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CORPORATE INFORMATION

DIRECTORS

Mr. Billy K YUNG (*Group Chairman and Chief Executive*)

Madam YUNG HO Wun Ching

Madam Vivian HSU

Mr. David CHOW Kai Chiu

Mr. Eddie HURIP

BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

COMPANY SECRETARY

Mr. I. S. Outerbridge (Bermuda)

Mr. HUEN Po Wah (Hong Kong)

REGISTERED OFFICE

Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda

HONG KONG OFFICE

Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong

AUDITOR

BDO Limited

TRANSFER AGENT

Tricor Standard Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

CHAIRMAN'S STATEMENT

ELECTRIC FANS

The Group's electric fans sales rebounded with improvement in gross profit in 2010 compared to that of 2009. Sales in North America, Europe and Australia recorded the largest increases; Middle East and Asia also recorded increases, however, business in Africa has not improved. It is expected that the export business in 2011 especially in the African markets will be adversely affected following the political turmoil in North Africa and the growing unrest in the Middle East in 2011. The Group is closely monitoring the situation to minimize the impact to the business.

CONTRACT MANUFACTURING – OPTICS AND IMAGING

Despite an overall increase in sales turnover was recorded, due to selling price reduction the Group's Optics and Imaging Contract Manufacturing business recorded a decrease in gross margin for the year. Sales volume of fuser products recorded a decrease compared with that of prior year. For laser scanner products, an increase in sales volume was recorded as a result of strong market demand. The paper handling options progressed well and exceeded sales targets in 2010.

CONTRACT MANUFACTURING – ELECTRIC AND ELECTRONICS

With the recovering economy in 2010, sales turnover for the Electric and Electronics Contract Manufacturing business increased in 2010 compared to 2009. However, a decrease in gross margin was recorded due to reduction of selling prices.

TAXI OPERATION

Guangzhou SMC Car Rental Company Limited actively implemented the rental operating model to replace the leasing license model. During the year, the number of vehicles under the rental operating model increased to 623, with both turnover and profit recording a double-digit growth. The Group acquired 17 additional taxi licences in 2010 and currently owns a total of 792 Guangzhou taxi licences. The Group plans to use the Guangzhou operation as its core business centre and actively expand the taxi rental business to other cities outside Guangzhou. In order to enhance its profit and competitiveness in the future, the Group will not only acquire additional taxi licences but will also consider acquiring the equity interest of other taxi rental companies.

REAL ESTATE INVESTMENT & DEVELOPMENT

Following the rebound in 2009, the rental income from the retail properties of CITIC Plaza in Guangzhou grew steadily in 2010 and the total rental income increased by 3.6% compared with that of 2009. Although the average rental price of the office property in 2010 was similar to that of 2009, the lowering of the vacancy rate to 2.4% contributed to an increase of the overall income.

A new six years renewal leasing term was agreed for the Group's hi-tech manufacturing facility in Shenzhen and was effected in February 2011 on expiry of its 10 years original lease term. Under the new lease, an idle land area equivalent to approximately one third of the total land area under the original lease is released back to the Group, and the rental is changed from US dollars to Renminbi and is approximately 16% lower compared to the prior term. The property will continue to provide stable rental contribution and the new released land would be utilized as land reserve for potential development in the future.

During the period, the lease of a major tenant at the Group's office commercial complex in Livermore, California was not renewed upon expiry and the rental market conditions were deteriorating in the US. It is expected this situation will not improve in the next two years.

The Group's investment properties located in Chai Wan, Hong Kong continued to provide a steady stream of rental income to the Group for the period under review.

The Group reviews its property portfolio from time to time and has initiated plans to study the feasibility of re-developing its existing Shell Industrial Building in Chaiwan into a new hotel facility. This shall optimize the quality of the property portfolio and maintain long term income for the Group.

The Group has started acquiring land in the New Territories for low density residential property development and other developments. As of the end of 2010, around 5,082 sq. m. was acquired by the Group.

TECHNOLOGY INVESTMENTS

Semiconductor Device Products

The Group first made a direct investment in PFC Device Corporation, a power discrete semiconductor product start up company, in 2007. In 2010, the Group acquired additional equity interests in PFC and PFC became a subsidiary of the Group. During the year, the company launched many new products based on its patent pending proprietary process. Product demand remained strong throughout the year, driven in part by the continued ramp-up of design wins and customer acceptance of our new family of rectifiers. PFC's rectifiers have been designed into major manufacturers of PC power supplies and adapters. We have also gained traction and design wins in solar, automotive and LED applications. We have also significantly increased our IP portfolio in 2010 by filing key process and technology patents in US, Taiwan, and China.

Enterprise Software Solutions

Appeon, a provider of IT outsourcing services and Web development software — Appeon® for PowerBuilder®—had a banner year in 2010. The company saw increased demand for both IT outsourcing services and its Web development software, which led turnover to increase significantly. Total turnover for the period 2010 reached a historical high. The company is poised for continued growth in 2011 and beyond. Several new partnerships have been secured, which should enable the company to sell to more Fortune 500 companies and other larger clients. These partnerships should yield further growth in 2011. The company is also beginning to expand its offering for mobile application development, which should help accelerate growth in future years.

Computing and Data Storage System

As a result of its ongoing failure to meet its financial targets, the Group has decided to dramatically restructure this business in order to stabilize the business financially and operationally, reduce its inventory and re-scope its business plan.

FINANCIAL INVESTMENT

For the year ended 31st December, 2010, the Group's financial investment activities recorded loss of approximately HK\$22,491,000 and the market value of the Group's financial investment holdings amounted to about HK\$504,237,000.

REVENUE AND OPERATING RESULTS

Revenue from the Group's continuing operations for the year ended 31st December, 2010 totalled HK\$1,339 million, representing an increase of HK\$240 million or 21.8% compared to HK\$1,099 million for the corresponding period last year. The increase in revenue stemmed mainly from the increase in sales volume of electric fans, laser scanner units and paper handling options.

Profit attributable to the owners of the company for the year ended 31st December, 2010 reached at HK\$271 million (31st December, 2009: a loss of HK\$35 million) representing an increase of HK\$306 million or 874% over the corresponding period last year. The surge in profit was mainly attributable to (i) a fair value gain (net of deferred taxation and non controlling interest) of HK\$82 million on certain investment properties within the Group coupled with a fair value loss (net of deferred taxation and non controlling interest) of HK\$113 million for the corresponding period last year; and (ii) a provision of tax penalty HK\$79 million for the year ended 31st December, 2009.

With a view to boosting investment for the Group's future growth especially in (i) land and property development, (ii) LED products development, and (iii) IC packaging development, the Board recommended to maintain the cash position and pay no dividend for the year ended 31st December, 2010.

FINANCIAL RESOURCES AND LIQUIDITY

The Group was able to maintain a satisfactory financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the period under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

The U.S. long term loan of US\$12 million was secured by certain assets of the group located in the United States. In addition, the Group maintained a three-year long-term loan of HK\$250 million. Apart from the above, all banking facilities of the Group have been arranged on short-term basis.

The banking facilities of the Group were subject to a mix of fixed interest rates and floating interest rates. Interest cover of the Group as at 31st December, 2010, calculated as operating profit divided by total interest expenses net of interest income, stood at -24 times (31st December, 2009: 1 time).

FOREIGN EXCHANGE EXPOSURE

The Group's borrowings were mainly denominated in Hong Kong dollars and US dollars. The Group continued to conduct its sales mainly in US dollars and make payments either in US dollars or Hong Kong dollars. Whereas the Group was able to generate a relatively small amount of net income in Renminbi from its PRC factory building rental and taxi rental operations, it also needed to make a relatively small amount of payments in Renminbi for raw materials purchases and settlement of overheads for its PRC factories. So far as the Hong Kong dollars and the US dollars remained pegged, the Group considered that it had no significant exposure to foreign exchange risk.

GEARING RATIO

The Group continued to follow its policy of maintaining a prudent gearing ratio. As at 31st December, 2010, the Group recorded a zero gearing ratio (31st December, 2009: 8.7%), expressed as a percentage of total bank borrowings net of cash to total equity of the Group.

SIGNIFICANT ACQUISITION AND DISPOSALS

During the period under review, the Group acquired an additional 44.88% equity interest in PFC Device Corporation ("PFC") for a consideration of HK\$9,750,000 (the "Acquisition"). With the Acquisition, the Group increased its equity interest in PFC from 44.89% to 89.77% thus making PFC become a subsidiary of the Group.

On 2nd March, 2011, the Group entered into a sales and purchase agreement with an independent third party to dispose of the entire issued share capital of SMC Cable Limited, a wholly-owned subsidiary of the Group at a consideration of approximately HK\$11 million. The transaction was completed on 3rd May, 2011.

On 19th April, 2011, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 10.1% equity interest in an associate, MDCL-Frontline (China) Limited ("MDCL"), at a consideration of approximately US\$5.5 million. The principal activities of MDCL are trading of computer hardware, provision of information technology services and investment holding. The transaction was completed on 3rd June, 2011.

Other than the above, there is no significant acquisition and/or disposal during the period up to the date of this report.

GROUP REORGANISATION

The Company was incorporated as a wholly-owned subsidiary of Shell Electric Mfg. (Holdings) Company Limited (now known as China Overseas Grand Oceans Group Limited) (“Shell Holdings”). Pursuant to the group restructuring conducted by Shell Holdings and completed near the end of 2009, Shell Holdings transferred to the Company certain of its subsidiaries and certain of its assets and liabilities which constituted those businesses that the Group is currently engaged in. In return, the Company issued additional shares to Shell Holdings. On 10th February, 2010, all the shares of the Company held by Shell Holdings were distributed to the then shareholders of Shell Holdings via the distribution in specie process.

CAPITAL COMMITMENTS AND GUARANTEE

During the period under review, there are no capital commitments and guarantees to the banks.

CAPITAL EXPENDITURE AND CHARGES ON ASSETS

The Group had capital expenditures totalling HK\$97 million during the period under review.

During the period under review, the Group had charges on assets totalling HK\$156 million mainly for securing mortgage loans.

The Group also pledged its 100% interest of the issued share capital of its subsidiary, Full Revenue Inc, to a bank to secure for a long-term loan granted to the Group.

EMPLOYEES

As at 31st December, 2010, the Group has approximately 2,950 employees. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes of certain subsidiary companies are put in place as a longer term incentive to align interests of employees to those of shareholders.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st December, 2010.

PRINCIPAL ACTIVITIES

During the current year, the principal activities of the Company are investment holding and property leasing. The principal activities carried by the Company and its subsidiaries (collectively, the "Group") mainly comprise manufacturing and marketing of electric fans, as well as contract manufacturing of fusers, laser scanners, paper handling options and other electric household appliances, property leasing, property investment and development, taxi rental and securities trading. Details of the activities of its principal subsidiaries, associates and jointly controlled entities are set out in note 54 to note 56 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated income statement on page 12.

The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31st December, 2010.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company and outstanding share options of its subsidiaries are set out in note 40 and note 42 to the financial statements respectively.

RESERVE

Details of the movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 41 to the financial statements respectively.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$2,947,000 (2009: HK\$12,958,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the year.

DIRECTORS

The directors of the Company during the year and up to date of this report are as follows:

Mr. Billy K Yung	(appointed on 2nd September, 2009)
Madam Yung Ho Wun Ching	(appointed on 2nd September, 2009)
Madam Vivian Hsu	(appointed on 2nd September, 2009)
Mr. David Chow Kai Chiu	(appointed on 7th December, 2009)
Mr. Eddie Hurip	(appointed on 7th December, 2009)

In accordance with Bye-law 84 of the Bye-laws of the Company, Mr. Billy K Yung and Madam Vivian Hsu shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Every Director is subject to retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Except for the share options granted to the directors pursuant to the schemes as set out in note 42 to the financial statements, at no time during the year was the Company or any of its 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.

MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31st December, 2010, the five largest customers accounted for approximately 59% of the total sales of the Group's turnover, of which 17% was attributable to the largest customer. Purchases from the Group's five largest suppliers accounted for less than 34% of the total purchases for the year.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the major suppliers or customers noted above.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors and their respective associates has any interest in a business or is interested in any business which competes or may compete either directly or indirectly with, or is similar to, the business of the Group as at 31st December, 2010.

AUDITOR

The financial statements for the year ended 31st December, 2010 were audited by BDO Limited ("BDO"). A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditor of the Company.

On behalf of the Board

Mr. Billy K Yung

Chairman

Hong Kong, 16th June, 2011

CORPORATE GOVERNANCE REPORT

The Company is firmly committed to maintaining a high standard corporate governance practices and adheres to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The board of directors of the Company (the “Board”) will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in proper and prudent manner.

BOARD OF DIRECTORS

The Board consists of five members and supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced. There is a clear division of responsibilities between the Board and the management. The Board is responsible for overseeing the Group’s overall strategic plans, approval of major funding and investment proposals and reviewing the financial performance of the Group. The day-to-day management, administration and operation of the Group are delegated to the Committee of the Directors comprising of three members, namely Mr. Billy K Yung, Mr. David Chow Kai Chiu and Mr. Eddie Hurip.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Billy K Yung is the Group Chairman and the Chief Executive Officer. The Board considers that the structure is more conducive to the efficient formulation and implementation of the Company’s strategies.

NOMINATION OF DIRECTORS

The Board has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals.

In accordance with the provisions of the Bye-laws of the Company, any Director appointed by the Board during the year to fill casual vacancy shall retire and submit themselves for re-election immediately following his/her appointment at the first general meeting or at the next following annual general meeting of the Company in the case of an addition to the existing Board. Further, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

As such, the Company considers that sufficient measures have been taken to ensure that the formal and transparent process for the nomination and appointment of Directors is maintained.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board is charged with the responsibility of determining the specific remuneration packages of all Directors and senior management, including benefits-in-kind, pension rights, and compensation payments. In developing remuneration policies and making recommendation as to the remuneration of the Directors and key executives, the Board takes into account the performance of the Group as well as those individual Directors and key executives.

ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by executing a management representation letter with the Auditor that they bear the ultimate responsibility of preparing the Group’s financial statements in accordance with statutory requirements and applicable accounting standards. The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor’s Report on page 11.

The Board has reviewed with management and auditor of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31st December, 2010.

The amount of audit fee for the year ended 31st December, 2010 was HK\$1,724,000 (2009: HK\$1,245,000). The amount of non-audit fees payable to the auditor of the Company for the year ended 31st December, 2010 was HK\$100,000 (2009: HK\$1,615,000). The Board is of the view that the auditor’s independence was not affected by the provision of these non-audit related services.

The Board has recommended that BDO Limited, Certified Public Accountants, be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company

INTERNAL CONTROLS

Management has implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and properly managed. The Company's internal audit department is responsible for monitoring adherence to policies on the safekeeping of assets and effectiveness and efficiency of operational procedures. Periodical audit plan is prepared in determining the audit focus and frequencies.

The Board has conducted a review of the effectiveness of the system of internal control. Such review will consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Board consider that the Group's internal control system is satisfactory.

