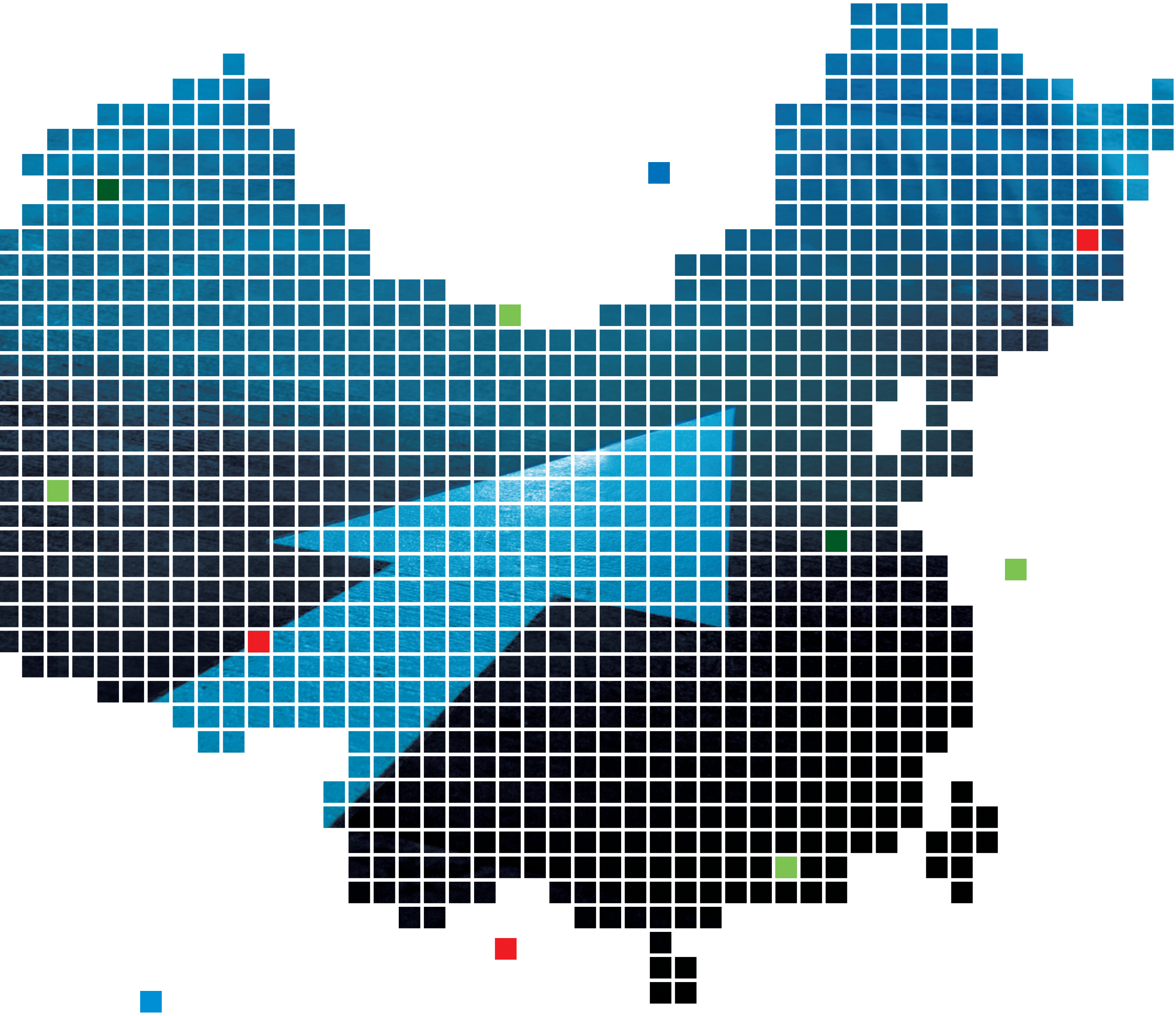
VARITRONIX



A New Landscape

2009 Annual Report

Stock Code 710

Varitronix International Limited

Contents

Chairman's Statement

2009 Final Results

HK$ million	2009	2008
Turnover	**1,817**	1,721
(Loss)/profit attributable to shareholders	**(268)**	15
Basic (loss)/earnings per share	**(83.0) HK cents**	4.7 HK cents
Total dividend per share	**2.0 HK cents**	13.0 HK cents

On behalf of Varitronix International Limited (the "Company") and its subsidiaries ("Varitronix" or the "Group"), I present the Group's results for the year ended 31 December 2009.

