analysis</i></p> <p>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.</p> <p>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.</p> <table><tr><th rowspan="3">Historical VaR (99%, one-day) by risk type</th><th colspan="2">Average</th><th colspan="2">Minimum</th><th colspan="2">Maximum</th><th colspan="2">Year ended</th></tr><tr><th>2010</th><th>2009</th><th>2010</th><th>2009</th><th>2010</th><th>2009</th><th>31/12/10</th><th>31/12/09</th></tr><tr><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th></tr><tr><td>Foreign exchange</td><td>980</td><td>1,340</td><td>546</td><td>943</td><td>1,200</td><td>1,600</td><td>980</td><td>1,350</td></tr><tr><td>Interest rate</td><td>115</td><td>60</td><td>85</td><td>45</td><td>150</td><td>95</td><td>105</td><td>55</td></tr><tr><td>Diversification</td><td>(45)</td><td>(40)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>(55)</td><td>(50)</td></tr><tr><td>Total VaR exposure</td><td>1,050</td><td>1,360</td><td>-</td><td>-</td><td>-</td><td>-</td><td>1,030</td><td>1,355</td></tr></table> <p>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.</p> <p><i>49.2.1.2 Foreign currency risk management</i></p> <p>HKFRS 7.33, 34 Several subsidiaries of the Company 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. Exchange rate exposures are managed within approved policy parameters utilising forward foreign currency contracts.</p> <p>The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:</p> <table><tr><th rowspan="2"></th><th colspan="2">Liabilities</th><th colspan="2">Assets</th></tr><tr><th>31/12/10 HK\$'000</th><th>31/12/09 HK\$'000</th><th>31/12/10 HK\$'000</th><th>31/12/09 HK\$'000</th></tr><tr><td>RMB</td><td>8,297</td><td>7,469</td><td>1,574</td><td>1,671</td></tr><tr><td>Euro</td><td>186</td><td>135</td><td>-</td><td>-</td></tr><tr><td>Other (please specify)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr></table> | Historical VaR (99%, one-day) by risk type | Average | | Minimum | | Maximum | | Year ended | | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 31/12/10 | 31/12/09 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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 | | Liabilities | | Assets | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | RMB | 8,297 | 7,469 | 1,574 | 1,671 | Euro | 186 | 135 | - | - | Other (please specify) | - | - | - | - |
| Historical VaR (99%, one-day) by risk type | Average | | Minimum | | Maximum | | Year ended | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2010 | | 2009 | 2010 | 2009 | 2010 | 2009 | 31/12/10 | 31/12/09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Liabilities | | Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| RMB | 8,297 | 7,469 | 1,574 | 1,671 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Euro | 186 | 135 | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other (please specify) | - | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------|---|--------------|----------------|------------|----------------|--|--|------|------|------|------|--|----------|----------|----------|----------|------------------|----|----|-----|----|----------------|-----|--------------|----|------------|--------|----|-------------|---|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>Foreign currency sensitivity analysis</p> <p>The Group is mainly exposed to the effects of fluctuation in RMB and Euro.</p> <p>The following table details the Group's sensitivity to a 5% and 10% (2009: 5%) increase and decrease in Hong Kong dollars against RMB and Euro respectively. The management adjusted the sensitivity rate from 5% to 10% for the purpose of assessing foreign currency risk against Euro. Hence, 5% and 10% (2009: 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 hedging instruments in 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 or equity where the Hong Kong dollars strengthen 5% (2009: 5%) against RMB and 10% (2009: 5%) against Euro. For a 5% (2009: 5%) weakening of the Hong Kong dollars against RMB and 10% (2009: 5%) against Euro, there would be an equal and opposite impact on the profit or equity, and the balances below would be negative.</p> <table><tr><th></th><th colspan="2">Impact of RMB</th><th colspan="2">Impact of Euro</th></tr><tr><th></th><th>2010</th><th>2009</th><th>2010</th><th>2009</th></tr><tr><th></th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th><th>HK\$'000</th></tr><tr><td>Sensitivity rate</td><td>5%</td><td>5%</td><td>10%</td><td>5%</td></tr><tr><td>Profit or loss</td><td>286</td><td>246 (Note 1)</td><td>16</td><td>6 (Note 3)</td></tr><tr><td>Equity</td><td>35</td><td>50 (Note 2)</td><td>-</td><td>-</td></tr></table> <p>Notes:</p> <ol style="list-style-type: none">1) This is mainly attributable to the exposure outstanding on receivables and payables denominated in RMB not subject to cash flow hedge at the end of the reporting period.2) This is as a result of the changes in fair value of foreign currency forward contracts designated as hedging instruments in cash flow hedges in relation to the Group's foreign currency forecast sales.3) This is mainly attributable to the exposure to outstanding payables denominated in Euro at the end of the reporting period. <p>HKFRS 7.42</p> <p>In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period 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 the end of the reporting period.</p> <p>HKFRS 7.33 HKFRS 7.34</p> <p>49.2.1.3 Interest rate risk management</p> <p>The Group's fair value interest rate risk relates primarily to fixed-rate borrowings from a financial institution (see note 36 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 41 for details).</p> <p>The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see note 36 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.</p> <p>HKFRS 7.34(c)</p> <p>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.</p> | | Impact of RMB | | Impact of Euro | | | 2010 | 2009 | 2010 | 2009 | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | Sensitivity rate | 5% | 5% | 10% | 5% | Profit or loss | 286 | 246 (Note 1) | 16 | 6 (Note 3) | Equity | 35 | 50 (Note 2) | - | - |
| | Impact of RMB | | Impact of Euro | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2010 | 2009 | 2010 | 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sensitivity rate | 5% | 5% | 10% | 5% | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Profit or loss | 286 | 246 (Note 1) | 16 | 6 (Note 3) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | 35 | 50 (Note 2) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p><u>Interest rate sensitivity analysis</u></p> <p>HKFRS 7.40(b) HKFRS 7.34(a) The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2009: 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.</p> <p>HKFRS 7.40(a) If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's:</p> <ul style="list-style-type: none"> • post tax profit for the year ended 31 December 2010 would decrease/increase by HK\$210,000 (2009: decrease/increase by HK\$237,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and • other comprehensive income for the year would decrease/increase by HK\$11,000 (2009: decrease/increase by HK\$11,000) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments. <p>HKFRS 7.33, 34 HKFRS 7.34(c) <u>49.2.1.4 Other price risks</u></p> <p>The Group is exposed to equity price risk mainly 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.</p> <p><u>Equity price sensitivity analysis</u></p> <p>HKFRS 7.40(b) The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is increased to 15% in the current year as a result of the volatile financial market.</p> <p>HKFRS 7.40(a) If equity prices had been 15% higher/lower (2009: 15% higher/lower):</p> <ul style="list-style-type: none"> • post-tax profit for the year ended 31 December 2010 would increase/decrease by HK\$1,591,000 (2009: increase/decrease by HK\$1,070,000). This is mainly due to the changes in fair value of held-for-trading investments; and • other comprehensive income would increase/decrease by HK\$510,000 (2009: increase/decrease by HK\$410,000) as a result of the changes in fair value of available-for-sale investments. <p><u>49.2.2 Credit risk management</u></p> <p>HKFRS 7.33, 34, 36, B8, B9 As at 31 December 2010, 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:</p> <ul style="list-style-type: none"> • the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and <p>HKFRS 7.B10(c) • the amount of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 57.</p> <p>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 investment at the end of the reporting period 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.</p> |