INDEPENDENT AUDITOR'S REPORT



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永安中心25樓

TO THE SHAREHOLDERS OF SHELL ELECTRIC HOLDINGS LIMITED

蜆壳電器控股有限公司

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shell Electric Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 12 to 80, which comprise the consolidated and company statements of financial position as at 31st December, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

BDO Limited

Certified Public Accountants

Lam Hung Yun, Andrew

Practising Certificate no. P04092

Hong Kong, 16th June, 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2010

	NOTES	2010 HK\$000	2009 HK\$000
Revenue	6	1,339,026	1,098,808
Cost of sales and services provided		(1,077,031)	(856,377)
Gross profit		261,995	242,431
Other income	8	62,101	98,650
Distribution and selling expenses		(17,270)	(30,129)
Administrative expenses		(158,159)	(150,575)
Other operating income/(expenses)		1,484	(95,433)
Other gains/(losses)			
Fair value gain/(loss) on investment properties	15	113,208	(119,822)
Fair value (loss)/gain on investments held for trading		(20,185)	21,993
Fair value loss on derivative financial instruments	35	(4,494)	—
Impairment loss on an owner-occupied property		—	(527)
Gain on remeasurement of interest in a former associate at fair value	44	5,647	—
Others		2,765	1,354
Operating profit/(loss)		247,092	(32,058)
Finance costs	10	(11,661)	(15,549)
Share of results of associates		67,966	36,157
Share of results of jointly controlled entities		3,470	1,955
Profit/(Loss) before income tax	9	306,867	(9,495)
Income tax expense	11	(36,941)	(25,887)
Profit/(Loss) for the year		269,926	(35,382)
Profit/(Loss) for the year attributable to:			
Owners of the Company		270,956	(34,613)
Non-controlling interests		(1,030)	(769)
		269,926	(35,382)
		HK Cents	HK Cents
Earnings/(Loss) per share	14		
— Basic		51.8	(6.6)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	2010 HK\$'000	2009 HK\$'000
Profit/(Loss) for the year	269,926	(35,382)
Other comprehensive income		
Exchange difference arising from translation of overseas operations		
— subsidiaries	34,523	4,178
— associates	5,299	7,694
Fair value changes on available-for-sale financial assets	8,038	—
Other comprehensive income for the year, net of tax	47,860	11,872
Total comprehensive income for the year	317,786	(23,510)
Total comprehensive income attributable to:		
Owners of the Company	318,617	(22,744)
Non-controlling interests	(831)	(766)
	317,786	(23,510)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2010

	NOTES	As at 31st December, 2010 HK\$'000	As at 31st December, 2009 HK\$'000 (Restated)	As at 1st January, 2009 HK\$'000 (Restated)
Non-current assets				
Investment properties	15	663,099	540,599	660,068
Property, plant and equipment	16	190,780	168,499	160,669
Prepaid lease rental on land	17	16,975	16,893	17,731
Goodwill	18	4,393	—	—
Other intangible assets	19	219,679	193,637	193,330
Interests in associates	21	524,027	459,795	418,860
Interests in jointly controlled entities	22	4,532	3,571	4,263
Available-for-sale financial assets	23	16,539	3,300	2,920
Other assets	24	34,180	—	—
Loans receivable	25	94,091	106,597	130,138
Deferred tax assets	39	12,873	2,098	1,908
		1,781,168	1,494,989	1,589,887
Current assets				
Inventories of properties	26	51,224	—	—
Other inventories	27	142,657	99,779	123,332
Trade and other receivables, prepayments and deposits	28	242,496	248,844	287,258
Prepaid lease rental on land	17	460	444	444
Loans receivable	25	7,156	4,013	15,345
Amount due from an associate	30	148	2,340	—
Amount due from a jointly controlled entity		—	—	18
Amount due from an investee	30	5,108	8,411	20,831
Amounts due from related parties	30	—	789,024	779,425
Investments held for trading	31	493,078	28,499	20,643
Tax prepaid		7,567	1,890	6,142
Cash and cash equivalents	32	491,873	553,550	470,827
		1,441,767	1,736,794	1,724,265
Assets classified as held for sale	43	22,290	—	—
		1,464,057	1,736,794	1,724,265
Current liabilities				
Trade and other payables	33	323,129	348,259	335,563
Amount due to an associate	34	—	96	118
Amount due to a related party	34	291	291	104,617
Amount due to a director	34	8,875	—	—
Taxation liabilities		61,321	68,542	57,856
Derivative financial instruments	35	4,494	—	—
Bank borrowings	36	394,922	386,845	334,238
Other liabilities	37	2,144	—	—
		795,176	804,033	832,392
Net current assets		668,881	932,761	891,873
Total assets less current liabilities		2,450,049	2,427,750	2,481,760

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2010

	As at 31st December, 2010	As at 31st December, 2009	As at 1st January, 2009
NOTES	HK\$'000	HK\$'000 (Restated)	HK\$'000 (Restated)
Non-current liabilities			
Bank borrowings	36 —	341,215	346,359
Other liabilities	37 16,262	12,015	6,155
Loan from a minority shareholder	38 3,837	3,599	3,386
Deferred tax liabilities	39 93,362	54,008	59,012
	113,461	410,837	414,912
Net assets	2,336,588	2,016,913	2,066,848
Capital and reserves			
Share capital	40 82	82	—
Reserves	41 2,323,249	2,004,632	2,057,855
Equity attributable to owners of the Company	2,323,331	2,004,714	2,057,855
Non-controlling interests	13,257	12,199	8,993
Total equity	2,336,588	2,016,913	2,066,848

BILLY K YUNG

Director

DAVID CHOW KAI CHIU

Director

STATEMENT OF FINANCIAL POSITION

As at 31st December, 2010

	NOTES	2010 HK\$'000
Non-current assets		
Investment properties	15	36,470
Property, plant and equipment	16	8,206
Interests in subsidiaries	20	2,861
Available-for-sale financial assets	23	3,300
Other assets	24	34,180
		<hr/>
		85,017
Current assets		
Trade and other receivables, prepayments and deposits	28	3,430
Loans receivable	25	5,905
Amounts due from subsidiaries	29	1,561,864
Cash and cash equivalents	32	86,386
		<hr/>
		1,657,585
Current liabilities		
Trade and other payables	33	15,171
Amounts due to subsidiaries	29	27,003
Amount due to a director	34	8,875
Taxation liabilities		620
Bank borrowings	36	300,000
		<hr/>
		351,669
Net current assets		<hr/>
		1,305,916
Total assets less current liabilities		<hr/>
		1,390,933
Non-current liabilities		
Deferred tax liabilities	39	1,430
		<hr/>
		1,430
Net assets		<hr/>
		1,389,503
Capital and reserves		
Share capital	40	82
Reserves	41	1,389,421
		<hr/>
Total equity		<hr/>
		1,389,503
		<hr/>

BILLY K YUNG
Director

DAVID CHOW KAI CHIU
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Share capital	Capital reserve	Available-for-sale	Translation reserve	Assets	Dividend reserve	Statutory reserve	Retained profits	Total	Non-controlling interests	Total equity
			financial assets		revaluation reserve						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2009	—	273,442	—	143,207	1,645	15,705	—	1,623,856	2,057,855	8,993	2,066,848
Loss for the year	—	—	—	—	—	—	—	(34,613)	(34,613)	(769)	(35,382)
Exchange difference arising from translation of overseas operations											
— subsidiaries	—	—	—	4,175	—	—	—	—	4,175	3	4,178
— associates	—	—	—	7,694	—	—	—	—	7,694	—	7,694
Total comprehensive income for the year	—	—	—	11,869	—	—	—	(34,613)	(22,744)	(766)	(23,510)
Interim dividend declared (note 13)	—	—	—	—	—	10,470	—	(10,470)	—	—	—
Appropriations	—	—	—	—	—	—	6,790	(6,790)	—	—	—
New subsidiary incorporated	—	—	—	—	—	—	—	—	—	3,972	3,972
Dividend paid	—	—	—	—	—	(26,175)	—	—	(26,175)	—	(26,175)
Issuance of shares (note 40)	82	(82)	—	—	—	—	—	—	—	—	—
Capital reduction (note)	—	—	—	—	—	—	—	(4,222)	(4,222)	—	(4,222)
Transactions with owners	82	(82)	—	—	—	(26,175)	—	(4,222)	(30,397)	3,972	(26,425)
At 31st December, 2009	82	273,360	—	155,076	1,645	—	6,790	1,567,761	2,004,714	12,199	2,016,913
At 1st January, 2010	82	273,360	—	155,076	1,645	—	6,790	1,567,761	2,004,714	12,199	2,016,913
Net profit for the year	—	—	—	—	—	—	—	270,956	270,956	(1,030)	269,926
Exchange difference arising from translation of overseas operations											
— subsidiaries	—	—	—	34,324	—	—	—	—	34,324	199	34,523
— associates	—	—	—	5,299	—	—	—	—	5,299	—	5,299
Fair value changes on available-for-sale financial assets	—	—	8,038	—	—	—	—	—	8,038	—	8,038
Total comprehensive income for the year	—	—	8,038	39,623	—	—	—	270,956	318,617	(831)	317,786
Acquisition of a subsidiary (note 44)	—	—	—	—	—	—	—	—	—	1,889	1,889
Transactions with owners	—	—	—	—	—	—	—	—	—	1,889	1,889
At 31st December, 2010	82	273,360	8,038	194,699	1,645	—	6,790	1,838,717	2,323,331	13,257	2,336,588

Note: During the year ended 31st December, 2009, Shell Electric Mfg. (Holdings) Company Limited (now known as "China Overseas Grand Oceans Group Limited") ("Shell Holdings") repurchased a total of 2,000,000 of its own ordinary shares of HK\$0.5 each at an aggregate price of HK\$4,200,000 (before expense). All of these shares had been cancelled upon being repurchased. The repurchase of the shares was made out of the retained profits which represents a capital reduction of Shell Holdings.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	2010 HK\$'000	2009 HK\$'000
Operating activities		
Profit/(Loss) before income tax	306,867	(9,495)
Adjustments for:		
Share of results of associates	(67,966)	(36,157)
Share of results of jointly controlled entities	(3,470)	(1,955)
Fair value (gain)/loss on investment properties	(113,208)	119,822
Fair value loss/(gain) on investments held for trading	20,185	(21,993)
Fair value loss on derivative financial instruments	4,494	—
Gain on remeasurement of interest in a former associate at fair value	(5,647)	—
Depreciation and amortisation	24,014	23,263
Impairment loss on financial and non-financial assets	11,071	2,650
Reversal of allowance of inventories	(8,834)	(1,487)
(Reversal of provision)/Provision for tax penalty	(21,225)	79,071
Write back of long outstanding payables	(2,895)	(5,802)
Interest income	(18,521)	(63,461)
Finance costs	8,256	15,399
Gain on disposal of property, plant and equipment	(2,549)	(318)
Write-off of property, plant and equipment	114	238
Exchange difference	1,895	145
	<hr/>	<hr/>
Operating cash flows before movements in working capital	132,581	99,920
Increase in inventories of properties	(51,224)	—
(Increase)/Decrease in other inventories	(36,734)	25,169
(Increase)/Decrease in trade and other receivables, prepayments and deposits	(6,822)	38,455
Increase in amount due from an associate	(148)	(2,340)
Decrease in amount due from a jointly controlled entity	—	18
Decrease in amount due from an investee	3,303	12,420
Decrease in amounts due from related parties	789,024	41,241
(Increase)/Decrease in investments held for trading	(484,764)	14,137
Decrease in trade and other payables	(3,250)	(57,460)
Decrease in amount due to an associate	(96)	(22)
Decrease in amount due to a related party	—	(104,326)
Increase in amount due to a director	8,875	—
	<hr/>	<hr/>
Cash generated from operations	350,745	67,212
Hong Kong profits tax (paid)/refund	(7,059)	794
Tax paid in other jurisdictions	(16,763)	(17,032)
	<hr/>	<hr/>
Net cash generated from operating activities	326,923	50,974

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	2010 HK\$'000	2009 HK\$'000
Investing activities		
Proceeds from disposal of property, plant and equipment	2,620	682
Interest received	19,507	10,470
Dividend received from an associate	6,236	—
Dividend received from a jointly controlled entity	2,496	2,630
Purchase of property, plant and equipment	(41,632)	(31,162)
Purchase of investment properties	(991)	—
Purchase of taxi licences	(10,061)	—
Purchase of antiques	(34,180)	—
Acquisition of a subsidiary (note 44)	(4,885)	—
Repayment of loans receivable, net	(2,086)	37,535
Additions to investment in available-for-sale financial assets	(5,201)	—
Capital injection from minority shareholders	—	3,972
	<hr/>	<hr/>
Net cash flow (used in)/generated from investing activities	(68,177)	24,127
	<hr/>	<hr/>
Financing activities		
New bank and other borrowings	259,042	437,920
Repayment of bank borrowings	(586,116)	(382,820)
Dividends paid	—	(26,175)
Interest paid	(7,604)	(18,535)
Payment for repurchase of shares	—	(4,222)
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	(334,678)	6,168
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(75,932)	81,269
	<hr/>	<hr/>
Cash and cash equivalents at 1st January	553,550	470,827
	<hr/>	<hr/>
Effect of foreign exchange rate change	14,255	1,454
	<hr/>	<hr/>
Cash and cash equivalents at 31st December	491,873	553,550
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

1. GENERAL INFORMATION

Shell Electric Holdings Limited (the “Company”) was incorporated in Bermuda on 20th August, 2009 with limited liability. The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and the address of its principal place of business is Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.

The principal activities of the Company are investment holding and property leasing. The principal activities carried out by the Company and its subsidiaries (collectively, the “Group”) mainly comprise manufacturing and marketing of electric fans, as well as contract manufacturing of fusers, laser scanners, paper handling options and other electric household appliances, property leasing, property investment and development, taxi rental and securities trading.

The financial statements of the Group on pages 12 to 80 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial statements for the year ended 31st December, 2010 were approved for issue by the board of directors on 16th June, 2011.

2. REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated as a wholly-owned subsidiary of Shell Holdings. Pursuant to the group restructuring (the “Group Restructuring”) conducted by Shell Holdings and completed near the end of 2009, Shell Holdings transferred to the Company certain of its subsidiaries and certain of its assets and liabilities which constitute the businesses that the Group is currently in pursuit. In return, the Company issued additional 523,484,561 shares to Shell Holdings. On 10th February 2010, all the shares of the Company held by Shell Holdings were distributed in specie to the then shareholders of Shell Holdings.

The Group is regarded as a continuing entity resulting from the Group Restructuring since all of the companies and business which took part in the Group Restructuring were controlled by the same party before and immediately after the Group Restructuring. Consequently, there was a continuation of the risks and benefits to the party. The Group Restructuring has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the consolidated financial statements have been prepared using the merger basis of accounting as if the Group had always been in existence.

The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group include the results and cash flows of the Company and its subsidiaries at the beginning of the period presented, or since the Company’s and its subsidiaries’ respective dates of incorporation whichever is shorter, as if the current group structure had been in existence throughout the period. The consolidated statement of financial position of the Group have been prepared to present the state of affairs of the companies now comprising the Group as at the reporting date as if the current group structure had been in existence as at that date.

Under the merger basis of accounting, the assets and liabilities of the group companies or business are consolidated using the existing book values from the controlling parties’ perspective. No amount is recognised as consideration for goodwill or excess of acquirer’s interest in the fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the Group Restructuring. The profit or loss includes the results of each of the group companies or businesses from the date of incorporation/ establishment or since the date when the group companies or businesses first came under the control, where this is a shorter period, regardless of the date of the Group Restructuring. The interests of equity holders other than the controlling party in the group companies have been presented as non-controlling interests in these financial statements.