During the period under review, turnover of HK$1,817 million was recorded, representing a 6% increase over the HK$1,721 million reported in 2008. Profit from continuing operations was HK$53 million, as compared to HK$60 million reported in the previous year. Loss attributable to shareholders was HK$268 million, versus a profit of HK$15 million in 2008.

The Board of Directors (the "Board") has recommended a final dividend of 1.0 HK cent per share (2008: 1.0 HK cent). Together with the interim dividend of 1.0 HK cent per share (2008: 12.0 HK cents), the total dividend for 2009 amounted to 2.0 HK cents per share (2008: 13.0 HK cents).

Review of Financial Results

Overall, the Group's businesses have been adversely impacted in 2009 by the depressed macro-economic environment in the wake of the global financial crisis. To face the challenges presented in the poor economic climate, the Group has dedicated significant efforts to enhance operational efficiency. During the period under review, we have integrated our production facilities, discontinued operations of under-performing businesses and streamlined the structure of our overseas offices. While such initiatives have required initial outlay and negatively impacted profitability in the short term, we believe that over the long-term, such measures will reduce operational costs and reallocate resources to businesses with higher growth prospects. The Group has remained committed to the research and development of our high-end display products, despite the adverse market conditions. By actively enhancing our product offerings, we aim to maximise our competitive edge and expand our market share in the high-end display sector.

Production Base Integration

During the year, the Group's production facilities in Shenzhen have been relocated to Heyuan in Guangdong Province. The relocation to Heyuan took place in the middle of 2009 and was completed by the fourth quarter of the year.

The integration of our production plants has consolidated the Group's production facilities, resulting in a reduction of staff and operating costs. The synergies created by this move will facilitate better management, logistics arrangements and allocation of resources.

Discontinued Operation

Intense competition among suppliers has resulted in continued downward pressure on the selling prices of display products for the mobile phone industry in China. Coupled with the continued upward trends in operating costs, which included material and labour costs, the Group experienced significant losses in the mobile phone display industry in China. In view of the escalating risk of operating in the mobile phone display industry in China, the Group decided to voluntarily wind up its subsidiary operating in the non-branded mobile phone display industry in China on 30 December 2009. The Group believes that this decision will enable the Group to focus its resources on the high-value display segment, which will generate higher profit margins.

As a result of the voluntary winding-up, the Group recorded a loss of HK$255 million in 2009, which represented substantially the whole of the carrying value of this subsidiary. The Group believes that no further significant losses will be recorded in 2010. The respective financial information of the discontinued operation has been disclosed in Notes 5, 9 and 23 of the notes on the financial statements.

Restructuring of Overseas Offices

In 2009, the Group has implemented measures to streamline the structure of our overseas offices in order to enhance cost efficiency.

Review of Operations

Revenue from the Group's automotive displays accounted for a significant portion of total sales in 2009. This reflects the growing importance of the automobile industry on our business. During the period under review, the automobile industry in Europe and North America remained stagnant and orders from European automotive customers did not begin to improve until the second half of 2009. In contrast, the Korean automobile industry has continued growth during the same period, even amidst the economic downturn.

Another emerging automobile market is Mainland China, which has been buoyed by economic growth and increased domestic appetite for consumption. In the second half of 2009, mass production commenced on orders for automotive displays from this major market. The Group is establishing a foothold in the sales of automotive displays in the Mainland China market.

The medical product sector in North America also performed well during the year under review. Although North America remained hard hit by the financial crisis in 2009, revenue from this market was better than expected. Orders from medical product customers remained steady and provided a stable source of revenue, despite sales of industrial and automotive displays being stagnant.