| Source | Hong Kong GAAP Limited |
|--------|--|
| | <p data-bbox="363 241 935 293">Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p data-bbox="363 322 1404 405">Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.</p> <p data-bbox="363 434 1442 598">Apart from Company A, the largest customer of the Group (see below and refer to notes 6 and 30), the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Company A did not exceed 20% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.</p> <p data-bbox="363 627 1437 680">The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.</p> <p data-bbox="153 710 319 736">HKFRS 7.34(c)</p> <p data-bbox="363 710 1430 817">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.</p> <p data-bbox="363 846 1075 873"><i>49.2.2.1 Collateral held as security and other credit enhancements</i></p> <p data-bbox="153 902 319 929">HKFRS 7.36(b)</p> <p data-bbox="363 902 1449 1095">The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except for finance lease receivables and an amount due from a director. Credit risks associated with the finance lease receivables and an amount due from a director are mitigated because the finance lease receivables and the amount due from a director are secured over the leased storage equipment and a residential property respectively. The carrying amounts of the finance lease receivables and the amount due from a director amounted to HK\$1,028,000 and HK\$440,000 respectively (31 December 2009: HK\$905,000 and HK\$nil respectively).</p> <p data-bbox="363 1124 1410 1207">As at 31 December 2010, the fair value of the leased assets and the residential property are estimated to be approximately HK\$1,000,000 and HK\$2,500,000 respectively. As at 31 December 2009, the fair value of the leased assets amounted to HK\$900,000.</p> <p data-bbox="363 1236 1414 1290">The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee and the director.</p> <p data-bbox="363 1330 1453 1467"><i>Note: HKFRS 7.36(b) (amended as part of Improvements to HKFRSs issued in 2010) specifies that entities should give a description of collateral held as security and of other credit enhancements, and their financial effect (e.g. a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk.</i></p> |

| Source | Hong Kong GAAP Limited |
|--------------------|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> |
| | <p><u>49.2.3 Liquidity risk management</u></p> |
| HKFRS 7.33, 39(c) | <p>Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework to meet 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.</p> |
| HKAS 7.50(a) | <p>As at 31 December 2010, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK\$2 million (31 December 2009: HK\$1 million) and HK\$5 million (31 December 2009: HK\$3 million) respectively.</p> |
| HKFRS 7.34, 35, 39 | <p><u>Liquidity tables</u></p> <p>The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.</p> <p>Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.</p> <p>The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.</p> <p>In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.</p> |
| HKFRS 7.B10A(b) | <p>The amounts included below for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.</p> <p>Moreover, the following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of these derivatives, which have been entered into for hedging purposes.</p> |

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

Note: The tables below include the weighted average interest rate and the presentation of the corresponding carrying amounts in the consolidated statement of financial position as an example of summary quantitative data about exposure to interest rates at the end of the reporting period that an entity may provide internally to key management personnel.

| | Weighted average interest rate % | On demand or 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 HK\$'000 |
|---|--|---|---------------------------|-----------------------------------|-----------------------|----------------------|---|---|
| 31/12/10 | | | | | | | | |
| Non-derivative financial assets | | | | | | | | |
| Trade and other receivables | - | 9,064 | 10,950 | 462 | 519 | - | 20,995 | 20,995 |
| Debt investments | 6.9% | 18 | 88 | 5,766 | 4,000 | - | 9,872 | 9,063 |
| Equity investments | - | - | - | - | 15,880 | - | 15,880 | 15,880 |
| Pledged bank deposits | 3.5% | - | - | - | 2,140 | - | 2,140 | 2,000 |
| Cash and bank balances | 3.0% | 9,500 | 11,982 | - | - | - | 21,482 | 20,836 |
| Others (please specify) | - | - | - | - | - | - | - | - |
| | | 18,582 | 23,020 | 6,228 | 22,539 | - | 70,369 | 68,774 |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | - | (5,733) | (6,354) | - | - | - | (12,087) | (12,087) |
| Borrowings | | | | | | | | |
| - fixed rate | 6.2% | (198) | (594) | (1,584) | (4,764) | - | (7,140) | (5,961) |
| - variable rate (note 1) | 6.1% | (11,735) | (4,825) | (1,389) | (12,035) | (20,586) | (50,570) | (47,663) |
| Loans from government | 7.2% | - | - | (3,000) | - | - | (3,000) | (2,798) |
| Convertible notes | 5.5% | - | - | (248) | (4,994) | - | (5,242) | (4,144) |
| Bank overdrafts | 7.5% | (547) | - | - | - | - | (547) | (538) |
| Obligations under finance leases | 4.0% | (1) | (2) | (7) | (6) | - | (16) | (14) |
| Financial guarantee contracts (note 2) | - | (970) | - | - | - | - | (970) | (20) |
| Other (please specify) | - | - | - | - | - | - | - | - |
| | | (19,184) | (11,775) | (6,228) | (21,799) | (20,586) | (79,572) | (73,225) |
| 31/12/09 | | | | | | | | |
| Non-derivative financial assets | | | | | | | | |
| Trade and other receivables | - | 5,409 | 8,800 | 333 | 250 | - | 14,792 | 14,792 |
| Debt investments | 6.7% | 20 | 1,165 | 3,630 | 2,818 | - | 7,633 | 7,384 |
| Equity investments | - | - | - | - | 11,183 | - | 11,183 | 11,183 |
| Pledged bank deposits | 4.25% | - | - | - | 2,140 | - | 2,140 | 2,000 |
| Cash and bank balances | 3.7% | 13,450 | 9,854 | - | - | - | 23,304 | 22,388 |
| Others (please specify) | - | - | - | - | - | - | - | - |
| | | 18,879 | 19,819 | 3,963 | 16,391 | - | 59,052 | 57,747 |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | - | (7,991) | (8,089) | (4,408) | - | - | (20,488) | (20,488) |
| Borrowings | | | | | | | | |
| - fixed rate | 6.1% | (14) | (28) | (1,120) | (1,424) | - | (2,586) | (2,037) |
| - variable rate (note 1) | 6.2% | (17,701) | (5,409) | (17,389) | (10,517) | (6,850) | (57,866) | (55,276) |
| Loans from government | 7.2% | - | - | - | (3,000) | - | (3,000) | (2,610) |
| Bank overdrafts | 6.4% | (392) | - | - | - | - | (392) | (378) |
| Obligations under finance leases | 4.5% | (5) | (10) | (43) | (44) | - | (102) | (89) |
| Financial guarantee contracts (note 2) | - | (1,050) | - | - | - | - | (1,050) | (18) |
| Others (please specify) | - | - | - | - | - | - | - | - |
| | | (27,153) | (13,536) | (22,960) | (14,985) | (6,850) | (85,484) | (80,896) |

| Source | Hong Kong GAAP Limited |
|-----------------------|---|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> |
| | <p>Notes:</p> |
| <p>HKFRS 7.39(c)</p> | <p>1) Bank loans with a repayment on demand clause are included in the 'on demand or less than 1 month' time band in the above maturity analysis. As at 31 December 2010 and 31 December 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$11,000,000 and HK\$10,180,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid two years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$11,500,000.</p> |
| <p>HKFRS 7.B10(c)</p> | <p>2) The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.</p> |