All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Adoption of new/revisted HKFRSs — effective 1st January, 2010

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1st January, 2010:

HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Improvements to HKFRSs	Annual improvements to HKFRSs 2009

Except as explained below, the adoption of these new/revisted standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008) and HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised accounting policies are described in note 4.2, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has accounted for the acquisition in stages of PFC Device Corporation ("PFC") according to the revised standard, details of which is set out in note 44. The effects of the change in accounting policy as a result of adoption of HKFRS 3 (Revised 2008) include the increase in goodwill and net assets of the Group by HK\$1,615,000, the increase in profit for the year by HK\$5,647,000, the decrease in revaluation reserve by HK\$4,332,000 and the increase in amount of non-controlling interests recognised by HK\$300,000. The earnings per share for the year has increased by HK 1.08 cents per share. There was no business combination during the financial year ended 31st December, 2009.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) to account for as a transaction with owners in their capacity as owners, accordingly, such transaction is recognised within equity. When control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

HK Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The interpretation is a clarification on an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1st January, 2009, with consequential reclassification adjustments to comparatives for the year ended 31st December, 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

(a) Adoption of new/revised HKFRSs – effective 1st January, 2010 (Continued)

HK Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (Continued)

Effect of adoption of HK Interpretation 5 on the consolidated statement of financial position:

	As at 31st December, 2010 HK\$'000	As at 31st December, 2009 HK\$'000	As at 1st January, 2009 HK\$'000
Increase/(Decrease) in			
Current liability			
Borrowings	—	156,715	125,086
	<u> </u>	<u> </u>	<u> </u>
Non-current liability			
Borrowings	—	(156,715)	(125,086)
	<u> </u>	<u> </u>	<u> </u>

As a result of the above retrospective reclassification, an additional consolidated statement of financial position as at 1st January, 2009 is presented in accordance with HKAS 1 Presentation of Financial Statements.

Annual Improvements to HKFRSs 2009

In May 2009, the HKICPA issued “Improvements to Hong Kong Financial Reporting Standards 2009” which sets out amendments to a number of HKFRSs. Most of the amendments become effective for annual periods beginning on or after 1st January, 2010, though there are separate transitional provisions for each standard or interpretation. The following amendments are pertinent to the Group’s operations:

- (i) The amendment to HKAS 17 *Leases* has resulted in a change in the Group’s accounting policy for the classification of leasehold land. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease if substantially all risks and rewards of the leasehold land have been transferred to the Group. According to the transitional provisions in the amendment, the Group has reassessed the classification of unexpired leasehold land at 1st January, 2010 on the basis of information existing at the inception of those leases, and concluded that the classification of such leases as operating leases continues to be appropriate. The amendment does not have any significant impact on the financial statements of the Group.
- (ii) The amendment to HKAS 7 *Statement of Cash Flows* requires that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. It requires retrospective applications. The adoption of this amendment does not have any impact on the presentation of the Group’s consolidated statement of cash flows as the Group’s accounting policy already complies with this amendment.

3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

(b) New/ revised HKFRSs that have been issued but not yet effective

The following new/ revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ^{2&3}
Amendments to HKAS 32	Classification of Rights Issues ¹
Amendments to HK(IFRIC)-Interpretation 14	Prepayments of a Minimum Fundings Requirement ³
HK(IFRIC)-Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ²
HKAS 24 (Revised)	Related Party Disclosures ³
Amendments to HKFRS 7	Disclosure — Transfers of Financial Assets ⁴
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets ⁵
HKFRS 9	Financial Instruments ⁶

^{1.} Effective for annual periods beginning on or after 1st February, 2010

^{2.} Effective for annual periods beginning on or after 1st July, 2010

^{3.} Effective for annual periods beginning on or after 1st January, 2011

^{4.} Effective for annual periods beginning on or after 1st July, 2011

^{5.} Effective for annual periods beginning on or after 1st January, 2012

^{6.} Effective for annual periods beginning on or after 1st January, 2013

HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

Amendments to HKFRS 7 Disclosure — Transfer of Financial Assets

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

HKFRS 9 Financial Instruments

The standard addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income.

Amendments to HKAS 12 Deferred Tax — Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendment will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new/ revised HKFRSs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Basis of preparation

These financial statements have been prepared under the historical cost basis except for investment properties, certain equity securities and derivative financial instruments which are measured at fair values. Disposal groups and non-current assets held for sale (other than investment properties) are stated at the lower of their carrying amounts and fair values less costs to sell. The measurement bases are fully described in the accounting policies below.

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

4.2 Basis of consolidation

Except for the Group Restructuring which have been accounted for as a reorganisation under common control in manner similar to pooling of interests as explained in note 2, acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Subsidiaries (note 4.3) are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation. Unrealised losses resulting from intercompany transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

The acquisition of subsidiaries during the year has been accounted for using the acquisition method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. For business combination achieved in stages, adjustment to fair values relating to previously held non-controlling interests in the acquiree immediately before obtaining control is recognised as a gain or loss in profit or loss.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the equity attributable to the owners of the Company. Non-controlling interests consist of the amount of those interests at the date of original business combination and the share of changes in equity by non-controlling interests since the date of the combination. Total comprehensive income 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 debit balance.

Acquisitions of non-controlling interests are accounted for as equity transaction whereby the difference between the fair value of the consideration and the book value of the share of the net assets acquired is dealt with in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The results of the subsidiaries are included in the Company's statement of comprehensive income to the extent of dividend received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses, unless they are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (note 4.9).

4.4 Associates and jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity. An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Interests in associates and jointly controlled entities are accounted for in the financial statements under the equity method of accounting. Under equity method of accounting, investments are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the associates' and the jointly controlled entities' net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, less any identified impairment loss. Where the profit sharing ratio is different to the Group's equity interest in a jointly controlled entity, the share of post-acquisition results of the jointly controlled entity is determined based on the agreed profit sharing ratio. The Group's share of the post-acquisition post-tax items of other comprehensive income of the associates and jointly controlled entities is included in the consolidated statement of comprehensive income.

Unrealised profit on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates and jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When an interest in an associate or a jointly controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 (note 4.9).

4.5 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and jointly controlled entities, goodwill is included in the carrying amount of the interests in associates and jointly controlled entities, respectively, rather than recognised as a separate asset on the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the reporting date or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.13). On subsequent disposal of a subsidiary, associate or jointly controlled entity, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Bargain purchases in business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the subsidiaries, associates and jointly controlled entities is recognised immediately in profit or loss.

4.7 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value as determined by external professional valuers to reflect the prevailing market conditions at the end of each reporting period. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4.29(iii).

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy of property, plant and equipment (note 4.8) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves.

4.8 Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 4.13). When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 (note 4.9).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is provided to write off the cost of each item of property, plant and equipment less its residual value, if applicable, over its estimated useful lives on a straight-line basis at the following rates per annum:

Category of property, plant and equipment	Annual rates
Land and buildings (note 4.12)	2% to 5%
Plant, machinery, tools, moulds and equipment	10% to 20%
Furniture, fixtures and office equipment	10% to 33.33%
Motor vehicles (including taxi)	20% to 25%

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.9 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups. Non-current assets and disposal groups (other than investment properties) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

4.10 Intangible assets (Other than goodwill)

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment (note 4.13) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but reviewed for impairment annually (note 4.13) either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Taxi licences

Cost incurred in the acquisition of permanent taxi operating licences, which have indefinite useful lives, are carried at cost less any impairment losses and are not amortised.

Patent

Separately acquired patent is shown at historical cost. Patent acquired in a business combination is recognised at fair value at the acquisition date. Patent has a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent over its estimated useful life of 8 years.

4.11 Other assets

Other assets represent antiques held for long-term investment purposes and are stated at cost less accumulated impairment losses.

4.12 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current asset, and rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment (note 4.8).

When the Group's interests in leasehold land and buildings are in the course of development for investment purpose, the leasehold land component is included in properties under development. During the development period of such properties, the amortisation charge of the prepaid land lease is capitalised as part of the building costs but charged to profit or loss on completion of development of such properties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Impairment of non-financial assets

Goodwill, other intangible assets, other assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing. Goodwill, other intangible assets and other assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognised in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

4.14 Investments and other financial assets

Financial assets within the scope of HKAS 39 are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at every reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.14 Investments and other financial assets *(Continued)*

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset (note 4.15).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading which are classified as "Investments held for trading" in the statement of financial position and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividends or interests earned on these financial assets. Interests or dividends earned on these financial assets are recognised in profit or loss in accordance with the policies set out in note 4.29.

Loans and receivables

Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories of financial assets. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income and accumulated in equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss and removed from equity. Interests or dividends earned on these financial assets are recognised in profit or loss in accordance with the policies set out in note 4.29.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.14 Investments and other financial assets *(Continued)*

Available-for-sale financial assets *(Continued)*

When the fair value of unlisted equity securities cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

4.15 Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that come to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data include but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs. Loan and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in 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 to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If there is objective evidence that an available-for-sale financial asset is impaired, an amount comprising the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss. Impairment losses in respect of debt instruments are reversed through profit or loss if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

4.16 Inventory of properties

Inventory of properties represent properties under development. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventory of properties are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventory of properties consist of land held under operating lease (see note 4.12), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

4.17 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4.18 Foreign currencies

The financial statements is presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK\$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the reporting date are translated into HK\$ at exchange rate prevailing on the reporting date. Income and expense items are translated into HK\$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the foreign entity is disposed of.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in the translation reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.20 Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.21 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 be ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to the borrowing, and amortisation of ancillary costs incurred in connection with arranging the borrowing.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.22 Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 4.21). A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Financial liabilities at amortised costs

Borrowings and trade and other payables including amounts due to related parties are financial liabilities at amortised cost which are recognised initially at fair value (net of transaction costs incurred for borrowings) and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss which are measured at fair value. Changes in fair value are recognised in profit or loss in the period in which they arise. The net fair value gain or loss recognised in the income statement does not include interest charged on these financial liabilities.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income. The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 4.26 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

4.24 Employee benefits

Salaries, allowance, paid annual leave and other benefits are accrued in the year in which the associated services are rendered by the employee. Payments to the Mandatory Provident Fund Scheme and other retirement benefit scheme as set out in note 45 are charged as an expense when employees have rendered service entitling them to the contributions.

4.25 Share-based payment transactions

The Group operates equity-settled share-based compensation plans as part of the remuneration of its employees. All employee services received in exchange for the grant of financial instruments, for example, share options are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

When fair value of equity instruments cannot be estimated reliably, the Group measures the equity instruments at their intrinsic value initially at the date the grantees rendered services and subsequently at the end of each reporting period and when equity instruments are exercised, forfeited or lapsed, with any change in intrinsic value recognised in profit or loss.

All equity-settled share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

In respect of share options, the fair value of the share options granted by the Group to its employees is recognised in profit or loss with a corresponding increase in share option reserve. Upon exercise of the share options, the amount in the share option reserve is transferred to the share premium account. In case the share options lapsed, the amount in the share option reserve is released directly to retained profits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.26 Provisions and contingent liabilities

Provision is recognised when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.27 Equity instruments

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

4.28 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognised as a liability. Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4.29 Revenue and other income recognition

Revenue and other income are recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

- (i) Sales of goods are recognised as revenue when goods are delivered and title has passed.
- (ii) Taxi rental, licence and management fee income is recognised in accordance with the substance of the licence and management agreement when the taxi licence holders' rights to receive payment have been established and the relevant services are delivered. Income received in advance which is attributable to the whole licencing contract arrangement is deferred as deferred income under current liabilities and amortised over the period of the licence contract.
- (iii) Rental income is recognised on a straight-line basis over the periods of the respective tenancies.
- (iv) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.
- (v) Handling fee income and service fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.
- (vi) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.30 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4.31 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker i.e. the most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

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

Estimates of fair value of investment properties

As disclosed in note 15, the investment properties were revalued at the end of each reporting period by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Impairment of assets

The Group reviews at least annually and assesses whether goodwill, taxi licences with indefinite useful lives and antiques have suffered any impairment. Other assets including property, plant and equipment and intangible assets with definite useful lives are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on a value in use calculation which requires the use of estimates including expected future cash flows of the asset/cash-generating unit and discount rate adopted to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for goodwill, taxi licences and antiques are set out in notes 18, 19 and 24 respectively.

Allowance for loans and receivables

The policy on allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of loans and receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including current creditworthiness and the past collection history of each customer. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowances may be required.

Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation.

Allowance for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required.

Estimate of net realisable value of inventories of properties

Management reviews the recoverable amount of inventories of properties at the end of each reporting period. The recoverable amount is the estimated selling price of the properties less estimated cost to completion and estimated costs to sell. Management makes estimates in determining the recoverable amount.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

5.2 Critical judgements in applying the entity's accounting policies

Distinction between investment properties and owner-occupied properties

Some properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

6. REVENUE

The principal activities of the Group are disclosed in note 1. Turnover of the Group is the revenue from these activities. Revenue from the Group's principal activities recognised during the year is as follows:

	2010	2009
	HK\$'000	HK\$'000
Sales of goods	1,196,170	981,479
Taxi rental, licence and management fee income	81,453	56,277
Property rental income	61,403	61,052
	<hr/>	<hr/>
Total revenue	1,339,026	1,098,808
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31st December, 2010, the Group's revenue of HK\$660,752,000 (2009: HK\$582,984,000) or 49% (2009: 53%) was derived from a single customer and the revenue of which is reported under the segment of "Electrical household appliances". The revenue was derived from the sale transactions conducted directly with that single customer as well as the sale transactions conducted with the designated suppliers of that single customer.

7. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and assessment of segment performance. The Group has identified the following reportable segments for its operating segments:

- | | |
|-------------------------------------|--|
| Electrical household appliances | — This segment manufactures electrical appliances including electric fans, vacuum cleaners, lighting products, paper handling options, fuser and laser scanner. The Group's manufacturing facilities are located in the People's Republic of China (the "PRC") and products are mainly sold to customers in PRC and overseas such as North America and European countries. |
| Property leasing | — This segment leases industrial properties and commercial units located in Hong Kong, the PRC and the United States to generate rental income and gain from appreciation in the properties' values in long term. Part of the business is carried out through certain associates. |
| Property investment and development | — This segment constructs residential properties in Hong Kong for external customers. |
| Securities trading | — This segment mainly carries out trading of securities to generate gain from appreciation in securities. |
| Taxi rental | — This segment carries out taxi rental operation in the PRC and generates rental, licence and management fee income. |
| All other segments | — Operating segments which are not reportable comprise manufacturing and trading of electric cables, design and trading of semiconductors and electric components and trading of computer software which generate revenue from sales of goods, as well as direct investments which derive gain from holding investments in enterprises engaging in high-tech business. |

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's associates and jointly controlled entities. Reportable segment profit/loss excludes corporate income and expenses from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of corporate assets, including available-for-sale financial assets, bank balances and cash and other assets which are not directly attributable to the business activities of operating segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, derivative financial instruments, amounts due to related parties and other liabilities directly attributable to the business activities of operating segments and exclude corporate liabilities and liabilities such as bank borrowings that are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

7. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reconciliations to revenue, profit/loss before income tax, total assets, total liabilities and other segment information are as follows:

