



South China (China) Limited

Incorporated in the Cayman Islands with limited liability

Stock Code : 413



2009
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice-Chairman and
Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice-Chairman*)
Mr. Ng Yuk Fung, Peter

Non-Executive Director

Ms. Ng Yuk Mui, Jessica

Independent Non-Executive Directors

Ms. Li Yuen Yu, Alice
Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth

AUDIT COMMITTEE

Ms. Li Yuen Yu, Alice (*Committee Chairman*)
Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth

REMUNERATION COMMITTEE

Mrs. Tse Wong Siu Yin, Elizabeth (*Committee Chairman*)
Mr. Chiu Sin Chun
Ms. Li Yuen Yu, Alice

COMPANY SECRETARY

Mr. Cheng Man Kwong

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited
Chong Hing Bank Limited
Industrial and Commercial Bank of
China (Asia) Limited
China Construction Bank Corporation
DBS Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Bank of Communications Co., Ltd.
Dah Sing Bank, Limited
Bank of China Limited

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

STOCK CODE

413

WEBSITE

<http://www.sctrade.com>

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China (China) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

FINANCIAL SUMMARY

The Group recorded revenue of HK\$1.9 billion and profit attributable to the owners of the Company of HK\$383 million for the year ended 31 December 2009, representing a 3.9 times increase in profits over the results in 2008.

DIVIDEND

The directors recommends the payment of a final dividend of HK1.00 cent (2008: HK0.08 cent) per share, which amounted to approximately HK\$29.71 million (2008: HK\$2.12 million) in respect of the year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company on 18 May 2010.

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 25 June 2010.

BUSINESS REVIEW

In August 2009, the Group distributed its interest in South China Land Limited 南華置地有限公司 ("SCL") by way of distribution in specie. SCL is a company principally engaged in property investment and development and magazine publication with its shares listed on the GEM Board of The Stock Exchange of Hong Kong Limited (stock code: 8155). During the year, the Group consolidated the results of SCL up to 18 August 2009, the completion date of the distribution.

The principal businesses of the Group now include trading and manufacturing in the PRC, property investment and development and agriculture.

Trading and Manufacturing

The Trading and Manufacturing segment is mainly represented by three principal subsidiaries, Wah Shing Toys, South China Shoes and Wah Shing Electronics. Despite a 2.2% decrease in revenue to HK\$1.84 billion for the year ended 31 December 2009, the segment witnessed a sharp turnaround in the second half of 2009. Wah Shing Toys has been able to grasp the opportunity when the toy manufacturing industry began to consolidate after the financial tsunami in late 2008. The recovery in revenue in the second half of 2009 was encouraging although revenue for the year was still below the HK\$1.5 billion achieved in 2007.

Profit from operation increased 1.5 times to HK\$133.0 million in 2009, which was largely contributed by Wah Shing Toys through new customer orders, efficiency enhancement and cost control. The relatively stable Renminbi exchange rate, raw material prices and wages in 2009 also contributed to the increase in operating profit. During the year, we have terminated certain loss making manufacturing operations in Nanjing. Other business units engaged in export to the United States reported a moderate drop in operating profit in 2009.

Property Investment and Development

The Company distributed its entire interest in SCL to its shareholders by means of dividend in specie in August 2009. Accordingly, the Group ceased to consolidate the results of SCL and its subsidiaries in its consolidated financial statements from then on.

Revenue from the property investment and development segment decreased by 6.1% to HK\$46.8 million for the year ended 31 December 2009 due to the expiry of certain tenancy agreements. Operating profit from the segment before fair value gain on investment properties decreased from HK\$11.4 million in 2008 to HK\$10.8 million in 2009. The abovementioned decrease in operating profit is mainly attributable to the costs incurred by SCL in the marketing activities for Fortuna Plaza, an upscale 7-storey shopping complex at Shenyang, prior to the distribution of SCL to its shareholders. In 2009, the Group recognized a fair value gain on investment properties of HK\$143.5 million.

Chairman's Statement and Management Discussion and Analysis

Our Group's share of the 30% owned principal associate that holds the Grade-A commercial building in Central Hong Kong, the Centrium, recorded a 35% increase in operating income which was mainly due to the increase in rental upon renewal of tenancies during the year. The share of fair value change on the property (net of the corresponding deferred tax charge) was HK\$157.8 million (2008: a net loss of HK\$18.5 million). The contribution from this principal associate accounted for the substantial increase in the share of results of associates for the year.

During the year, the Group also disposed of certain investment properties in Hong Kong. This primarily reflects the Group's continuing effort to unload its Hong Kong properties in order to allocate more resources for our investments in China. The disposal of investment properties gave rise to a profit of HK\$6.5 million.

Agriculture

The Group has been actively expanding its acreage in farmland and woodland in recent years. Although the agriculture and woods segments are still at their investment stage, the expansion in operation scale in recent years has called for specialization in management expertise and resources. In view of the above, the Group decided to focus on the agriculture business and disposed of its forestry business to a subsidiary of South China Holdings Limited in December 2009.

The Group has entered into new leases for approximately 17,000 mu of agricultural land and woodland in Chongqing, Wuhan, Xian and Hebei in 2009.

Revenue from the agriculture segment increased 85% to HK\$6.3 million in 2009. The increase in revenue was largely contributed by the pig rearing operation at Hebei. Operating loss before fair value change of biological assets reported by the agriculture segment increased from HK\$15.5 million in 2008 to HK\$24.4 million in 2009. This mainly reflected the effect of the increase in operating costs of the forestry operation in Wuhan and the new agriculture operation in Xian. The acquisition of Baiquan Farmland did not proceed further as we could not agree to satisfactory terms with the third party.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had a current ratio of 1.0 and a gearing ratio of 5.5% (31 December 2008: 1.2 and 14.8% respectively). The gearing ratio is computed by comparing the Group's total long-term bank and other borrowings of HK\$102.9 million to the Group's equity of HK\$1,878.0 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2009, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or other capital instruments, except the outstanding warrants as at 31 December 2009 and up to the date of this Annual Report. As compared to the 2008 Annual Report, there was no material change in the Group's capital structure.

Chairman's Statement and Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS

Distribution in specie of shares in SCL

During the year, the Company announced its intention to exercise the conversion right embedded in the convertible notes issued by SCL, a subsidiary of the Company engaged in the business of property development and investment and magazines publication. As disclosed in the circular of the Company dated 23 July 2009, subject to shareholders' approval, 10,666,666,666 shares in SCL will be allotted on full conversion of the convertible notes and the shares in SCL so allotted will be distributed to the Company's shareholders. Subject to all the approvals of the above distribution being obtained, the Company had agreed, at the request of SCL, to make a contribution in an amount of HK\$280 million to SCL, including a capitalisation of the shareholders' loan at the date of the above distribution. Details of such transactions are set out in the abovementioned circular.

The above distribution and contribution were approved by the shareholders at the extraordinary general meeting held on 10 August 2009. The above conversion was executed on 18 August 2009. Simultaneously, the above distribution was effected on the same day.

After the completion of the above transaction, the Company ceased to hold any share in SCL and, hence, SCL was no longer a subsidiary of the Company since then. Accordingly, the Company ceased to consolidate SCL and its subsidiaries in the Company's consolidated financial statements from then on.

Disposal of certain subsidiaries engaged in forestry business in the PRC

During the year, the Group disposed of certain subsidiaries engaged in forestry business in the PRC to a subsidiary of South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and its shares listed on The Stock Exchange of Hong Kong Limited, for a consideration of HK\$8.5 million. The Group and South China Holdings Limited are ultimately controlled by the substantial shareholder of the Company.

PLEDGES OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, a significant portion of the borrowings was for normal trading purposes with the level of borrowings depending on the level of trading and investing activities. Certain of the property, plant and equipment and investment properties of the Group are pledged to secure the banking facilities.

Details of the Group's contingent liabilities and pledges of assets are set out in notes 49 and 50 of the financial statements.

INVESTMENTS

For the year ended 31 December 2009, available-for-sale financial assets decreased moderately from HK\$44.3 million to HK\$41.9 million and financial assets at fair value through profit or loss increased from HK\$10.9 million to HK\$22.1 million.

EMPLOYEES

As at 31 December 2009, the total number of employees of the Group was approximately 18,400 (2008: 18,100). Employees' cost (including directors' emoluments) amounted to approximately HK\$581.5 million for the year (2008: HK\$589.5 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted a share option scheme which came into effect on 18 June 2002.

Chairman's Statement and Management Discussion and Analysis

PROSPECTS

Trading and Manufacturing

The year 2010 will remain challenging for export to the United States, in particular the businesses with manufacturing bases in China, given the disparity in pace of recovery between the United States and China. We expect inflationary pressure to increase in China after its recovery from the financial tsunami. This is expected to lead to an increase in production costs for the manufacturing industry in China. We have already seen signs of increase in plastic prices in recent months. We also anticipate labor shortage and higher wages following the recovery of the Chinese economy. On the other hand, the increase in export to the United States may not be able to mitigate the increase in production costs.

We expect Wah Shing Toys to reap encouraging results this year as it has been active in securing customer orders to fill production capacity during its off-peak periods in order to minimize the traditional seasonality of the toy manufacturing industry.

South China Shoes is expected to sustain its steady growth in 2010. It has already secured new orders from Canada and will further explore the European market in this year. Its strong management team and long-term relationships with its customers will continue to cement its position in the industry. The Company is also studying the separate listing of South China Shoes.

Property Investment and Development

The Group has a property portfolio of more than 400,000 square meters in China and 300,000 square feet in Hong Kong. The investment properties in China are mostly in prime locations, and offer strong redevelopment potential as their average plot ratio is below 1.0. The Company is carrying out feasibility studies on the redevelopment of various properties in order to maximize their return to shareholders.

Nanjing: The Group's principal investment properties are located in Nanjing. The street-front shops at Shi Zi Qiao (Lion Bridge), the traditional pedestrian/food street in Golou district in the centre of Nanjing city, is one of our hidden gems. Despite their prime location, rental income generated from these shops are well below market rates as the existing tenancy agreements were signed before rent picked up. Given the location and the size of the site, the buildings could soon be redeveloped into a large-scale shopping mall should a redevelopment plan be agreed with the government.

The 29,000 square meters site in Yuhuatai, Nanjing is currently being leased as a flower wholesale market. Given its prime location, we envisage the redevelopment will soon take place once a formal agreement is reached with the government for residential development.

The Group also has sizable properties in Qinhuai districts which have strong redevelopment potential, pending negotiation with the government.

Guangdong: The Company is currently negotiating with the government to develop 2,000 mu of its lychee plantation in Zengcheng into a commercial/residential estate. This will be the first phase of the development of this enormous plantation, which is adjacent to Guangzhou's third ring-road to be completed in 2011. The development of the plantation offers substantial upside potential in the long term as it is only 30 kilometers from Guangzhou city.

The Company is carrying out feasibility studies for possible commercial uses of the 33,700 square meters industrial site at Xiaobian Administrative Zone in Dongguan. Given its low plot ratio and proximity to Guangzhou city, the site could be refurbished into commercial use. The Grand Hotel Four Seas in Huiyang is likely to be sold given its lackluster performance.

Tianjin: The Company is evaluating the redevelopment potential of a number of industrial sites in Tianjin, in particular, a factory site near the metro station as a development plan is at mature stage for commercial use.

Chairman's Statement and Management Discussion and Analysis

Hong Kong: The value of the Group's investment properties has increased substantially in 2009 on the back of the recovery of the property market and the economy. The Centrium recorded a 35% increase in rental contribution due to higher rental rates and lower finance cost. We will continue to unload our non-core investment properties in Hong Kong in order to reallocate more resources to China.

Agriculture

The Company currently leased about 65,000 mu of agricultural land, fishpond and lake space in various provinces in China. We are focusing on the plantation of fruits such as dates, apples and melons for sale. Backed by the Central Government's support for the agricultural industry, we are optimistic about the prospect of our agriculture segment in view of the increasing demand for agricultural products and their rising selling prices. Hence, the Company will continue to expand its acreage. Upon realization of the government's macro policies in commercializing massive rural land for constructive usage, substantial value could be unveiled from this huge agricultural land bank.

The master plan for Daguan Modern Agricultural Park in Nanchuan, Chongqing has been drawn. The project, covering an area of 20,000 mu, will include the construction of modern agricultural estates, agricultural related tourism centre, country parks and hot spring resorts.

CLOSURE OF REGISTER FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed from 13 May 2010 to 18 May 2010, both days inclusive, during which period no share transfers will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates of the Company, or in the case of warrant holders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Company's Share Registrar, Union Registrars Limited of 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on 12 May 2010.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

Ng Hung Sang
Chairman

Hong Kong, 16 March 2010

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 60, is an Executive Director and the Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also an executive director and the Chairman of South China Financial Holdings Limited ("SCF"), South China Holdings Limited ("SCH") and South China Land Limited 南華置地有限公司 ("SCL"). He holds a Master degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as a Director of the Company on 24 June 1992. Mr. Ng is the father of Ms. Ng Yuk Mui, Jessica, a Non-Executive Director of the Company, and Mr. Ng Yuk Fung, Peter, an Executive Director of the Company.

Ms. Cheung Choi Ngor, aged 56, is an Executive Director and the Vice-Chairman and Chief Executive Officer of the Company, an executive director and a vice-chairman of SCF, an executive director of SCH and an executive director, the compliance officer and an authorised representative of SCL. She holds a Master degree in business administration from University of Illinois in the United States of America. Ms. Cheung is a member of National Committee of the Chinese People's Political Consultative Conference. Ms. Cheung was appointed as a Director of the Company on 24 June 1992.

Mr. Richard Howard Gorges, aged 66, is an Executive Director and the Vice-Chairman of the Company and SCF. He is also an executive director of SCH and SCL. He holds a Master degree in law from Cambridge University in the United Kingdom. Mr. Gorges was appointed as a Director of the Company on 24 June 1992.

Mr. Ng Yuk Fung, Peter, aged 29, is an Executive Director of the Company, SCH and SCL. Mr. Ng holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom and is an associate member of the Chartered Institute of Management Accountants. Mr. Ng was appointed as Director of the Company on 17 June 2002. He is the son of Mr. Ng Hung Sang, the Chairman of the Company, and the brother of Ms. Ng Yuk Mui, Jessica, a Non-Executive Director of the Company.

NON-EXECUTIVE DIRECTOR

Ms. Ng Yuk Mui, Jessica, aged 31, is a Non-Executive Director of the Company, SCH and SCL. Ms. Ng holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Chinese People's Political Consultative Conference Tianjin Provincial Committee. Ms. Ng was appointed as an Executive Director of the Company on 17 June 2002 and redesignated as Non-Executive Director of the Company with effect from 1 July 2005. She is the daughter of Mr. Ng Hung Sang, the Chairman of the Company, and the sister of Mr. Ng Yuk Fung, Peter, Executive Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Li Yuen Yu, Alice, aged 40, is an Independent Non-executive Director of the Company, Director of Cheng & Cheng Limited, Certified Public Accountants in Hong Kong. Ms. Li is also an independent non-executive director of Energy China Development Holdings Limited. She received her Accounting degree from Monash University, Australia in 1994 and was admitted as a Certified Public Accountant in Australia in 1997 and in Hong Kong in 1998. She is a fellow member of the Taxation Institute of Hong Kong. Ms. Li was appointed as an Independent Non-executive Director of the Company on 28 September 2004.

Mr. Chiu Sin Chun, aged 62, has more than 30 years' experience in the newspaper and media industry. Mr. Chiu was appointed as an Independent Non-executive Director of the Company on 20 August 2001.

Mrs. Tse Wong Siu Yin, Elizabeth, aged 52, is an Independent Non-executive Director of the Company, SCH and SCF, the Chairman of the Hong Kong Flower Retailers Association, a committee member of Skills Upgrading Scheme (Gardening and Floristry) of Labour and Welfare Bureau and the Convenor of Youth Skills Competition in Floristry of Vocational Training Council. Mrs. Tse holds a Bachelor degree in Science from the University of Western Ontario in Canada. Mrs. Tse was appointed as an Independent Non-executive Director of the Company on 19 October 2004.

Directors' Report

The directors of the Company submit their report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal subsidiaries are engaged in the trading and manufacturing of toys, shoes, electronics toys and leather products, property investment and development and agriculture and woods.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 and state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 123 of this Annual Report.

The directors recommends the payment of a final dividend of HK1.00 cent (2008: HK0.08 cents) per share, which amounted to approximately HK\$29.71 million (2008: HK\$2.12 million) in respect of the year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company on 18 May 2010. A special dividend satisfied by distribution in specie of shares in South China Land Limited 南華置地有限公司 ("SCL") on the basis of approximately 370.946 shares of SCL for every 100 shares of the Company held by the shareholders registered on the register of members of the Company on 10 August 2009 has been paid on 18 August 2009 (please refer to the circular of the Company dated 23 July 2009 for details).