In the past, the Group focused on the sale of displays for the consumer industry in Asian markets, which is characterised by high volume and low profit margins. As competition for this industry segment continued to be intense, coupled with the rising operating costs, the Group has decided to shift its focus away from low-end displays to high-end displays in Asia. In particular, the Group will continue to reduce its reliance on the mobile handset industry in China. Going forward, the Group will operate in the mobile display market only in an opportunistic manner, where the profitability and strategic importance are consistent with our general corporate direction.

Chairman's Statement

Prospects

The Group's automotive display business now spans across Europe, North America and Asia. For the Mainland China market, the outlook is positive and we expect to see continued sales growth. However, as the automobile industry is currently at development stage, the demand for high-end, sophisticated products is still limited. We expect that demand for high-end displays will grow in line with the rapid pace of development of the country's automobile industry. In South Korea, following the significant growth recorded in 2009, sales are poised to remain steady in the coming year. We will thus devote more efforts in enhancing the profit potential of this market. We have seen the resumption of sales orders from our European and North American customers. It is expected that a more prominent recovery will be achieved in these markets in the second half of 2010.

An emerging market in the automobile industry is the research and development of electric cars, with such technology now being developed in Mainland China, Hong Kong and Japan. The Group is seeking to establish partnerships with companies involved in electric car development. We have already begun to design display units to electric cars in India and we have targeted this sector for further development in the future.

The new production line that the Group purchased in 2008 has commenced operation in phases throughout 2009. With the significant influx of new orders received in the fourth quarter of 2009, the new production line has almost reached full capacity. It is expected that the utlilisation for the new production line will continue to increase in 2010 to meet the rising number of orders.

Currently, the Group's order book is satisfactory. The majority of orders have come from customers in the automotive display sector and also medical supplies. Orders from North America and Europe account for a significant proportion of total orders in industrial displays.

The Group has continued to develop technology for 3D display market. Originally implemented in 3D cinemas, we began to investigate the feasibility of using such technology in 3D TV a few years ago. In the beginning of 2010, the Group embarked on the production of displays for 3D eyeglasses to be used in 3D TV. As 3D movies have gained popularity, coupled with the rapid development of home 3D projection technology, accessories to accompany 3D projection at home will be increasingly accepted. Home use 3D eyeglasses developed by the Group will be launched in mid-2010. We expect this growing market trend for 3D TV will present an important new application for the Group's display products.

In summary, our management team is confident of the Group's prospects in 2010 because of the following factors:

1. During the downturn, the Group has utilised the opportunity to undertake internal restructuring initiatives. We have integrated our production facilities, streamlined the structure of overseas offices, and discontinued our unprofitable business in China. The Group is therefore able to more effectively control costs and benefit from opportunities as the market rebounds in 2010.

2. The Group now represents a leading display supplier for the global automotive market. Our varied and balanced business portfolio comprises mainly of automobile displays, as well as industrial, medical and consumer product displays. Generation of sales revenue is spread across markets in Europe, America and Asia. The Group has weathered the global financial crisis, a testament to the fact our diversified business portfolio and market distribution network are well positioned to withstand adverse market conditions.

3. The Group has always actively participated in the research and development of high-end display products and will continue to do so in the future. Our 3D TV eyeglasses are a good example of our past investment in product research and development. The Group will explore a more diverse range of product applications for our high-end displays in the future.

Despite our confidence in the Group's future development, we will continue to exercise caution. As a China-based manufacturer, the road ahead is still full of challenges. The global economic environment is only just beginning to recover and the market situation remains uncertain. Customers still tend to be conservative in making purchases and have higher demands than ever before. Furthermore, manufacturing companies in general are faced with increasing costs stemming from machine depreciation, rising materials and labour costs and the recurring pressure of Renminbi appreciation. In order to mitigate the negative impact of growing costs, the Group will continue to adopt a high value-added product development strategy, with the aim of enhancing profit margins. At the same time, we will dedicate extra efforts to improving production efficiency so as to control operating costs.

Acknowledgement

I would like to express my thanks to our directors, shareholders, business partners and colleagues who have remained steadfast in their support during the challenging times presented by the last year. We have learnt valuable lessons in the face of such challenges and adversity, enabling us to emerge stronger and more responsive to growth opportunities in the future.