	Electrical household appliances HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Taxi rental HK\$'000	All other segments HK\$'000	Consolidated HK\$'000	
Year ended 31st December, 2010								
Reportable segment revenue*	<u>1,136,788</u>	<u>61,403</u>	<u>–</u>	<u>–</u>	<u>81,453</u>	<u>59,382</u>	<u>1,339,026</u>	
Reportable segment profit/(loss)	<u>107,190</u>	<u>219,131</u>	<u>(93)</u>	<u>(22,491)</u>	<u>37,990</u>	<u>20,467</u>	<u>362,194</u>	
Corporate income							18,587	
Corporate expenses							(73,914)	
Profit before income tax							<u>306,867</u>	
							Total HK\$'000	
As at 31st December, 2010								
Reportable segment assets	<u>599,354</u>	<u>1,206,945</u>	<u>51,224</u>	<u>559,141</u>	<u>279,070</u>	<u>208,212</u>	<u>2,903,946</u>	
Corporate assets							<u>341,279</u>	
Total assets							<u>3,245,225</u>	
As at 31st December, 2010								
Reportable segment liabilities	<u>303,936</u>	<u>182,452</u>	<u>–</u>	<u>4,566</u>	<u>76,012</u>	<u>18,572</u>	<u>585,538</u>	
Corporate liabilities							<u>323,099</u>	
Total liabilities							<u>908,637</u>	
	Electrical household appliances HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Taxi rental HK\$'000	All other segments HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Other information:								
Year ended 31st December, 2010								
Interest income	1,075	22	–	137	–	3,893	13,394	18,521
Depreciation and amortisation	(6,700)	(1)	–	–	(13,204)	(1,618)	(2,491)	(24,014)
Impairment losses recognised in profit or loss	(4,027)	(1,545)	–	(3,000)	(121)	(2,378)	–	(11,071)
Reversal of allowance for other inventories	1,456	–	–	–	–	7,378	–	8,834
Fair value gain on investment properties	–	113,208	–	–	–	–	–	113,208
Write back of long outstanding payables	–	–	–	–	1,893	1,002	–	2,895
Share of results of associates	–	51,957	–	–	–	16,009	–	67,966
Share of results of jointly controlled entities	–	–	–	–	–	3,470	–	3,470
Additions to specified non-current assets [#]	10,541	991	–	–	35,197	45,357	5,022	97,108
Write-off of property, plant and equipment	–	–	–	–	(84)	(30)	–	(114)
As at 31st December, 2010								
Interests in associates	–	453,198	–	–	–	70,829	–	524,027
Interests in jointly controlled entities	–	–	–	–	–	4,532	–	4,532

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

7. SEGMENT INFORMATION (Continued)

Segment results, segment assets and segment liabilities (Continued)

	Electrical household appliances HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Taxi rental HK\$'000	All other segments HK\$'000	Consolidated HK\$'000	
Year ended 31st December, 2009								
Reportable segment revenue*	950,281	61,052	—	—	56,277	31,198	1,098,808	
Reportable segment profit/(loss)	(17,492)	(18,352)	—	26,007	34,324	(7,436)	17,051	
Corporate income							53,628	
Corporate expenses							(80,174)	
Loss before income tax							(9,495)	
							Total HK\$'000	
As at 31st December, 2009								
Reportable segment assets	482,590	1,036,437	—	57,899	247,815	156,623	1,981,364	
Corporate assets							1,250,419	
Total assets							3,231,783	
As at 31st December, 2009								
Reportable segment liabilities	190,701	14,774	—	30	33,898	13,026	252,429	
Corporate liabilities							962,441	
Total liabilities							1,214,870	
	Electrical household appliances HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Taxi rental HK\$'000	All other segments HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Other information:								
Year ended 31st December, 2009								
Interest income	3,276	4,693	—	795	882	533	53,282	63,461
Depreciation and amortisation	(8,842)	(1)	—	—	(9,089)	(1,473)	(3,858)	(23,263)
(Impairment losses)/Reversal of impairment losses recognised in profit or loss	(4,337)	(2,407)	—	—	—	4,341	(247)	(2,650)
Reversal of allowance/(Allowance) for other inventories	(982)	—	—	—	—	2,469	—	1,487
Fair value loss on investment properties	—	(119,822)	—	—	—	—	—	(119,822)
Write back of long outstanding payables	—	—	—	—	5,802	—	—	5,802
Share of results of associates	—	44,446	—	—	—	(8,289)	—	36,157
Share of results of jointly controlled entities	—	—	—	—	—	1,955	—	1,955
Additions to specified non-current assets [#]	410	—	—	—	30,604	16	132	31,162
Write-off of property, plant and equipment	(28)	—	—	—	—	—	(210)	(238)
As at 31st December, 2009								
Interests in associates	—	396,846	—	—	—	62,949	—	459,795
Interests in jointly controlled entities	—	—	—	—	—	3,571	—	3,571

* This represents sales from external customers and there were no inter-segment sales between different business segments for the years ended 31st December, 2010 and 2009.

[#] Specified non-current assets represent the Group's non-current assets excluding financial instruments and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

7. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in Hong Kong, other regions in the PRC, Asia other than the PRC, North America (comprising Canada and the United States) and Europe (mainly in Belgium and the United Kingdom).

An analysis of the Group's revenue by geographical locations, determined based on locations to which the goods are delivered or the services are provided and locations of assets which give rise to the rental income and the licence fee income, is as follows:

	2010 HK\$'000	2009 HK\$'000
Hong Kong	25,324	17,281
Other regions of the PRC	669,096	587,701
Asia, other than the PRC	61,991	45,074
North America	322,053	248,303
Europe	113,800	84,730
Others	146,762	115,719
	<u>1,339,026</u>	<u>1,098,808</u>

An analysis of the Group's specified non-current assets by geographical locations, determined based on location of the assets or location of operations in case of goodwill, and interests in associates and jointly controlled entities, is as follows:

	2010 HK\$'000	2009 HK\$'000
Hong Kong	275,354	149,775
Other regions of the PRC	1,220,047	1,033,375
North America	162,264	199,844
	<u>1,657,665</u>	<u>1,382,994</u>

8. OTHER INCOME

	2010 HK\$'000	2009 HK\$'000
Interest income on:		
Bank deposits	6,590	6,578
Loans to related parties	7,233	50,762
Loans to investees	453	2,354
Others, including loans receivable	4,245	3,767
	<u>18,521</u>	<u>63,461</u>
Total interest income on financial assets not at fair value through profit or loss	18,521	63,461
Dividends from listed equity securities	4,859	263
Other rental income	1,433	1,882
Handling fee income	23,674	18,151
Write back of long outstanding payables	2,895	5,802
Sundry income	10,719	9,091
	<u>62,101</u>	<u>98,650</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

9. PROFIT/(LOSS) BEFORE INCOME TAX

	2010 HK\$'000	2009 HK\$'000
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Amortisation of prepaid lease rental on land	494	487
Amortisation of other intangible assets #	402	—
Depreciation of property, plant and equipment	23,118	22,776
	<hr/>	<hr/>
Total amortisation and depreciation	24,014	23,263
	<hr/>	<hr/>
Auditors' remuneration:		
Current year	1,628	1,245
Under provision in prior year	96	—
Cost of sales and services provided comprise:		
Amount of inventories recognised as expense	994,375	797,833
Reversal of allowance for other inventories	(8,834)	(1,487)
Directors' remuneration	20,373	12,753
Donations	2,947	12,958
Gain on disposal of property, plant and equipment	(2,549)	(318)
Impairment loss on non-financial assets:		
Property, plant and equipment	—	151
Prepaid lease rental on land	—	376
Impairment loss on financial assets:		
Loans and receivables*	11,071	2,123
Net foreign exchange (gain)/loss**	(1,772)	147
Operating lease charge on land and buildings	2,685	2,677
Outgoings in respect of investment properties	5,061	8,964
Net rental income	(56,342)	(52,088)
Research and development cost [^]	618	778
Staff costs (note 12)	133,386	104,316
Write-off of property, plant and equipment	114	238
(Reversal of provision)/Provision for tax penalty*	(21,225)	79,071
	<hr/> <hr/>	<hr/> <hr/>

included in "Administrative expenses" in the consolidated income statement

* included in "Other operating income/(expenses)" in the consolidated income statement

** included in "Other gains/(losses) — Others" in the consolidated income statement

[^] excluding depreciation of property, plant and equipment and staff costs

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

10. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
Interest charges on:		
Bank loans and overdrafts wholly repayable within five years	7,058	14,880
Other liabilities wholly repayable within five years	1,198	519
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	8,256	15,399
Bank charges and arrangement fee	3,405	150
	<hr/>	<hr/>
	11,661	15,549
	<hr/> <hr/>	<hr/> <hr/>

11. INCOME TAX EXPENSE

	2010 HK\$'000	2009 HK\$'000
Income tax expenses comprise:		
Current tax for the year		
Hong Kong profits tax	2,076	2,629
Other regions of the PRC — EIT	16,359	21,963
Others	786	1,291
	<hr/>	<hr/>
	19,221	25,883
	<hr/>	<hr/>
(Over)/Under provision in prior years		
Hong Kong profits tax	(8,287)	(367)
Other regions of the PRC — EIT	(747)	5,626
	<hr/>	<hr/>
	(9,034)	5,259
	<hr/>	<hr/>
Deferred tax (note 39)	26,754	(5,255)
	<hr/>	<hr/>
	36,941	25,887
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year.

Enterprise income tax ("EIT") arising from the PRC excluding Hong Kong is calculated at 10% to 25% (2009: 10% to 25%) of the estimated assessable income for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

11. INCOME TAX EXPENSE (Continued)

The income tax expenses can be reconciled to the profit/(loss) before income tax at applicable tax rates as follows:

	2010 HK\$'000	2009 HK\$'000
Profit/(Loss) before income tax	<u>306,867</u>	<u>(9,495)</u>
Tax on profit/(loss) at the rates applicable to profits in the countries concerned	53,853	(9,321)
Expenses not deductible for tax purpose	22,100	58,148
Income not taxable for tax purpose	(12,554)	(7,637)
Share of results of associates and jointly controlled entities	(11,840)	(6,289)
Tax exemption	(680)	(3,446)
Utilisation of tax losses previously not recognised	(3,470)	(7,577)
Tax losses not recognised	2,898	1,787
(Over)/Under provision in prior years	(9,034)	5,259
Others	<u>(4,332)</u>	<u>(5,037)</u>
Income tax expense	<u>36,941</u>	<u>25,887</u>

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2010 HK\$'000	2009 HK\$'000
Salaries, allowances and other benefits	129,778	100,832
Retirement fund contributions (note 45)	3,500	3,249
Termination benefits	<u>108</u>	<u>235</u>
	<u>133,386</u>	<u>104,316</u>

13. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividend declared and paid by the Group during the year and in last year are as follows:

	2010 HK\$'000	2009 HK\$'000
Interim dividend declared and paid during the year	<u>—</u>	<u>10,470</u>

The directors of the Company did not recommend the payment of a final dividend for the current year (2009: Nil).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of HK\$270,956,000 (2009: loss of HK\$34,613,000) and the weighted average number of ordinary shares in issue during the year of 523,485,000 (2009: 523,485,000) on the assumption that the Group Restructuring as detailed in note 2 has been effective on 1st January, 2009.

15. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY
	Year ended 31st December, 2010 HK\$'000	Year ended 31st December, 2009 HK\$'000	Period ended 31st December, 2010 HK\$'000
Carrying amount at the beginning of year/period	540,599	660,068	—
Translation adjustment	8,301	353	—
Additions	991	—	—
Transfer under Group Restructuring	—	—	25,500
Increase/(Decrease) in fair value	113,208	(119,822)	10,970
	<u>663,099</u>	<u>540,599</u>	<u>36,470</u>

The carrying amount of the Group's and Company's interests in investment properties are analysed as follows:

	THE GROUP		THE COMPANY
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000
In Hong Kong, held under long-term leases	231,900	138,200	36,470
In other regions of the PRC, held under medium-term leases	275,199	208,959	—
In the USA, freehold	156,000	193,440	—
	<u>663,099</u>	<u>540,599</u>	<u>36,470</u>

Investment properties which are situated in Hong Kong and other regions of the PRC were revalued as at 31st December, 2010 by Knight Frank Petty Limited on an open market basis. The valuations were arrived at by reference to comparable market transactions and where appropriate, on the basis of capitalisation of net income. Investment properties situated in the USA were revalued as at 31st December, 2010 by Cushman & Wakefield of California, Inc on an income approach with reference to comparable market conditions. Knight Frank Petty Limited and Cushman & Wakefield of California, Inc are independent firms of professionally qualified valuers and have appropriate qualifications and recent experience in the valuation of similar properties in nearby locations.

The investment properties are leased to third parties under operating leases to earn rental income, further details of which are included in note 47.

In securing a three-year term loan borrowed from a bank as at year ended 31st December, 2009, the Group undertook, under a negative pledge clause, to obtain prior written consent from the bank regarding the transfer, sales or disposal of certain investment properties with carrying value of HK\$138,200,000 as at 31st December, 2009. The three-year term loan had been settled during the year.

Certain investment properties of the Group are pledged as further detailed in note 46.

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings	Plant and machinery	Tools and moulds	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1st January, 2009	135,136	49,594	65,048	66,856	45,616	362,250
Translation adjustment	206	72	80	51	57	466
Additions	—	95	25	459	30,583	31,162
Disposals	—	—	—	(1,203)	(1,990)	(3,193)
Write-off	—	(84)	(471)	(10,862)	—	(11,417)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2009 and 1st January, 2010	135,342	49,677	64,682	55,301	74,266	379,268
Translation adjustment	3,904	1,514	1,826	1,142	2,311	10,697
Additions	—	9,712	164	1,314	30,442	41,632
Disposals	(365)	(8,072)	(11)	(6,634)	(6,673)	(21,755)
Write-off	—	(772)	(393)	(553)	(150)	(1,868)
Step acquisition on a subsidiary (note 44)	—	—	447	148	—	595
Transfer to assets classified as held for sale	—	(13,244)	—	(377)	(331)	(13,952)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2010	138,881	38,815	66,715	50,341	99,865	394,617
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2009	37,365	35,528	64,830	50,027	13,831	201,581
Translation adjustment	77	54	80	38	20	269
Impairment	151	—	—	—	—	151
Depreciation provided	3,201	2,487	126	6,027	10,935	22,776
Disposals	—	—	—	(1,122)	(1,707)	(2,829)
Write-off	—	(80)	(471)	(10,628)	—	(11,179)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2009 and 1st January, 2010	40,794	37,989	64,565	44,342	23,079	210,769
Translation adjustment	1,192	1,164	1,788	964	894	6,002
Depreciation provided	3,184	1,803	98	3,564	14,469	23,118
Disposals	(132)	(7,956)	(10)	(6,760)	(6,831)	(21,689)
Write-off	—	(772)	(383)	(482)	(117)	(1,754)
Transfer to assets classified as held for sale	—	(11,949)	—	(347)	(313)	(12,609)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2010	45,038	20,279	66,058	41,281	31,181	203,837
NET CARRYING AMOUNT						
At 31st December, 2010	93,843	18,536	657	9,060	68,684	190,780
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2009	94,548	11,688	117	10,959	51,187	168,499
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

THE COMPANY

	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST			
At 20th August, 2009 (date of incorporation)	—	—	—
Transfer under Group Restructuring	3,104	1,816	4,920
Additions	329	4,736	5,065
Disposals	—	(87)	(87)
At 31st December, 2010	3,433	6,465	9,898
DEPRECIATION			
At 20th August, 2009 (date of incorporation)	—	—	—
Depreciation provided	527	1,181	1,708
Disposals	—	(16)	(16)
At 31st December, 2010	527	1,165	1,692
NET CARRYING AMOUNT			
At 31st December, 2010	2,906	5,300	8,206

The carrying amounts of land and buildings and prepaid lease rental on land held by the Group are analysed as follows:

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
In Hong Kong, held under long-term leases	3,508	3,673
In other regions of the PRC, held under		
– medium-term leases	97,138	97,411
– long leases	4,449	4,527
In the USA, freehold	6,183	6,274
	111,278	111,885
Land and buildings included in property, plant and equipment	93,843	94,548
Prepaid lease rental on land (note 17)	17,435	17,337
	111,278	111,885

In securing a three-year term loan borrowed from a bank as at year ended 31st December, 2009, the Group undertook, under a negative pledge clause, to obtain prior written consent from the bank regarding the transfer, sales or disposal of certain property, plant and equipment with carrying value of HK\$75,265,000 as at 31st December, 2009. The three-year term loan had been settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

17. PREPAID LEASE RENTAL ON LAND

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Carrying amount at 1st January	17,337	18,175
Translation adjustment	592	25
Amortisation charged	(494)	(487)
Impairment loss	—	(376)
	<hr/>	<hr/>
Carrying amount at 31st December	17,435	17,337
	<hr/> <hr/>	<hr/> <hr/>
Analysed into:		
Non-current portion included in non-current assets	16,975	16,893
Current portion included in current assets	460	444
	<hr/>	<hr/>
	17,435	17,337
	<hr/> <hr/>	<hr/> <hr/>

18. GOODWILL

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Carrying amount at 1st January	—	—
Step acquisition on a subsidiary (note 44)	4,393	—
	<hr/>	<hr/>
Carrying amount at 31st December	4,393	—
	<hr/> <hr/>	<hr/> <hr/>

Note:

As mentioned in note 44, the Group acquired additional 44.88% equity interests in an associate, PFC, in September 2010, and goodwill of HK\$4,393,000 was recognised accordingly.