Subject to the approval by the shareholders of the final dividend at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 25 June 2010.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 124 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Details of movements in the property, plant and equipment, investment properties and non-current assets classified as held for sale of the Group during the year are set out in notes 15, 16 and 25 to the financial statements, respectively. Further details of the Group's investment properties and non-current assets classified as held for sale are set out on pages 125 to 130 of this Annual Report.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movement in the share capital, share options and warrants of the Company during the year are set out in notes 43 and 44 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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

Directors' Report

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 45 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$139,433,000.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice-chairman and Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice-chairman*)
Mr. Ng Yuk Fung, Peter

Non-executive Director:

Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:

Ms. Li Yuen Yu, Alice
Mr. Chiu Sin Chun
Mrs. Tse Wong Siu Yin, Elizabeth

In accordance with article 116 of the articles of association of the Company, Mr. Ng Hung Sang, Ms. Ng Yuk Mui, Jessica, and Mrs. Tse Wong Siu Yin, Elizabeth will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin, Elizabeth and Ms. Li Yuen Yu, Alice for the year ended 31 December 2009 and as at the date of this report, the Company still considers the Independent Non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2009, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) the Company

(i) Long positions in shares

Name of Director	Capacity	Number of ordinary shares	Total number of ordinary shares	Approximate percentage of shareholding
Ng Hung Sang ("Mr. Ng")	Beneficial owner	90,187,157	1,787,764,069	60.17%
	Interests of spouse	53,500,000		
	Interest of controlled corporations	1,644,076,912 (Note a)		
Ng Yuk Fung, Peter	Beneficial owner	104,544,000	104,544,000	3.52%
Ng Yuk Mui, Jessica	Beneficial owner	68,280,000	68,280,000	2.30%

(ii) Long positions in underlying shares

(a) Warrants

Name of Director	Capacity	Number of underlying shares	Total number of underlying shares	Approximate percentage of shareholding
Mr. Ng	Beneficial owner	811,137	36,975,246	1.24%
	Interest of controlled corporations	36,164,109 (Note b)		

(b) Share options

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	26,000,000 (Note c)	0.88%
Ng Yuk Fung, Peter	Beneficial owner	26,000,000 (Note c)	0.88%

Directors' Report

(b) Associated corporation

Long positions in shares

Prime Prospects Limited ("Prime Prospects") (Note d)

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng	Interest of controlled corporation	30	30%

Notes:

- (a) The 1,644,076,912 shares of the Company held by Mr. Ng through controlled corporations include 489,866,418 shares held by Fung Shing Group Limited ("Fung Shing"), 465,933,710 shares held by Parkfield Holdings Limited ("Parkfield"), 310,019,381 shares held by Earnttrade Investments Limited ("Earnttrade"), 293,515,649 shares held by Bannock Investment Limited ("Bannock"), 20,613,338 shares held by Ronastar Investments Limited ("Ronastar") and 64,128,416 shares held by Worldunity Investments Limited ("Worldunity"). Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. Mr. Ng holds Worldunity indirectly via South China Holdings Limited, which is owned as to 73.72% by Mr. Ng, while Bannock is a wholly-owned subsidiary of Earnttrade which is owned as to 60% by Mr. Ng, 20% by Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. As such, Mr. Ng was deemed to have interest in the 64,128,416 shares held by Worldunity and the 603,535,030 shares held by Bannock and Earnttrade.
- (b) The 36,164,109 warrants of the Company held by Mr. Ng through controlled corporations include 13,117,401 warrants held by Fung Shing, 6,333,570 warrants held by Parkfield, 8,301,547 warrants held by Earnttrade, 7,859,617 warrants held by Bannock and 551,974 warrants held by Ronastar. Parkfield, Fung Shing and Ronastar are all wholly owned by Mr. Ng. By virtue of note (a) above, Mr. Ng was deemed to have interest in the 16,161,164 warrants held by Bannock and Earnttrade.
- (c) These share options were granted on 18 September 2007 at the exercise price of HK\$1.50 per share of the Company with exercise periods as follows: (i) not more than 1/3 of the total share options granted shall be exercised from the beginning of the second year from the date of grant to the end of the tenth year from the date of grant; (ii) not more than 2/3 of the total share options granted shall be exercised from the beginning of the third year from the date of grant to the end of the tenth year from the date of grant; and (iii) all of the share options granted shall be exercised from the beginning of the fourth year from the date of grant to the end of the tenth year from the date of grant.
- (d) Prime Prospects was a 70% owned subsidiary of the Company.

Save as disclosed above, none of the Directors or chief executives of the Company had registered, as at 31 December 2009, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register which was required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Directors and employees of the Company and its subsidiaries are entitled to participate in the share option scheme(s) of the Company. Particulars of the share option scheme of the Company together with the details of the options granted were set out in note 44 to the financial statements. Certain Directors are entitled to participate in the share option scheme of the Company. Details of the options granted by the Company to the Directors were set out under the section "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" of this report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Scheme", at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

PENSION SCHEME

Details of the pension scheme of the Group are set out in note 2.4 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and other companies in which a director of the Company has beneficial interest are set out in note 53 to the financial statements and the section "Connected and Continuing Connected Transactions" of this report.

Save as disclosed above, no contracts of significance in relation to the business of the Group to which the Company, or any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the following persons, other than the Directors and chief executives of the Company, had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Long position in shares and underlying shares

Name of shareholders	Capacity	Number of ordinary shares	Approximate percentage of shareholding	Number of underlying shares (note a)	Approximate percentage of shareholding
Earntrade	Beneficial owner and interest of controlled corporation	603,535,030 (note b)	20.31%	16,161,164 (note b)	0.54%
Bannock	Beneficial owner	293,515,649 (note b)	9.88%	7,859,617 (note b)	0.26%
Parkfield	Beneficial owner	465,933,710	25.68%	6,333,570	0.21%
Fung Shing	Beneficial owner	489,866,418	16.49%	13,117,401	0.44%

Directors' Report

Notes:

- (a) These are warrants of the Company which entitle the holders thereof to subscribe at any time during the period from 7 September 2007 to 6 September 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.40 per share (subject to adjustment).
- (b) Bannock is a wholly-owned subsidiary of Eartrade. The 603,535,030 shares and the 16,161,164 warrants of the Company held by Eartrade include 293,515,649 shares and 7,859,617 warrants held by Bannock directly.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' interests and Short Position in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation", had registered any interests or short positions in the shares or underlying shares of the Company that was required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng is an executive director and the controlling shareholder of SCH and SCL.

Both of Ms. Cheung and Mr. Richard Howard Gorges ("Mr. Gorges") are executive directors of SCH and SCL and hold certain corporate interests in SCH and SCL jointly with Mr. Ng.

Mr. Ng Yuk Fung, Peter is an executive director of SCH and SCL while Ms. Ng Yuk Mui, Jessica is a non-executive director of SCH and SCL.

Certain subsidiaries of SCH and SCL engage in property investment and development business which are considered as competing businesses of the Group. Accordingly, each of Mr. Ng, Ms. Cheung, Mr. Gorges, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica is regarded as interested in such competing businesses of the Group.

The Directors are of the view that the Company can carry on its business independently of and at arm's length from the business of SCH and SCL as there is no direct competition amongst the three listed groups.

Save as disclosed above, as at 31 December 2009, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Details of the compliance by the Company with the Code on Corporate Governance Practices are set out on pages 18 to 21 of the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the compliance by the Company with the Model Code for Securities Transactions are set out on page 19 of this Annual Report.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 53 to the financial statements.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

- (1) An agreement dated 18 August 2009 entered into between the Company and SCL for the Company to make a contribution in an amount of approximately HK\$280 million to SCL after the approval for the special dividend by way of distribution in specie of ordinary shares of HK\$0.01 each in the share capital of SCL.
- (2) A sale and purchase agreement dated 16 December 2009 entered into between Thousand China Investments Limited, an indirect wholly owned subsidiary of SCH, as purchaser with Beat Time Enterprises Limited, an indirect wholly owned subsidiary of the Company, as vendor in relation to the sale and purchase of 1 share in Eagle Bonus Investments Limited, which together with its subsidiaries engage in woods business for a consideration of HK\$8.5 million.

Mr. Ng, the Chairman, the executive director and substantial shareholder of the Company, through interest in controlled corporations owned as to 66.47% in SCL and 73.72% in SCH.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

- (1) Six tenancy agreements dated 6 February 2008 entered between Copthorne Holdings Corp. as landlord, a wholly-owned subsidiary of the Company, and South China Media Management Limited ("SC Management") as tenant for the leasing of the premises at units A, B and D on 3rd Floor, A, B, C and D on 4th Floor, unit D on 10th Floor and units A, B, C and D on 12th Floor (with a total area of 59,017 sq. ft) together with car parking space nos. 12A, 12B, 13A and 13B of Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong at an aggregate monthly rental of HK\$307,085 for a period from 6 February 2008 to 31 December 2009.
- (2) A tenancy agreement dated 27 May 2008 entered between First City Limited as landlord, a wholly-owned subsidiary of the Company, and Hong Kong Four Seas Tours Limited ("Four Seas") as tenant for the leasing of the premises at 1/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK\$110,120 for a period from 1 June 2008 to 31 December 2009.
- (3) A tenancy agreement dated 27 May 2008 entered between Glorious Dragon Investments Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at 2/F, On Lok Yuen Building, 25-27 Des Voeux Road Central, Hong Kong at a monthly rental of HK\$101,460 for a period from 1 June 2008 to 31 December 2009.
- (4) A tenancy agreement dated 27 May 2008 entered between Kingstep Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at Units B & C, 9/F., Century House, 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon, Hong Kong at a monthly rental of HK\$32,982 for a period from 1 June 2008 to 31 December 2009.

Directors' Report

- (5) A tenancy agreement dated 27 May 2008 entered between Tamon Development Limited as landlord, a wholly-owned subsidiary of the Company, and Four Seas as tenant for the leasing of the premises at Room 301-312, 2/F, Four Seas Jade Centre, 530-536 Canton Road, Yau Ma Tei, Kowloon, Hong Kong at a monthly rental of HK\$12,500 for a period from 1 June 2008 to 31 December 2009.

SC Management is 100% owned by the Chairman, the executive director and substantial shareholder of the Company, Mr. Ng and hence an associate of Mr. Ng. Four Seas is a wholly-owned subsidiary of SCH and Mr. Ng through interest in controlled corporations owned as to 73.72% in SCH.

One of the principal activities of the Group is engaged in property investment and the above rental agreements provided the Group with stable rental income.

The above continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:—

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

In addition, the Auditors have confirmed to the Board that the continuing connected transactions:—

- (1) have received the approval of the Board;
- (2) have been entered into in accordance with the relevant agreement governing the transactions; and
- (3) have not exceeded the cap disclosed in the respective announcements dated 28 December 2007 and 27 May 2008.

On 15 December 2009, the leasing of the above-mentioned premises on 3rd Floor, 4th Floor and 12th Floor together with car parking space nos. 12A, 12B, 13A and 13B of Wah Shing Centre has been renewed by the same parties at an aggregate monthly rental of HK\$229,916 for two years from 1 January 2010 to 31 December 2011. On the same day, all of the remaining tenancy agreements mentioned above have been renewed by the respective same parties and the respective same terms for two years from 1 January 2010 to 31 December 2011.

Please refer to the announcements of the Company dated 15 December 2009 for details of the renewed tenancy agreements.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors, namely, Ms. Li Yuen Yu, Alice (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth.

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board their re-appointment in 2010 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and the adequate disclosure were made.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, the sales to the Group's five largest customers accounted for 75.0% of the total sales and sales to the largest customer included therein amounted to 39.8%. Purchases from the Group's five largest suppliers accounted for 11.1% of the total purchases and purchases from the largest supplier included therein accounted for 2.5% of the total purchases.

None of the Directors or any their associates or any shareholders (which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers or suppliers.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On Behalf of the Board

NG HUNG SANG

Chairman

Hong Kong, 16 March 2010

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasizes accountability and transparency to the shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2009.

BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2009, the Board composed of 8 directors, including the Chairman who is an Executive Director, 1 Vice-chairman and Chief Executive Officer who is an Executive Director, 1 Vice-chairman who is an Executive Director, 1 additional Executive Director, 1 Non-executive Director, and 3 Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors. Their biographies and relevant relationships amongst them are set out in the Directors’ Biographical Details on page 8 of this Annual Report.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Group. Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to chair the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board has adopted a formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directors, their skill, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No nomination committee has been set up, and, hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size and structure of the Board is adequate. The Board met once in 2009 for the said purpose with all Directors present.

All the Directors (including Non-executive Directors) of the Company are subject to the retirement by rotation at least once every three years in accordance with the Company’s Articles of Association.

The Board is collectively responsible for the formulation of the Group’s strategy, overseeing the management of the business and affairs of the Group.

Daily operation and management of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Committee, comprising all Executive Directors. They report periodically to the Board their work and business decisions.

There are defined roles in relation to the responsibilities of the Chairman and the chief executive officer of the Company. Their roles are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions are fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda of regular meetings. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held five meetings in 2009.

	Attendance
Executive Directors	
Mr. Ng Hung Sang (Chairman)	4/5
Ms. Cheung Choi Ngor (Vice Chairman & Chief Executive Officer)	5/5
Mr. Richard Howard Gorges (Vice-chairman)	5/5
Mr. Ng Yuk Fung, Peter	5/5
Non-executive Director	
Ms. Ng Yuk Mui, Jessica	5/5
Independent Non-executive Directors	
Ms. Li Yuen Yu, Alice	4/5
Mr. Chiu Sin Chun	5/5
Mrs. Tse Wong Siu Yin, Elizabeth	5/5

Notices of at least fourteen days are given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedure and all applicable rules and regulations are complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

Directors have full access to information on the Group and are able to obtain independent professional advice whenever they deemed necessary. Memos are issued to Directors from time to time to update them with legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors throughout the year ended 31 December 2009.

INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore a team, comprising qualified accountants, has been organized to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. The scopes and timing of audit review is usually determined according to risk assessment.

Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA Team and the Audit Committee members.

Corporate Governance Report

IA Team monitors the internal control procedures and systems of the Group, reports findings and makes recommendations, if any, to Audit Committee on a regular interval. During the year, certain internal controls of the sales and collection cycle of the electronic toy business and expenditure and payment cycle of agriculture and woods operation in Chongqing, and the expenditure control covering the procedures for property construction payments were reviewed and addressed in the internal control report, which was presented by the IA Team to the Audit committee and the Board for review.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on page 22 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 December 2009, the Auditors of the Company received approximately HK\$2,170,000.00 for audit services and HK\$3,000 for non-audit service provided to the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 21 April 2005 and comprises all the Independent Non-executive Directors, Mrs. Tse Wong Siu Yin, Elizabeth (Chairman of the Remuneration Committee), Mr. Chiu Sin Chun and Ms. Li Yuen Yu, Alice.

The Remuneration Committee met once in December 2009 and was attended by all Committee members. The policies on the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors is based on skill, knowledge, involvement in the Company's affairs and performance of the individual Executive Directors with reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long-term incentive to and for retaining staff.

The directors' fees for all Directors are subject to shareholders' approval at general meeting. Remuneration packages of the Executive Directors are reviewed by the Remuneration Committee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors, Ms. Li Yuen Yu, Alice (Chairman of the Audit Committee), Mr. Chiu Sin Chun and Mrs. Tse Wong Siu Yin, Elizabeth. The principal duties of the Audit Committee in accordance with its terms of reference, are substantially the same as the CG Code, include the review of the Group's financial reporting system and internal control procedures, review of financial information of the Group and review of the relationship with the Auditors of the Group.

The Audit Committee Members held two meetings in 2009 in which representatives of the management were present to review the interim and final results, the interim report and annual report and other financial and internal control matters. The Group's Auditors were present in one of the meetings.

Corporate Governance Report

Attendance

Ms. Li Yuen Yu, Alice	2/2
Mr. Chiu Sin Chun	2/2
Mrs. Tse Wong Siu Yin, Elizabeth	2/2

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2010 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2009 were reviewed by the Audit Committee.

Independent Auditors' Report



To the shareholders of South China (China) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of South China (China) Limited set out on pages 23 to 123, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
16 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Revenue	5	1,893,080	1,934,033
Cost of sales		(1,541,380)	(1,667,552)
Gross profit		351,700	266,481
Other income and gains, net	5	27,029	12,688
Excess over the cost of business combinations	46	—	172,831
Fair value gain on investment properties	16	143,450	31,941
Fair value gain on biological assets	14	3,695	5,893
Fair value gain/(loss) on financial assets at fair value through profit or loss		13,519	(27,771)
Selling and distribution costs		(42,308)	(33,329)
Administrative expenses		(261,286)	(272,928)
Equity-settled share option expenses		(12,925)	(21,533)
Other expenses		(4,283)	—
Finance costs	7	218,591	134,273
Share of profits and losses of associates		(16,337)	(21,015)
Impairment of advances to associates, net	6 & 21	189,335	(724)
		(1,131)	(28,306)
PROFIT BEFORE TAX	6	390,458	84,228
Income tax expenses	10	(12,788)	(17,910)
PROFIT FOR THE YEAR		377,670	66,318
Attributable to:			
Owners of the Company		383,277	78,004
Minority interests		(5,607)	(11,686)
		377,670	66,318
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
Basic		HK13.7 cents	HK2.9 cents
Diluted		HK13.2 cents	HK2.8 cents

Details of the dividends paid and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK\$'000	2008 HK\$'000
PROFIT FOR THE YEAR	377,670	66,318
OTHER COMPREHENSIVE (LOSS)/INCOME		
Change in fair value of available-for-sale financial assets	(2,380)	7,890
Exchange differences on translation of foreign operations	178	67,762
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(2,202)	75,652
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	375,468	141,970
Attributable to:		
Owners of the Company	381,077	136,343
Minority interests	(5,609)	5,627
	375,468	141,970

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	234,504	258,263
Investment properties	16	1,396,616	1,619,673
Prepaid land lease payments	17	42,484	48,323
Construction in progress	18	27,597	27,279
Interests in associates	21	468,862	297,827
Biological assets	14	88,990	84,904
Available-for-sale financial assets	22	41,901	44,281
Other non-current assets	23	16,666	21,549
Goodwill	19	3,011	5,514
Total non-current assets		2,320,631	2,407,613
CURRENT ASSETS			
Properties under development	24	—	448,734
Inventories	26	306,403	296,979
Trade receivables	27	155,773	171,092
Prepayments, deposits and other receivables	28	74,613	79,216
Financial assets at fair value through profit or loss	32	22,052	10,945
Due from a minority shareholder of a subsidiary	29	—	25,845
Due from affiliates	30	19,647	—
Tax recoverable		6,808	5,015
Cash and bank balances	33	174,907	150,497
Total current assets		760,203	1,188,323
Non-current assets classified as held for sale	25	304,908	—
Total current assets		1,065,111	1,188,323
CURRENT LIABILITIES			
Trade and bills payables	34	288,384	271,624
Other payables and accruals	35	258,674	233,983
Interest-bearing bank and other borrowings	36	405,739	401,615
Due to a minority shareholder of subsidiaries	29	20,697	19,899
Due to affiliates	31	15,688	10,132
Tax payable		30,266	28,054
Total current liabilities		1,019,448	965,307
NET CURRENT ASSETS		45,663	223,016
TOTAL ASSETS LESS CURRENT LIABILITIES		2,366,294	2,630,629