Source Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued

Liquidity tables - continued

HKFRS 7.39(b)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

| | 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 HK\$'000 |
|---------------------------------------|----------------------------------|---------------------------|-----------------------------------|-----------------------|----------------------|---|---|
| 31/12/10 | | | | | | | |
| 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 | 5,079 | - | - | 11,133 | 11,133 |
| - outflow | - | (5,811) | (5,152) | - | - | (10,963) | (10,963) |
| | - | 243 | (73) | - | - | 170 | 170 |
| 31/12/09 | | | | | | | |
| 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 |

49.3 Fair value of financial instruments

HKFRS 7.27

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. 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.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

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 recognised in the consolidated financial statements approximate to their fair values:

| | 31/12/10 | | 31/12/09 | |
|------------------------------------|--------------------|------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Held-to-maturity investments: | | | | |
| Debt securities | 6,863 | 6,880 | 5,262 | 5,273 |
| Finance lease receivables (Note 1) | 1,028 | 1,071 | 905 | 919 |
| Financial liabilities | | | | |
| Convertible notes (Note 2) | 4,144 | 4,150 | - | - |
| Obligations under finance leases | 14 | 13 | 89 | 85 |
| Fixed-rate borrowings | 6,884 | 6,941 | 2,037 | 2,143 |

Notes:

- 1) The fair value of finance lease receivables is estimated to be HK\$1,070,500 (31 December 2009: HK\$919,000) using an 8.5% (31 December 2009: 8.25%) discount rate based on a quoted four-year swap rate and adding a credit margin that reflects the secured nature of the receivables.
- 2) The fair value of the liability component of convertible notes is determined assuming redemption on 1 September 2012 and using a 7.95% interest rate based on a quoted swap rate of 6.8% for a 20 months loan and holding the credit risk margin constant.

49.3.1 Fair value measurements recognised in the consolidated statement of financial position

HKFRS 7.27B(a)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Source Hong Kong GAAP Limited

Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued

| | 31/12/10 | | | |
|---|---------------|-------------|-------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Derivative financial assets | - | 528 | - | 528 |
| Held for trading-listed equity securities | 12,480 | - | - | 12,480 |
| Available-for-sale investments | | | | |
| Listed equity securities | 2,560 | - | - | 2,560 |
| Listed debt securities | 2,200 | - | - | 2,200 |
| Unlisted equity securities (Note) | - | - | 840 | 840 |
| Total | 17,240 | 528 | 840 | 18,608 |
| Financial liabilities | | | | |
| Contingent consideration for a business combination | - | - | (75) | (75) |
| Other derivative financial liabilities | - | (96) | - | (96) |
| Total | - | (96) | (75) | (171) |

Note: The fair values of unlisted equity investments classified as available-for-sale investments and contingent consideration for a business combination are measured using a discounted cash flow model that includes some assumptions that are not supportable by observable market prices or rates (see notes 27 and 50 for details).

| | 31/12/09 | | | |
|---|---------------|------------|------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Derivative financial assets | - | 397 | - | 397 |
| Held for trading-listed equity securities | 8,448 | - | - | 8,448 |
| Available-for-sale investments | | | | |
| Listed equity securities | 2,315 | - | - | 2,315 |
| Listed debt securities | 2,122 | - | - | 2,122 |
| Unlisted equity securities (Note) | - | - | 420 | 420 |
| Total | 12,885 | 397 | 420 | 13,702 |
| Financial liabilities | | | | |
| Other [describe] | - | - | - | - |
| Total | - | - | - | - |

Note: The fair value of unlisted equity investments classified as available-for-sale investments is measured using a discounted cash flow model that includes some assumptions that are not supportable by observable market prices or rates (see note 27 for details).