The amount of goodwill as at the end of each reporting period is allocated to the cash-generating unit within the segment — design and trading of semiconductors and electric components and is tested for impairment by the management by estimating the recoverable amount of this cash-generating unit based on value in use calculations. The calculations use cash flow projections based on the financial budgets approved by the management. The period covered by the financial budgets is 8 years up to year 2018. Based on the results of the impairment testing, management determines that there is no impairment in respect of this cash generating unit.

Key assumptions used by the management in the value in use calculations of this cash-generating unit include gross profit margin of 30%–50% and growth rate by reference to the Gross Domestic Products Index in Taiwan. These assumptions have been determined based on past performance and management's expectations in respect of the market development in Taiwan. The pre-tax discount rate used which reflects the specific risks relating to the business and industry in which this cash-generating unit is engaged and has been applied to the cash flow projections is 22%.

Apart from the considerations described above in determining the value in use of the cash-generating unit within the design and trading of semiconductors and electric components business, the management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

19. OTHER INTANGIBLE ASSETS

	Taxi licences HK\$'000	THE GROUP Patent HK\$'000	Total HK\$'000
COST			
At 1st January, 2009	238,634	—	238,634
Translation adjustment	379	—	379
	<hr/>	<hr/>	<hr/>
As 31st December, 2009 and 1st January, 2010	239,013	—	239,013
Translation adjustment	8,313	—	8,313
Additions	10,061	—	10,061
Step acquisition on a subsidiary (note 44)	—	9,649	9,649
	<hr/>	<hr/>	<hr/>
As 31st December, 2010	257,387	9,649	267,036
AMORTISATION AND IMPAIRMENT			
At 1st January, 2009	45,304	—	45,304
Translation adjustment	72	—	72
	<hr/>	<hr/>	<hr/>
As 31st December, 2009 and 1st January, 2010	45,376	—	45,376
Translation adjustment	1,579	—	1,579
Amortisation charged	—	402	402
	<hr/>	<hr/>	<hr/>
As 31st December, 2010	46,955	402	47,357
NET CARRYING AMOUNT			
At 31st December, 2010	210,432	9,247	219,679
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December, 2009	193,637	—	193,637
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note:

The carrying amount of taxi licences as at 31st December, 2010 is tested for impairment by the management by estimating its recoverable amount based on a value in use calculations. The calculations use cash flow projections based on the financial budgets approved by the management.

The financial budgets prepared for the years ended 31st December, 2010 and 2009 are up to year 2023 as management considers that the application for extending the business period of the subsidiary by 10 years to year 2023 will be approved by the PRC government.

Other key assumptions used by management in the value in use calculations of the taxi licences have been determined based on past performance and its expectations for the market development. Key assumptions underlying the cash flow projections include (i) the number of taxi licences held by the Group remains the same throughout the forecast period, and (ii) the forecast taxi licence fee income is determined based on the fee income received during the respective year, adjusted by the expected market development. The pre-tax discount rate applied to the cash flow projections is 10% (2009: 10%) which reflects specific risks relating to the taxi rental operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY
	2010
	HK\$'000
Unlisted shares, at cost	93,289
Less: Impairment	<u>(90,428)</u>
	<u>2,861</u>

Details of the Company's principal subsidiaries as at 31st December, 2010 are set out in note 54. Certain of the Group's interests in subsidiaries are pledged as further detailed in note 46.

21. INTERESTS IN ASSOCIATES

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Share of net assets	523,177	458,945
Goodwill on acquisition of an associate	<u>850</u>	<u>850</u>
	<u>524,027</u>	<u>459,795</u>

Details of the Group's principal associates as at 31st December, 2010 are set out in note 55. As at 31st December, 2009, the Group held 44.89% interest in PFC and accounted for the investment as an associate. During the year, the Group acquired additional 44.88% equity interest in PFC, which results in the Group having control in the entity. Further details about the step acquisition of PFC are included in note 44. The following illustrates the summarised financial statements of the Group's associates extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

	100% basis	
	2010	2009
	HK\$'000	HK\$'000
Results for the year		
Revenue	<u>607,950</u>	<u>800,141</u>
Profit after income tax expenses	<u>190,856</u>	<u>41,305</u>
Financial positions		
Assets	3,759,867	3,701,869
Liabilities	<u>(1,995,529)</u>	<u>(2,167,182)</u>
Net assets	<u>1,764,338</u>	<u>1,534,687</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
Share of net assets	4,142	3,181
Goodwill on acquisition	390	390
	<u>4,532</u>	<u>3,571</u>

Details of the Group's jointly controlled entities as at 31st December, 2010 are set out in note 56. The following illustrates the summarised financial information of the Group's jointly controlled entities extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

	2010	2009
	HK\$'000	HK\$'000
Share of results for the year		
Revenue	<u>6,674</u>	<u>5,239</u>
Profit after income tax expenses	<u>3,470</u>	<u>1,955</u>
Share of assets and liabilities		
Total non-current assets	66	79
Total current assets	4,975	3,896
Total current liabilities	(899)	(794)
	<u>4,142</u>	<u>3,181</u>

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000
Unlisted investments:			
Club debentures (note (a))	3,300	3,300	3,300
Equity securities,			
Listed in Hong Kong, at fair value (note (b))	11,159	—	—
Unlisted outside Hong Kong, at cost (note (c))	2,080	—	—
	<u>16,539</u>	<u>3,300</u>	<u>3,300</u>

Notes:

- (a) Club debentures are stated at cost less impairment.
- (b) The Group does not intend to dispose of these investments in the near future.
- (c) In the opinion of the directors, the fair value of the unlisted equity securities cannot be determined reliably because the range of reasonable fair value estimates is too significant. Accordingly, they are stated at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

24. OTHER ASSETS

Other assets represent antiques held by the Company and the Group for long-term investment purposes. Antiques are reviewed for impairment by the management with reference to the valuation report issued by an independent professional valuer. In the opinion of the directors, the antiques worth at least their carrying value at the end of the reporting period.

25. LOANS RECEIVABLE

	THE GROUP		THE COMPANY
	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Loans receivable from:			
Investees (note (a))	11,023	4,619	—
Associates (note (b))	87,845	105,991	—
Others (note (c))	37,856	30,841	5,905
	136,724	141,451	5,905
Less: Impairment (notes (a) and (c))	(35,477)	(30,841)	—
	101,247	110,610	5,905
Analysed into:			
Amount repayable in more than one year included in non-current assets	94,091	106,597	—
Amount repayable within one year included in current assets	7,156	4,013	5,905
	101,247	110,610	5,905

Notes:

- (a) The loans to investees are unsecured, interest-bearing at 3%–8.1% per annum and repayable as to HK\$4,777,000 within twelve months from the reporting date and HK\$6,246,000 after twelve months from the reporting date. Having considered the financial position of the borrowers, management assessed that only a portion of the balance can be recovered and accordingly, impairment provision of HK\$3,526,000 (2009: Nil) was made in respect of these loan balances.
- (b) The loans to associates are unsecured and interest-free. The amortised costs of the loans to associates as at 31st December, 2010 are calculated at the present values of the expected settlements from the associates in accordance with the business plans of the respective associates, discounted at the rates of return of similar financial assets. The loans to associates will not be repayable within twelve months from the respective reporting dates and accordingly, they are classified as non-current assets. Having considered the financial position of these associates, and the status of settlements from them, the management assessed that there is no indication of impairment in respect of these loans.
- (c) The balances are unsecured, interest-bearing at 5%–10% per annum and repayable within one year. Having considered the financial position of the borrowers, management assessed that only a portion of the balance can be recovered and accordingly, impairment provision of HK\$31,951,000 (2009: HK\$30,841,000) was made in respect of the balances.

In the opinion of the directors, the carrying amounts of the loans receivable at the reporting dates approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

26. INVENTORIES OF PROPERTIES

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
Properties under development, at cost	51,224	—

As at the end of the reporting period, properties under development amounting to HK\$51,224,000 are not expected to be recovered within twelve months from the end of the reporting period.

The Group's properties under development are located in Hong Kong. As at the end of the reporting period, leasehold interests in land included in inventories of properties which are held under medium-term leases amounted to HK\$41,871,000.

27. OTHER INVENTORIES

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
Raw materials	51,446	49,208
Work-in-progress	14,760	8,229
Finished goods	76,451	42,342
	142,657	99,779

28. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	THE GROUP		THE COMPANY
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000
Trade receivables	190,064	209,365	—
Less: Impairment of trade receivables	(7,588)	(12,795)	—
Trade receivables, net	182,476	196,570	—
Other receivables	12,638	17,580	75
Prepayments and deposits	47,382	34,694	3,355
	242,496	248,844	3,430

The Group maintains a defined credit policy. For sales of goods, the Group normally allows a credit period of 45 days or 60 days to its trade customers. Rental receivable from tenants is payable on presentation of invoices. For taxi rental, licence and management fee income, taxi drivers are generally required to pay monthly rental, licence and management fees in advance or by the 15th or 20th that month.

In general, trade receivables that are aged below one year are not considered impaired based on management's historical experience and management would consider allowance for impairment of trade receivables which are aged one year or above.

28. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

The ageing analysis of the trade receivables (based on invoice date) net of impairment allowance is as follows:

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
30 days or below	77,234	79,944
31–60 days	64,505	76,219
61–90 days	35,510	34,099
91–180 days	4,599	4,352
181–360 days	224	1,457
Over 360 days	404	499
	182,476	196,570

The movement in the allowance for impairment of trade receivables is as follows:

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
Carrying amount at 1st January	12,795	13,436
Translation adjustment	199	16
Impairment losses recognised	—	4,132
Impairment losses reversed	(877)	(574)
Amounts written off as uncollectible	—	(4,215)
Transfer to assets classified as held for sale	(4,529)	—
	7,588	12,795

At the end of each reporting period, management reviews receivables for evidence of impairment on both an individual and collective basis. As of 31st December, 2010, the Group's trade receivables of HK\$7,588,000 (2009: HK\$12,795,000) were impaired and accordingly allowance were made in respect of these balances. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the entire amount of the receivable balances is unlikely to be recovered. The Group does not hold any collateral over these balances.

The ageing analysis of trade receivables which were impaired and for which allowances were made for at the reporting date is as follows:

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
30 days or below	—	985
31–60 days	—	140
61–90 days	—	—
91–180 days	—	406
181–360 days	—	897
Over 360 days	7,588	10,367
	7,588	12,795

28. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

The ageing analysis of trade receivables that are past due but are not considered impaired at the reporting date is as follows:

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
61–90 days	35,510	34,099
91–180 days	4,599	4,352
181–360 days	224	1,457
Over 360 days	404	499
	40,737	40,407

Trade receivables that were not yet past due relate to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired relate to a number of independent customers that have a good payment record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group does not hold any collateral over these balances other than rental and building management deposits from tenants of the Group's investment properties.

Trade and other receivables are of short maturity periods and hence the directors consider the carrying amounts of trade and other receivables approximate their fair values.

29. AMOUNTS DUE FROM/TO SUBSIDIARIES

The balances are unsecured and repayable on demand. Except for an amount of HK\$233,869,000 (2009: HK\$85,160,000) which is interest-bearing at prevailing market rate, the balances due from the subsidiaries are interest-free. Except for an amount of HK\$721,000 (2009: HK\$5,841,000) which is interest-bearing at prevailing market rate, the balances due to the subsidiaries are interest-free. The directors consider that the carrying amounts of the balances approximate their fair values.

30. AMOUNTS DUE FROM AN ASSOCIATE/AN INVESTEE/RELATED PARTIES

The balances due from the associate and the investee are unsecured, interest-free and repayable on demand. The directors consider that the carrying amounts of these balances approximate their fair values.

The balances due from related parties as at 31st December, 2009 represented loans to subsidiaries of Shell Holdings which were not being transferred to the Company under the Group Restructuring as mentioned in note 2. The loans are unsecured, interest-bearing at 5.86%–8.97% per annum and repayable on demand. The directors consider that the carrying amounts of these loans approximated their fair values.

31. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2010 HK\$'000	2009 HK\$'000
Equity securities, at fair value		
Listed in Hong Kong	109,421	22,040
Listed outside Hong Kong	383,657	6,459
	493,078	28,499

The fair values of the listed equity securities are determined based on quoted market prices available on the relevant stock exchanges. Certain equity securities are pledged as further detailed in note 46.

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included cash at banks, in hand and deposited with security brokers.

As at 31st December, 2010, cash balance of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$229,434,000 (2009: HK\$409,910,000). The RMB is not freely convertible into other currencies.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for period depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The directors consider that the fair values of the short-term deposits are not materially different from their carrying amounts because of the short maturity period.

33. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY
	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Trade payables	82,322	76,558	—
Temporary receipts	26,208	27,238	2
Deferred income	6,327	12,358	—
Other payables and accruals	188,370	214,035	13,014
Deposit received	19,902	18,070	2,155
	323,129	348,259	15,171

Trade and other payables are short term and hence the directors consider the carrying amounts of trade and other payables approximate their fair values.

34. AMOUNT DUE TO AN ASSOCIATE/A RELATED PARTY/A DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand. The directors consider that the carrying amounts of the balances approximate their fair values.

35. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Equity derivatives — liabilities	4,494	—

As at 31st December, 2010, the Group held six forward contracts in respect of certain listed shares in the United States and Hong Kong (the “Shares”). The aggregate notional amount of the contracts as at 31st December, 2010 was HK\$156,306,000 (2009: Nil). Under the contracts, the Group is required to buy certain numbers of the Shares, depending on the market prices of the listed shares on each of the settlement dates during the period of the contracts at the underlying forward prices. When the market prices of the listed shares exceed the knock-out prices as set forth in the contracts, the contracts would be terminated.

Further details about the terms of these contracts are as follows:

	Forward price	Number of Shares[#]		Knock-out price	Maturity date
		Lower	Higher		
Contract 1	HK\$76.6935	2,000	4,000	HK\$92.1375	4th November, 2011
Contract 2	HK\$7.6386	20,000	40,000	HK\$ 9.4028	4th August, 2011
Contract 3	HK\$116.2445	2,000	4,000	HK\$143.85	13th April, 2012
Contract 4	HK\$120.9825	2,000	4,000	HK\$149.625	4th May, 2012
Contract 5	HK\$5.0385	60,000	120,000	HK\$6.088	1st December, 2011
Contract 6	US Dollar (“USD”) 266	100	200	USD327.81525	17th April, 2012

[#] To be settled on weekly basis

The equity derivatives are not designated as hedging instrument and their fair values are determined by reference to the valuation conducted by a third party financial institution.