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	36	102,942	281,845
Advance from a director	38	38,409	—
Advances from minority shareholders of subsidiaries	39	29,346	29,119
Other non-current liabilities	40	85,170	85,419
Promissory notes	41	—	97,079
Deferred tax liabilities	42	232,417	229,580
Total non-current liabilities		488,284	723,042
Net assets		1,878,010	1,907,587
EQUITY			
Equity attributable to owners of the Company			
Issued capital	43	59,424	53,040
Reserves	45(a)	1,702,457	1,716,617
Proposed final dividends	12	29,714	2,122
Minority interests		1,791,595	1,771,779
Total equity		86,415	135,808
		1,878,010	1,907,587

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the Company														
		Available-														
		for-sale														
		Land and financial														
		buildings assets														
		PRC														
		Share														
		Exchange														
		Proposed														
		final														
		dividend														
		Minority														
		Total														
		equity														
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Merger reserve	Land revaluation reserve	Buildings revaluation reserve	Financial assets revaluation reserve	PRC statutory reserve	Share option reserve	Goodwill	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Minority interests
Balance at 1 January 2008		53,038	193,488	4,091	223	121,782	59,464	17,580	8,051	12,107	(3,067)	37,342	1,111,177	26,519	1,641,795	93,853
Total comprehensive income for the year		-	-	-	-	-	-	7,890	-	-	-	50,449	78,004	-	136,343	5,627
Issue of shares upon exercise of warrants	43	2	36	-	-	-	-	-	-	-	-	-	-	-	38	-
Acquisition of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,460
Acquisition of minority interests		-	-	48	-	(989)	-	-	-	15	-	263	(335)	-	(998)	(304)
Capital contribution from a minority shareholder		-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,808
Dividends paid to minority shareholders of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(49)
Transfer to statutory reserves		-	-	-	-	-	-	-	926	-	-	-	(926)	-	-	-
Recognition of equity-settled share based compensation		-	-	-	-	-	-	-	-	21,120	-	-	-	-	21,120	413
Final dividend for 2007 paid		-	-	-	-	-	-	-	-	-	-	-	-	(26,519)	(26,519)	-
Final dividend for 2008 proposed	12	-	-	-	-	-	-	-	-	-	-	-	(2,122)	2,122	-	-
Balance at 31 December 2008		53,040	193,524*	4,139*	223*	120,793*	59,464*	25,470*	8,977*	33,242*	(3,067)*	88,054*	1,185,798*	2,122	1,771,779	135,808

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the Company															
		Available- for-sale															
		Share		Capital		Land and buildings		financial assets		PRC	Share	Exchange		Proposed			
		Issued capital	premium account	Capital reserve	redemption reserve	Merger reserve	revaluation reserve	revaluation reserve	statutory reserve	option reserve	Goodwill reserve	fluctuation reserve	Retained profits	final dividend	Total	Minority interests	Total equity
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		53,040	193,524	4,139	223	120,793	59,464	25,470	8,977	33,242	(3,067)	88,054	1,185,798	2,122	1,771,779	135,808	1,907,587
		-	-	-	-	-	-	(2,380)	-	-	-	180	383,277	-	381,077	(5,609)	375,468
	43	6,384	121,303	-	-	-	-	-	-	-	-	-	-	-	127,687	-	127,687
		-	-	(17)	-	-	-	-	-	(10)	-	(188)	326	-	111	104	215
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,447	21,447
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,267)	(12,267)
		-	-	-	-	-	-	-	855	-	-	-	(855)	-	-	-	-
		-	(314,731)	-	-	(195,774)	-	-	-	(637)	-	-	511,142	-	-	-	-
		-	-	-	-	-	-	-	-	12,822	-	-	-	-	12,822	103	12,925
	47	-	-	(4,122)	-	85,786	-	-	-	(1,827)	-	(691)	(578,905)	-	(499,759)	(53,171)	(552,930)
	12	-	-	-	-	-	-	-	-	-	-	-	-	(2,122)	(2,122)	-	(2,122)
	12	-	-	-	-	-	-	-	-	-	-	-	(29,714)	29,714	-	-	-
		59,424	96*	-*	223*	10,805*	59,464*	23,090*	9,832*	43,590*	(3,067)*	87,355*	1,471,069*	29,714	1,791,595	86,415	1,878,010

Merger reserve arose from the group reorganisation in 1992 and the business combination under common control in respect of the acquisition of certain fellow subsidiaries in 2007.

The retained profits and exchange fluctuation reserve of the Group include HK\$474,497,000 (2008: HK\$285,162,000) and HK\$754,000 (2008: HK\$754,000), respectively, retained by associates of the Group.

[^] Certain reserves of the Group have been transferred to retained profits during the year.

* These reserve accounts comprise the consolidated reserves of HK\$1,702,457,000 (2008: HK\$1,716,617,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		390,458	84,228
Adjustments for:			
Finance costs	7	16,337	21,015
Share of profits and losses of associates		(189,335)	724
Interest income	5	(2,077)	(965)
Gain on dilution of interest in a subsidiary	5	(343)	–
Loss/(gain) on disposal of items of property, plant and equipment	5	140	(294)
Loss on disposal of leasehold land	5	332	–
Gain on disposal of investment properties	5	(6,469)	(1,424)
Excess over the cost of business combinations		–	(172,831)
Write-back of other payables	5	(4,833)	–
Dividend income from listed investments	5	(225)	(430)
Gain on disposal of subsidiaries	5	(720)	(319)
Fair value gain on investment properties	16	(143,450)	(31,941)
Fair value (gain)/loss on financial assets at fair value through profit or loss		(13,519)	27,771
Fair value gain on biological assets		(3,695)	(5,893)
Decrease in biological assets due to harvest	6	243	895
(Gain)/loss on disposal of financial assets at fair value through profit or loss	5	(594)	2,264
Equity-settled share option expenses	6	12,925	21,533
Impairment of goodwill	6	3,500	–
Impairment of advances to associates, net	6	1,131	28,306
Impairment/(reversal of impairment) of trade receivables, net	6	5,411	(580)
Provision/(reversal of provision) for inventories	6	14,234	(17,357)
Write-off of other receivables	6	783	–
Write-off of inventories	6	695	–
Depreciation	6	37,886	43,466
Amortisation of prepaid land lease payments	6	9,502	1,484
		128,317	(348)
Increase in properties under development		(89,899)	(182,164)
Increase in inventories		(24,231)	(6,549)
Decrease/(increase) in trade receivables		5,936	(27,058)
Decrease in prepayments, deposits and other receivables		4,070	7,709
Decrease in amount due to minority shareholders of subsidiaries, net		(1,699)	(1,612)
Increase in amounts due from fellow subsidiaries, net		–	(8,240)
(Decrease)/increase in amount due to an intermediate holding company		(7,569)	8,771
Increase/(decrease) in trade and bills payables		24,816	(44,676)
Increase/(decrease) in other payables and accruals		63,294	(11,366)
(Increase)/decrease in amounts due from associates		(18,654)	1,846
Increase/(decrease) in amounts due to related companies		3,984	(2,674)
Severance payment paid		(249)	(623)
Cash generated from/(used in) in operations		88,116	(266,984)
Hong Kong profits tax paid		(6,662)	(6,390)
Mainland China corporate income tax paid		(5,006)	(4,509)
Net cash flows from/(used in) operating activities		76,448	(277,883)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	15	(25,800)	(25,746)
Additions to construction in progress	18	(1,510)	(3,423)
Additions to prepaid land lease payments	17	(22,917)	(3,249)
Additions to biological assets	14	(634)	–
Purchases of financial assets at fair value through profit or loss		(677)	(2,453)
Dividends received from listed investments	5	225	430
Cash (outflow)/inflow in respect of acquisition of subsidiaries, net	46	(7,500)	6,198
(Advances to)/repayment from associates, net		(15,831)	194,360
Proceeds from disposal of financial assets at fair value through profit or loss		3,683	17,638
Interest received		2,077	965
Proceeds from disposal of investment properties		89,251	2,560
Cash received from disposal of subsidiaries, net	47	6,369	3,098
Proceeds from disposal of items of property, plant and equipment		2,505	628
Proceeds from disposal of leasehold land		2,645	–
Deposit paid for acquisition of leasehold interest in land		(137,719)	–
Cash paid for acquisition of additional interest in a subsidiary		(253)	(2,313)
Dividends income from an associate		33,000	2,557
Net cash flows (used in)/from investing activities		(73,086)	191,250
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(374,141)	(197,876)
Increase/(decrease) in trust receipt loans		7,457	(1,038)
Advance to minority shareholders		–	(11,993)
Repayment to a related party		–	(10,200)
Advance from a director		38,409	–
Interests paid		(19,032)	(24,422)
Dividends paid		(2,122)	(26,519)
Cash and bank balances derecognised upon distribution of dividend in specie	47	(51,177)	–
Contribution to South China Land Limited paid		(88,892)	–
Dividends paid to minority shareholders of subsidiaries		(12,267)	(49)
Capital element of finance lease payments		(1,439)	(3,819)
New bank loans		495,000	366,390
Issue of shares upon exercise of warrants	43	29,566	38
Issue of shares in a subsidiary upon exercise of share options granted by the subsidiary		558	–
Financing fees paid for new bank loans		–	(481)
Net cash flows from financing activities		21,920	90,031
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,282	3,398
Cash and cash equivalents at beginning of year		149,625	145,787
Effect of foreign exchange rate changes, net		–	440
CASH AND CASH EQUIVALENTS AT END OF YEAR		174,907	149,625
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	33	174,907	150,497
Bank overdrafts	36	–	(872)
Cash and cash equivalents as stated in the statement of cash flows		174,907	149,625

Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	1,749,041	1,452,776
CURRENT ASSETS			
Other receivables	28	10,572	10,570
Cash and bank balances	33	268	142
Total current assets		10,840	10,712
CURRENT LIABILITIES			
Other payables and accruals	35	1,236	15,499
Due to affiliates	31	15,187	11,624
Total current liabilities		16,423	27,123
NET CURRENT LIABILITIES		(5,583)	(16,411)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,743,458	1,436,365
NON-CURRENT LIABILITIES			
Due to subsidiaries	20	1,514,887	712,177
Net assets		228,571	724,188
EQUITY			
Issued capital	43	59,424	53,040
Reserves	45(b)	139,433	669,026
Proposed final dividends	12	29,714	2,122
Total equity		228,571	724,188

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

Notes to the Financial Statements

Year ended 31 December 2009

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, the Cayman Islands.

The Company is an investment holding company. The principal subsidiaries are engaged in the trading and manufacturing of toys, shoes, electronic toys and leather products, property investment and development, and agriculture and woods.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain leasehold land and buildings, available-for-sale financial assets, financial assets at fair value through profit or loss and biological assets, which have been measured at fair value. Non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as detailed in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries 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 significant income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated in full on consolidation.

The acquisition of subsidiaries from third parties during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and 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, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill or excess over the cost of business combination, whichever being appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 Amendments	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 18 Amendment*	Amendments to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendment to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009)

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

Notes to the Financial Statements

Year ended 31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(a) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, presented either in one single statement or in two linked statements. The Group has elected to present two statements.

(b) Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 55 to the financial statements while the revised liquidity risk disclosures are presented in note 56 to the financial statements.

(c) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters ²
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁶
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ³
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC) -Int 14 Prepayments of a Minimum Funding Requirement ⁵
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary ¹
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases ²

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture; or
- (b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Associates

An associate is an entity, not being a subsidiary, 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.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill previously eliminated against the consolidated retained profits

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of 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 subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset unless the asset is carried at a revalued amount and, in which case, the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c); or
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its 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 the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Certain land and buildings are stated in the statement of financial position at amounts based on revaluations performed prior to 30 September 1995, less subsequent accumulated depreciation and amortisation and any impairment losses.

In accordance with the transitional provisions of paragraph 80A of HKAS 16 *Property, plant and equipment*, the Group's land and buildings which carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations. Accordingly, no revaluation of land and buildings is carried out subsequent to 30 September 1995. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the land and buildings revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	over the shorter of the lease terms and 2% to 5%
Furniture and leasehold improvements	over the shorter of the lease terms, where applicable, and 20%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents properties under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement for the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” 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 as a movement in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. On disposal of a revalued asset, the relevant portion of the land and buildings revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Properties under development

Properties under development represents properties developed for sale or to earn rental income, and are stated at cost less any impairment losses. Cost comprises the prepaid land lease payments, building costs and any other direct costs attributable to the development of the properties. Borrowing costs, professional fees, and other related expenses incurred during the construction or development phase of the property are capitalised as part of the costs of that property.

Properties under development which have been pre-sold or one expected to be completed within one year from the end of the reporting period are classified under current asset. On completion, the properties are transferred to properties held for sale or investment properties.

Once the constructions or developments of these properties are completed, they are reclassified to the appropriate asset categories.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be 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 and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Biological assets

Biological assets are fruit trees and are measured on initial recognition and at each financial year end at their fair value less estimated point-of-sale costs. The fair value of fruit trees is determined based on the present value of expected net cash flows from the fruit trees discounted at a current market-determined pre-tax rate. Fruit trees are perennial plants which have growth cycles of more than one year.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in the income statement for the period in which it arises.

Agricultural produce

Agricultural produce comprises winter date, lychee and longan fruits of fruit trees.

Winter date, lychee and longan fruits harvested from fruit trees are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of winter date, lychee and longan fruits is determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2 *Inventories*.

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in the income statement for the period in which it arises.

Fair value represents the estimated purchase cost that the Group has to procure such inventories in the market on an arm's length basis.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. 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.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets revaluation reserve until the financial asset is derecognised, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale financial assets revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

When the fair value of unlisted available-for-sale financial assets cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) 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.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; or
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans 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 a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an assets or a group of assets is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to affiliates and interest-bearing loans and borrowings.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand, and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required 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 income statement.

The Group carries a provision for severance payment in accordance with the relevant regulations in Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the 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.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) service income and management fee income, when services are rendered;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension schemes

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement 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.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)**Pension schemes (Continued)*

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a trinomial model, further details of which being set out in note 44 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to the Financial Statements

Year ended 31 December 2009

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends and distributions

Final dividends and distributions proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends and distributions have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Notes to the Financial Statements

Year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties 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 could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an 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 made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there is any indicator of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale financial assets and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2009, no impairment losses have been recognised for available-for-sale assets (2008: Nil).

Income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There was no deferred tax asset in respect of tax losses at 31 December 2009 (2008: Nil). The amount of unrecognised tax losses at 31 December 2009 was HK\$502,469,000 (2008: HK\$494,000,000).

Notes to the Financial Statements

Year ended 31 December 2009

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, shoes and footwear products and leather products;
- (b) the property investment and development segment is engaged in property investment and development;
- (c) the agriculture and woods segment is engaged in the cultivation of fruit trees, rearing of livestock and aquatic products, forestation and sale of relevant agricultural products; and
- (d) the investment holding segment comprises, principally, the Group's investment holding related management functions.

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2009 and 2008.

Group

	Trading and manufacturing		Property investment and development		Agriculture and woods		Investment holding		Group	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External sales	1,839,956	1,880,796	46,790	49,814	6,334	3,423	–	–	1,893,080	1,934,033
Segment profit/(loss) from operations	133,040	53,731	154,240	43,328	(20,744)	(9,617)	(47,945)	46,831	218,591	134,273
Share of profits and losses of associates	(378)	(5,934)	189,713	5,210	–	–	–	–	189,335	(724)
Impairment of advances to associates, net	(1,131)	(28,306)	–	–	–	–	–	–	(1,131)	(28,306)
Finance costs									(16,337)	(21,015)
Profit before tax									390,458	84,228
Segment assets	836,020	879,689	1,802,508	2,203,452	138,133	110,605	133,411	99,348	2,910,072	3,293,094
Interests in associates	10,243	(4,079)	458,619	301,906	–	–	–	–	468,862	297,827
Tax recoverable									6,808	5,015
Total assets									3,385,742	3,595,936
Segment liabilities	886,650	760,899	122,197	351,973	5,471	4,014	230,731	313,829	1,245,049	1,430,715
Tax payable									30,266	28,054
Deferred tax liabilities									232,417	229,580
Total liabilities									1,507,732	1,688,349

Notes to the Financial Statements

Year ended 31 December 2009

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group (Continued)

	Notes	Trading and manufacturing		Property investment and development		Agriculture and woods		Investment holding		Group	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Other segment information:											
Capital expenditures		19,517	21,278	1,307	2,415	29,787	8,684	250	41	50,861	32,418
Depreciation and amortisation		34,971	41,854	1,602	1,466	10,650	1,450	165	180	47,388	44,950
Provision/(reversal of provision) for inventories		14,234	(17,357)	–	–	–	–	–	–	14,234	(17,357)
Impairment/(reversal of impairment) of trade receivables, net	6 & 27	5,411	(580)	–	–	–	–	–	–	5,411	(580)
Impairment of goodwill		3,500	–	–	–	–	–	–	–	3,500	–
Write-off of other receivables		–	–	–	–	783	–	–	–	783	–
Write-off of inventories		–	–	–	–	695	–	–	–	695	–
Excess over the cost of business combinations	46	–	–	–	–	–	–	–	172,831	–	172,831

Capital expenditure consists of additions to property, plant and equipment, investment properties, prepaid land lease payments, construction in progress, available-for-sale financial assets and biological assets.

Notes to the Financial Statements

Year ended 31 December 2009

4. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

Revenue from external customers

	2009 HK\$'000	2008 HK\$'000
The PRC including Hong Kong and Macau	172,110	195,040
The United States of America	1,241,196	1,144,591
Europe	275,455	372,747
Japan	8,245	15,983
Others	196,074	205,672
	1,893,080	1,934,033

The revenue information above is based on the destination to which goods and services are delivered.

Non-current assets

	2009 HK\$'000	2008 HK\$'000
Hong Kong	318,680	546,421
Other regions in Mainland China	1,491,188	1,493,697
Others	—	25,387
	1,809,868	2,065,505

The assets presented as non-current in the consolidated statement of financial position as analysed by their locations in non-current assets information above exclude available-for-sale financial assets and interests in associates.