HKFRS 7.27B(b) There were no transfers between Levels 1 and 2 in the both year.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---------------------|---------------------|--|--|--|--------------------------------|---------------------|-------|--|----------|----------|----------|-----------------|-----|---|-----|--------------------------------|--|--|--|------------------|---|---|---|------------------------------|------|---|------|---|-----|---|-----|-----------|----|---|----|--------|---|---|---|-------------|---|---|---|--------------------------|---|---|---|-----------------|-----|---|-----|--|---------------------|--|--|--|--------------------------------|---------------------|-------|--|----------|----------|----------|-----------------|-----|---|-----|--------------------------------|--|--|--|------------------|---|---|---|------------------------------|---|---|---|-----------|----|---|----|--------|---|---|---|-------------|---|---|---|--------------------------|---|---|---|-----------------|-----|---|-----|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.27B(c) | <p><u>49.3.2 Reconciliation of Level 3 fair value measurements of financial assets</u></p> <table><tr><td></td><td colspan="3">Year ended 31/12/10</td></tr><tr><td></td><td>Unquoted equity investments</td><td>Other [describe]</td><td>Total</td></tr><tr><td></td><td>HK\$'000</td><td>HK\$'000</td><td>HK\$'000</td></tr><tr><td>Opening balance</td><td>420</td><td>-</td><td>420</td></tr><tr><td>Gains or losses recognised in:</td><td></td><td></td><td></td></tr><tr><td>- profit or loss</td><td>-</td><td>-</td><td>-</td></tr><tr><td>- other comprehensive income</td><td>(10)</td><td>-</td><td>(10)</td></tr><tr><td>Reclassification of remaining interest in E Plus Limited from investment in associate to available-for-sale (see note 24)</td><td>360</td><td>-</td><td>360</td></tr><tr><td>Purchases</td><td>70</td><td>-</td><td>70</td></tr><tr><td>Issues</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Settlements</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Transfers out of level 3</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Closing balance</td><td>840</td><td>-</td><td>840</td></tr></table> <table><tr><td></td><td colspan="3">Year ended 31/12/09</td></tr><tr><td></td><td>Unquoted equity investments</td><td>Other [describe]</td><td>Total</td></tr><tr><td></td><td>HK\$'000</td><td>HK\$'000</td><td>HK\$'000</td></tr><tr><td>Opening balance</td><td>400</td><td>-</td><td>400</td></tr><tr><td>Gains or losses recognised in:</td><td></td><td></td><td></td></tr><tr><td>- profit or loss</td><td>-</td><td>-</td><td>-</td></tr><tr><td>- other comprehensive income</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Purchases</td><td>20</td><td>-</td><td>20</td></tr><tr><td>Issues</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Settlements</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Transfers out of level 3</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Closing balance</td><td>420</td><td>-</td><td>420</td></tr></table> <p>The table above only includes financial assets. The only financial liability that is subsequently measured at fair value is contingent consideration for the acquisition of Subsix Limited. Such a financial liability is classified as Level 3 (see note 50). No gain or loss for the current year relating to this contingent liability has been recognised in the consolidated [statement of comprehensive income/income statement].</p> | | Year ended 31/12/10 | | | | Unquoted equity investments | Other [describe] | Total | | HK\$'000 | HK\$'000 | HK\$'000 | Opening balance | 420 | - | 420 | Gains or losses recognised in: | | | | - profit or loss | - | - | - | - other comprehensive income | (10) | - | (10) | Reclassification of remaining interest in E Plus Limited from investment in associate to available-for-sale (see note 24) | 360 | - | 360 | Purchases | 70 | - | 70 | Issues | - | - | - | Settlements | - | - | - | Transfers out of level 3 | - | - | - | Closing balance | 840 | - | 840 | | Year ended 31/12/09 | | | | Unquoted equity investments | Other [describe] | Total | | HK\$'000 | HK\$'000 | HK\$'000 | Opening balance | 400 | - | 400 | Gains or losses recognised in: | | | | - profit or loss | - | - | - | - other comprehensive income | - | - | - | Purchases | 20 | - | 20 | Issues | - | - | - | Settlements | - | - | - | Transfers out of level 3 | - | - | - | Closing balance | 420 | - | 420 |
| | Year ended 31/12/10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Unquoted equity investments | Other [describe] | Total | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening balance | 420 | - | 420 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gains or losses recognised in: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| - profit or loss | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| - other comprehensive income | (10) | - | (10) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reclassification of remaining interest in E Plus Limited from investment in associate to available-for-sale (see note 24) | 360 | - | 360 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | 70 | - | 70 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issues | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Settlements | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transfers out of level 3 | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Closing balance | 840 | - | 840 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Year ended 31/12/09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Unquoted equity investments | Other [describe] | Total | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Opening balance | 400 | - | 400 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gains or losses recognised in: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| - profit or loss | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| - other comprehensive income | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | 20 | - | 20 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Issues | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Settlements | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transfers out of level 3 | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Closing balance | 420 | - | 420 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.27B(d) | <p>All of the above gains and losses included in other comprehensive income for the current year relate to unquoted equity investments held at the end of the reporting period and are reported as changes of "investments revaluation reserve" (see note 45).</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | | | |
|--------------------------|--|-------------------------------------|----------------------------|--|---|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | |
| | 50. Business combinations | | | | |
| HKFRS 3.B64(a) to (d) | Subsidiaries acquired | | | | |
| | | <u>Principal activity</u> | <u>Date of acquisition</u> | <u>Proportion of shares acquired (%)</u> | <u>Consideration transferred HK\$'000</u> |
| | 2010 | | | | |
| | Subsix Limited | Manufacture of electronic equipment | 15/07/10 | 80 | 505 |
| | Subseven Limited | Manufacture of electronic equipment | 30/11/10 | 100 | 687 |
| | | | | | <u>1,192</u> |
| | Subsix Limited and Subseven Limited were acquired so as to continue the expansion of the Group's electronic equipment operations. | | | | |
| | 2009 | | | | |
| | [Please describe] | | | | |
| | | | | | <u>-</u> |
| | | | | | <u>-</u> |
| HKFRS 3.B66 | <p><i>Note: For clarity of presentation in these illustrative financial statements, it has been assumed that there were no business combinations in the comparative period. If there had been a business combination in 2009, all of the disclosures set out in HKFRS 3 (as issued in 2004) would also be required for that prior year business combination.</i></p> <p><i>The disclosures illustrated are also required for business combinations after the end of the reporting period but before the financial statements are authorised for issue unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorised for issue. In such circumstances, the entity is required to describe which disclosures could not be made and the reasons why they could not be made.</i></p> | | | | |
| HKFRS 3.B64(f) | Consideration transferred | | | | |
| | | | | <u>Subsix Limited HK\$'000</u> | <u>Subseven Limited HK\$'000</u> |
| | Cash | | | 430 | 647 |
| | Contingent consideration arrangement (Note 1) | | | 75 | - |
| | Plus: effect of settlement of legal claim against Subseven Limited (Note 2) | | | - | 40 |
| HKAS 7.40(a) | Total | | | <u>505</u> | <u>687</u> |
| | Notes: | | | | |
| HKFRS 3.B64(g) | <p>1) The contingent consideration requires the Group to pay the vendors an additional HK\$300,000 if Subsix Limited's profit before interest and tax (PBIT) in each of the years 2010 and 2011 exceeds HK\$500,000. Subsix's PBIT for the past three years has been HK\$350,000 on average and the directors do not consider it probable that this payment will be required. HK\$75,000 represents the estimated fair value of this obligation. Fair value is estimated based on discounted cash flow model, using an earnings growth rate of 5.0% for 2010 and 2011 and a risk adjusted discount factor of 12.5% as inputs.</p> | | | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------------|--|---------------------------------|-------------------------------|---------------------------------|-------------------|-----------------------|--|--|--|-----------------------------|-----|---|-----|-----------------------------|----|-----|-----|-------------|---|----|----|---------------------------|--|--|--|-------------------------------------|---|---|---|---------------------|-----|-----|-----|----------------------------|--|--|--|--------------------------|------|------|------|--------------------------------|--|--|--|--------------------------|------|---|------|----------------------------------|------|---|------|--|------------|------------|------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 3.B64(l) | 2) Prior to the acquisition of Subseven Limited, the Group was pursuing a legal claim against that company in respect of damage to goods in transit to a customer. Although the Group was confident of recovery, this amount has not previously been recognised as an asset. In line with the requirements of HKFRS 3(2008), the Group has recognised the effective settlement of this legal claim on the acquisition of Subseven Limited by recognising HK\$40,000 (being the estimated fair value of the claim) as a gain in the consolidated [statement of comprehensive income/income statement] within the 'other gains and losses' line item. This has resulted in a corresponding increase in the consideration transferred. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 3.B64(m) | Acquisition-related costs amounting to HK\$145,000 (Subsix Limited: HK\$65,000; Subseven Limited: HK\$80,000) have been excluded from the consideration transferred and have been recognised as an expense in the period, within the 'other expenses' line item in the [statement of comprehensive income/income statement]. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 3.B64(i) | Assets acquired and liabilities recognised at the date of acquisition | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 7.40(d) | <table><tr><td></td><td>Subsix Limited HK\$'000</td><td>Subseven Limited HK\$'000</td><td>Total HK\$'000</td></tr><tr><td><u>Current assets</u></td><td></td><td></td><td></td></tr><tr><td>Cash and & cash equivalents</td><td>200</td><td>-</td><td>200</td></tr><tr><td>Trade and other receivables</td><td>87</td><td>105</td><td>192</td></tr><tr><td>Inventories</td><td>-</td><td>57</td><td>57</td></tr><tr><td><u>Non-current assets</u></td><td></td><td></td><td></td></tr><tr><td>In-process research and development</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Plant and equipment</td><td>143</td><td>369</td><td>512</td></tr><tr><td><u>Current liabilities</u></td><td></td><td></td><td></td></tr><tr><td>Trade and other payables</td><td>(18)</td><td>(35)</td><td>(53)</td></tr><tr><td><u>Non-current liabilities</u></td><td></td><td></td><td></td></tr><tr><td>Deferred tax liabilities</td><td>(17)</td><td>-</td><td>(17)</td></tr><tr><td>Contingent liabilities (note 40)</td><td>(45)</td><td>-</td><td>(45)</td></tr><tr><td></td><td><u>350</u></td><td><u>496</u></td><td><u>846</u></td></tr></table> | | Subsix Limited HK\$'000 | Subseven Limited HK\$'000 | Total HK\$'000 | <u>Current assets</u> | | | | Cash and & cash equivalents | 200 | - | 200 | Trade and other receivables | 87 | 105 | 192 | Inventories | - | 57 | 57 | <u>Non-current assets</u> | | | | In-process research and development | - | - | - | Plant and equipment | 143 | 369 | 512 | <u>Current liabilities</u> | | | | Trade and other payables | (18) | (35) | (53) | <u>Non-current liabilities</u> | | | | Deferred tax liabilities | (17) | - | (17) | Contingent liabilities (note 40) | (45) | - | (45) | | <u>350</u> | <u>496</u> | <u>846</u> |
| | Subsix Limited HK\$'000 | Subseven Limited HK\$'000 | Total HK\$'000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Current assets</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash and & cash equivalents | 200 | - | 200 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade and other receivables | 87 | 105 | 192 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inventories | - | 57 | 57 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Non-current assets</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| In-process research and development | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Plant and equipment | 143 | 369 | 512 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Current liabilities</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Trade and other payables | (18) | (35) | (53) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Non-current liabilities</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax liabilities | (17) | - | (17) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Contingent liabilities (note 40) | (45) | - | (45) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>350</u> | <u>496</u> | <u>846</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 3.B64(h) | The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of HK\$87,000 (Subsix Limited) and HK\$105,000 (Subseven Limited) had gross contractual amounts of HK\$104,000 and HK\$120,000 respectively. The best estimate at acquisition date of the contractual cash flows not expected to be collected are HK\$17,000 (Subsix Limited) and HK\$15,000 (Subseven Limited). | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Non-controlling interests | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 3.B64(o) | The non-controlling interests (20%) in Subsix Limited recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to HK\$127,000. This fair value was estimated by applying an income approach. The following were the key model inputs used in determining the fair value: <ul style="list-style-type: none">assumed discount rate of 18%;assumed long-term sustainable growth rate of 3%; andassumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interests in Subsix Limited. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Source Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