These financial instruments are subject to financial risk exposure in term of price risk (note 53.4(a))

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

36. BANK BORROWINGS

	THE GROUP			THE COMPANY
	As at 31st December, 2010 HK\$'000	As at 31st December, 2009 HK\$'000 (Restated)	As at 1st January, 2009 HK\$'000 (Restated)	2010 HK\$'000
Bank borrowings				
Current liabilities	394,922	386,845	334,238	300,000
Non-current liabilities	—	341,215	346,359	—
	394,922	728,060	680,597	300,000
Bank borrowings				
Secured	341,261	346,909	352,404	250,000
Unsecured	53,661	381,151	328,193	50,000
	394,922	728,060	680,597	300,000

The movement of bank borrowings is as follows:

	THE GROUP		THE COMPANY
	Year ended 31st December, 2010 HK\$'000	Year ended 31st December, 2009 HK\$'000	Period ended 31st December, 2010 HK\$'000
Carrying amount at the beginning of year/period	728,060	680,597	—
Transfer under Group Restructuring	—	—	575,586
New bank loans raised	252,978	430,284	40,000
Repayment of bank loans	(586,116)	(382,821)	(315,586)
Carrying amount at the end of year/period	394,922	728,060	300,000

The maturity of bank borrowings is as follows:

	THE GROUP			THE COMPANY
	As at 31st December, 2010 HK\$'000	As at 31st December, 2009 HK\$'000 (Restated)	As at 1st January, 2009 HK\$'000 (Restated)	2010 HK\$'000
Current liabilities				
Due within one year	394,922	230,130	209,152	300,000
Due after one year which contain a repayment on demand clause	—	156,715	125,086	—
	394,922	386,845	334,238	300,000
Non-current liabilities				
Due in two to five years	—	341,215	346,359	—
	394,922	728,060	680,597	300,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

36. BANK BORROWINGS (Continued)

The analysis of bank borrowings by scheduled repayment is as follows:

	THE GROUP			THE COMPANY
	As at 31st December, 2010 HK\$'000	As at 31st December, 2009 HK\$'000	As at 1st January, 2009 HK\$'000	2010 HK\$'000
Portion of term loans due for repayment within one year	394,922	230,130	209,152	300,000
Term loans due for repayment after one year (note)				
After one year but within two years	—	452,705	54,951	—
After two years but within five years	—	45,225	416,494	—
	—	497,930	471,445	—
	394,922	728,060	680,597	300,000

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

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

	THE GROUP	2009	THE COMPANY
	2010 HK\$'000	HK\$'000	2010 HK\$'000
Hong Kong Dollar	300,000	462,251	300,000
US Dollar	94,922	265,809	—
	394,922	728,060	300,000

Among the Group's bank borrowings as at 31st December, 2010, HK\$53,661,000 (2009: HK\$155,565,000) were arranged at fixed annual interest rates of 0.75%–1.02% (2009: 0.58%–0.93%). The remaining balance of the Group's bank borrowings (long-term loans with their maturity date falling within 12 months) of HK\$341,261,000 (2009: HK\$572,495,000) were arranged at floating rates of 1.45%–2.01% (2009: 1.28%–2.22%) per annum.

Among the Company's bank borrowings as at 31st December, 2010, HK\$50,000,000 were arranged at fixed annual interest rates of 0.75%. The remaining balance of the Company's bank borrowings (a long-term loan with its maturity date falling within 12 months) of HK\$250,000,000 were arranged at floating rates of 1.45% per annum.

The Group's and the Company's interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. None of the portion of term loans due for repayment after one year which contain a repayment on demand clause and that are classified as current liabilities are expected to be settled within one year.

In the opinion of the directors, the carrying amounts of the Group's and the Company's current and non-current bank borrowings approximate their fair values. The fair values of the non-current borrowings are calculated by discounting their expected future cash flows at market rate.

37. OTHER LIABILITIES

Other liabilities are unsecured, interest-bearing at fixed amounts as set out in the respective agreements and with maturity dates which vary from 1 to 59 months from the reporting date (2009: 13 to 54 months). The directors consider that the carrying amounts of other liabilities approximate their fair value.

38. LOAN FROM A MINORITY SHAREHOLDER

The loan is unsecured, interest-free and not repayable within twelve months from the reporting date. As assessed by the directors, the difference between the carrying amount of the loan and the fair value of the loan, calculated by discounting the expected future cash flows at prevailing interest rate, is not material.

39. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

THE GROUP

	Accelerated tax depreciation HK\$'000	Amortisation on intangible assets HK\$'000	Allowance on trade receivables HK\$'000	Revaluation of properties HK\$'000	Fair value change in equity securities HK\$'000	Total HK\$'000
At 1st January, 2009	984	18,086	(55)	38,089	—	57,104
Translation adjustment	—	33	—	28	—	61
Charged/(Credited) to profit or loss	(522)	5,163	55	(9,951)	—	(5,255)
At 31st December, 2009 and 1st January, 2010	462	23,282	—	28,166	—	51,910
Translation adjustment	—	936	—	889	—	1,825
Charged/(Credited) to profit or loss	425	5,419	—	31,224	(10,314)	26,754
At 31st December, 2010	887	29,637	—	60,279	(10,314)	80,489

Represented by:

	2010 HK\$'000	2009 HK\$'000
Deferred tax liabilities	93,362	54,008
Deferred tax assets	(12,873)	(2,098)
	80,489	51,910

At the reporting date, the expiry dates of the Group's unused tax losses available for offset against future profits, not recognised as deferred tax assets, are analysed as follows:

	2010 HK\$'000	2009 HK\$'000
2010	—	64,643
2011	10,332	9,985
2012	18,478	18,134
2013	11,965	12,940
2014	11,165	11,814
2015	3,087	—
2019	1,410	1,330
2020	10,629	10,629
2021	7,482	7,482
2022	3,297	2,970
2023	500	—
2024	9,848	9,805
2025	4,892	2,868
2026	1,380	1,380
2030	2,181	—
Carried forward indefinitely	74,922	77,295
	171,568	231,275

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

39. DEFERRED TAX (Continued)

THE GROUP (Continued)

No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams. The tax losses of the subsidiaries in Hong Kong may be carried forward indefinitely. The tax losses of the subsidiaries in the PRC except Hong Kong and the U.S.A. may be carried forward for five years and twenty years respectively from the financial year when the corresponding loss was incurred.

Deferred tax liabilities of approximately HK\$11,306,000 (2009: HK\$6,465,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of certain PRC subsidiaries as at 31st December, 2010, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK\$113,061,000 as at 31st December, 2010 (2009: HK\$64,651,000).

THE COMPANY

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 20th August, 2009 (date of incorporation)	—	—	—
Charged/(Credited) to profit or loss	(344)	1,774	1,430
	<hr/>	<hr/>	<hr/>
At 31st December, 2010	(344)	1,774	1,430
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For the purposes of presentation of the financial statements, the deferred tax assets and liabilities have been offset as they are related to income taxes levied by the same tax authority and the assets and liabilities are intended to be settled in net, or settled/realised simultaneously.

40. SHARE CAPITAL

	Number of shares '000	Nominal value
Authorised		
<i>Ordinary share of US\$0.00002 each</i>		
At 20th August, 2009 (date of incorporation)	500,000	US\$10,000
Increase in authorised capital	100,000	US\$2,000
	<hr/>	<hr/>
At 31st December, 2009 and 31st December, 2010	600,000	US\$12,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid		
<i>Ordinary share of US\$0.00002 each</i>		
At 20th August, 2009 (date of incorporation)	—	—
Issuance of shares under Group Restructuring	523,485	US\$10,470
	<hr/>	<hr/>
At 31st December, 2009 and 31st December, 2010	523,485	US\$10,470
	<hr/> <hr/>	<hr/> <hr/>
Shown in the financial statements as		HK\$82,000
		<hr/> <hr/>

The Company was incorporated on 20th August, 2009 and is authorised to issue up to a maximum of 500,000,000 shares of US\$0.00002 each, 1 share of which was issued on the incorporation date.

A written resolution was passed on 25th November, 2009 to increase the authorised capital of the Company from US\$10,000 divided into 500,000,000 shares of US\$0.00002 each to US\$12,000 divided into 600,000,000 shares of US\$0.00002 each by the creation of additional 100,000,000 shares ranking pari-passu with the existing shares of the Company.

During the year ended 31st December, 2009, the Company has increased the issued capital to 523,484,562 shares by issuing 523,484,561 ordinary shares to Shell Holdings pursuant to the Group Restructuring as detailed in note 2. All shares are equally eligible to receive dividends and to the repayment of capital and each share is entitled to one vote at shareholders' meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

41. RESERVES

THE GROUP

Details of the movements on the Group's reserves are set out in the consolidated statement of changes in equity. The nature and purpose of the reserves are as follows:

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy adopted in note 4.18.

Asset revaluation reserve

Asset revaluation reserve has been set up in accordance with the accounting policies set out in note 4.7.

Statutory reserves

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain % of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

Available-for-sale financial assets revaluation reserve

Available-for-sale financial assets revaluation reserve comprises the cumulative net changes in the fair value of available-for-sale financial assets and is dealt with in accordance with accounting policy in notes 4.14 and 4.15.

Capital reserve

Capital reserve of the Group represents the capital contributions from the shareholders of the Company.

THE COMPANY

Details of the movements on the Company's reserves from 20th August, 2009, (date of incorporation) to 31st December, 2010 are as follows:

	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 20th August, 2009 (date of incorporation)	—	—	—
Transfer under Group Restructuring (<i>note 2</i>)	896,524	474,098	1,370,622
Profit and total comprehensive income for the period	—	18,799	18,799
	<hr/>	<hr/>	<hr/>
At 31st December, 2010	896,524	492,897	1,389,421

Contributed surplus of the Company represents the capital contributions from the shareholders of the Company.

42. SHARE OPTION SCHEMES

Subsidiaries

The share option schemes of Appeon Corporation (“Appeon”) and Galactic Computing Corporation (“Galactic”), subsidiaries of the Company, became effective on 11th November, 2002. Certain directors, employees and consultants of Appeon and Galactic were granted options as an incentive to them for their continuing contribution to the companies they worked for at a consideration of HK\$1 on acceptance of the option offer. Details of those share option schemes of the subsidiaries are set out in the Shell Holdings’ circular to the shareholders dated 25th October, 2002.

(a) Appeon

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Appeon (“Appeon Scheme”), together with all outstanding options granted and yet to be exercised under any other share option scheme(s) of Appeon and/or its subsidiary, must not exceed 30% of the number of the issued shares from time to time (subject to the approval of the shareholders of the Company). At the date of issue of these financial statements, the total maximum number of options available for further issue under the Appeon Scheme amounted to 1,000,984 (subject to approval of the shareholders of the Company) which represented 27.36% of the issued share capital of Appeon (excluding any shares issued pursuant to the Appeon Scheme) on the same date.

Movements in the options to subscribe for shares in Appeon for the year ended 31st December, 2010 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 31.12.2010
				As at 1.1.2010	Cancelled during the year	Granted during the year	
Mr. Billy K Yung	09.06.2003	09.06.2003–10.11.2012	2.50	6,750	—	—	6,750
	09.06.2003	01.10.2003–10.11.2012	2.50	3,375	—	—	3,375
	09.06.2003	01.04.2004–10.11.2012	2.50	3,375	—	—	3,375
	09.06.2003	01.10.2004–10.11.2012	2.50	3,375	—	—	3,375
	09.06.2003	01.04.2005–10.11.2012	2.50	3,375	—	—	3,375
	09.06.2003	01.10.2005–10.11.2012	2.50	3,375	—	—	3,375
	09.06.2003	01.04.2006–10.11.2012	2.50	3,375	—	—	3,375
				27,000	—	—	27,000
Other directors of Appeon	25.11.2002	25.11.2002–10.11.2012	2.50	562	—	—	562
	25.11.2002	01.04.2003–10.11.2012	2.50	563	—	—	563
	25.11.2002	01.10.2003–10.11.2012	2.50	562	—	—	562
	25.11.2002	01.04.2004–10.11.2012	2.50	563	—	—	563
	25.11.2002	01.10.2004–10.11.2012	2.50	562	—	—	562
	25.11.2002	01.04.2005–10.11.2012	2.50	563	—	—	563
	25.11.2002	01.10.2005–10.11.2012	2.50	562	—	—	562
				563	—	—	563
				4,500	—	—	4,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

42. SHARE OPTION SCHEMES (Continued)

Subsidiaries (Continued)

(a) Apeon (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options		As at 31.12.2010	
				As at 1.1.2010	As at 31.12.2010		
Employees	25.11.2002	25.11.2002—10.11.2012	2.50	2,687	—	2,687	
	25.11.2002	01.04.2003—10.11.2012	2.50	2,688	—	2,688	
	25.11.2002	01.10.2003—10.11.2012	2.50	2,687	—	2,687	
	25.11.2002	01.04.2004—10.11.2012	2.50	2,688	—	2,688	
	25.11.2002	01.10.2004—10.11.2012	2.50	2,687	—	2,687	
	25.11.2002	01.04.2005—10.11.2012	2.50	2,688	—	2,688	
	25.11.2002	01.10.2005—10.11.2012	2.50	2,687	—	2,687	
	25.11.2002	01.04.2006—10.11.2012	2.50	2,688	—	2,688	
	02.06.2003	02.06.2003—10.11.2012	2.50	750	—	750	
	02.06.2003	01.10.2003—10.11.2012	2.50	375	—	375	
	02.06.2003	01.04.2004—10.11.2012	2.50	375	—	375	
	02.06.2003	01.10.2004—10.11.2012	2.50	375	—	375	
	02.06.2003	01.04.2005—10.11.2012	2.50	375	—	375	
	02.06.2003	01.10.2005—10.11.2012	2.50	375	—	375	
	02.06.2003	01.04.2006—10.11.2012	2.50	375	—	375	
	26.09.2005	01.03.2006—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.09.2006—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.03.2007—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.09.2007—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.03.2008—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.09.2008—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.03.2009—10.11.2012	3.00	1,250	—	1,250	
	26.09.2005	01.09.2009—10.11.2012	3.00	1,250	—	1,250	
					<u>34,500</u>	<u>—</u>	<u>34,500</u>
	Consultants of Apeon	25.11.2002	25.11.2002—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.04.2003—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.10.2003—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.04.2004—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.10.2004—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.04.2005—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.10.2005—10.11.2012	2.50	1,250	—	1,250
		25.11.2002	01.04.2006—10.11.2012	2.50	1,250	—	1,250
09.06.2003		09.06.2003—10.11.2012	0.10	5,106	—	5,106	
09.06.2003		01.10.2003—10.11.2012	0.10	2,553	—	2,553	
09.06.2003		01.04.2004—10.11.2012	0.10	2,553	—	2,553	
09.06.2003		01.10.2004—10.11.2012	0.10	2,553	—	2,553	
09.06.2003		01.04.2005—10.11.2012	0.10	2,553	—	2,553	
09.06.2003		01.10.2005—10.11.2012	0.10	2,553	—	2,553	
09.06.2003		01.04.2006—10.11.2012	0.10	2,554	—	2,554	
					<u>30,425</u>	<u>—</u>	<u>30,425</u>
					<u>96,425</u>	<u>—</u>	<u>96,425</u>
					HK\$	HK\$	HK\$
Weighted average exercise price					<u>15.94</u>	<u>—</u>	<u>15.94</u>

42. SHARE OPTION SCHEMES (Continued)

Subsidiaries (Continued)

(a) **Apeon** (Continued)

Movements in the options to subscribe for shares in Apeon for the year ended 31st December, 2009 are as follows:

Grantee	Subscription price per share US\$	As at 1.1.2009	Number of share options		As at 31.12.2009
			Cancelled during the year	Granted during the year	
Directors of Apeon	2.50	31,500	—	—	31,500
Employees	2.50	24,500	—	—	24,500
	3.00	10,000	—	—	10,000
Consultants of Apeon	2.50	10,000	—	—	10,000
	0.10	20,425	—	—	20,425
		<u>96,425</u>	<u>—</u>	<u>—</u>	<u>96,425</u>
		HK\$	HK\$	HK\$	HK\$
Weighted average exercise price		<u>15.94</u>	<u>—</u>	<u>—</u>	<u>15.94</u>

No option was exercised by the grantees during the year and in last year.