Information about major customers

Revenue of approximately HK\$753 million (2008: HK\$821 million) and HK\$212 million (2008: HK\$253 million) were derived from sales by trading and manufacturing segment to two major customers, respectively.

Notes to the Financial Statements

Year ended 31 December 2009

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue, other income and gains, net is as follows:

	2009 HK\$'000	2008 HK\$'000
Revenue		
Sale of merchandise from manufacturing and trading businesses	1,839,956	1,880,796
Rental income	46,790	49,814
Sale of agricultural produce	6,334	3,423
	1,893,080	1,934,033
Other income		
Service fee	2,000	2,372
Dividend income from listed investments	225	430
Bank interest income	200	925
Interest income from associates	61	40
Other interest income	1,816	—
Others	3,439	1,977
	7,741	5,744
Gains		
Gain/(loss) on disposal of financial assets at fair value through profit or loss	594	(2,264)
Gain on disposal of investment properties	6,469	1,424
Write-back of other payables	4,833	—
Gain on disposal of subsidiaries (note 47)	720	319
Gain on dilution of interest in a subsidiary	343	—
(Loss)/gain on disposal of items of property, plant and equipment	(140)	294
Loss on disposal of leasehold land	(332)	—
Reversal of impairment of trade receivables (note 27)	280	1,063
Write-back of trade receivables written off in prior year	102	—
Others	6,419	6,108
	19,288	6,944
	27,029	12,688

Notes to the Financial Statements

Year ended 31 December 2009

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2009 HK\$'000	2008 HK\$'000
Cost of inventories sold		1,541,380	1,667,552
Depreciation	15	37,906	43,477
Less: Depreciation capitalised in properties under development	24	(20)	(11)
Depreciation charged to income statement		37,886	43,466
Auditors' remuneration		2,170	2,620
Employee benefits expense (including directors' remuneration (note 8)):			
Pension scheme contributions		32,541	17,374
Less: Forfeited contributions		—	(249)
Net pension scheme contributions*		32,541	17,125
Equity-settled share option expenses		12,925	21,533
Salaries, wages and other benefits		536,094	550,837
Less: Salaries, wages and other benefits capitalised in properties under development/construction in progress		(1,175)	(1,179)
Salaries, wages and other benefits charged to income statement		534,919	549,658
		580,385	588,316
Decrease in biological assets due to harvest	14	243	895
Operating leases rental in respect of land and buildings		16,406	14,774
Gross rental income from investment properties and non-current assets held for sale		(46,790)	(49,814)
Less: Direct operating expenses		5,197	4,127
Net rental income		(41,593)	(45,687)

Notes to the Financial Statements

Year ended 31 December 2009

6. PROFIT BEFORE TAX (Continued)

	Notes	2009 HK\$'000	2008 HK\$'000
Impairment/(reversal of impairment) of trade receivables, net	27	5,411	(580)
Amortisation of prepaid land lease payments	17	9,502	1,484
Provision/(reversal of provision) for inventories, net (included in cost of sales)**		14,234	(17,357)
Write-off of inventories (included in cost of sales)		695	—
Impairment of advances to an associate	21	1,131	14,236
Write-back of advances to associates written off in prior years		—	(630)
Provision for financial guarantee in respect of the banking facilities of an associate	21	—	14,700
		1,131	28,306
Impairment of goodwill***	19	3,500	—
Write-off of other receivables***		783	—
Exchange losses, net		1,846	4,446

* At 31 December 2009 and 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

** The amount represents a write-down or reversal of provision against inventories to state the inventories at their estimated net realisable values.

*** Impairment of goodwill and write-off of other receivables are included in “other expenses” in the consolidated income statement.

Notes to the Financial Statements

Year ended 31 December 2009

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	Group	
		2009 HK\$'000	2008 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable:			
Within five years		16,860	22,014
Over five years		749	2,261
Interest on finance leases		20	147
Interest on advances from affiliates:			
– a director		663	–
– an intermediate holding company		274	–
– a related company		466	–
Interest on promissory notes		1,042	1,941
		20,074	26,363
Less: Interest capitalised in properties under development/construction in progress	24	(3,737)	(5,348)
		16,337	21,015

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Fees	250	250
Other emoluments:		
Salaries, allowances and benefits in kind	2,228	2,777
Discretionary bonuses	618	–
Equity-settled share option	6,712	14,677
Pension scheme contributions	97	116
	9,655	17,570
	9,905	17,820

In prior years, certain directors were granted share options under the share option scheme of the Company for their services to the Group. Further details of the share option scheme are set out in note 44 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount recognised in the financial statements for the current year attributable to the directors is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(Continued)***(a) Independent non-executive directors**

The fees paid to independent non-executive directors during the year were as follows:

	2009 HK\$'000	2008 HK\$'000
Mr. Chiu Sin Chun	50	50
Mrs. Tse Wong Siu Yin, Elizabeth	50	50
Ms. Li Yuen Yu, Alice	50	50
	150	150

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors and a non-executive director

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share option HK\$'000
2009					
Executive directors:					
Mr. Ng Hung Sang	10	576	—	28	—
Ms. Cheung Choi Ngor	10	576	618	28	3,314
Mr. Richard Howard Gorges	10	588	—	29	—
Mr. Ng Yuk Fung, Peter	10	488	—	12	3,398
	40	2,228	618	97	6,712
Non-executive director:					
Ms. Ng Yuk Mui, Jessica	60	—	—	—	—
	100	2,228	618	97	6,712

Notes to the Financial Statements

Year ended 31 December 2009

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Equity- settled share option HK\$'000
2008				
Executive directors:				
Mr. Ng Hung Sang	10	699	34	–
Ms. Cheung Choi Ngor	10	703	34	7,172
Mr. Richard Howard Gorges	10	785	36	–
Mr. Ng Yuk Fung, Peter	10	590	12	7,505
	40	2,777	116	14,677
Non-executive director:				
Ms. Ng Yuk Mui, Jessica	60	–	–	–
	100	2,777	116	14,677

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: two) directors whose remuneration are set out in details in note 8 above. Details of the remuneration of the remaining three (2008: three) non-director highest paid employees for the year are as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries, allowances and benefits in kind	4,745	4,402
Pension scheme contributions	96	175
Discretionary bonuses	1,698	897
Equity-settled share option	3,398	7,505
	9,937	12,979

Notes to the Financial Statements

Year ended 31 December 2009

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	3	1
HK\$8,000,001 to HK\$8,500,000	–	1
	3	3

In prior years, share options were granted to a non-director highest paid employee for his services to the Group. Further details of the share option scheme are set out in note 44 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount recognised in the financial statements for the current year attributable to the non-director highest paid employee is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective countries/jurisdictions in which the Group operates.

	Group	
	2009 HK\$'000	2008 HK\$'000
Current – Hong Kong		
Charge for the year	5,913	4,899
Over-provision in prior years	(2,025)	(1,357)
Current – Mainland China		
Charge for the year	8,363	4,313
Over-provision in prior years	(164)	(6)
Deferred tax (note 42)	701	10,061
Total tax charge for the year	12,788	17,910

Notes to the Financial Statements

Year ended 31 December 2009

10. INCOME TAX (Continued)

A reconciliation of the tax expense on the Group's profit before tax at the Hong Kong profits tax rate to the tax expense at the effective tax rate is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Profit before tax	390,458	84,228
Tax at the Hong Kong profits tax rate of 16.5% (2008: 16.5%)	64,426	13,898
Effect of reduction in Hong Kong profits tax rate on opening deferred tax liability	—	(948)
Effect of different tax rates of subsidiaries operating in Mainland China and Taiwan	3,972	10,588
Profits and losses attributable to associates	(31,208)	77
Expenses not deductible for tax	15,715	26,172
Income not subject to tax	(18,859)	(39,468)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries in the PRC	845	—
Adjustments for current tax in respect of previous periods	(2,189)	(1,363)
Reversal of deferred tax liability upon disposal of investment properties and reclassification of investment properties to non-current assets classified as held for sale	(21,843)	—
Tax losses from previous periods utilised	(11,176)	(3,609)
Tax losses not recognised	13,105	12,563
Total tax charge for the year	12,788	17,910

The share of tax charge attributable to associates amounting to HK\$34,776,000 (2008: share of tax credit of HK\$4,743,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of HK\$580,129,000 (2008: HK\$203,501,000) which has been dealt with in the financial statements of the Company (note 45(b)).

12. DIVIDENDS AND DISTRIBUTION

	2009	2008
	HK\$'000	HK\$'000
Special interim distribution, declared and paid of 370.946 shares in South China Land Limited ("SCL") per 100 ordinary shares (note 47)	578,905	—
Proposed final – HK1.00 cent (2008: HK0.08 cent) per ordinary share	29,714	2,122
	608,619	2,122

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements

Year ended 31 December 2009

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$383,277,000 (2008: HK\$78,004,000), and the weighted average number of 2,795,571,000 (2008: 2,651,951,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares deemed to have been issued at no consideration on the assumption of the exercise or conversion in full of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2009 HK\$'000	2008 HK\$'000
Earnings		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	383,277	78,004
	Number of shares	
	2009 '000	2008 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,795,571	2,651,951
Effect of dilution – weighted average number of ordinary shares: Warrants	99,750	87,474
	2,895,321	2,739,425

The Company's share options have no dilution effect for the years ended 31 December 2009 and 2008 because the exercise prices of the Company's share options were higher than the average market prices of the shares for both years.

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Year ended 31 December 2009

14. BIOLOGICAL ASSETS

	2009 HK\$'000	2008 HK\$'000
Lychee fruit trees:		
Carrying amount at 1 January	49,950	53,563
Additions	7	–
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	140	(7,231)
Decrease due to harvest	(147)	(819)
Exchange realignment	–	4,437
Carrying amount at 31 December	49,950	49,950
Longan fruit trees:		
Carrying amount at 1 January	16,452	17,437
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	688	(2,354)
Decrease due to harvest	–	(76)
Exchange realignment	–	1,445
Carrying amount at 31 December	17,140	16,452
Winter date fruit trees:		
Carrying amount at 1 January	18,502	–
Additions	627	–
Transferred from construction in progress (note 18)	–	110
Reclassified from inventories	–	2,544
Gain arising from changes in fair value less estimated point-of-sale costs	2,867	15,478
Decrease due to harvest	(96)	–
Exchange realignment	–	370
Carrying amount at 31 December	21,900	18,502
Total carrying amount at 31 December	88,990	84,904
Quantities of fruit trees:		
	Number of trees '000	Number of trees '000
Lychee fruit trees	333	333
Longan fruit trees	107	108
Winter date fruit trees	1,047	481
	1,487	922

Notes to the Financial Statements

Year ended 31 December 2009

14. BIOLOGICAL ASSETS (Continued)

Fair value and saleable output of lychee, longan and winter date fruits at the point of harvest are analysed as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Fair value less estimated point-of-sale costs:		
Lychee fruits	147	819
Longan fruits	—	76
Winter date fruits	96	—
	243	895
	Tons	Tons
Saleable output:		
Lychee fruits	49	163
Longan fruits	—	33
Winter date fruits	19	—
	68	196

Significant assumptions made in determining the fair value of the biological assets are as follows:

- the fruit trees will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- the expected prices of lychee, longan and winter date fruits are based on the past actual average district prices; and
- the future cash flows have been discounted at the target rate of return on equity of the agriculture and woods segment.

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Year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK\$'000	Furniture and leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Moulds and tools HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost or valuation	237,081	216,607	246,851	10,547	25,733	736,819
Accumulated depreciation and impairment	(69,237)	(186,344)	(197,242)	(7,705)	(18,028)	(478,556)
Net carrying amount	167,844	30,263	49,609	2,842	7,705	258,263
At 1 January 2009, net of accumulated depreciation and impairment	167,844	30,263	49,609	2,842	7,705	258,263
Additions	2,262	13,119	5,627	1,438	3,354	25,800
Acquisition of subsidiaries (note 46)	–	–	371	–	64	435
Disposals/write-offs	(2,328)	(24)	(101)	–	(192)	(2,645)
Disposal of subsidiaries (note 47)	–	(412)	(1,602)	–	(1,640)	(3,654)
Transfer from construction in progress (note 18)	–	1,192	–	–	–	1,192
Transfer to investment properties, net (note 16)	(6,981)	–	–	–	–	(6,981)
Depreciation provided during the year (note 6)	(10,743)	(11,099)	(11,892)	(993)	(3,179)	(37,906)
At 31 December 2009, net of accumulated depreciation and impairment	150,054	33,039	42,012	3,287	6,112	234,504
At 31 December 2009:						
Cost or valuation	228,643	229,231	245,640	11,985	25,218	740,717
Accumulated depreciation and impairment	(78,589)	(196,192)	(203,628)	(8,698)	(19,106)	(506,213)
Net carrying amount	150,054	33,039	42,012	3,287	6,112	234,504
Analysis of cost or valuation:						
At cost	181,134	229,231	245,640	11,985	25,218	693,208
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	228,643	229,231	245,640	11,985	25,218	740,717

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Year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Leasehold land and buildings HK\$'000	Furniture and leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Moulds and tools HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
31 December 2008						
At 1 January 2008:						
Cost or valuation	199,265	202,702	236,855	10,852	21,797	671,471
Accumulated depreciation and impairment	(57,342)	(173,076)	(181,222)	(8,540)	(16,239)	(436,419)
Net carrying amount	141,923	29,626	55,633	2,312	5,558	235,052
At 1 January 2008, net of accumulated depreciation and impairment	141,923	29,626	55,633	2,312	5,558	235,052
Additions	59	13,613	7,344	1,662	3,068	25,746
Acquisition of subsidiaries (note 46)	37,745	–	532	–	961	39,238
Disposals/write-offs	–	(33)	(40)	–	(261)	(334)
Reclassification	–	(71)	(147)	–	218	–
Transfer from construction in progress (note 18)	–	547	–	–	–	547
Transfer to investment properties, net (note 16)	(4,466)	–	–	–	–	(4,466)
Depreciation provided during the year (note 6)	(10,875)	(13,515)	(15,929)	(1,132)	(2,026)	(43,477)
Exchange realignment	3,458	96	2,216	–	187	5,957
At 31 December 2008, net of accumulated depreciation and impairment	167,844	30,263	49,609	2,842	7,705	258,263
At 31 December 2008:						
Cost or valuation	237,081	216,607	246,851	10,547	25,733	736,819
Accumulated depreciation and impairment	(69,237)	(186,344)	(197,242)	(7,705)	(18,028)	(478,556)
Net carrying amount	167,844	30,263	49,609	2,842	7,705	258,263
Analysis of cost or valuation:						
At cost	189,572	216,607	246,851	10,547	25,733	689,310
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	237,081	216,607	246,851	10,547	25,733	736,819

Notes to the Financial Statements

Year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings are situated in Hong Kong and Mainland China and are held under the following lease terms:

	Group	
	2009 HK\$'000	2008 HK\$'000
Leasehold land and buildings in Hong Kong:		
Medium term leases	15,134	15,511
Long term leases	18,503	26,146
	33,637	41,657
Buildings in Mainland China	116,417	126,187
	150,054	167,844

The Group was in the process of applying the land use right certificates for certain leasehold land in Mainland China on which buildings erected amounted to approximately HK\$37,743,000 as at 31 December 2009, (2008: HK\$42,426,000). The directors do not expect any legal obstacle in obtaining the relevant title certificates.

During the year, the Group has transferred certain leasehold land and buildings of HK\$6,981,000 at fair value, to investment properties (2008: HK\$4,466,000).

The net book values of the items of property, plant and equipment held under finance leases and hire purchase contracts are summarised below:

	2009 HK\$'000	2008 HK\$'000
Furniture and leasehold improvements	—	23
Machinery and equipment	—	3,169
	—	3,192

Certain of the Group's land and buildings were revalued on or before 31 December 1994. The land and buildings were revalued at open market value based on their existing use. Since 1995, no further revaluation of the Group's land and buildings has been carried out as the Group has relied on the exemption from the requirement to carry out future revaluation for the property, plant and equipment, which were stated at valuation at that time, granted under the transitional provisions in paragraph 80A of HKAS 16.

Had land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's land and buildings at 31 December 2009 would have been approximately HK\$90,590,000 (2008: HK\$108,380,000).

At 31 December 2009, certain leasehold land and buildings of the Group (including their corresponding prepaid land lease payments) with net book value of approximately HK\$103,170,000 (2008: HK\$65,087,000) were pledged to secure banking facilities granted to the Group (notes 36 and 50).

As at 31 December 2008, certain machinery and equipment of the Group with net book value of HK\$3,169,000 were pledged to secure banking facilities granted to the Group. No machinery and equipment were pledged as at 31 December 2009 (notes 36 and 50).

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Year ended 31 December 2009

16. INVESTMENT PROPERTIES

	Group	
	2009	2008
	HK\$'000	HK\$'000
Carrying amount at 1 January	1,619,673	1,122,341
Transfer from leasehold land and buildings, net (note 15)	6,981	4,466
Transfer to non-current assets held for sale, at fair value (note 25)	(304,908)	–
Acquisition of subsidiaries (note 46)	13,961	404,128
Disposals	(82,782)	(1,135)
Fair value gain	143,450	31,941
Exchange realignment	241	57,932
Carrying amount at 31 December	1,396,616	1,619,673

The Group's investment properties are situated in Hong Kong, Taiwan and Mainland China, and are held under the following lease terms:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Hong Kong:		
Long term leases	168,507	280,337
Medium term leases	88,100	197,900
	256,607	478,237
Taiwan:		
Freehold	–	25,387
Mainland China:		
Medium term leases	1,140,009	1,116,049
	1,396,616	1,619,673

Certain investment properties of the Group were revalued on 31 December 2009 by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$304,908,000 on an open market, existing use basis upon transfer to non-current assets classified as held for sale (note 25).

The Group's investment properties were revalued on 31 December 2009 by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$1,396,616,000 on an open market, existing use basis. The investment properties are leased or available for lease to third parties under operating leases. Details about such operating lease arrangements are included in note 51(a) to the financial statements.

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Year ended 31 December 2009

16. INVESTMENT PROPERTIES (Continued)

At 31 December 2009, the Group's investment properties with aggregate value of HK\$315,607,000 (2008: HK\$478,237,000) were pledged and mortgaged to secure general banking facilities granted to the Group (notes 36 and 50).