Ko Chun Shun, Johnson

Chairman

Hong Kong, 23 April 2010

Management Discussion and Analysis

Turnover

The Group's turnover for the year ended 31 December 2009 increased by 6% to HK$1,817 million as compared to the previous financial year.

Profit From Operations

The profit from operations for the year ended 31 December 2009 was HK$53 million, a decrease of HK$7 million or 12% as compared to the previous financial year.

During the financial year 2009, the Group spent HK$79 million on research and development ("R&D") activities, which represented approximately 4% of the Group's turnover.

Net Loss and Dividends

The loss attributable to shareholders for the year ended 31 December 2009 was HK$268 million, versus a profit HK$15 million in 2008.

Basic loss per share for the year ended 31 December 2009 were 83.0 HK cents as compared to basic earnings per share of 4.7 HK cents in the previous financial year. During the year, the Group declared and paid an interim dividend of 1.0 HK cent per share, which aggregated to HK$3.2 million. The Directors have recommended a final dividend of 1.0 HK cent per share, which will aggregate to HK$3.2 million. The total dividend for the year amounts to 2.0 HK cents per share.

Structure of Assets

As at 31 December 2009, the total assets of the Group amounted to HK$2,105 million (2008: HK$2,345 million). At the year end, inventories increased by 25% to 277 million (2008: 222 million) while available-for-sale securities increased by 4% to HK$183 million (2008: HK$176 million).

Liquidity and Financial Resources

As at 31 December 2009, the total equity of the Group was HK$1,164 million (2008: HK$1,409 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 1.49 as at 31 December 2009 (2008: 1.84).

At the year end, the Group held a liquid portfolio of HK$553 million (2008: HK$622 million) of which HK$381 million (2008: HK$484 million) was in cash and cash equivalents and HK$172 million (2008: HK$138 million) in securities. The unsecured interest-bearing bank loans and overdrafts amounted to HK$256 million (2008: HK$350 million). The gearing ratio (bank loans and overdrafts over net assets) was 22% (2008: 25%).

The Group's inventory turnover ratio for the year was 7.3 times (2008: 7.0 times). Debtor turnover for the year was 87.4 days (2008: 61.7 days).

Cash Flows

In the year under review, the Group's cash used in operations amounted to HK$22 million (2008: cash generated from operations of HK$389 million). The increase in inventories and trade and other receivables decreased cash flow by HK$54 million and HK$113 million respectively.

Net cash generated from investing activities amounted to HK$24 million (2008: net cash used in investing activities of HK$437 million). There was a decrease in payments for the purchase of fixed assets to HK$94 million (2008: HK$195 million).

Capital Structure

The Group's long-term capital comprises shareholders' equity and debt, which includes the bank and other borrowings. There was no change as to the capital structure of the Group from continuing operations during the year. The Group had repaid the bank and other borrowings amounted to HK$165 million during the year and the bank and other borrowings reduced to HK$256 million as at 31 December 2009.

Foreign Currency Exposure

The Group is exposed to foreign currency risk primarily through sales, purchases, loan receivables and bank loans that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, British Pounds, Japanese Yen, Renminbi and Korean Won.

The Group did not engage in the use of any financial instruments for hedging purposes. However, management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

Contingent Liabilities

As at 31 December 2009, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of HK$320 million (2008: HK$364 million).

Commitments

As at 31 December 2009, the Group had capital commitments of HK$3 million (2008: HK$48 million), representing the purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$3 million (2008: HK$8 million).

Staff

As at 31 December 2009, the Group employed 4,989 staff around the world, of whom 148 were in Hong Kong, 4,796 were in the People's Republic of China ("PRC") and 45 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

The Group adopts a performance-based remuneration policy. Salary adjustments and performance bonuses are based on the evaluation of job performance. The aim is to create an atmosphere that encourages top performers and provides incentives for general employees to improve and excel.

Staff Retirement Schemes

The Group principally participates in defined contribution retirement plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by independent trustees. Contributions at a fixed rate of 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000 per employee, are made to the scheme and are vested immediately.