The number of options which are exercisable under the Apeon Scheme as at 31st December, 2010 is 96,425 (2009: 96,425). The weighted average remaining contractual life of the outstanding share options under the Apeon Scheme as at 31st December, 2010 is 1.86 years (2009: 2.86 years).

(b) **Galactic**

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Galactic (“Galactic Scheme”), together with all outstanding options granted and yet to be exercised under any other share option scheme(s) of Galactic and/or its subsidiary, must not exceed 30% of the number of issued shares from time to time (subject to the approval of the shareholders of the Company). The total maximum number of options available for further issue under the Galactic Scheme amounted to 1,579,724 as at 31st December, 2010 (subject to approval of the shareholders of the Company) which represented 6.62% of the issued share capital of Galactic (excluding any shares issued pursuant to the Galactic Scheme) on the same date.

Movements in the options to subscribe for shares in Galactic for the year ended 31st December, 2010 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at 1.1.2010	Number of share options		As at 31.12.2010
					Cancelled during the year	Granted during the year	
Mr. Billy K Yung	09.06.2003	09.06.2003—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.12.2003—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.06.2004—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.12.2004—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.06.2005—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.12.2005—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.06.2006—10.11.2012	0.45	25,000	—	—	25,000
	09.06.2003	01.12.2006—10.11.2012	0.45	25,000	—	—	25,000
					<u>200,000</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2010

42. SHARE OPTION SCHEMES (Continued)

Subsidiaries (Continued)

(b) Galactic (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at 1.1.2010	Number of share options		As at 31.12.2010
					Cancelled during the year	Granted during the year	
Other directors of Galactic	25.11.2002	01.06.2003—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.12.2003—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.06.2004—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.12.2004—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.06.2005—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.12.2005—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.06.2006—10.11.2012	0.45	22,500	—	—	22,500
	25.11.2002	01.12.2006—10.11.2012	0.45	22,500	—	—	22,500
	09.06.2003	09.06.2003—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.12.2003—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.06.2004—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.12.2004—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.06.2005—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.12.2005—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.06.2006—10.11.2012	0.45	10,000	—	—	10,000
	09.06.2003	01.12.2006—10.11.2012	0.45	10,000	—	—	10,000
	31.12.2007	01.01.2008—10.11.2012	0.45	372,832	—	—	372,832
	31.12.2007	01.07.2008—10.11.2012	0.45	372,832	—	—	372,832
	31.12.2007	01.01.2009—10.11.2012	0.45	372,832	—	—	372,832
	31.12.2007	01.07.2009—10.11.2012	0.45	372,832	—	—	372,832
31.12.2007	01.01.2010—10.11.2012	0.45	372,832	—	—	372,832	
31.12.2007	01.07.2010—10.11.2012	0.45	372,832	—	—	372,832	
31.12.2007	01.01.2011—10.11.2012	0.45	372,832	—	—	372,832	
31.12.2007	01.07.2011—10.11.2012	0.45	372,831	—	—	372,831	
				3,242,655	—	—	3,242,655
Employees	25.11.2002	01.06.2003—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.12.2003—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.06.2004—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.12.2004—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.06.2005—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.12.2005—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.06.2006—10.11.2012	0.45	6,250	—	—	6,250
	25.11.2002	01.12.2006—10.11.2012	0.45	6,250	—	—	6,250
	31.12.2007	01.01.2008—10.11.2012	0.45	229,294	—	—	229,294
	31.12.2007	01.07.2008—10.11.2012	0.45	229,287	—	—	229,287
	31.12.2007	01.01.2009—10.11.2012	0.45	229,294	—	—	229,294
	31.12.2007	01.07.2009—10.11.2012	0.45	219,967	—	—	219,967
	31.12.2007	01.01.2010—10.11.2012	0.45	219,973	—	—	219,973
	31.12.2007	01.07.2010—10.11.2012	0.45	219,970	—	—	219,970
	31.12.2007	01.01.2011—10.11.2012	0.45	219,972	—	—	219,972
	31.12.2007	01.07.2011—10.11.2012	0.45	219,970	—	—	219,970
	10.03.2009	10.03.2009—10.11.2012	0.45	111,851	—	—	111,851
	10.03.2009	01.07.2009—10.11.2012	0.45	37,283	—	—	37,283
	10.03.2009	01.01.2010—10.11.2012	0.45	37,283	—	—	37,283
	10.03.2009	01.07.2010—10.11.2012	0.45	37,283	—	—	37,283
10.03.2009	01.01.2011—10.11.2012	0.45	37,283	—	—	37,283	
10.03.2009	01.07.2011—10.11.2012	0.45	37,283	—	—	37,283	
				2,135,993	—	—	2,135,993
				5,578,648	—	—	5,578,648
				HK\$	HK\$	HK\$	HK\$
Weighted average exercise price				3.51	—	—	3.51

42. SHARE OPTION SCHEMES (Continued)

Subsidiaries (Continued)

(b) Galactic (Continued)

Movements in the options to subscribe for shares in Galactic for the year ended 31st December, 2009 are as follow:

Grantee	Subscription price per share US\$	As at 1.1.2009	Number of share options		As at 31.12.2009
			Cancelled during the year	Granted during the year	
Directors of Galactic	0.45	3,442,655	—	—	3,442,655
Employees	0.45	1,902,973	(65,246)	298,266	2,135,993
	0.60	50,000	(50,000)	—	—
		<u>5,395,628</u>	<u>(115,246)</u>	<u>298,266</u>	<u>5,578,648</u>
		HK\$	HK\$	HK\$	HK\$
Weighted average exercise price		<u>3.52</u>	<u>4.02</u>	<u>3.51</u>	<u>3.51</u>

No option was exercised by the grantees during the year and in last year.

The number of options which are exercisable under the Galactic Scheme as at 31st December, 2010 is 4,318,477 (2009: 3,058,304). The weighted average remaining contractual life of the outstanding share options under the Galactic Scheme as at 31st December, 2010 is 1.86 years (2009: 2.86 years).

43. ASSETS CLASSIFIED AS HELD FOR SALE

On 2nd March, 2011, the Company entered into a sale and purchase agreement with an independent third party to dispose of the entire issued share capital of SMC Cable Limited ("SMC Cable"), a wholly-owned subsidiary of the Company engaging in trading and manufacturing of electric cable. The operation of SMC Cable is insignificant which is presented in aggregate with other insignificant segment under "All other segments". The transaction was completed on 3rd May, 2011. The Group's interest in SMC Cable is reclassified and presented in the consolidated statement of financial position as "assets classified as held for sale" as at 31st December, 2010 accordingly.

The major class of assets of SMC Cable classified as held for sale as at 31st December, 2010 are as follows:

	2010 HK\$'000	2009 HK\$'000
Inventories	12,877	—
Cash and cash equivalents	8,488	—
Other assets	925	—
	<u>22,290</u>	<u>—</u>

44. BUSINESS COMBINATION ACHIEVED IN STAGES

A subsidiary of the Company acquired an additional 44.88% equity interest in PFC from a company which is beneficially owned by the director, Mr. Billy K Yung, at a consideration of HK\$9,750,000 (the "Acquisition") during the year. Through the Acquisition, the Group increased its equity interest in PFC from 44.89% to 89.77% and PFC become a subsidiary of the Group. The principal activity of PFC is design and trading of semiconductors and electric components. The Acquisition is to expand the Group's existing scale of operation and enlarge the Group's market presence.

The Group has remeasured its 44.89% interest in PFC held immediately before the Acquisition Date (defined below) to fair value, which amounted to HK\$8,289,000. Comparing to its carrying value on the Acquisition Date of HK\$2,642,000, a gain of HK\$5,647,000 is resulted which is included under "Other gains/(losses)" in the consolidated income statement for the year.

44. BUSINESS COMBINATION ACHIEVED IN STAGES (Continued)

The acquisition of additional 44.88% equity interest was completed on 9th September, 2010 (the "Acquisition Date"). The fair value of the identifiable assets and liabilities of PFC on the Acquisition Date and the corresponding carrying amounts immediately before the Acquisition are as follows:

	Carrying amount on Acquisition Date HK\$'000	Fair value adjustments HK\$'000	Fair value recognised on Acquisition Date HK\$'000
Property, plant and equipments	595	—	595
Intangible assets	—	9,649	9,649
Inventories	8,099	—	8,099
Trade and other receivables, prepayments and deposits	4,676	—	4,676
Cash and cash equivalents	4,865	—	4,865
Trade and other payables	(2,756)	—	(2,756)
Derivative financial instruments	(9,593)	—	(9,593)
			<hr/>
Amount of identified net assets acquired			15,535
Less: Fair value of the consideration paid for additional 44.88% equity interest in PFC			9,750
Fair value of 44.89% equity interest in PFC already held by the Group			8,289
Fair value of 10.23% non-controlling interests in PFC			1,889
			<hr/>
Goodwill on acquisition (note 18)			(4,393)
			<hr/> <hr/>

An analysis of the net cash outflow arising on the Acquisition is as follows:

	HK\$'000
Cash consideration paid	9,750
Bank balances and cash acquired	(4,865)
	<hr/>
Net outflow of cash and cash equivalents in respect of the Acquisition	4,885
	<hr/> <hr/>

The Group has elected to measure the non-controlling interest in PFC at fair value at the Acquisition Date. The valuation techniques and key model inputs used for determining the fair value include the use of discounted at fair value earnings approach with an assumed discount rate of 22% and assumed growth rates of revenue ranging from 3% to 122% per annum.

The gross contractual amounts of the trade receivables and other receivables as at the Acquisition Date amounted to HK\$3,472,000 and HK\$1,204,000 respectively, which approximate their fair values at the Acquisition Date. All the receivables are expected to be collectible.

The goodwill of HK\$4,393,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the Acquisition, PFC contributed HK\$14,249,000 to the Group's revenue and resulted in operating loss of HK\$639,000 which is included in the consolidated income statement for the year. Had the Acquisition been taken place at the beginning of the year, the revenue and net profit of the Group for the year would have been HK\$1,351,826,000 and HK\$269,920,000 respectively.

45. RETIREMENT BENEFITS SCHEMES

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme is a defined contribution retirement benefits scheme and contributions to the scheme are made based on percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries under the Group which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognised in the comprehensive income statement of HK\$3,500,000 (2009: HK\$3,249,000) represent contributions paid/payable to these schemes by the Group in the current year.

46. PLEDGE OF ASSETS

At the reporting date, the carrying amount of the assets pledged by the Group to secure general banking and other loan facilities granted to the Group are analysed as follows:

	THE GROUP 2010 HK\$'000	2009 HK\$'000
Investment properties	156,000	193,440
Investments held for trading	39,442	1,346
	195,442	194,786

As at 31st December, 2010, the entire issued share capital of a subsidiary, Full Revenue Inc, was pledged to a bank to secure for the banking facilities granted to the Group. A long-term loan was granted to the Group under the facilities during the year ended 31st December, 2010 and the net asset value of the subsidiary as at 31st December, 2010 was approximately HK\$351 million (2009: HK\$285 million).

47. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its manufacturing plants, office properties and quarters under operating leases arrangements. Leases of these properties are negotiated for period ranging from one to six years (2009: one to six years), and rentals are fixed over the contracted period. At the end of each reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

	THE GROUP 2010 HK\$'000	2009 HK\$'000	THE COMPANY 2010 HK\$'000
Within one year	3,592	1,822	2,016
In the second to fifth year, inclusive	2,009	2,681	5,616
Over five years	—	—	3,300
	5,601	4,503	10,932

As lessor

The Group leases its investment properties (note 15) under operating lease arrangements with leases negotiated for period ranging from one to fourteen years (2009: one to fourteen years). At the reporting date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP 2010 HK\$'000	2009 HK\$'000	THE COMPANY 2010 HK\$'000
Within one year	54,743	57,021	7,884
In the second to fifth year, inclusive	109,668	47,564	1,980
Over five years	1,759	4,493	—
	166,170	109,078	9,864

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48. OTHER COMMITMENTS

The Group and the Company had no other significant commitments as at the reporting date.

49. GUARANTEE

As at the reporting date, the Group and the Company had issued the following significant guarantees:

	THE GROUP		THE COMPANY
	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Guarantee given to:			
A supplier of an associate to secure the repayment of balance due by the associate to the supplier	—	13,525	—
	—	13,525	—

In the opinion of the directors, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they are not accounted for in these financial statements.

50. RELATED PARTY TRANSACTIONS

Transactions between the entities among the Group have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties including key management personnel are disclosed below.

Save as disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties:

	Related parties		Director	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest received	7,233	50,762	—	—
Service income received from	—	—	1,803	—
Service fee paid to	—	—	(3,375)	—

During the year, the Group had acquired 44.88% equity interest in PFC from a company which is beneficially owned by the director, Mr. Billy K Yung, at a consideration of HK\$9,750,000 (note 44).

The term of the loans to the related parties is disclosed in note 30.

Service fee paid to the director, Mr. Billy K Yung, is for procuring for obtaining banking facilities by the Group which is charged on the basis of 1.5% on the facilities obtained. Other related party transactions are arranged on mutually agreed basis.

Total staff costs include compensations to the key management personnel (including directors), the details of which are as follows:

	2010	2009
	HK\$'000	HK\$'000
Short-term employee benefits	22,378	12,491
Post-employment benefits	332	315
	22,710	12,806

51. EVENTS AFTER THE REPORTING PERIOD

On 2nd March, 2011, the Company entered into a sale and purchase agreement with an independent third party to dispose of the entire issued share capital of SMC Cable and the transaction was completed on 3rd May, 2011. Details of which have been disclosed in note 43.

On 19th April, 2011, a subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of its 10.1% equity interest in an associate, MDCL-Frontline (China) Limited ("MDCL"). The principal activities of MDCL are trading of computer hardware, provision of information technology services and investment holding. The transaction was completed on 3rd June, 2011. As a result of the disposal, the Group's effective interest in MDCL has reduced to 16.56%, which will be accounted for as available-for-sale financial assets.

52. CAPITAL MANAGEMENT

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

The Group monitors its capital structure on the basis of gearing ratio i.e. net debt to equity. Net debt includes borrowings less cash and cash equivalents and pledged cash deposits. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The gearing ratios of the Group as at 31st December, 2010 and 2009 were as follows:

	2010	2009
	HK\$'000	HK\$'000
Debt	394,922	728,060
Less: cash and cash equivalents	(491,873)	(553,550)
Net (cash)/debt	(96,951)	174,510
Capital represented by total equity	2,336,588	2,016,913
Gearing ratio	N/A	8.7%

The Group targets to maintain a gearing ratio of not higher than 50% to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the current year.