The Group was in the process of applying the land use rights certificates in respect of certain investment properties located in Mainland China amounting to approximately HK\$1,021,298,000 at 31 December 2009 (2008: HK\$1,006,857,000). The directors do not expect any legal obstacle in obtaining the relevant title certificates.

Further particulars of the Group's investment properties are included on pages 125 to 129.

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January	49,808	20,513
Exchange realignment	—	1,269
Additions	22,917	3,249
Acquisition of subsidiaries (note 46)	—	26,261
Disposals	(2,977)	—
Disposal of subsidiaries (note 47)	(9,815)	—
Recognised during the year (note 6)	(9,502)	(1,484)
Carrying amount at 31 December	50,431	49,808
Current portion included in prepayments, deposits and other receivables	(7,947)	(1,485)
Non-current portion	42,484	48,323

The leasehold lands are held under medium term leases and are situated in Mainland China.

18. CONSTRUCTION IN PROGRESS

	Group	
	2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January	27,279	263,444
Exchange realignment	—	1,226
Acquisition of subsidiaries (note 46)	—	1,352
Additions	1,510	3,423
Transferred to properties under development (note 24)	—	(241,509)
Transferred to property, plant and equipment (note 15)	(1,192)	(547)
Transferred to biological assets (note 14)	—	(110)
Carrying amount at 31 December	27,597	27,279

Notes to the Financial Statements

Year ended 31 December 2009

19. GOODWILL

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January:		
Cost	5,514	3,384
Accumulated impairment	–	–
Net carrying amount	5,514	3,384
At 1 January	5,514	3,384
Acquisition of subsidiary (note 46)	3,500	–
Acquisition of minority interests in a subsidiary	21,700	2,130
Disposal of interest in a subsidiary (note 47)	(24,203)	–
Impairment during the year (note 6)	(3,500)	–
At 31 December	3,011	5,514
At 31 December:		
Cost	6,511	5,514
Accumulated impairment	(3,500)	–
Net carrying amount	3,011	5,514

The amount of goodwill arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001 remained in the consolidated reserves was HK\$3,067,000 (2008: HK\$3,067,000) as at 31 December 2009.

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Property investment and development cash-generating unit; and
- Toy manufacturing and trading cash-generating unit;

Property investment and development cash-generating unit

The recoverable amount of the property investment and development cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12% (2008: 10%). Cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2008: 5%) which is estimated on the basis of the long term average growth rate of the property investment and development industry.

Notes to the Financial Statements

Year ended 31 December 2009

19. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Toy manufacturing and trading cash-generating unit

The recoverable amount of the toy manufacturing and trading cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12% (2008: 17%). Cash flows beyond the five-year period are extrapolated using a growth rate of 2% (2008: 2%) which is estimated on the basis of the long term average growth rate of the toy manufacturing and trading industry.

The net carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Cash-generating unit:		
Property investment and development	1,637	4,140
Toy manufacturing and trading	1,374	1,374
	3,011	5,514

Key assumptions were used in the value-in-use calculation of the property investment and development and toy manufacturing and trading cash-generating units for the years ended 31 December 2009 and 31 December 2008. The following describes each key assumption on which management has based to undertake impairment testing of goodwill by using the cash flow projections:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year as increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax, and reflects specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for the countries where raw materials are sourced.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK\$'000	HK\$'000
Unlisted shares, at cost	234,018	234,018
Due from subsidiaries	1,515,023	1,218,758
	1,749,041	1,452,776

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within twelve months from the end of the reporting period.

The amounts due to subsidiaries included in the Company's non-current liabilities of HK\$1,514,887,000 (2008: HK\$712,177,000) are unsecured, interest-free and are not repayable within twelve months from the end of the reporting period.

Details of the principal subsidiaries are set out in note 59 to the financial statements.

Notes to the Financial Statements

Year ended 31 December 2009

21. INTERESTS IN ASSOCIATES

		Group	
	Note	2009 HK\$'000	2008 HK\$'000
Share of net assets:			
Unlisted associates		452,550	296,215
Advances to associates		57,579	41,748
Provision for impairment [#]		(41,267)	(25,436)
		16,312	16,312
Provision for financial guarantee in respect of the banking facilities of an associate	6	—	(14,700)
		468,862	297,827

[#] An impairment was recognised for the advances to an associate as the associate has incurred recurring losses in prior years and its future profit stream is uncertain.

The Group has given a guarantee in an amount of HK\$396,000,000 (2008: HK\$396,000,000) to secure banking facilities granted to Firm Wise Investment Limited ("FWIL") of which HK\$359,250,000 was utilised as at 31 December 2009 (2008: HK\$379,800,000). The banking facilities are due to be mature in November 2012. The guarantees given were used on refinancing an investment property in Hong Kong.

In prior years, the Group has given a guarantee in an amount of HK\$20,000,000 to secure banking facilities granted to Nority Limited ("Nority") of which HK\$14,700,000 was utilised as at 31 December 2008 (2009: Nil). The banking facilities were due on demand. The advances to Nority were used and the banking facilities were utilised to finance its trading and manufacturing operation. In the opinion of the directors, Nority's financial ability to repay the loans drawn under the banking facilities was uncertain. As such, a provision of HK\$14,700,000 was made for the Group's and Company's liability under the abovementioned guarantee. During the year ended 31 December 2009, the Group has settled the outstanding loans drawn under the abovementioned bank facilities on behalf of Nority due to the financial deficiency of the associate. Accordingly, the provision for financial guarantee of HK\$14,700,000 was transferred to the provision for impairment of advances to associates and the Group ceased to provide any guarantee to Nority thereafter.

The movement in the provision for impairment of advances to associates is as follows:

		Group	
	Note	2009 HK\$'000	2008 HK\$'000
At 1 January		25,436	11,200
Transferred from provision for financial guarantee in respect of the banking facilities of an associate		14,700	—
Impairment losses recognised	6	1,131	14,236
At 31 December		41,267	25,436

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Year ended 31 December 2009

21. INTERESTS IN ASSOCIATES (Continued)

Except for the amount due from an associate of HK\$16,442,000 as at 31 December 2009 (2008: Nil) which carries interest at 0.5% per annum, the amounts due from associates are unsecured, interest-free, and have no fixed terms of repayment. In the opinion of the directors, advances to associates with a carrying amount before provision of HK\$57,579,000 (2008: HK\$41,748,000), are not repayable within twelve months from the end of the reporting period and are classified in the statement of financial position as non-current accordingly. The remaining HK\$16,442,000 was classified as current.

During the year ended 31 December 2009, the Group acquired an addition 40% interest in 南華集團(天津)服裝有限公司 ("Tianjin Garment"), a then 60%-owned associate of the Group, from a then joint-venture partner of Tianjin Garment. Subsequent to the acquisition, Tianjin Garment became an indirectly wholly-owned subsidiary of the Company.

In prior year, the Group completed the following acquisitions:

- (a) acquired an additional 41.7% interest in Nanjing South China Santa Machinery Co., Ltd ("SC Santa"), a then 51%-owned associate of the Group, indirectly through the acquisition of an 85% interest in 南京液壓件二廠有限公司 ("Nanjing Hydraulic Press"). Subsequent to the acquisition, SC Santa became an indirectly wholly-owned subsidiary of the Company;
- (b) acquired an additional 49% interest in Nanjing South China Hua Guan Compressor Ltd. ("SC Hua Guan"), a then 51%-owned associate of the Group, indirectly through the acquisition of the entire interest in 南京第二壓縮機有限公司 ("Nanjing Compressor"). Subsequent to the acquisition, SC Hua Guan became an indirectly wholly-owned subsidiary of the Company; and
- (c) acquired an additional 49% interest in Nanjing South China Sanda Motor Co., Ltd ("SC Sanda"), a then 51%-owned associate of the Group, indirectly through the acquisition of the entire interest in 南京電機有限公司 ("Nanjing Power Machinery"). Subsequent to the acquisition, SC Sanda became an indirectly wholly-owned subsidiary of the Company.

Further details of the acquisition are set out in note 46 to the financial statements.

The following table illustrates the summarised financial information of FWIL, extracted from its management accounts as adjusted for the fair value of the investment property based on the valuation performed by BMI Appraisals Limited.

	2009 HK\$'000	2008 HK\$'000
Assets	3,176,438	2,551,759
Liabilities	1,647,708	1,545,404
Revenue	141,918	137,220
Profit	632,375	5,209

The following table illustrates the summarised financial information of the Group's other associates extracted from their management accounts.

Other associates

	2009 HK\$'000	2008 HK\$'000
Assets	78,549	89,809
Liabilities	28,262	82,158
Revenue	53,521	163,313
Profit/(loss)	1,162	(16,816)

Details of a principal associate are set out in note 60 to the financial statements.

Notes to the Financial Statements

Year ended 31 December 2009

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Club debentures, at fair value	41,375	43,755
Unlisted equity investments, at cost	526	526
	41,901	44,281

During the year, the fair value loss in respect of the Group's club debentures recognised in other comprehensive income amounted to HK\$2,380,000 (2008: fair value gain of HK\$7,890,000) and no impairment in respect of the Group's debentures was recognised in the consolidated income statement (2008: Nil).

The above investments consist of the investments in unlisted equity securities and club debentures which were designated as available-for-sale financial assets.

The directors consider that the fair value of the unlisted equity investments cannot be measured reliably given the absence of market information for companies of similar nature and scale and the probabilities of the various estimates to be used in estimating fair value cannot be reasonably assessed. As such, the unlisted equity investments are carried at cost.

23. OTHER NON-CURRENT ASSETS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Berths, at costs	16,666	16,666
Others	—	4,883
	16,666	21,549

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24. PROPERTIES UNDER DEVELOPMENT

	Notes	Group	
		2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January		448,734	—
Additions		89,899	182,164
Interest capitalised	7	3,737	5,348
Depreciation capitalised	6	20	11
Transferred from construction in progress	18	—	241,509
Disposal of a subsidiary	47	(542,390)	—
Exchange realignment		—	19,702
Carrying amount at 31 December		—	448,734
Portion classified as current assets		—	(448,734)
Non-current portion		—	—

All properties under development are situated in Mainland China. An analysis by lease term of the carrying value of the properties under development is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Medium term leases	—	448,734

As set out in note 47(a) to the financial statements, a subsidiary holding the Group's properties under development was disposed of on 10 August 2009.

At 31 December 2008, certain properties under development with an aggregate carrying value of approximately HK\$154,632,000 were pledged to banks to secure banking facilities granted to the Group as further set out in notes 36 and 50 to the financial statements.

At 31 December 2008, leasehold interests in land located in the PRC with net carrying amount of approximately HK\$3,134,000 was in the process of applying for the land use rights certificate up to the approval date of the financial statements for the year ended 31 December 2008. The directors did not expect any legal obstacle in obtaining the relevant title certificate.

Notes to the Financial Statements

Year ended 31 December 2009

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2009, the Group committed to a plan to sell certain of its investment properties in Hong Kong and Taiwan (the “Disposable Assets”) which generate minimal revenue to the Group, so that the Group can focus on its property investment and development business in Mainland China, which the Group considered to be more profitable, and to provide additional financial resources to the Group’s operation. In the opinion of the directors, the disposal of the Disposable Assets is expected to be completed within twelve months from the financial year end date.

	Group	
	2009	2008
	HK\$’000	HK\$’000
Investment properties (note 16)	304,908	–

At 31 December 2009, the Group’s non-current assets classified as held for sale with a carrying value of HK\$281,950,000 were pledged and mortgaged to secure banking facilities and bank loans granted to the Group (notes 36 and 50).

26. INVENTORIES

	Group	
	2009	2008
	HK\$’000	HK\$’000
Raw materials	167,939	167,608
Work in progress	95,162	90,453
Finished goods	116,538	97,920
	379,639	355,981
Provision for inventories	(73,236)	(59,002)
	306,403	296,979

At 31 December 2009, the Group’s inventories with a value of HK\$150,446,000 (2008: HK\$142,989,000) were pledged to secure banking facilities granted to the Group (notes 36 and 50).

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Year ended 31 December 2009

27. TRADE RECEIVABLES

	Group	
	2009	2008
	HK\$'000	HK\$'000
Trade receivables	216,847	227,961
Impairment	(61,074)	(56,869)
	155,773	171,092

The Group's trading terms with its customers are on credit with credit periods ranging from period of one to three months depending on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by senior management. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 56 to the financial statements. Trade receivables are non-interest-bearing.

An aging analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within 90 days	140,528	151,416
91 to 180 days	1,975	10,877
181 to 365 days	6,151	3,521
Over 365 days	7,119	5,278
	155,773	171,092

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
At 1 January	56,869	61,483
Exchange realignment	—	(22)
Impairment losses recognised (note 6)	5,691	483
Impairment loss reversed (notes 5 and 6)	(280)	(1,063)
Amount written off as uncollectible	(727)	(50)
Disposal of subsidiaries	(479)	(3,962)
At 31 December	61,074	56,869

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Year ended 31 December 2009

27. TRADE RECEIVABLES (Continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivable of HK\$61,074,000 (2008: HK\$56,869,000) with a carrying amount before provision of HK\$61,074,000 (2008: HK\$56,869,000). The individually impaired trade receivables relate to customers that were in financial difficulties or with whom there were trade disputes. The Group does not hold any collateral or other credit enhancements over these balances.

The aging analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within 90 days	140,528	151,416
91 to 180 days	1,975	10,877
181 to 365 days	6,151	3,521
Over 365 days	7,119	5,278
	155,773	171,092

Receivables not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

At 31 December 2009, the Group's trade receivables with a value of HK\$7,705,000 were pledged to secure its banking facilities (notes 36 and 50).

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At 31 December 2009, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

29. DUE FROM/(TO) MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due from/(to) minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

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30. DUE FROM AFFILIATES

	Note	Group		Company	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Due from a related company [#]		3,205	—	—	—
Due from an associate	21	16,442	—	—	—
		19,647	—	—	—

[#] The Group entered into an agreement on 16 December 2009 (the “Agreement Date”) whereby the Group agreed to sell certain subsidiaries engaged in forest plantation (the “Disposal Group”) to a subsidiary of South China Holdings Limited, a company controlled by a substantial shareholder of the Company. Under the agreement, the Disposal Group is required to settle the amounts due to certain subsidiaries of the Company totaling HK\$6.2 million within three months from the Agreement Date. Further details have been set out in the announcement of the Company dated 16 December 2009. As at 31 December 2009, the amount due from the Disposal Group arising from this transaction was HK\$3.2 million.

The amounts due from affiliates are unsecured, and have no fixed terms of repayment. The amount due from an associate carries interest at 0.5% per annum (2008: 0.5% per annum) as further detailed in note 21 to the financial statements and the amount due from a related company is interest-free.

31. DUE TO AFFILIATES

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Due to an associate	—	1,846	—	—
Due to an intermediate holding company	—	8,062	—	11,624
Due to related companies [^]	15,688	224	15,187	—
	15,688	10,132	15,187	11,624

[^] The balance as at 31 December 2009 includes the Company's amount due to a related company, which represents the remaining contribution payable to SCL. Details about the contribution, which was approved in the extraordinary general meeting held on 10 August 2009, have been set out in the circular released on 23 July 2009. Certain directors of the related companies are also the directors of the Company.

Except for an amount due to a related company of HK\$501,000, which carries interest at Hong Kong dollar prime rate per annum (2008: nil), the amounts due to affiliates are unsecured, interest-free, and have no fixed terms of repayment.

Notes to the Financial Statements

Year ended 31 December 2009

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	HK\$'000	HK\$'000
Equity investments at market value listed in:		
Hong Kong	20,587	10,246
Mainland China	1,465	699
	22,052	10,945

The above equity investments at 31 December 2009 were classified as held for trading. The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$18,459,000.

33. CASH AND BANK BALANCES

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$68,204,000 (2008: HK\$66,912,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to the Financial Statements

Year ended 31 December 2009

34. TRADE AND BILLS PAYABLES

	Group	
	2009	2008
	HK\$'000	HK\$'000
Trade payables	281,474	268,108
Bills payable	6,910	3,516
	288,384	271,624

An aging analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within 90 days	212,307	191,942
91 to 180 days	13,842	22,298
181 to 365 days	8,827	2,925
Over 365 days	46,498	50,943
	281,474	268,108

The trade payables are non-interest-bearing and normally settled on 90-day terms.

35. OTHER PAYABLES AND ACCRUALS

Other payables are non-interest-bearing and have an average term of three months.

Notes to the Financial Statements

Year ended 31 December 2009

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2009 HK\$'000	2008 HK\$'000
Current				
Finance lease payables (note 37)	—	—	—	1,439
Bank overdrafts – secured	—	—	—	872
Bank loans – unsecured	1.58 – 5.00	2010	22,646	8,371
Bank loans – secured	1.06 – 6.20	2010	232,647	247,944
Trust receipt loans – secured	1.05 – 3.62	2010	150,446	142,989
			405,739	401,615
Non-current				
Bank loans – unsecured	1.58 – 5.00	2011-2014	17,947	—
Bank loans – secured	1.06 – 2.50	2011-2017	84,995	281,845
			102,942	281,845
			508,681	683,460
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand			405,739	400,176
In the second year			26,715	141,822
In the third to fifth years, inclusive			53,621	104,107
Over five years			22,606	35,916
			508,681	682,021
Finance leases repayable:				
Within one year or on demand			—	1,439
			508,681	683,460

Notes:

- (a) At the end of the reporting period, the Group's bank and other borrowings of approximately HK\$468,088,000 (2008: HK\$675,089,000) are secured by:
- (i) pledges and mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK\$315,607,000 (2008: HK\$478,237,000) (note 16);
 - (ii) pledges and mortgages over the Group's non-current assets classified as held for sale, which had an aggregate carrying value at the end of the reporting period of approximately HK\$281,950,000 (2008: Nil) (note 25);
 - (iii) pledges and mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately HK\$103,170,000 (2008: HK\$65,087,000) (note 15);

Notes to the Financial Statements

Year ended 31 December 2009

36. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(a) (Continued)

(iv) pledges over the Group's trade receivables which had an aggregate carrying value at the end of the reporting period of approximately HK\$7,705,000 (2008: Nil) (note 27);

(v) pledges over the Group's inventories which had an aggregate carrying value at the end of the reporting period of approximately HK\$150,446,000 (2008: HK\$142,989,000) (note 26);

As at 31 December 2008, the Group's bank and other borrowings were also secured by pledges over the Group's properties under development with an aggregate carrying value of approximately HK\$154,632,000 (note 24) and charges over the Group's machinery and equipment, which had an aggregate carrying value of approximately HK\$3,169,000 (note 15);

(b) Except for secured bank loans with an aggregate amount of HK\$98,959,000 (2008: HK\$45,413,000) which are denominated in Renminbi and unsecured bank loans of HK\$15,182,000 (2008: HK\$8,371,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

The carrying amounts of the Group's and the Company's borrowings are approximate to their fair values. The fair values of borrowings are estimated to be the present values of future cash flows, discounted at prevailing interest rates at 31 December 2009.

37. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicle for its business operations. These leases were classified as finance leases.

The total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payment		Present value of minimum lease payments	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Amounts payable:				
Within one year	—	1,459	—	1,439
In the second year	—	—	—	—
Total minimum finance lease payments	—	1,459	—	1,439
Future finance charges	—	(20)		
Total net finance lease payables	—	1,439		
Portion classified as current liabilities (note 36)	—	(1,439)		
Non-current portion	—	—		

Notes to the Financial Statements

Year ended 31 December 2009

38. ADVANCE FROM A DIRECTOR

The advance from a director is unsecured, interest-bearing at Hong Kong dollar prime rate per annum and has no fixed terms of repayment. In the opinion of the directors, the amount will not be repayable within twelve months from the end of the reporting period and are, therefore, presented in the consolidated statement of financial position as non-current.

39. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the end of the reporting period and are, therefore, presented in the consolidated statement of financial position as non-current.

40. OTHER NON-CURRENT LIABILITIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Provision for severance payments	76,617	76,866
Others	8,553	8,553
	85,170	85,419

The movement in the provision for severance payments is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
At 1 January	76,866	41,259
Exchange realignment	—	4,374
Acquisition of subsidiaries (note 46)	—	31,856
Amounts utilised during the year	(249)	(623)
At 31 December	76,617	76,866
Portion classified as current liabilities	—	—
Non-current portion	76,617	76,866

The provision for severance payments arose from the acquisition of certain PRC subsidiaries in prior years, and was recognised under the relevant regulations in Mainland China.

Notes to the Financial Statements

Year ended 31 December 2009

41. PROMISSORY NOTES

	Effective interest rate (%)	Group 2009 HK\$'000	2008 HK\$'000
Issued to a substantial shareholder	2.00	—	97,079

During the year ended 31 December 2009, the promissory notes and interest thereto were fully settled through offsetting the consideration payable arisen from the exercise of warrants by the substantial shareholder as further detailed in note 43 to the financial statements and in the announcement of the Company dated 16 July 2009.

During the year ended 31 December 2008, the Group issued an additional promissory note with a principal amount of HK\$1,120,000 to a substantial shareholder of the Group for the acquisition of an additional 0.79% equity interest in a subsidiary. The promissory notes are unsecured, wholly repayable on 17 June 2010 and 8 July 2010 and carries interest at 2% per annum. The carrying amounts of the promissory notes are approximate to their fair values.

42. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Withholding tax HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2008	16,111	132,605	—	(14,604)	134,112
Exchange realignment	(449)	10,909	—	—	10,460
Deferred tax charged/(credited) to the income statement (note 10)	(874)	10,133	—	802	10,061
Acquisition of subsidiaries (note 46)	—	74,947	—	—	74,947
At 31 December 2008	14,788	228,594	—	(13,802)	229,580
At 1 January 2009	14,788	228,594	—	(13,802)	229,580
Deferred tax charged/(credited) to the income statement (note 10)	(630)	(8,802)	482	9,651	701
Acquisition of subsidiaries (note 46)	—	2,136	—	—	2,136
At 31 December 2009	14,158	221,928	482	(4,151)	232,417

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Year ended 31 December 2009

42. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Tax losses	398,148	393,453	22,540	26,436

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$104,321,000 (2008: HK\$100,547,000) in the past five years for offsetting against future taxable profits. Such tax losses will expire in one to five years. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors by the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of those foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding income tax on dividend distributed from profits generated from 1 January 2008 onwards by its subsidiaries established in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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Year ended 31 December 2009

43. SHARE CAPITAL

Shares

	Number of shares	Amount HK\$'000
Authorised:		
Share of HK\$ 0.02 each at 1 January 2009 and 31 December 2009	5,000,000,000	100,000
	Number of shares	Amount HK\$'000
Issued and fully paid:		
Share of HK\$0.02 each at 1 January 2008	2,651,880,726	53,038
Warrants exercised (note a)	94,700	2
Share of HK\$0.02 each at 31 December 2008	2,651,975,426	53,040
Warrants exercised (note a)	319,219,388	6,384
Share of HK\$0.02 each at 31 December 2009	2,971,194,814	59,424

Note:

- (a) During the year ended 31 December 2009, 319,219,388 shares (2008: 94,700 shares) of HK\$0.02 each were issued at a subscription price of HK\$0.4 per share pursuant to the exercise of the Company's warrants, of which 245,302,933 shares were issued upon the exercise of warrants by a substantial shareholder of the Company. The total consideration before expenses was HK\$127,687,000 (2008: HK\$38,000), of which HK\$29,566,000 (2008: HK\$38,000) was settled in cash. The remaining consideration of HK\$98,121,000 was settled through offsetting the promissory notes and interest thereon totalling HK\$98,121,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2008	2,651,880,726	53,038	193,488	246,526
Warrants exercised	94,700	2	36	38
At 31 December 2008 and at 1 January 2009	2,651,975,426	53,040	193,524	246,564
Warrants exercised	319,219,388	6,384	121,303	127,687
Transfer to retained profits	—	—	(314,731)	(314,731)
At 31 December 2009	2,971,194,814	59,424	96	59,520

43. SHARE CAPITAL *(Continued)***Share options**

Details of the Company's share option scheme and the share options issued under the scheme are set out in note 44 to the financial statements.

Warrants

At 1 January 2009, the Company had 530,033,026 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares in the Company of HK\$0.02 each at a subscription price of HK\$0.40 per share, subject to adjustment, on or before 6 September 2010. During the year, 319,219,388 warrants were exercised. At the end of the reporting period, the Company had 210,813,638 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 210,813,638 additional shares of HK\$0.02 each.

44. SHARE OPTION SCHEME

The directors and employees of the Company and its subsidiaries are entitled to participate in share option scheme operated by the Company (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

(a) Purpose of the Share Option Scheme

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees of appropriate qualifications and with necessary experience to work for the Group and any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of the Company approved the adoption of the Share Option Scheme at the annual general meeting held on 31 May 2002.

(b) Participants of the Share Option Scheme

According to the Share Option Scheme, the board may, at its discretion, grant options to any person belonging to any of the following classes of participants to subscribe for share:—

- (i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;
- (ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;
- (iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;
- (iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;
- (v) any business partner, agent, consultant, contractor or representative of any member of the Group or any Invested Entity or substantial shareholder;
- (vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;
- (vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

Notes to the Financial Statements

Year ended 31 December 2009

44. SHARE OPTION SCHEME

(b) Participants of the Share Option Scheme *(Continued)*

- (viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;
- (ix) any other group or classes of participants from time to time determined by the Directors as having contributed or may contribute to the development and growth of any member of the Group (including any discretionary object of a participant which is a discretionary trust); and
- (x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(c) Total number of shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which share options may be granted shall not exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme, ie, a total of 265,167,371 shares.

As at 31 December 2009, the total number of shares available for issue pursuant to the grant of further share options under the Share Option Scheme is 164,367,371, representing approximately 5.53% of the issued share capital of the Company as at the date of this Annual Report.

(d) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any 12 month period up to and including the date of grant to such participant would exceed in aggregate 1% of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

(e) Period within which the shares must be taken up under an option

The board of the Company may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

(f) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the Share Option Scheme provide that the board of the Company has the discretion to impose a minimum period at the time of grant of any particular option.

44. SHARE OPTION SCHEME**(g) Amount payable upon acceptance of the option and the period within which the payment must be made**

An amount of HK\$1 for each lot of share options granted is payable upon acceptance of the options within 5 business days from the date of offer of the option.

(h) Basis of determining the exercise price of the option

The exercise price is determined by the board of the Company, and shall be at least the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

(i) Remaining life of the share option scheme

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 18 June 2002.

The following share options were outstanding under the share option scheme of the Company during the year:

	2009		2008	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.5	101,800	1.5	114,500
Forfeited during the year	1.5	(1,000)	1.5	(12,700)
At 31 December	1.5	100,800	1.5	101,800

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44. SHARE OPTION SCHEME (Continued)

Particulars and movements during the year of the outstanding share options granted under the Share Options Scheme were as follows:

Name or category of participant	Number of share options						Outstanding as at 31 December 2009	Date of grant of share options (DD/MM/YYYY)	Exercise period of share options (DD/MM/YYYY)	Subscription price per share HK\$ (Note 3)
	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Re-classified (Note 1)				
Directors of the Company										
Cheung Choi Ngor	8,666,666	-	-	-	-	-	8,666,666	18/09/2007	18/09/2008 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2009 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2010 to 17/09/2017	1.500
Ng Yuk Fung, Peter	8,666,666	-	-	-	-	-	8,666,666	18/09/2007	18/09/2008 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2009 to 17/09/2017	1.500
	8,666,667	-	-	-	-	-	8,666,667	18/09/2007	18/09/2010 to 17/09/2017	1.500
Sub-total	52,000,000	-	-	-	-	-	52,000,000			
Employees										
In aggregate	11,666,665	-	-	(333,333)	-	(8,999,999)	2,333,333	18/09/2007	18/09/2008 to 17/09/2017	1.500
	11,666,666	-	-	(333,333)	-	(9,000,000)	2,333,333	18/09/2007	18/09/2009 to 17/09/2017	1.500
	11,666,669	-	-	(333,334)	-	(9,000,001)	2,333,334	18/09/2007	18/09/2010 to 17/09/2017	1.500
	3,533,332	-	-	-	-	(3,433,332)	100,000	25/09/2007	25/09/2008 to 24/09/2017	1.500
	3,533,332	-	-	-	-	(3,433,332)	100,000	25/09/2007	25/09/2009 to 24/09/2017	1.500
	3,533,336	-	-	-	-	(3,433,336)	100,000	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	45,600,000	-	-	(1,000,000)	-	(37,300,000)	7,300,000			
Others										
In aggregate	1,399,999	-	-	-	-	8,999,999	10,399,998	18/09/2007	18/09/2008 to 17/09/2017	1.500
	1,399,999	-	-	-	-	9,000,000	10,399,999	18/09/2007	18/09/2009 to 17/09/2017	1.500
	1,400,002	-	-	-	-	9,000,001	10,400,003	18/09/2007	18/09/2010 to 17/09/2017	1.500
	-	-	-	-	-	3,433,332	3,433,332	25/09/2007	25/09/2010 to 24/09/2017	1.500
	-	-	-	-	-	3,433,332	3,433,332	25/09/2007	25/09/2010 to 24/09/2017	1.500
	-	-	-	-	-	3,433,336	3,433,336	25/09/2007	25/09/2010 to 24/09/2017	1.500
Sub-total	4,200,000	-	-	-	-	37,300,000	41,500,000			
Total	101,800,000	-	-	(1,000,000)	-	-	100,800,000			

44. SHARE OPTION SCHEME *(Continued)*

Notes:

1. Due to internal re-organization, certain employees holding options under the Scheme had been re-classified. Consequently, 37,300,000 options were re-classified from "Employees" to "Others".
2. All share options granted are subject to a vesting period and become exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage
Within 12 months	Nil
13th – 24th month	not more than 33 ¹ / ₃ %
25th – 36th month	not more than 66 ² / ₃ %
37th – 120th month	100%

3. The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

No share options have been granted, exercised or cancelled during the year ended 31 December 2009. The Group recognised a share option expense of HK\$12,586,000 (2008: HK\$20,219,000) during the year ended 31 December 2009.

At the end of the reporting period, the Company had 100,800,000 share options outstanding under the scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 100,800,000 additional ordinary shares of the Company with additional share capital of HK\$2,016,000 and share premium of HK\$149,184,000 (before issue expenses).

The fair value of equity-settled share options granted during the year ended 31 December 2007 estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted by using a trinomial model amounted to HK\$62,481,000. The following table lists the inputs to the model used:

	Options granted in 2007
Dividend yield (%)	3.00
Average expected volatility (%)	101.01
Average historical volatility (%)	101.01
Average risk-free interest rate (%)	3.96
Expected life of options (year)	3-5
Weighted average share price immediately preceding the grant of share options (HK\$ per share)	0.88

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

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Year ended 31 December 2009

44. SHARE OPTION SCHEME (Continued)

Share option scheme of SCL

As disclosed in note 47 to the financial statements, SCL, a then subsidiary of the Group, was disposed of in August 2009 upon the Distribution. Subsequent to the Distribution, the share option scheme of SCL ceased to be a share option scheme operated by the Group.

The following share options were outstanding under the share option scheme of SCL during the period from 1 January 2009 to the date of Distribution:

	Period from 1 January 2009 to the date of Distribution		Year ended 31 December 2008	
	Weighted average exercise price** HK\$ per share	Number of options* '000	Weighted average exercise price** HK\$ per share	Number of options* '000
At 1 January	0.247	16,000	0.247	16,000
Exercised during the period/year	0.279	(2,000)	—	—
At end of period/year	0.242	14,000	0.247	16,000

Notes:

* All share options granted are subject to a vesting period and becoming exercisable in the following manner:

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th month – 36th month	33 ¹ / ₃
25th month – 48th month	33 ¹ / ₃
37th month – 60th month	33 ¹ / ₃

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

** The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of SCL.

The fair value of the share options of SCL granted during the year ended 31 December 2007 was HK\$3,765,000. SCL recognised a share option expense of HK\$339,000 during the period from 1 January 2009 to the date of Distribution (year ended 31 December 2008: HK\$1,314,000).

44. SHARE OPTION SCHEME *(Continued)***Share option scheme of SCL** *(Continued)*

The fair value of equity-settled share options granted during the year ended 31 December 2007 was estimated as at the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	0.00
Average expected volatility (%)	464
Average historical volatility (%)	464
Average risk-free interest rate (%)	4.20
Expected life of options (year)	5
Weighted average share price (HK\$ per share)	0.228

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

45. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 27 to 28 of the financial statements.

(b) Company

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2008		193,488	223	195,775	10,787	47,119	447,392
Warrants exercised	43	36	—	—	—	—	36
Total comprehensive income for the year	11	—	—	—	—	203,501	203,501
Equity-settled share option arrangements		—	—	—	20,219	—	20,219
Proposed final dividend	12	—	—	—	—	(2,122)	(2,122)
At 31 December 2008 and 1 January 2009		193,524	223	195,775	31,006	248,498	669,026
Warrants exercised	43	121,303	—	—	—	—	121,303
Transfer to retained profits		(314,731)	—	(195,775)	—	510,506	—
Total comprehensive income for the year	11	—	—	—	—	580,129	580,129
Equity-settled share option arrangements		—	—	—	12,585	—	12,585
Effect of distribution in specie		—	—	—	—	(1,213,896)	(1,213,896)
Proposed final dividend	12	—	—	—	—	(29,714)	(29,714)
At 31 December 2009		96	223	—	43,591	95,523	139,433

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Year ended 31 December 2009

45. RESERVES

(b) Company (Continued)

The Company's reserves available for distribution represent the share premium, capital redemption reserve, contributed surplus, share option reserve and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2009 amounted to approximately HK\$139,433,000 (2008: HK\$669,026,000).

46. BUSINESS COMBINATIONS

On 14 October 2009, the Group acquired a 40% interest in Tianjin Garment from the joint venture partner of Tianjin Garment. The purchase consideration for the acquisition amounted to RMB6,670,000 (equivalent to HK\$7,570,000), was paid in cash in October 2009. Subsequent to the acquisition, Tianjin Garment became a wholly-owned subsidiary of the Group.

The fair values of the identifiable assets and liabilities and contingent liabilities of Tianjin Garment as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	15	435	435
Investment properties	16	13,961	5,417
Cash and bank balances		70	70
Trade receivables		126	126
Inventories		122	122
Prepayments, deposits and other receivables		12,364	12,364
Trade payables		(1,860)	(1,860)
Bank and other borrowings		(6,810)	(6,810)
Due to fellow subsidiaries		(366)	(366)
Other payables and accruals		(11,836)	(11,836)
Deferred tax liabilities	42	(2,136)	—
		4,070	(2,338)
Goodwill on acquisition	19	3,500	
Satisfied by cash		7,570	

The investment properties of Tianjin Garment were revalued on 14 October 2009 by BMI Appraisals Limited, on an open market, existing use basis.

Notes to the Financial Statements

Year ended 31 December 2009

46. BUSINESS COMBINATIONS (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary is as follows:

	HK\$'000
Cash consideration	7,570
Cash and bank balances acquired	(70)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary	7,500

Since the acquisition on 14 October 2009, Tianjin Garment contributed a loss of HK\$609,000 to the Group's consolidated profit for the year ended 31 December 2009.

On 15 January 2008, the Group completed the following acquisitions:

- (a) acquired an 85% interest in Nanjing Hydraulic Press from the holding company of the joint venture partner of SC Santa, a former 51%-owned associate. Nanjing Hydraulic Press holds certain properties, and is engaged in manufacturing of hydraulic press. The purchase consideration for the acquisition was in the form of cash of RMB1,994,000 which was paid in December 2007. Subsequent to the acquisition, the Group has control in SC Santa with an effective interest of 92.7%.
- (b) acquired the entire interest in Nanjing Compressor from the holding company of the joint venture partner of SC Hua Guan, a former 51%-owned associate. Nanjing Compressor holds certain properties, and is engaged in manufacturing of compressor. The purchase consideration for the acquisition was in the form of cash of RMB28,528,000 which was paid in December 2007. Subsequent to the acquisition, SC Hua Guan became a wholly-owned subsidiary of the Group.
- (c) acquired the entire interest in Nanjing Power Machinery from the holding company of the joint venture partner of SC Sanda, a former 51%-owned associate. Nanjing Power Machinery holds certain properties, and is engaged in trading of flowers. The purchase consideration for the acquisition was in the form of cash of RMB25,261,000 which was paid in December 2007. Subsequent to the acquisition, SC Sanda became a wholly-owned subsidiary of the Group.