In addition, the Group also operates a Top-Up ORSO scheme, approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance, and both the employer and the employee are required to contribute 5% of the excess of the employee's relevant income to the scheme.

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

During the year, the total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2009 was HK$4 million (2008: HK$5 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2009 was HK$200,000 (2008: HK$147,000) and at 31 December 2009, the balance available to reduce the level of contributions in future amounted to HK$291,000 (2008: HK$281,000).

Review of Operations

Europe

Review

In 2009, the Group's business in Europe recorded revenue of HK$567 million, a decline of 25% from the previous year. This amounted to 31% of Varitronix's total turnover during the year under review. Automotive and industrial display orders were the main source of revenue of the region.

As a result of the global financial crisis, the automobile industry in Europe was adversely affected and severely depressed. Accordingly, the Group's sales in this market reported a significant decline.

During the first half of 2009, sales to the Group's industrial customers in Europe stagnated. It was not until the fourth quarter of the year that European industrial customers began to place orders in order to replenish their depleted inventory levels.

Prospects

The European automobile industry has begun to show signs of recovery in early 2010. Accordingly, an improved performance is expected in this segment.

Through the Group's efforts in developing high-end displays over the years, Varitronix has established a strong foothold in the automotive display sector in Europe. The automotive display business will continue to play a vital role in the Group's growth in the forthcoming years.

With regards to industrial applications, the Group has successfully secured new orders for displays used in point-of-sale machines and electricity meters in Europe. Such orders will generate stable revenue for the region in 2010.

Most of the Group's white goods customers are located in Europe and several orders are expected to start mass production in the second half of 2010.

Asia (Korea, Hong Kong and the PRC)

Review

During the year under review, the Group's business in Asia recorded revenue of HK$1,016 million, a 50% increase over that of 2008. The Asian business is mainly comprised of automotive and consumer display business and they combined to contribute 56% to the total turnover of the Group. The Asian region's performance was boosted from sales derived from the automotive display business in South Korea, whereas the consumer display business contracted remarkably in the region.

The South Korean market performed exceptionally well for the Group and was a key driver of sales growth in the region. Even amidst the global financial crisis, Korean automobile brands have enjoyed increasing popularity, not just domestically, but also in export markets such as other Asian countries and the US. In line with this industry growth, orders for automotive displays also significantly increased in this region during the period under review. This compensated the business lost in the traditional western automotive market.

The Group's efforts in developing its automotive display business in China has begun to reap positive results in 2009. Mass production for several new projects commenced in the fourth quarter of last year.

In the past, the Group's business in China has been focused on sales of displays for consumer goods and non-branded mobile handsets. This business is characterised by large volumes and low margins. In 2009, performance of such business was negatively impacted by the poor economic climate. As a result, demand contracted and profit margins were squeezed.

Prospects

It is expected that automotive display projects derived from the Korean market will continue to generate a portion of revenue for the Group. Mass production of more cluster display and audio display projects will commence in 2010. It is expected that the automotive display business in Korea will develop at a steady pace.

In the China market, the Group has strengthened the resources of its sales office in Shanghai. The Group will dedicate additional efforts to extend the sales network in northeastern China, where major players of the domestic automobile industry are located. Through these initiatives, the Group hopes to secure a substantial share of the automotive display sector in China, at a time when the industry is experiencing a rapid pace of development and expansion.

In terms of consumer product applications, certain consumer product display orders from Asia have commenced mass production in 2010. Such consumer product applications include 3D eyeglasses and office equipment.

Looking ahead, the Group will concentrate on developing the high-end display sector in Mainland China, and gear its capabilities towards a higher value market.

The United States

Review

The US business recorded HK$118 million in revenue during the year under review, representing a 27% drop as compared to 2008. The segment accounted for 6% of the Group's overall turnover in 2009.

The main stream of revenue in the US during the year under review was from the medical product sector and a few industrial display projects going into production in the second half of 2009.

Though the automotive and industrial display business was adversely impacted in 2009, medical product applications represented the only market segment in which steady demand was maintained in 2009. Medical display orders formed the main revenue stream during the year for the US market.

Since the fourth quarter of 2009, the number of industrial orders has begun to pick up, with stable month-on-month sales growth. However, the delivery lead time of such new orders is shorter than before.