In addition, the non-controlling interests recognised at the acquisition date include the market-based measure of all outstanding share options granted by Subsix Limited to its employees. These outstanding share options had been vested at the acquisition date and were measured in accordance with HKFRS 2 *Share-based Payment* at their market-based measure of HK\$5,000. Methods and significant assumptions used in determining the market-based measure at the acquisition date are set out in note 47.2.2.

Goodwill arising on acquisition

| | Subsix Limited HK\$'000 | Subseven Limited HK\$'000 | Total HK\$'000 |
|---|-------------------------------|---------------------------------|-------------------|
| Consideration transferred | 505 | 687 | 1,192 |
| Plus: non-controlling interests (20% in Subsix Limited) | 127 | - | 127 |
| Plus: non-controlling interests (outstanding share options granted by Subsix Limited) | 5 | | 5 |
| Less: fair value of identifiable net assets acquired | (350) | (496) | (846) |
| Goodwill arising on acquisition | 287 | 191 | 478 |

HKFRS 3.B64(e) Goodwill arose in the acquisition of Subsix Limited and Subseven Limited because the cost of the combination included a control premium. In addition, the consideration paid for the combination 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 because they do not meet the recognition criteria for identifiable intangible assets.

HKFRS 3.B64(k) None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of subsidiaries

| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
|--|---------------------------------------|---------------------------------------|
| Consideration paid in cash | 1,077 | - |
| Less: cash and cash equivalent balances acquired | (200) | - |
| | 877 | - |

HKAS 7.40(b)
HKAS 7.40(c)

| Source | Hong Kong GAAP Limited | | |
|----------------|---|------------------------------------|------------------------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | Impact of acquisitions on the results of the Group | | |
| HKFRS 3.B64(q) | <p>Included in the profit for the year is HK\$35,000 attributable to the additional business generated by Subsix Limited, and HK\$13,000 attributable to Subseven Limited. Revenue for the year includes HK\$2.3 million in respect of Subsix Limited and HK\$2.8 million in respect of Subseven Limited.</p> | | |
| HKFRS 3.B64(q) | <p>Had these business combinations been effected at 1 January 2010, the revenue of the Group from continuing operations would have been HK\$145 million, and the profit for the year from continuing operations would have been HK\$19.7 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.</p> <p>In determining the 'pro-forma' revenue and profit of the Group had Subsix Limited and Subseven Limited been acquired at the beginning of the current year, the directors have:</p> <ul style="list-style-type: none"> calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and | | |
| | 51. Disposal of a subsidiary | | |
| | <p>On 30 November 2010, the Group disposed of Subzero Limited which carried out all of its toy manufacturing operations.</p> | | |
| | Consideration received | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 |
| HKAS 7.40(b) | Consideration received in cash and cash equivalents | 7,854 | - |
| | Deferred sales proceeds (note 30) | 960 | - |
| HKAS 7.40(a) | Total consideration received | 8,814 | - |
| | Analysis of asset and liabilities over which control was lost | | |
| HKAS 7.40(d) | | | 30/11/10 HK\$'000 |
| | Current assets | | |
| | Cash and cash equivalents | | 288 |
| | Trade receivables | | 1,034 |
| | Inventories | | 2,716 |
| | Non-current assets | | |
| | Property, plant and equipment | | 5,662 |
| | Goodwill | | 3,080 |
| | Current liabilities | | |
| | Payables | | (822) |
| | Non-current liabilities | | |
| | Borrowings | | (4,342) |
| | Deferred tax liabilities | | (471) |
| | Net assets disposed of | | 7,145 |