Notes to the Financial Statements

Year ended 31 December 2009

46. BUSINESS COMBINATIONS (Continued)

The fair values of the identifiable assets and liabilities of Nanjing Compressor, Nanjing Power Machinery and Nanjing Hydraulic Press (the “Acquired Entities”) as at the date of acquisition and their corresponding carrying amounts immediately before their acquisitions were as follows:

	Fair value recognised on acquisition of Nanjing Compressor HK\$'000	Fair value recognised on acquisition of Nanjing Power Machinery HK\$'000	Fair value recognised on acquisition of Nanjing Hydraulic Press HK\$'000	Total HK\$'000	Carrying amount of Nanjing Compressor HK\$'000	Carrying amount of Nanjing Power Machinery HK\$'000	Carrying amount of Nanjing Hydraulic Press HK\$'000
Property, plant and equipment (note 15)	340	5,853	33,045	39,238	2,002	2,274	23,377
Investment properties (note 16)	110,959	155,902	137,267	404,128	26,031	43,610	34,697
Prepaid land lease payments (note 17)	–	10,196	16,065	26,261	–	10,790	4,755
Construction in progress (note 18)	–	–	1,352	1,352	–	–	1,352
Interest in associates	11,929	–	–	11,929	11,929	–	–
Available-for-sale financial assets	471	–	–	471	471	–	–
Inventories	4,414	26	6,285	10,725	9,538	26	7,464
Financial assets at fair value							
through profit or loss	–	–	1,599	1,599	–	–	1,599
Trade receivables	707	16	5,929	6,652	4,273	16	8,420
Prepayments, deposits and other receivables	9,751	127	720	10,598	22,275	338	1,152
Amounts due from fellow subsidiaries	2,083	–	–	2,083	2,083	–	–
Amount due from/(to) a minority shareholder	6,781	(3,958)	(21,371)	(18,548)	6,781	(3,958)	(21,371)
Cash and bank balances	4,449	1,523	226	6,198	4,449	1,523	226
Trade payables	(10,422)	(35)	(34,111)	(44,568)	(10,422)	(35)	(34,111)
Other payables and accruals	(12,644)	(17,189)	(33,151)	(62,984)	(12,644)	(17,189)	(33,151)
Amount due to a fellow subsidiary	(3,649)	(1,615)	(15,159)	(20,423)	(3,649)	(1,615)	(15,159)
Amount due to an intermediate holding company	(4,115)	–	–	(4,115)	(4,115)	–	–
Interest-bearing bank and other borrowings	–	(652)	(543)	(1,195)	–	(652)	(543)
Tax payable	(5,560)	–	–	(5,560)	(5,560)	–	–
Provision for severance payments (note 40)	(8,327)	(11,196)	(12,333)	(31,856)	(8,327)	(11,196)	(12,333)
Other non-current liabilities	(570)	–	(7,602)	(8,172)	(570)	–	(7,602)
Deferred tax liabilities (note 42)	(21,232)	(28,073)	(25,642)	(74,947)	–	–	–
Minority interest	(489)	–	(10,971)	(11,460)	(489)	–	4,811
	84,876	110,925	41,605	237,406	44,056	23,932	(36,417)
Excess over the cost of business combinations	(49,531)	(83,833)	(39,467)	(172,831)			
	35,345	27,092	2,138	64,575			
Satisfied by:							
Prepayment for acquisition of subsidiaries	30,595	27,092	2,138	59,825			
Reclassification from interests in associate to interests in subsidiaries	4,750	–	–	4,750			
	35,345	27,092	2,138	64,575			

Notes to the Financial Statements

Year ended 31 December 2009

46. BUSINESS COMBINATIONS (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Nanjing Compressor HK\$'000	Nanjing Power Machinery HK\$'000	Nanjing Hydraulic Press HK\$'000	Total HK\$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4,449	1,523	226	6,198

The Acquired Entities' investment properties, prepaid land lease payments and leasehold buildings were revalued on 15 January 2008 by BMI Appraisals Limited on an open market, existing use basis.

- (i) Since the acquisition on 15 January 2008, Nanjing Compressor contributed a loss of HK\$5,731,000 to the Group's consolidated profit for the year ended 31 December 2008.
- (ii) Since the acquisition on 15 January 2008, Nanjing Power Machinery contributed a loss of HK\$5,252,000 to the Group's consolidated profit for the year ended 31 December 2008.
- (iii) Since the acquisition on 15 January 2008, Nanjing Hydraulic Press contributed a loss of HK\$9,320,000 to the Group's consolidated profit for the year ended 31 December 2008.

47. DISPOSAL OF INTERESTS IN SUBSIDIARIES

- (a) On 23 July 2009, the Company issued a circular about the proposed conversion of the convertible notes with a total principal amount of HK\$800 million carrying a right to subscribe for shares in SCL at HK\$0.075 each (the "Conversion") held by Skychance Limited, an indirect wholly-owned subsidiary of the Company, and the proposal to declare a special interim distribution to be satisfied by way of a distribution in specie (the "Distribution") comprising the Company's entire beneficial shareholding in 11,020,580,869 shares of HK\$0.01 each in SCL, representing approximately 98.6% of the issued share capital of SCL, held by the Company after the Conversion. As part of the conditions for the Distribution, the Group had agreed, at the request of SCL, to make a contribution in an amount of HK\$280 million, including a capitalisation of loan from the Group amounted to HK\$176 million at the date of the Distribution (the "Contribution"). Accordingly, an amount due to SCL of HK\$104 million was recognised in the consolidated statement of financial position of the Group at the date of the Distribution. Immediately upon the Conversion and the Contribution, the Group's investment in SCL was approximately HK\$1,214 million. Details of which are disclosed in the announcement and circular of the Company dated 3 July 2009 and 23 July 2009, respectively.

As detailed in the announcement of the Company dated 10 August 2009, the Distribution and Contribution in the conditions set out in the abovementioned circular were approved in the extraordinary general meeting held on 10 August 2009 and the Distribution was to be made on the basis of approximately 370.946 shares in SCL for every 100 ordinary shares in the Company held by the Company's shareholders whose names appeared on the register of members of the Company on 10 August 2009.

Following the Distribution, SCL and its subsidiaries (the "SCL Group") ceased to be subsidiaries of the Company. The results of SCL Group ceased to be accounted for in the consolidated financial statements of the Group.

SCL is a company engaged in the business of property development and magazines publication with its shares listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (stock code: 8155).

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47. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(Continued)*

(a) *(Continued)*

On 16 December 2009, the Company announced the disposal of Eagle Bonus Limited and its subsidiaries ("Eagle Bonus Group"), which is engaged in forest plantation in the PRC, to a subsidiary of South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability with its shares listed on The Stock Exchange of Hong Kong Limited, for cash consideration of HK\$8.5 million. The Company and South China Holdings Limited are ultimately controlled by a substantial shareholder of the Company.

	SCL HK\$'000	Eagle Bonus HK\$'000	Total HK\$'000
Net assets disposed of:			
Property, plant and equipment (note 15)	1,555	2,099	3,654
Prepaid land lease payments (note 17)	—	9,815	9,815
Goodwill (note 19)	24,203	—	24,203
Other non-current assets	139,129	—	139,129
Properties under development (note 24)	542,390	—	542,390
Cash and bank balances	51,177	2,131	53,308
Trade receivables	4,098	—	4,098
Prepayments, deposits and other receivables	21,797	252	22,049
Due from fellow subsidiaries	104,079	—	104,079
Due from a minority shareholder of a subsidiary	28,569	—	28,569
Trade payables	(5,077)	(6)	(5,083)
Other payables and accruals	(47,229)	(3,210)	(50,439)
Interest-bearing bank and other borrowings	(307,594)	—	(307,594)
Due to fellow subsidiaries	—	(3,238)	(3,238)
Due to a related company	(4,167)	—	(4,167)
Minority interests	(53,171)	—	(53,171)
Release of capital reserve	(4,122)	—	(4,122)
Release of merger reserve	85,786	—	85,786
Release of share option reserve	(1,827)	—	(1,827)
	579,596	7,843	587,439
Exchange reserve realised	(691)	(63)	(754)
Gain on disposal of subsidiaries	—	720	720
	578,905	8,500	587,405
Satisfied by:			
Cash	—	8,500	8,500
Special interim distribution (note 12)	578,905	—	578,905
	578,905	8,500	587,405

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Year ended 31 December 2009

47. DISPOSAL OF INTERESTS IN SUBSIDIARIES (Continued)

(a) (Continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of interests in subsidiaries is as follows:

	SCL HK\$'000	Eagle Bonus HK\$'000	Total HK\$'000
Cash consideration	—	8,500	8,500
Cash and bank balances disposed of	(51,177)	(2,131)	(53,308)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	(51,177)	6,369	(44,808)

Prior to the disposal, SCL Group and Eagle Bonus Group contributed losses of HK\$21,693,000 and HK\$12,962,000, respectively, to the Group's consolidated profit for the year ended 31 December 2009, respectively.

(b) In prior year, the Group disposed of its entire interest in Sino Cosmo International Ltd. ("Sino Cosmo") and 南京大地水射流有限公司 ("水射流") to independent third parties:

	Sino Cosmo HK\$'000	水射流 HK\$'000
Net assets disposed of:		
Available-for-sale financial assets	—	2,435
Prepayments, deposits and other receivables	13	1,059
Other payables and accruals	(9)	(204)
	4	3,290
Exchange reserve realised	—	(515)
Gain/(loss) on disposal of subsidiaries	996	(677)
	1,000	2,098
Satisfied by:		
Cash	1,000	2,098

Prior to the disposal, the aggregate contribution from Sino Cosmo and 水射流 to the Group's consolidated profit for the year ended 31 December 2008 was insignificant.

48. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

- As further detailed in notes 41 and 43 to the financial statements, a substantial shareholder of the Group has exercised 245,302,933 warrants of the Company and the consideration of HK\$98,121,000 was settled through offsetting the promissory notes and the interest accrued thereon totalling HK\$98,121,000.
- On 18 August 2009, the Company made Contribution to and increased its equity interest in SCL from 69.9% to 98.6% through the Conversion. These resulted in an increase in minority interest and goodwill of HK\$21,700,000. On the same date, the Company disposed of SCL through the Distribution. Further details have been set out in note 47 to the financial statements.
- During the year ended 31 December 2008, promissory notes of HK\$1,120,000 were issued for the acquisition of an additional 0.79% equity interests in SCL.

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Year ended 31 December 2009

49. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Guarantees given to banks in connection with banking facilities granted to:				
FWIL	396,000	396,000	396,000	396,000
Nority	—	5,300	—	5,300
Subsidiaries	—	—	923,957	1,217,570
Undertaking given to a former associate for banking facilities utilised by the former associate	13,526	13,526	13,526	13,526
	409,526	414,826	1,333,483	1,632,396

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$479,203,000 (2008: HK\$673,708,000) and the banking facilities guaranteed by the Company to FWIL was utilised to the extent of approximately HK\$359,250,000 (2008: HK\$379,800,000). As at 31 December 2008, Nority utilised the banking facilities guaranteed by the Company to the extent of approximately HK\$14,700,000, which was fully provided for by the Company. As further detailed in note 21 to the financial statements, the Group has settled the outstanding loans drawn under that banking facility on behalf of Nority during the year ended 31 December 2009 and the Company ceased to provide any guarantee for banking facility granted to Nority thereafter.

50. PLEDGE OF ASSETS

Assets pledged to secure the banking facilities granted to the Group at the end of the reporting period are analysed as follows:

	2009 HK\$'000	2008 HK\$'000
Net book value of pledged assets:		
Leasehold land and buildings	103,170	65,087
Machinery and equipment	—	3,169
Investment properties	315,607	478,237
Non-current assets classified as held for sale	281,950	—
Inventories	150,446	142,989
Properties under development	—	154,632
Trade receivables	7,705	—
	858,878	844,114

51. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	39,028	46,571
In the second to fifth years, inclusive	85,717	89,667
Over five years	7,777	10,169
	132,522	146,407

(b) As lessee

The Group leases certain of its factory and office premises under operating lease arrangements. Leases for these factory premises are negotiated for terms ranging from three months to ten years, and those for office premises are for terms of one to two years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	7,967	11,327
In second to fifth years, inclusive	21,337	32,391
Over five years	52,860	55,219
	82,164	98,937

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52. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 51(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Contracted but not provided for:		
Machinery and equipment	2,688	5,699
Land use rights	5,590	5,590
	8,278	11,289
Authorised but not contracted for:		
Machinery and equipment	79	478

53. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:**

	Notes	2009 HK\$'000	2008 HK\$'000
Interest expense paid to an intermediate holding company	(iii)	274	—
Transactions with associates:			
Interest income	(iv)	61	40
Rental income received	(i)	1,544	2,981
Transactions with fellow subsidiaries:			
Rental income**	(i)	1,542	3,684
Air tickets and travel related services purchased*	(i)	1,224	3,144
Interest expense paid*	(ii)	—	104
Transactions with related companies#:			
Rental income received**	(i)	5,203	3,483
Air tickets and travel related services purchased	(i)	1,192	—
Colour separation and photo processing fees paid	(v)	118	193
Interest expense paid	(vi)	466	—
Interest expense paid to a director	(iii)	663	—

The related companies are controlled by a substantial shareholder, who is also a director of the Company.

Notes:

- (i) These transactions were charged at prevailing market rates.
- (ii) The interest expense was charged at prevailing market lending rates with reference to the term offered to the customers of the relevant company.
- (iii) The interest expense was charged at Hong Kong dollar prime rate per annum on the advances from a director and an intermediate holding company.
- (iv) The interest was charged at a rate of 0.5% per annum on the outstanding advances to FWIL.
- (v) These transactions were conducted in accordance with the terms mutually agreed between the Group and the related companies.
- (vi) The interest expense was charged at Hong Kong dollar prime rate per annum with reference to the terms offered to similar customers of the related company.

Notes to the Financial Statements

Year ended 31 December 2009

53. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties:

- (i) A substantial shareholder exercised 245,302,933 warrants and the related consideration was settled through offsetting the promissory notes held by the substantial shareholder and interest accrued thereon. Details are set out in notes 41 and 43 to the financial statements.
- (ii) Details of a guarantee given by the Group to FWIL and Nority are set out in notes 21 and 49 to the financial statements.

(c) Outstanding balances with related parties:

Details of the balances with related parties at the end of the reporting period are included in notes 21, 29, 30, 31, 38 and 39 to the financial statements.

(d) Compensation of key management personnel of the Group:

The executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

* The related party transactions also constitute exempted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Further details of the transactions are disclosed in the section headed “Connected and Continuing Connected Transactions” in the Report of the Directors.

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54. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

Group	2009			
Financial assets				
	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Advances to associates (note 21)	–	16,312	–	16,312
Available-for-sale financial assets	–	–	41,901	41,901
Trade receivables	–	155,773	–	155,773
Financial assets included in prepayments, deposits and other receivables	–	72,743	–	72,743
Due from a related company (note 30)	–	3,205	–	3,205
Due from an associate (note 30)	–	16,442	–	16,442
Financial assets at fair value through profit or loss	22,052	–	–	22,052
Cash and bank balances	–	174,907	–	174,907
	22,052	439,382	41,901	503,335

Group	2009
Financial liabilities	
	Financial liabilities at amortised cost HK\$'000
Trade and bills payables	288,384
Financial liabilities included in other payables and accruals	223,877
Interest-bearing bank and other borrowings (note 36)	508,681
Advances from a minority shareholder of subsidiaries	50,043
Due to related companies (note 31)	15,688
Advance from a director	38,409
	1,125,082

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54. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group	2008			
Financial assets				
	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Advances to associates (note 21)	–	16,312	–	16,312
Available-for-sale financial assets	–	–	44,281	44,281
Trade receivables	–	171,092	–	171,092
Financial assets included in prepayments, deposits and other receivables	–	73,768	–	73,768
Due from a minority shareholder of a subsidiary	–	25,845	–	25,845
Financial assets at fair value through profit or loss	10,945	–	–	10,945
Cash and bank balances	–	150,497	–	150,497
	10,945	437,514	44,281	492,740
Group				2008
Financial liabilities				
			Financial liabilities at amortised cost HK\$'000	
Trade and bills payables				271,624
Financial liabilities included in other payables and accruals				186,070
Interest-bearing bank and other borrowings (note 36)				683,460
Advances from a minority shareholder of subsidiaries				49,018
Due to an associate (note 31)				1,846
Due to an intermediate holding company (note 31)				8,062
Due to related companies (note 31)				224
Promissory notes				97,079
				1,297,383

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54. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

Financial assets

	Loans and receivables	
	2009 HK\$'000	2008 HK\$'000
Due from subsidiaries (note 20)	1,515,023	1,218,758
Other receivables	10,572	10,570
Cash and bank balances	268	142
	1,525,863	1,229,470

Company

Financial liabilities

	Financial liabilities at amortised cost	
	2009 HK\$'000	2008 HK\$'000
Due to an intermediate holding company (note 31)	—	11,624
Due to related companies (note 31)	15,187	—
Due to subsidiaries	1,514,887	712,177
Financial liabilities included in other payables and accruals	1,236	799
	1,531,310	724,600

55. FAIR VALUE HIERARCHY

The Group uses the following hierarchy in determining and reporting the fair value of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which all inputs, which have a significant effect on the recorded fair value, are not based on observable market data (unobservable inputs)

As at 31 December 2009 and 2008, the financial instruments measured at fair value held by the Group were classified as level 1.

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56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, equity investments, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk, equity instrument price risk and market price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating-rate net borrowings).