Prospects

The Group has secured a recurring order for providing electricity meter displays for a number of customers in the US. Besides, the medical product display sector in the US has become a steady source of revenue for the Group.

The US industrial sector will continue to contribute to the sales of the Group. It is expected the industrial display sales in the country will develop upward in 2010.

All in all, the Group expects a fruitful year in the US market. It is expected the sales trend will grow upward throughout 2010.

Discontinued Operations

Intense competition among suppliers has resulted in continued downward pressure on the selling prices of display products for the mobile phone industry in China. Coupled with the continued upward trends in operating costs, which included material and labour costs, the Group experienced significant losses in the mobile phone display industry in China. In view of the escalating risk of operating in the mobile phone display industry in China, the Group decided to voluntarily wind up its subsidiary operating in the non-branded mobile phone display industry in China on December 30, 2009. The Group believes that this decision will enable the Group to focus its resources on the high-value display segment, which will generate higher profit margins.

As a result of the voluntary winding-up, the Group recorded a loss of HK$255 million in 2009, which represented substantially the whole of the carrying value of this subsidiary. The Group believes that no further significant losses will be recorded in 2010. The respective financial information of the Discontinued Operations has been disclosed in Notes 5, 9, and 23 of the notes on the financial statements.

Corporate Social Responsibility Report

Employee Affairs

Overview

As at 31 December 2009, the Group had a total of 4,989 employees, representing an increase of 12% as compared to 2008. This rise can be mainly attributed to growing labour demand during the second half of 2009. For the year under review, staff costs amounted to approximately HK$260 million, as compared to HK$250 million recorded in the previous year.

Integration of Production Plants

During the year under review, efforts were devoted to consolidating the Group's production plants in Guangdong Province. In June 2009, a production plant was relocated to Heyuan, Guangdong Province. To facilitate the relocation, measures such as transportation arrangements and temporary accommodation allowances were provided to help the employees from Shenzhen involved in the move to settle comfortably in Heyuan. During the second half of 2009, the newly operated production plant gradually increased its scale of production and operations have now reached a satisfactory level. Following the relocation, the Group's production facilities are now consolidated in one locality, bringing enhanced convenience and efficiency in terms of logistics, operations and management.

Clara Chan (first from left), of the Sales & Marketing Department, was seconded to the Group's Sales Office in France and visited the family of Michele Caillet (second from right), a French colleague.

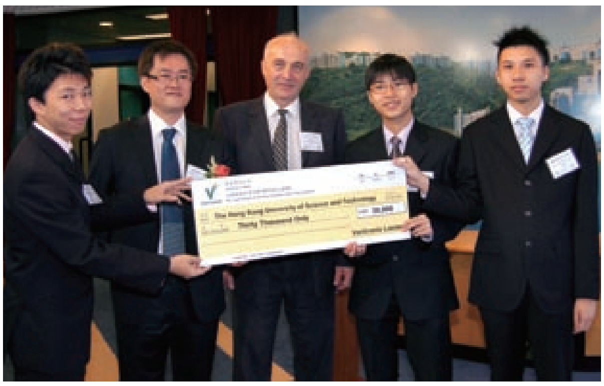
Staff Secondment

Secondment opportunities have been provided to staff, allowing them the chance to be stationed at the Group's overseas sales offices. This represents a win-win arrangement for both the staff and overseas sales offices; it offers a valuable opportunity for staff seeking greater exposure and career development, while enhancing links between headquarters and overseas offices. In 2009, a number of staff members were seconded to the Group's sales offices in Japan, Germany and France. Efficient support and services were also provided to overseas customers through the strengthening of technical support in the sales offices.

Ricky Wong (right) enjoyed the Oktoberfest (Beer Festival) in Germany with Mike Burke, a colleague from the United Kingdom.

Varitronix 30th Anniversary Scholarship

Scholarships were awarded to an outstanding team of students from The Hong Kong University of Science and Technology (HKUST) and 13 students from the South China University of Technology in Guangzhou, PRC. The HKUST students participated in an exceptional project on display technology and the outstanding students from the PRC were



Scholarships were awarded to the Outstanding Project Team from HKUST by Mr James Park, General Manager – Technical Group of Varitronix (second from left), and Professor Chigrinov, Department of Electronic and Computer Engineering at HKUST (middle).