| Source | Hong Kong GAAP Limited | | | |
|---------------|---|---------------------------------------|---------------------------------------|----------------------|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | |
| | <i>Gain on disposal of a subsidiary</i> | | | |
| | | | Year ended 31/12/10 HK\$'000 | |
| | Consideration received and receivable | | 8,814 | |
| | Net assets disposed of | | (7,145) | |
| | Non-controlling interests | | - | |
| | Cumulative gain/loss on available-for-sale financial assets reclassified from equity on loss of control of subsidiary | | - | |
| | Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary | | 120 | |
| HKAS 27.41(f) | Gain on disposal | | 1,789 | |
| HKAS 27.41(f) | The gain on disposal is included in the profit for the year from discontinued operations in the consolidated [statement of comprehensive income/income statement] (see note 11). | | | |
| | <i>Net cash inflow on disposal of a subsidiary</i> | | | |
| | | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 HK\$'000 | |
| HKAS 7.40(c) | Consideration received in cash and cash equivalents | 7,854 | - | |
| | Less: cash and cash equivalent balances disposed of | (288) | - | |
| | | 7,566 | - | |
| | 52. Cash and cash equivalents | | | |
| HKAS 7.45 | For the purposes of the consolidated statement of cash flows, 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 reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the statement of financial position as follows: | | | |
| | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 |
| | Cash and bank balances | 20,836 | 22,388 | 9,082 |
| | Bank overdrafts | (538) | (378) | (312) |
| | | 20,298 | 22,010 | 8,770 |
| | Cash and bank balances included in a disposal group classified as held for sale | 175 | - | - |
| | | 20,473 | 22,010 | 8,770 |
| HKAS 7.43 | 53. Non-cash transactions | | | |
| | The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows: | | | |
| | <ul style="list-style-type: none">In the current year, the Group disposed of part of its interest in E Plus Limited and its entire interest in Subzero Limited, sales proceeds of HK\$1.245 million and HK\$960,000 respectively had not been received in cash at the end of the reporting period (see notes 24 and 51);In prior year, the Group acquired HK\$40,000 of equipment under a finance lease (2010: nil). | | | |

| Source | Hong Kong GAAP Limited | | |
|----------------------------------|---|--|--|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | |
| | 54. Operating leases | | |
| | <i>The Group as lessee</i> | | |
| | | Year ended <u>31/12/10</u> HK\$'000 | Year ended <u>31/12/09</u> HK\$'000 |
| HKAS 17.35(c) Sch 10:13(1)(i) | Minimum lease payments paid under operating leases during the period: | | |
| | Premises | 2,008 | 2,092 |
| | Other assets [please describe] | - | - |
| | | <u>2,008</u> | <u>2,092</u> |
| HKAS 17.35(a) | At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows: | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> 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 |
| | | <u>6,920</u> | <u>8,770</u> |
| HKAS 17.35(d) | Operating leases relate to warehouse facilities with lease terms of between 3 to 7 years (31 December 2009: 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. | | |
| | <i>The Group as lessor</i> | | |
| HKAS 17.56(c) | Property rental income earned during the year was HK\$18,000 (2009: HK\$14,000). 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 end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments: | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> HK\$'000 |
| | Within one year | 10 | 18 |
| | In the second to fifth years inclusive | 44 | 22 |
| | After five years | - | - |
| | | <u>54</u> | <u>40</u> |
| | 55. Commitments | | |
| | | <u>31/12/10</u> HK\$'000 | <u>31/12/09</u> 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 (2009: HK\$3,250). | | |

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|--|----------------------|----------------------|--|--------|--------|-------------------------------------|-------|-------|---|-----|-----|--|-------|-------|--------------------------|---------------|---------------|--|-----|---|
| | Notes to the consolidated financial statements for the year ended 31 December 2010 – continued | | | | | | | | | | | | | | | | | | | | | | |
| | 56. Pledge of assets | | | | | | | | | | | | | | | | | | | | | | |
| | Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (see note 36): | | | | | | | | | | | | | | | | | | | | | | |
| | | <table> <tr> <th></th><th>31/12/10 HK\$'000</th><th>31/12/09 HK\$'000</th></tr> <tr> <td>HKAS 16.74(a) Leasehold land and buildings</td><td>22,502</td><td>27,425</td></tr> <tr> <td>HKAS 40.75(g) Investment properties</td><td>2,086</td><td>1,942</td></tr> <tr> <td>HKFRS 7.14(a) Trade receivables</td><td>946</td><td>-</td></tr> <tr> <td>HKFRS 7.14(a) Bank deposits</td><td>2,000</td><td>2,000</td></tr> <tr> <td></td><td><u>27,534</u></td><td><u>31,367</u></td></tr> </table> | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | HKAS 16.74(a) Leasehold land and buildings | 22,502 | 27,425 | HKAS 40.75(g) Investment properties | 2,086 | 1,942 | HKFRS 7.14(a) Trade receivables | 946 | - | HKFRS 7.14(a) Bank deposits | 2,000 | 2,000 | | <u>27,534</u> | <u>31,367</u> | | | |
| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | | | | | | | | | | | | | | | | | | | | | |
| HKAS 16.74(a) Leasehold land and buildings | 22,502 | 27,425 | | | | | | | | | | | | | | | | | | | | | |
| HKAS 40.75(g) Investment properties | 2,086 | 1,942 | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.14(a) Trade receivables | 946 | - | | | | | | | | | | | | | | | | | | | | | |
| HKFRS 7.14(a) Bank deposits | 2,000 | 2,000 | | | | | | | | | | | | | | | | | | | | | |
| | <u>27,534</u> | <u>31,367</u> | | | | | | | | | | | | | | | | | | | | | |
| | In addition, the Group's obligations under finance leases (see note 39) are secured by the lessors' title to the leased assets, which have a carrying amount of HK\$28,000 (31 December 2009: HK\$162,000). | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 37.86 Sch 10:12(5) | 57. Contingent liabilities and contingent assets | | | | | | | | | | | | | | | | | | | | | | |
| | | <table> <tr> <th></th><th>31/12/10 HK\$'000</th><th>31/12/09 HK\$'000</th></tr> <tr> <td colspan="3">Contingent liabilities</td></tr> <tr> <td>Court proceedings (note 1)</td><td>-</td><td>-</td></tr> <tr> <td>HKAS 31.54(a) Contingent liabilities incurred by the Group arising from interests in jointly controlled entities (Note 2)</td><td>110</td><td>116</td></tr> <tr> <td>Financial guarantees given to banks (Note 3)</td><td>970</td><td>1,050</td></tr> <tr> <td colspan="3">Contingent assets</td></tr> <tr> <td>HKAS 37.89 Faulty goods claim (Note 4)</td><td>140</td><td>-</td></tr> </table> | | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | Contingent liabilities | | | Court proceedings (note 1) | - | - | HKAS 31.54(a) Contingent liabilities incurred by the Group arising from interests in jointly controlled entities (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 | - |
| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | | | | | | | | | | | | | | | | | | | | | |
| Contingent liabilities | | | | | | | | | | | | | | | | | | | | | | | |
| Court proceedings (note 1) | - | - | | | | | | | | | | | | | | | | | | | | | |
| HKAS 31.54(a) Contingent liabilities incurred by the Group arising from interests in jointly controlled entities (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: | | | | | | | | | | | | | | | | | | | | | | |
| | <p>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.</p> <p>2) A number of contingent liabilities have arisen as a result of the Group's interests in jointly controlled entities. 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 jointly controlled entities being more or less favourable than currently expected. The Group is not contingently liable for the liabilities of other venturers in its jointly controlled entities.</p> <p>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 (31 December 2009: HK\$0.55 million) has been utilised by the bank's borrowers. At the end of the reporting period, an amount of HK\$20,000 (31 December 2009: HK\$18,000) has been recognised in the consolidated statement of financial position as liabilities (see note 41).</p> <p>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.</p> | | | | | | | | | | | | | | | | | | | | | | |

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

58. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties:

| | Trade sales | | Trade purchase | | Amounts due from related parties | | | Amounts due to related parties | | |
|---------------------|-------------|------------|----------------|------------|----------------------------------|----------|----------|--------------------------------|----------|----------|
| | Year ended | Year ended | Year ended | Year ended | 31/12/10 | 31/12/09 | 01/01/09 | 31/12/10 | 31/12/09 | 01/01/09 |
| | 31/12/10 | 31/12/09 | 31/12/10 | 31/12/09 | | | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fellow subsidiaries | 693 | 582 | 439 | 427 | 209 | 197 | 123 | 231 | 139 | 120 |
| Holding company | 1,299 | 981 | 897 | 883 | 398 | 293 | 126 | 149 | 78 | 70 |
| Associates | 398 | 291 | - | - | 29 | 142 | 132 | - | - | - |

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. The above amounts due from/to related parties are included in "trade and other receivables" and "trade and other payables" respectively.