53. FINANCIAL INSTRUMENTS

53.1 Categories of financial instruments

	THE GROUP		THE COMPANY
	2010	2009	2010
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
Financial assets at fair value through profit or loss			
— classified as held for trading	493,078	28,499	—
Loans and receivables [#]	793,490	1,678,085	1,654,230
Available-for-sale financial assets	16,539	3,300	3,300
Financial liabilities			
Derivative financial instruments	4,494	—	—
Financial liabilities at amortised cost [^]	697,023	1,034,654	348,892

including trade and other receivables, loans receivable, amounts due from subsidiaries, associates and other related parties, and cash at bank and deposited with security brokers

^ including trade payables, other payables and accruals, amounts due to subsidiaries, associates and other related parties, bank borrowings and other liabilities.

53. FINANCIAL INSTRUMENTS (Continued)

53.2 Financial performances by financial instruments

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Fair value (losses) or gain on:		
Financial assets at fair value through profit or loss		
— classified as held for trading	(20,185)	21,993
Derivative financial instruments	(4,494)	—
Increase in fair value of:		
Available-for-sale financial assets — equity securities	8,038	—
Interest income or (expenses) on:		
Loans and receivables	18,521	63,461
Financial liabilities at amortised cost	(8,256)	(15,399)
Dividend income from:		
Financial assets at fair value through profit or loss		
— classified as held for trading	4,859	263
(Impairment loss) on:		
Loans and receivables	(11,071)	(2,123)

53.3 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk, price risk, and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

53.4 Financial risk management

(a) **Market risk**

Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are mainly HK Dollars and RMB with certain of their business transactions being settled in US Dollars and RMB. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US Dollar and RMB, against the functional currency of the Company and the Group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continued to conduct its sales mainly in US Dollars and RMB and make payments either in US Dollars, HK Dollars or RMB. In addition, the Group's bank borrowings were mainly denominated in HK Dollars and US Dollars. The directors considered that a natural hedge mechanism existed. The Group would, however, closely monitor the volatility of the RMB exchange rate. All in all, the Group's risk exposure to foreign exchange rate fluctuations remained minimal.

53. FINANCIAL INSTRUMENTS (Continued)

53.4 Financial risk management (Continued)

(a) **Market risk** (Continued)

Foreign currency risk (Continued)

The overall net exposure in respect of the carrying amount of the Group's foreign currency denominated financial assets and liabilities in net position as at 31st December, 2010 and 2009 were as follows:

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Net financial assets		
US Dollars	184,158	32,113
RMB	5,704	2,155
	<u><u> </u></u>	<u><u> </u></u>

In respect of those group entities with HK Dollars as functional currency, as HK Dollar is linked to US Dollar, the Group does not have material exchange risk on such currency. The following sensitivity analysis, determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year, demonstrates the Group's exposure to a reasonably possible change in RMB exchange rate against the HK Dollars on the Group's net asset position denominated in RMB as at the end of each reporting year (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Increase/(Decrease) in profit after tax or decrease/(increase) in loss after tax and increase/(decrease) in retained earnings		
RMB against HK Dollars		
– strengthen by 5%	238	90
– weaken by 5%	(238)	(90)
	<u><u> </u></u>	<u><u> </u></u>

The changes in the exchange rate do not affect the Group's other components of equity.

Price risk

Price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rate). The Group is exposed to equity price risk because of its investments in equity securities held for trading and are classified as at fair value through profit or loss (see note 31).

The Group's investments in equity of other entities are publicly traded mainly in the stock exchanges of Hong Kong and the United States. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's liquidity needs. To manage its price risk arising from the equity and debt securities, the Group maintains a portfolio of diversified investments in terms of industry distribution such as energy, industrial goods and financial services. Also, the Group has appointed a special team to monitor the price risk and will consider hedging of the risk if necessary. The policies to manage price risk have been followed by the Group since prior years and are considered to be effective.

53. FINANCIAL INSTRUMENTS (Continued)

53.4 Financial risk management (Continued)

(a) **Market risk** (Continued)

Price risk (Continued)

Management's best estimate of the effect on the Group's profit after tax due to a reasonably possible change in the relevant stock market index, with all other variables held constant, at the end of each reporting year are as follows (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Increase/(Decrease) in profit after tax or decrease/(increase) in loss after tax and increase/(decrease) in retained earnings		
Hong Kong — Hang Seng Index		
+18% (2009: +50%)	19,696	8,393
-18% (2009: -50%)	(19,696)	(8,393)
PRC — CSI 300 Index		
+25%	94,224	—
-25%	(94,224)	—
	—————	—————

If the prices of the equity securities classified as available-for-sale financial assets had been 18% higher/lower, available-for-sale financial assets revaluation reserve would increase/decrease by HK\$2,009,000.

Other than the above, the Group is exposed to equity security price risk arising from its investment in derivative financial instruments. Details about the derivative financial instruments are set out in note 35. The effect on the Group's profit after tax as a result of a reasonably possible change in the market price of the underlying equity securities, with all other variables held constant, is as follows (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	THE GROUP	
	2010	2009
	HK\$'000	HK\$'000
Increase/(Decrease) in profit after tax or decrease/(increase) in loss after tax and increase/(decrease) in retained earnings		
Hong Kong — Hang Seng Index		
*+18%	17,095	—
-18%	(47,946)	—
United States — NASDAQ		
*+20%	542	—
-20%	(13,284)	—
	—————	—————

* When the underlying shares' prices in Hong Kong and United States increased by 18% and 20% respectively, some of them triggers the knock-out prices and the contracts will be terminated. This analysis only shows the effect up to the knock-out prices.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings. Bank borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. As at 31st December, 2010, approximately 86% (2009: 79%) of the bank borrowings bore interest at floating rates. The interest rate and repayment terms of the bank borrowings outstanding at the year end are disclosed in note 36.

53. FINANCIAL INSTRUMENTS (Continued)

53.4 Financial risk management (Continued)

(a) **Market risk** (Continued)

Interest rate risk (Continued)

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's exposure of the bank deposits and bank borrowings to fair value interest rate risk is not significant as interest bearing bank deposits and borrowings at fixed rate are within short maturity periods in general.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The following sensitivity demonstrates the Group's and the Company's exposure to a reasonably possible change in interest rates on its floating rate bank borrowings with all other variables held constant at the end of each reporting year (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	THE GROUP 2010 HK\$'000	2009 HK\$'000	THE COMPANY 2010 HK\$'000
Increase/(Decrease) in profit after tax or decrease/(increase) in loss after tax and increase/(decrease) in retained earnings			
Increase/Decrease in basis points ("bp")			
+50 bp	(1,460)	(2,820)	(1,044)
-10 bp	292	564	209

The changes in interest rates do not affect the Group's and the Company's other components of equity.

The above sensitivity analysis is prepared based on the assumption that the borrowing period of the loans outstanding at each reporting year end date resembles that of the corresponding financial year.

(b) **Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities. The Group's and the Company's maximum exposure to credit risk in relation to each class of recognised financial assets (note 53.1) is the carrying amount of those assets as stated in the consolidated and the Company's statements of financial position.

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal only with credit worthy counterparties. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit terms are granted to new customers after credit worthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at the end of each reporting year to ensure that adequate impairment losses are made for irrecoverable amounts. Credit risk on cash and cash equivalents (note 32) is mitigated as cash is deposited in banks of high credit rating. As to investment strategies, usually investments are in liquid securities quoted on recognised stock exchanges. The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

Concentration of credit risk is managed by the customer/counterparty. At 31st December, 2010, 20% (2009: 22%) of the total trade receivables was due from the Group's largest customer (determined by sale) within the business segment — electrical household appliances.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 28.

53. FINANCIAL INSTRUMENTS (Continued)

53.4 Financial risk management (Continued)

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The table below analyses the remaining contractual maturities of the Group's and the Company's financial liabilities which as at 31st December, 2010 are based on contractual undiscounted cash flows and the earliest date the Group and the Company may be required to pay:

	THE GROUP					
	Less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
As at 31st December, 2010						
Interest-bearing bank borrowings	398,339	—	—	—	398,339	394,922
Trade payables	82,322	—	—	—	82,322	82,322
Other payables and accruals	188,370	—	—	—	188,370	188,370
Amount due to a related party	291	—	—	—	291	291
Amount due to a director	8,875	—	—	—	8,875	8,875
Other liabilities	2,317	3,898	16,613	—	22,828	18,406
Loan from a minority shareholder	—	—	—	3,837	3,837	3,837
	680,514	3,898	16,613	3,837	704,862	697,023
As at 31st December, 2009						
Interest-bearing bank borrowings	238,304	458,323	45,842	—	742,469	728,060
Trade payables	76,558	—	—	—	76,558	76,558
Other payables and accruals	214,035	—	—	—	214,035	214,035
Amount due to an associate	96	—	—	—	96	96
Amount due to a related party	291	—	—	—	291	291
Other liabilities	—	2,107	13,906	—	16,013	12,015
Loan from a minority shareholder	—	—	—	3,599	3,599	3,599
	529,284	460,430	59,748	3,599	1,053,061	1,034,654

53. FINANCIAL INSTRUMENTS (Continued)

53.4 Financial risk management (Continued)

(c) Liquidity risk (Continued)

THE COMPANY

	Less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount HK\$'000
As at 31st December, 2010						
Interest-bearing bank borrowings	301,447	—	—	—	301,447	300,000
Other payables and accruals	13,014	—	—	—	13,014	13,014
Amounts due to subsidiaries	27,003	—	—	—	27,003	27,003
Amount due to a director	8,875	—	—	—	8,875	8,875
	350,339	—	—	—	350,339	348,892

53.5 Fair value estimation

(a) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31st December, 2010 and 2009 across the three levels of the fair value hierarchy defined in HKFRS 7 “Financial Instruments: Disclosures”, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31st December, 2010				
<i>Financial assets</i>				
Available-for-sale financial assets				
— listed equity securities	11,159	—	—	11,159
Listed equity securities held for trading	493,078	—	—	493,078
<i>Financial liabilities</i>				
Derivative financial instruments	—	4,494	—	4,494
As at 31st December, 2009				
<i>Financial assets</i>				
Listed equity securities held for trading	28,499	—	—	28,499

During the years ended 31st December, 2010 and 2009, there were no transfers between instruments in Level 1 and Level 2.

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group’s financial instruments carried at amortised cost (excluding the non-current portion, if applicable) are not materially different from their fair values as at 31st December, 2010 due to short maturity period.

The fair values of the non-current portion of bank borrowings and other liabilities have been calculated by discounting the expected future cash flows using market rate of similar instruments.

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54. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The particulars of the principal subsidiaries set out below are the same as at 31st December, 2010 and 2009 unless otherwise stated.

Name of subsidiaries	Place of Incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Extra-Fund Investment Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	—	Securities trading
Fast-Gain Overseas Limited	British Virgin Islands	Ordinary	1 share of US\$1	—	100%	Property investment
Full Revenue Inc.	Samoa	Ordinary	1 share of US\$1	100%	—	Investment holding
Galactic Computing Corporation	British Virgin Islands	Ordinary	23,861,240 shares of US\$0.01 each	—	100%	Investment holding
Guangdong Macro Cables Co., Ltd.	PRC*	Paid up capital	US\$11,460,000	—	96.34%	Manufacturing and trading of cables and electrical wires
Guangzhou SMC Car Rental Company Limited	PRC^	Paid up capital	HK\$80,000,000	—	100%	Taxi operations
PFC Device Corporation	British Virgin Islands	Preferred	2,122,820 shares of US\$1 each	—	89.77%	Design and trading of semiconductors and electric components
Quanta Global Limited	British Virgin Islands/ Hong Kong	Ordinary	1 share of US\$1	—	100%	Trading of electric fans
Shell Electric Mfg. (China) Company Limited	British Virgin Islands	Ordinary	100 shares of US\$10 each	—	100%	Trading of electric fans
Shell Electric Mfg. (China) Company Sdn. Bhd.	Malaysia	Ordinary	2 shares of RM1 each	—	100%	Trading of electric fans
Shell Electric Mfg. (China) Company Limited	Samoa	Ordinary	1 share of US\$1	—	100%	Trading of electric fans
Shell Electric Mfg. (H.K.) Company Limited	Hong Kong	Ordinary	1,000 shares of HK\$10 each	100%	—	Trading of electric fans
Shunde Hua Feng Stainless Steel Welded Tubes Limited	PRC*	Paid up capital	US\$6,792,000	—	90.1%	Manufacturing and trading of welded tubes
SMC Investments Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	—	100%	Property investment

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54. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of Incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
SMC LED Corporation (Note)	USA	Ordinary	500 shares of US\$1 each	100%	—	Trading of LED products
SMC Marketing Corp. (Note)	USA	Ordinary	10,000 shares of US\$1,021 each	100%	—	Marketing of the Group's products
SMC Microtronic Company Limited	Hong Kong	Ordinary	10,000 shares of HK\$1 each	100%	—	Provision of management services
SMC Multi-Media Products Company Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	—	Contract manufacturing for optics and imaging
SMC Multi-Media (H.K.) Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	—	100%	Contract manufacturing for optics and imaging
SMC Property Investment Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	—	Investment holding
Speed Power Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	—	100%	Trading of electric fans
Sunny Resources Limited	Hong Kong	Ordinary	1 share of HK\$1	100%	—	Holding trade mark and patent of the Group
Sybond Venture Limited	Cayman Islands	Ordinary	1 share of US\$1	100%	—	Investment holding
Timely Hero Limited	Samoa	Ordinary	1 share of US\$1	100%	—	Investment holding
Vineyard Management Company (Note)	USA	Ordinary	1,000 shares of US\$10 each	—	100%	Property investment
佛山市順德區蜆華多媒體製品有限公司	PRC [^]	Paid up capital	US\$20,870,000	—	100%	Manufacturing and trading of electrical appliances
業盈置業(深圳)有限公司	PRC [^]	Paid up capital	HK\$10,000,000	—	100%	Property investment
蜆壳星盈科技(深圳)有限公司	PRC [^]	Paid up capital	HK\$40,000,000	—	100%	Computer software and hardware development
蜆壳星盈軟件(深圳)有限公司	PRC [^]	Paid up capital	HK\$8,000,000	—	100%	Computer software and hardware development

Note: Not audited by BDO Limited

[^] The companies are incorporated in the PRC as wholly-owned foreign enterprises.

* The companies are incorporated in the PRC as sino-foreign equity joint ventures.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. A complete list of all the subsidiaries of the Group will be annexed to the next annual return of the Company.

None of the subsidiaries had any debt securities outstanding during the year.

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55. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associates	Place of Incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
MDCL-Frontline (China) Limited (Note)	British Virgin Islands	Ordinary	65,269,561 shares of HK\$1 each	—	26.66%	Trading of computer hardware, provision of information technology services and investment holding
China Dynasty Development Ltd (Note)	British Virgin Islands	Ordinary	1,000 shares of US\$1 each	—	40%	Property investment
Hong Kong Construction SMC Development Limited (Note)	Hong Kong	Ordinary	10,000,000 shares of HK\$1 each	—	20%	Investment holding
Kumagai SMC Development (Guangzhou) Ltd. (Note)	PRC [^]	Paid up capital	US\$59,000,000	—	20%	Property development

Note: Not audited by BDO Limited

[^] The company is incorporated in the PRC as a wholly-owned foreign enterprise.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group.

56. PARTICULARS OF JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entities	Place of Incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Appeon Corporation (HK) Limited (Note)	Hong Kong	Class A voting	25,000 shares of HK\$0.01 each	—	50%	Investment holding and sale of software licence
		Class B non-voting	27,181 shares of HK\$0.01 each	—	52.18%	
艾普陽軟件(深圳)有限公司 (Note)	PRC [^]	Paid up capital	US\$500,000	—	52.18%	Computer software and hardware development

Note: Not audited by BDO Limited

[^] The company is incorporated in the PRC as a wholly-owned foreign enterprise.