Students from the South China University of Technology in Guangzhou, PRC received scholarships from Varitronix.

mostly majoring in electronics engineering. Through educational initiatives such as scholarships, the Group is committed to nurturing the next generation of engineers.

Environmental Protection

Environmental Committee

The Group's Environmental Committee is responsible for devising and executing the environmental protection plan at the production plants. The Committee comprises representatives from different departments and is chaired by the Quality Department. Its duties include setting annual targets for energy and paper consumption, organising environmental activities, conducting internal audits, promoting environmental protection concept and ensuring compliance to legislative requirements.

Energy Consumption

A series of measures have been adopted to reduce energy consumption at the Group's production plants. An initiative is currently underway to replace all T8 fluorescent tubes with T5 high efficient tubes. The replacement process commenced in 2009 and will be continued in 2010. In addition, 70% of Reverse Osmosis Water generated in the production line is being recycled, such as for use in the air-conditioning chilling system and toilet flushing. It is expected that the scope of such usage will be further expanded in 2010.

Education and Communication

Training: All new engineering staff will be required to attend training and environmental seminars related to chemical handling measures, RoHS (Restrictions on the use of certain hazardous substances in electrical and electronic equipment) and various environmental quality systems.

Communication: To communicate the Group's environmental policy to staff, posters are placed around the office and production areas and a special environmental column appears in every bi-monthly newsletter. A mini-card on environmental policy is distributed to each staff member as a reminder. Leaflets on the Group's environmental efforts have been prepared for distribution to customers and suppliers. Varitronix also requires all key suppliers to meet REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) requirements, a new hazardous substance restriction directive from Europe implemented in 2009.

Activities: Every year, an Environmental Month is organised to enhance environmental protection awareness amongst staff. A series of activities, such as photo exhibitions, environmental pledges, quizzes, composition competitions, and tree-planting events, are all geared towards promoting the message of environmental protection to all employees.

"Vision Comes True" winners shared their happiness with representatives of Varitronix and the Hong Kong Blind Union.

Social Service

Partnership with the Hong Kong Blind Union

The Group first began its partnership with the Hong Kong Blind Union, a non-governmental and non-profit organisation servicing the visually impaired in Hong Kong, in 2008. In the year under review, the Group launched a programme entitled "Vision Comes True". Through the programme, members of the Hong Kong Blind Union shared their dreams and wishes. A panel of judges then selected four members to receive sponsorship from Varitronix to realise their vision. In 2009, the following members were selected:

1. A cancer patient was sponsored to go to Taiwan on honeymoon with his wife.

2. A young man was sponsored to write and publish a book introducing various small-scale non-government organisations in Hong Kong, and to interview the founders about their motives and the stories behind the organizations.

3. A software expert was sponsored to compose a software system to help visually impaired people with translation, word analysis and word explanation in more than 30 languages.

4. A businessman was sponsored to form a team of helpers to produce teaching materials such as maps and models for visually impaired students.

In 2010, Varitronix will continue to collaborate with the Hong Kong Blind Union to serve its members and to raise public awareness of the contribution made by visually impaired members to society.

商界展關懷
caringcompany 2009/10
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

The Varitronix Social Service Team hosted a lantern-making party for children in the Northern New Territories.

Other Social Service Activities

During the year under review, the Group's Social Service Team led Hong Kong Blind Union members on a tour of the Hong Kong Red Cross' blood donation centre and donated blood together. Leading up to Mid-Autumn Festival, the Social Service Team also hosted a lantern-making party with a group of underprivileged children in the Northern New Territories.

In 2010, the mission of Varitronix's Social Service Team is to reach out to different groups of underprivileged children in different communities through links with non-governmental organisations, such as Evangelical Lutheran Church Social Service – Hong Kong.