Loans from / to related parties

| | 31/12/10 HK\$'000 | 31/12/09 HK\$'000 | 01/01/09 HK\$'000 |
|--|----------------------|----------------------|----------------------|
| Amounts due from directors (note 32) | 656 | 107 | 82 |
| Loans from fellow subsidiaries (note 36) | 12,917 | 31,124 | 27,954 |

In addition to the above, the Group received certain consultancy services from a company controlled by Mr. Gary D.K Wong, a director of the Company, for which management fee of HK\$240,000 (2009: HK\$240,000) was charged.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | Year ended 31/12/10 HK\$'000 | Year ended 31/12/09 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 |
| | <u>2,761</u> | <u>2,588</u> |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

HKAS 24.4
HKAS 24.17, 18

HKAS 24.16

Source

Hong Kong GAAP Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2010 – continued**

59. Subsidiaries

s128(1),(2)
App 16.9(1),(2)
GR 18.10(1),(2)

| Name of subsidiary | Place of incorporation / registration / operations | Class of shares held | Paid up registered capital | Proportion ownership interest held by the Company | | | | Proportion of voting power held | | Principal activities |
|--------------------|--|----------------------|----------------------------|---|--------|------------|--------|---------------------------------|--------|--|
| | | | | Directly | | Indirectly | | 2010 % | 2009 % | |
| | | | | 2010 % | 2009 % | 2010 % | 2009 % | | | |
| Subzero Limited | Hong Kong | Ordinary | HK\$50,000,000 | - | - | - | 100 | - | 100 | Manufacture of toy |
| Subone Limited | Hong Kong | Ordinary | HK\$1,000 | - | - | 90 | 100 | 90 | 100 | Manufacture of electronic equipment |
| Subtwo Limited | PRC | Registered | RMB5,000,000 | - | - | 100 | 100 | 100 | 100 | Construction of residential properties |
| Subthree Limited | Malaysia | Ordinary | RMB10,000,000 | - | - | 70 | 70 | 70 | 70 | Manufacture of leisure good |
| Subfour Limited | PRC | Registered | USD100 | 100 | 100 | - | - | 100 | 100 | Manufacture of electronic equipment |
| Subfive Limited | PRC | Registered | USD5,000 | 100 | 100 | - | - | 100 | 100 | Manufacture of electronic equipment |
| Subsix Limited | Hong Kong | Ordinary | HK\$100 | - | - | 80 | - | 80 | - | Manufacture of electronic equipment |
| Kowloon Limited | Hong Kong | Ordinary | HK\$100 | - | - | 100 | - | 100 | - | Manufacture of electronic equipment |

HKAS 27.41(e)

During the year, the Group disposed of 10% of its interest in Subone Limited, reducing its continuing interest to 90%. The proceeds on disposal of HK\$213,000 were received in cash. An amount of HK\$179,000 (being the proportionate share of the carrying amount of the net assets of Subone Limited) has been transferred to non-controlling interests. The difference of HK\$34,000 between that amount and the consideration received has been credited to retained earnings.

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.

Subtwo Limited, Subfour and Subfive Limited are wholly foreign owned enterprises.

| Source | Hong Kong GAAP Limited | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|--|----------------------|--|----------------------|----------------------|--------------------------------------|---------|---------|------------------------|-------|-------|----------------------|-------|-------|---------------------|----------------|----------------|-------------------------|--------|--------|----------|---------|---------|---------------------|----------------|----------------|
| | <p>Notes to the consolidated financial statements for the year ended 31 December 2010 – continued</p> <p>60. Information about the statement of financial position of the Company</p> <p>Information about the statement of financial position of the Company at the end of the reporting period includes:</p> <table> <tr> <th></th><th>31/12/10 HK\$'000</th><th>31/12/09 HK\$'000</th></tr> <tr> <td>Unlisted investments in subsidiaries</td><td>133,030</td><td>133,030</td></tr> <tr> <td>Bank balances and cash</td><td>2,000</td><td>4,000</td></tr> <tr> <td>Other current assets</td><td>3,610</td><td>3,210</td></tr> <tr> <td>Total assets</td><td>138,640</td><td>140,240</td></tr> <tr> <td>Share capital (note 44)</td><td>17,819</td><td>23,005</td></tr> <tr> <td>Reserves</td><td>120,821</td><td>117,235</td></tr> <tr> <td>Total equity</td><td>138,640</td><td>140,240</td></tr> </table> <p>61. Events after the reporting period</p> | | | 31/12/10 HK\$'000 | 31/12/09 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 44) | 17,819 | 23,005 | Reserves | 120,821 | 117,235 | Total equity | 138,640 | 140,240 |
| | 31/12/10 HK\$'000 | 31/12/09 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 44) | 17,819 | 23,005 | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserves | 120,821 | 117,235 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total equity | 138,640 | 140,240 | | | | | | | | | | | | | | | | | | | | | | | | |
| HKAS 10.21 | <p>On 18 January 2011, the premises of Subfive 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.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