		Group
	Change in basis point	Change in profit before tax HK\$'000
2009		
Hong Kong dollar	50	1,973
RMB	50	495
2008		
Hong Kong dollar	50	3,148
RMB	50	227

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)***Foreign currency risk**

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The directors consider that the exchange rate of Hong Kong dollars against United States dollars would be insignificant and the exchange rates of Hong Kong dollars against Renminbi in the foreseeable future are expected to be relatively stable. The appreciation in Renminbi against Hong Kong dollars is expected to be mild. There is no significant exposure to fluctuations in foreign exchange rates and any related hedges.

The Group has certain investments in operations in Mainland China, whose net assets are exposed to translation risk. Management does not expect any material adverse impact on the foreign exchange fluctuation as an expected mild appreciation in Renminbi will further benefit the Group's net assets position in Mainland China.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	Increase/ (decrease)
	Change in foreign exchange rate	in profit before tax
	%	HK\$'000
2009		
If Hong Kong dollar weakens against: RMB	5	(6,467)
If Hong Kong dollar strengthens against: RMB	5	6,467
2008		
If Hong Kong dollar weakens against: RMB	5	(5,475)
If Hong Kong dollar strengthens against: RMB	5	5,475

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control department.

Notes to the Financial Statements

Year ended 31 December 2009

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, financial assets at fair value through profit or loss and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. At 31 December 2009 and 31 December 2008, the Company is also exposed to credit risk through the granting of financial guarantees, further details being disclosed in note 49 to the financial statements.

At the end of the reporting period, the Group had certain concentrations of credit risk as 66% (2008: 80%) of the Group's trade receivables were due from the Group's five largest customers within the trading and manufacturing segment.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans. The Group's policy is that not more than 90% of borrowings should mature in any forthcoming 12-month period. 80% of the Group's debts would mature in less than one year as at 31 December 2009 (2008: 59%) based on the carrying value of interest-bearing bank and other borrowings presented in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	2009					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Trade and bills payables	42,218	118,102	128,064	—	—	288,384
Other payables	50,991	62,619	110,267	—	—	223,877
Interest-bearing bank and other borrowings	15,182	186,318	204,239	80,336	22,606	508,681
Advances from a minority shareholder of subsidiaries	—	—	20,697	29,346	—	50,043
Due to related companies (note 31)	15,688	—	—	—	—	15,688
Advance from a director	—	—	—	38,409	—	38,409
	124,079	367,039	463,267	148,091	22,606	1,125,082

Notes to the Financial Statements

Year ended 31 December 2009

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group			2008 3 to less than	1 to 5 years	Over 5 years	Total
	On demand HK\$'000	Less than 3 months HK\$'000	12 months HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	10,635	144,723	116,266	—	—	271,624
Other payables	50,775	74,394	60,901	—	—	186,070
Interest-bearing bank and other borrowings	9,244	262,159	130,212	245,929	35,916	683,460
Advances from a minority shareholders of subsidiaries	—	—	19,899	29,119	—	49,018
Due to an associate (note 31)	1,846	—	—	—	—	1,846
Due to an intermediate holding company (note 31)	8,062	—	—	—	—	8,062
Due to related companies (note 31)	224	—	—	—	—	224
Promissory note	—	—	—	97,079	—	97,079
Provision for guarantee given to a bank in connection with facilities granted to an associate	14,700	—	—	—	—	14,700
	95,486	481,276	327,278	372,127	35,916	1,312,083

The maturity profile of the Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company			2009 3 to less than	Over 1 year	Total
	On demand HK\$'000	Less than 3 months HK\$'000	12 months HK\$'000	HK\$'000	HK\$'000
Other payables	—	1,236	—	—	1,236
Due to related companies (note 31)	15,187	—	—	—	15,187
Due to subsidiaries (note 20)	—	—	—	1,514,887	1,514,887
	15,187	1,236	—	1,514,887	1,531,310

Company			2008 3 to less than	Over 1 year	Total
	On demand HK\$'000	Less than 3 months HK\$'000	12 months HK\$'000	HK\$'000	HK\$'000
Other payables	—	799	—	—	799
Due to an intermediate holding company (note 31)	11,624	—	—	—	11,624
Due to subsidiaries (note 20)	—	—	—	712,177	712,177
Provision for guarantees given to a bank in connection with facilities granted to an associate	14,700	—	—	—	14,700
	26,324	799	—	712,177	739,300

Notes to the Financial Statements

Year ended 31 December 2009

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

The market equity indices for the following stock exchange at the close of business of the trading day nearest to the end of the reporting period and the respective highest and lowest points during the year were as follows:

	31 December 2009	High/low 2009	31 December 2008	High/low 2008
Hong Kong – Hang Seng Index	21,872	23,099 11,344	14,387	27,615/ 11,015

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments HK\$'000	Change in profit before tax HK\$'000
2009		
Investments held for trading listed in:		
Hong Kong	20,587	2,059
Mainland China	1,465	147
2008		
Investments held for trading listed in:		
Hong Kong	10,246	1,025
Mainland China	699	70

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No change was made in the objectives, policies or processes for managing capital during the two years ended 31 December 2009 and 2008.

Notes to the Financial Statements

Year ended 31 December 2009

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debts. The Group's policy is to maintain the gearing ratio below 50%. Net debts includes interest-bearing bank and other borrowings less cash and bank balances. Capital includes total equity. The gearing ratios as at the ends of the reporting periods were as follows:

Group

	2009 HK\$'000	2008 HK\$'000
Interest-bearing bank and other borrowings	508,681	683,460
Less: Cash and bank balances	(174,907)	(150,497)
Net debts	333,774	532,963
Capital	1,878,010	1,907,587
Capital and net debts	2,211,784	2,440,550
Gearing ratio	15.1%	21.8%

57. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation and accounting policies.

58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2010.

Notes to the Financial Statements

Year ended 31 December 2009

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2009 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Beat Time Enterprises Limited	British Virgin Islands ("BVI")	US\$1	100%	Investment holdings
Bewise Developments Limited	BVI	US\$1	100%	Investment holdings
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US\$200	100%	Property investment
Eastand Investments Limited	Hong Kong	HK\$2	100%	Investment holding
Everwin Toys (Dongguan) Co., Ltd (note d)	The PRC/ Mainland China	HK\$27,500,000	100%	Manufacturing of toys
Full Grown Limited	BVI	US\$1	100%	Investment holdings
GuangDong Huaxin Fruit Development Co. Ltd. (note d)	The PRC/ Mainland China	US\$7,500,000	100%	Fruit plantation
Lion Strength Group Limited	BVI	US\$1	100%	Investment holdings
Micon Limited	Hong Kong	HK\$2	100%	Investment holding
Nanjing South China Dafang Electric Co., Ltd (note c)	The PRC/ Mainland China	RMB77,550,000	93.63%	Property investment
Nanjing South China Huaguan Compressor Ltd. (note c)	The PRC/ Mainland China	RMB61,230,000	100%	Property investment
Nanjing South China Sanda Motor Co. Ltd. (note c)	The PRC/ Mainland China	RMB18,940,000	100%	Property investment
Nanjing South China Santa Machinery Co., Ltd. (note c)	The PRC/ Mainland China	RMB54,900,000	92.65%	Property investment
南京液壓件二廠有限公司 (note c)	The PRC/ Mainland China	RMB2,345,600	85%	Property investment

Notes to the Financial Statements

Year ended 31 December 2009

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration/ and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
南京第二壓縮機有限公司 (note d)	The PRC/ Mainland China	RMB16,756,800	100%	Property investment
南京電機有限公司 (note d)	The PRC/ Mainland China	RMB25,261,300	100%	Property investment
南京微分電機有限公司 (note c)	The PRC/ Mainland China	RMB29,035,500	87%	Property investment
Nority Development Limited	BVI	US\$2	100%	Property holding
Prime Prospects Limited	Hong Kong	HK\$100,000	70%	Property investment
Proleap Limited	BVI	US\$1	100%	Investment holdings
Rich Dynamics Limited	BVI	US\$1	100%	Investment holdings
Right Focus Developments Limited	BVI	US\$1	100%	Investment holdings
Shineway Footwear Limited	Hong Kong	HK\$500,000	100%	Trading of shoes
Sino Pioneer International Limited	BVI	US\$1	100%	Investment holdings
Soncastle Investments Limited	BVI	US\$1	100%	Investment holdings
South China Industries (BVI) Limited (note a)	BVI	US\$1,000	100%	Investment holding
South China Shoes Products Company Limited	Hong Kong	HK\$500,000	100%	Trading of footwear products
South China Strategic (BVI) Limited	BVI	US\$1	100%	Investment holdings
South China Strategic Limited	Hong Kong	HK\$308,593,789	100%	Investment holding
South China Strategic Properties (BVI) Limited	BVI	US\$1	100%	Property Investment

Notes to the Financial Statements

Year ended 31 December 2009

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
South China Strategic Property Development Limited	Hong Kong	HK\$5,000,000	100%	Property development and investment holding
Spark-Inn Investments Limited	Hong Kong	HK\$2	100%	Property investment
Spring Joy Industrial Limited	BVI	US\$1	100%	Investment holdings
Strategic Finance Limited	Hong Kong	HK\$2	100%	Provision of financing services
Tianjin South China Leather Chemical Products Co. Ltd. (note c)	The PRC/ Mainland China	RMB20,516,500	80%	Manufacturing of leather chemical products
Tianjin South China Leesheng Sporting Goods Co. Ltd. (note c)	The PRC/ Mainland China	RMB10,213,600	80%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd. (note c)	The PRC/ Mainland China	RMB36,100,200	80%	Manufacturing of footwear products
Truth Resources Limited	BVI	US\$1,000	100%	Investment holdings
Wahheng Toys (Shenzhen) Co., Ltd (note d)	The PRC/ Mainland China	US\$8,000,000	100%	Manufacturing of toys
Wah Shing (BVI) Limited	BVI	US\$1,000	100%	Investment holding
Wah Shing Electronics Company Limited	Hong Kong/ Mainland China	HK\$571,500	70%	Manufacturing and trading of toys
Wah Shing International Holdings Limited	Bermuda	HK\$54,432,000	100%	Investment holdings

Notes to the Financial Statements

Year ended 31 December 2009

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Wah Shing Toys Company Limited	Hong Kong	HK\$2 ordinary and HK\$3,020,002 Non-voting deferred (note b)	100%	Trading of toys
Welbeck Holdings Limited	BVI	US\$1	100%	Investment holdings
WTS International (BVI) Limited	BVI	US\$1	100%	Investment holdings

Notes:

- Except South China Industries (BVI) Limited, the principal subsidiaries are all held indirectly by the Company.
- The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.
- These are Sino-foreign equity joint ventures established in the PRC.
- These are wholly-foreign-owned equity enterprises established in the PRC.

The above summary lists only the subsidiaries which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

60. PARTICULARS OF PRINCIPAL ASSOCIATE

Particulars of the principal associate at 31 December 2009 are as follows:

Name	Place of incorporation and operation	Class of share held	Percentage of equity interest indirectly held by the Group	Principal activity
FWIL*	Hong Kong	Ordinary	30%	Property investment

The financial statements of FWIL are not coterminous with those of the Group as FWIL has a financial year end date of 30 June.

The Group's shareholding in FWIL comprises equity shares held through wholly-owned subsidiaries of the Company.

The above summary lists only the associate which, in the opinion of the directors, principally affects the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

* Not audited by Ernst & Young Hong Kong or other member firms of the Ernst & Young global network.

Summary of Financial Information

31 December 2009

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	2009 HK\$'000	Year ended 31 December			
		2008 HK\$'000	2007 HK\$'000	2006 HK\$'000 (Restated)	2005 HK\$'000 (Restated)
REVENUE	1,893,080	1,934,033	2,113,362	2,070,954	3,971,834
PROFIT BEFORE TAX	390,458	84,228	415,664	344,452	270,864
INCOME TAX	(12,788)	(17,910)	(1,641)	(19,873)	(28,263)
PROFIT FOR THE YEAR	377,670	66,318	414,023	324,579	242,601
ATTRIBUTABLE TO:					
Owners of the Company	383,277	78,004	413,820	333,587	208,953
Minority interests	(5,607)	(11,686)	203	(9,008)	33,648
	377,670	66,318	414,023	324,579	242,601

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2009 HK\$'000	At 31 December			
		2008 HK\$'000	2007 HK\$'000	2006 HK\$'000 (Restated)	2005 HK\$'000 (Restated)
TOTAL ASSETS	3,385,742	3,595,936	3,088,204	2,984,075	2,168,696
TOTAL LIABILITIES	(1,507,732)	(1,688,349)	(1,352,556)	(1,586,469)	(987,749)
MINORITY INTERESTS	(86,415)	(135,808)	(93,853)	(93,992)	(223,224)
	1,791,595	1,771,779	1,641,795	1,303,614	957,723

Details of Properties

A. INVESTMENT PROPERTIES

Location	Group's interest	Existing use
(1) Hong Kong		
The Centrium No. 60 Wyndham Street Central Hong Kong	30%	Commercial
The 1st floor and 2nd floor On Lok Yuen Building and the four lavatories thereof Nos. 25, 27 & 27A Des Voeux Road Central Hong Kong	100%	Commercial
Units A, B, C and D on 2nd Floor Units A, B, C and D on 3rd Floor Units A, B, C and D on 4th Floor Units A, B and C on 6th Floor Units A, B and D on 10th Floor Units A, B, C and D on 12th Floor Unit C and D on 13th Floor Car Parking Space Nos. 7, 17, 18 and 19 and Lorry Parking Space Nos 3, 12, 13, 15, 21, 25 and 26 Wah Shing Centre 5 Fung Yip Street Chaiwan, Hong Kong	100%	Industrial and carparking
Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street Nos. 20-28 Man Lok Street Hunghom, Kowloon, Hong Kong	100%	Industrial and carparking
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsimshatsui Kowloon Hong Kong	100%	Commercial and residential
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay, Kowloon Hong Kong	100%	Commercial

Details of Properties

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(1) Hong Kong <i>(Continued)</i>		
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fung Street North Point Hong Kong	100%	Commercial
2nd Floor No. 10A Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
Units A, B and C on 7th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Unit A, B and C on 8th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units B and C on 9th Floor and the two lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Unit No 1022 on 10th Floor, Nan Fung Centre Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	100%	Commercial
The Whole of 4th Floor McDonald's Building Nos. 46-54 Yee Wo Street Causeway Bay Hong Kong	100%	Commercial

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(2) Mainland China		
Various buildings and a land parcel located at No. 28 Yunan North Road No. 2 Shi Zi Qiao, Gulou District Nanjing City, Jiangsu Province The PRC	87%	Commercial
A building and a land parcel located at No. 32 Shi Zi Qiao, Gulou District Nanjing City, Jiangsu Province The PRC	87%	Commercial
Various buildings and two land parcels located at No. 36 Zhe Fang Road Baixia District Nanjing City Jiangsu Province The PRC	87%	Commercial
Various buildings erected upon a land parcel located at No. 166 Yingtian West Road, Jianye District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
4th Floor No. 64 Ertiao Lane Baixia District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
Various buildings and two land parcels located at No. 104 & 160 Fenghuang East Road, Luhe District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial
Various buildings and a land parcel located at No. 262 Yuhua West Road, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC	100%	Commercial

Details of Properties

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(2) Mainland China <i>(Continued)</i>		
Various buildings and a land parcel located at No. 160 Honghua Village, Honghua Town, Qinhuai District, Nanjing City, Jiangsu Province, the PRC	92.65%	Commercial
A building and land parcel located at No. 2 Tuoyuan, Nanhu Street, Jianye Zone, Nanjing City, Jiangsu Province, the PRC	92.65%	Commercial
A land parcel located at No. 292 Sheng Zhou Road Jianye District Nanjing City Jiangsu Province The PRC	85%	Commercial
Various buildings erected upon a land parcel located at No. 292 Sheng Zhou Road Jianye District Nanjing City Jiangsu Province The PRC	92.65%	Commercial
Various buildings and a land parcel located at 462 Da Gu Nan Road Hexi District Tianjin The PRC	100%	Commercial
Various buildings and a land parcel located at 51 Sudi Road Nankai District Tianjin The PRC	100%	Commercial/ Industrial
Unit C on 15th Floor World Trade Plaza No. 71 Wusi Road Fuzhou, Fujian Province The PRC	100%	Commercial
Grand Hotel Four Seas Kai Cheung Da Dao Danshui Huiyang City, Guangdong Province The PRC	100%	Commercial

A. INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(2) Mainland China <i>(Continued)</i>		
Nority Industrial Building No. 4 Xiaobian Industrial District Changan Town Dougguan City Guangdong Province The PRC	100%	Industrial

B. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Location	Gross floor area	Group's interest	Existing use
(1) Hong Kong			
Unit A and B, Ground Floor Cheung Wah Industrial Building Nos. 10-12 Shipyard Lane Quarry Bay Hong Kong	11,897 sq.ft.	100%	Commercial and industrial
Unit No. 78 on 2nd Floor Units Nos. 4, 5, 6, 7 and 8 on 3rd floor Houston Centre No. 63 Mody Road Tsim Sha Tsui Kowloon Hong Kong	11,947 sq.ft.	100%	Commercial
Four Seas Jade Centre Nos. 530, 532, 534 and 536 Canton Road Yau Ma Tei Kowloon Hong Kong	8,759 sq.ft.	100%	Commercial
Ground Floor to 5th Floor (The Whole Block) Nos. 18-20 Ming Fung Street Wong Tai Sin Kowloon Hong Kong	6,060 sq.ft.	100%	Residential/ commercial
(2) Taiwan			
Unit 2 on Level 15 Unit 1 on Level 24 and portion of Basement 2 No. 303 Zhong Ming Road South West District Taichung City Taiwan	7,894 sq.ft.	100%	Commercial
No. 1-1 Mokeng Lane Mingjian Township Nantou County Taiwan	56,911 sq.ft.	100%	Industrial

Details of Properties

B. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

	Location	Gross floor area	Group's interest	Existing use
(2)	Taiwan <i>(Continued)</i>			
	Level 1, Unit 2 on Level 2 One carparking space and one motorcycle parking space in Basement 2, No. 28-5 Section 1 Zhiyou Road West District Taichung City Taiwan	3,135 sq.ft.	100%	Commercial and carparking