| Source | Hong Kong GAAP Limited | | | | |
|---|--------------------------------|----------------|----------------|----------------|----------------|
| App 16.19 GR 18.33 | Financial summary | | | | |
| | For the year ended 31 December | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| | HK\$000 | HK\$000 | HK\$000 | HK\$000 | HK\$000 |
| Results | | | | | |
| Revenue | 146,904 | 118,675 | 125,849 | 151,840 | 140,918 |
| Costs of sales | (90,505) | (73,634) | (75,706) | (91,840) | (87,897) |
| Gross profit | 56,399 | 45,041 | 50,143 | 60,000 | 53,021 |
| Investment and other income | 692 | 784 | 1,626 | 2,351 | 3,608 |
| Other gains and losses | 896 | 1,620 | 1,431 | (173) | (1,128) |
| Distribution and selling expenses | (4,891) | (3,214) | (4,216) | (10,055) | (11,520) |
| Administrative expenses | (13,246) | (12,160) | (14,032) | (13,570) | (9,380) |
| Finance costs | (4,321) | (3,610) | (2,480) | (6,313) | (4,178) |
| Other expenses | (1,230) | (896) | (1,645) | (1,711) | (1,280) |
| Share of profits of associates | - | - | - | 1,589 | 1,186 |
| Gain recognised on disposal of interest in former associate | - | - | - | - | 581 |
| Profit before tax | 34,299 | 27,565 | 30,827 | 32,118 | 30,910 |
| Income tax expense | (12,432) | (10,121) | (11,201) | (11,885) | (11,650) |
| Profit for the year from continuing operations | 21,867 | 17,444 | 19,626 | 20,233 | 19,260 |
| Profit for the year from discontinued operations | - | - | - | 9,995 | 8,310 |
| | <u>21,867</u> | <u>17,444</u> | <u>19,626</u> | <u>30,228</u> | <u>27,570</u> |
| Attributable to: | | | | | |
| Owners of the Company | 21,841 | 17,390 | 19,529 | 27,465 | 23,570 |
| Non-controlling interests | 26 | 54 | 97 | 2,763 | 4,000 |
| | <u>21,867</u> | <u>17,444</u> | <u>19,626</u> | <u>30,228</u> | <u>27,570</u> |
| Earnings per share | | | | | |
| Basic (HK cents) | 112.8 | 109.6 | 120.3 | 119.4 | 105.0 |
| Diluted (HK cents) | 110.7 | 101.4 | 118.2 | 118.6 | 98.9 |
| <i>Note: The format outlined above aggregates expenses according to their function.</i> | | | | | |
| | As at 31 December | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| | HK\$000 | HK\$000 | HK\$000 | HK\$000 | HK\$000 |
| Assets and liabilities | | | | | |
| Total Assets | 216,847 | 202,839 | 274,255 | 264,772 | 267,080 |
| Total Liabilities | (91,001) | (75,865) | (131,650) | (97,810) | (95,283) |
| | <u>125,846</u> | <u>126,974</u> | <u>142,605</u> | <u>166,962</u> | <u>171,797</u> |
| Equity attributable to owners of the Company | 115,321 | 117,303 | 124,168 | 145,762 | 146,286 |
| Non-controlling interests | 10,525 | 9,671 | 18,437 | 21,200 | 25,511 |
| | <u>125,846</u> | <u>126,974</u> | <u>142,605</u> | <u>166,962</u> | <u>171,797</u> |

| Source | Hong Kong GAAP Limited | | | | | |
|--|--|-------------------|----------------------|-------------|---------------------|-----------------------------|
| App 16.23 GR 18.23 | Particulars of major investment properties at 31 December 2010 | | | | | |
| | Completed 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 | |
| | Investment properties under construction | | | | | |
| | Location | Type | Lease term | Gross floor | Stage of completion | Anticipated completion date |
| Lot 1888, Phoenix Bay, Hong Kong | Residential | Medium-term lease | 57,650 square meters | In progress | March 2013 | |

Contact details for Deloitte's China Practice

Beijing

**Deloitte Touche Tohmatsu CPA Ltd.
Beijing Branch**
8/F Deloitte Tower
The Towers, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, PRC
Tel: +86 10 8520 7788
Fax: +86 10 8518 1218

Chongqing

**Deloitte & Touche Financial Advisory
Services (China) Limited**
Room 10-12
13/F International Trade Center
Chongqing
38 Qing Nian Road
Yu Zhong District
Chongqing 400010, PRC
Tel: +86 23 6310 6206
Fax: +86 23 6310 6170

Dalian

**Deloitte Touche Tohmatsu CPA Ltd.
Dalian Branch**
Room 1503 Senmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou

**Deloitte Touche Tohmatsu CPA Ltd.
Guangzhou Branch**
26/F Teemtower
208 Tianhe Road
Guangzhou 510620, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0119 / 0121

Hangzhou

**Deloitte Business Advisory Services
(Hangzhou) Company Limited**
Room 605, Partition A
EAC Corporate Office
18 Jiaogong Road
Hangzhou 310013, PRC
Tel: +86 571 2811 1900
Fax: +86 571 2811 1904

Hong Kong SAR

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911

Macau SAR

Deloitte Touche Tohmatsu
19/F The Macau Square Apartment H-N
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Nanjing

**Deloitte Touche Tohmatsu CPA Ltd.
Nanjing Branch**
11/F Golden Eagle Plaza
89 Hanzhong Road
Nanjing 210029, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Shanghai

Deloitte Touche Tohmatsu CPA Ltd.
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Shenzhen

**Deloitte Touche Tohmatsu CPA Ltd.
Shenzhen Branch**
13/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou

**Deloitte Business Advisory Services
(Shanghai) Limited
Suzhou Branch**
Suite 908, Century Financial Tower
1 Suhua Road, Industrial Park
Suzhou 215021, PRC
Tel: +86 512 6289 1238
Fax: +86 512 6762 3338

Tianjin

**Deloitte Touche Tohmatsu CPA Ltd.
Tianjin Branch**
30/F The Exchange North Tower
189 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 2320 6699

Wuhan

**Deloitte & Touche Financial Advisory
Services Limited
Wuhan Liaison Office**
Unit 2, 38/F New World International
Trade Tower
568 Jianshe Avenue
Wuhan 430022, PRC
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032

Xiamen

**Deloitte & Touche Financial Advisory
Services Limited
Xiamen Liaison Office**
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259

Hong Kong Financial Reporting Standards - Illustrative Annual Financial Statements 2010 aims to provide useful guidance to preparers of financial statements reporting under Hong Kong Financial Reporting Standards (HKFRSs). Specifically, this publication contains a set of illustrative annual financial statements for the year ended 31 December 2010 of a hypothetical entity with its shares listed on The Stock Exchange of Hong Kong Limited that are prepared in accordance with HKFRSs and the relevant disclosure requirements set out in the Hong Kong Companies Ordinance and the Listing Rules. The illustrative annual financial statements reflect the impact of the application of some key HKFRSs that are mandatorily effective for 2010, for example, HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*, as revised in 2008, as well as Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*.

In addition to the illustrative annual financial statements, this publication also contains an overview of new and revised HKFRSs that are effective for the financial statements for the year ended 31 December 2010 and those that have been issued but not yet effective and their implication, as well as a brief regulatory update in Hong Kong.

We hope that this publication will help you navigate through the increasingly complex and changing financial reporting requirements in Hong Kong. To keep you up to date with the new international accounting developments that will shape Hong Kong financial reporting in future, you are encouraged to visit the Deloitte IAS PLUS website (www.iasplus.com).

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/cn/en/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

About Deloitte China

In China, services are provided by Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Limited and their subsidiaries and affiliates. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Limited are, together, a member firm of Deloitte Touche Tohmatsu Limited.

Deloitte China is one of the leading professional services providers in the Chinese Mainland, Hong Kong SAR and Macau SAR. We have over 8,000 people in 14 offices in Beijing, Chongqing, Dalian, Guangzhou, Hangzhou, Hong Kong, Macau, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan and Xiamen.

As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We also provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, any of its member firms or any of the foregoing's affiliates (collectively the "Deloitte Network") are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