Sporting Events

Oxfam Trailwalker

The Oxfam Trailwalker has become an annual corporate event for the Group. In 2009, two elite and experienced teams took part in the 100 km Maclehose Trail challenge. Both teams had started training since April 2009 and had set high goals. Their hard work reaped excellent results and the teams finished the trail in 19 hours and 21 hours respectively. The efforts of both teams raised donations of approximately HK$56,000 for Oxfam to combat the effects of Climate Change and enable poor people to make positive changes in their lives. The Group will continue to support this meaningful event in 2010 and higher targets will be set for the participating teams.

Standard Chartered Hong Kong Marathon 2010

In 2010, the Group joined the Standard Chartered Hong Kong Marathon for the first time. A total of 16 athletes participated in the challenge, with three partaking in the half marathon and the remainder running in the 10 km race. Prior to the event, the Group organised a running course for all participants during which proper running and breathing techniques were taught. All of the participants finished the race with satisfactory results.

Members of Varitronix's marathon team in high spirits.

The Group is committed to encouraging its members to take part in sporting events that are good for overall health and provide opportunities for teamwork training. As a "Caring Company", Varitronix supports a good balance between work and leisure for employees.

Another group of marathon runners from Varitronix.

Board of Directors and Senior Management

Directors' Biographical Information

Ko Chun Shun, Johnson

aged 58, was appointed as the Chairman and Executive Director of the Company in June 2005. Mr. Ko is a director of various subsidiaries of the Group. Mr. Ko is also an Executive Director of DVN (Holdings) Limited and China WindPower Group Limited. In June 2009, Mr. Ko resigned as an Executive Director of MAE Holdings Limited. The above companies are listed on the Hong Kong Stock Exchange.

Tsoi Tong Hoo, Tony

aged 45, was appointed as the Chief Executive Officer and an Executive Director of the Company in March 2005. Mr. Tsoi is a director of various subsidiaries of the Group. Mr. Tsoi graduated from the University of Western Ontario, Canada with an Honours degree in Business Administration in 1986. He served as a Deputy Chairman of the Listing Committees of the Main Board and Growth Enterprise Market of the Hong Kong Stock Exchange from 2008 to 2009. Mr. Tsoi is a Non-executive Director of China WindPower Group Limited and an Independent Non-executive Director of Fairwood Holdings Limited, both of which are listed on the Hong Kong Stock Exchange.

Yuen Kin

aged 55, was appointed as an Independent Non-executive Director of the Company in March 2005 and re-designated as an Executive Director of the Company and appointed as the Chief Financial Officer of the Group in July 2009. Mr. Yuen was also a member of the Audit Committee of the Company until he became an Executive Director of the Company. Mr. Yuen holds a Master of Business Administration degree from the University of Toronto, Canada. He is a Chartered Accountant in Canada and a Fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and of the Association of Chartered Certified Accountants. Mr. Yuen is also an Independent Non-executive Director of Media China Corporation Limited (formerly known as Asian Union New Media (Group) Limited). Mr. Yuen was also an Independent Non-executive Director of MAE Holdings Limited until June 2009. The above companies are listed on the Hong Kong Stock Exchange.

Ho Te Hwai, Cecil

aged 49, was appointed as the Company Secretary and an Executive Director of the Company in March 2005. He is a director of various subsidiaries of the Group and is also the Qualified Accountant for the Group. Mr. Ho holds a Bachelor of Commerce degree from the University of British Columbia, Canada. He is a member of the Institute of Chartered Accountants of Canada and the HKICPA.

Lo Wing Yan, William

aged 49, was appointed as an Independent Non-executive Director of the Company in July 2004. He is the Chairman of the Remuneration Committee and the Audit Committee of the Company. Dr. Lo holds a Master's degree in Molecular Pharmacology and a Doctorate in Genetic Engineering, both of which are obtained from the University of Cambridge in England. He is an Independent Non-executive Director of South China Land Limited. He was also an Executive Director, Vice Chairman, Managing Director and Chief Financial Officer of I.T Limited until June 2009. The above companies are listed on the Hong Kong Stock Exchange. He is also an Independent Non-executive Director of Nam Tai Electronics, Inc., which is listed on the New York Stock Exchange. Dr. Lo is an Adjunct Professor of The School of Business of Hong Kong Baptist University and the Faculty of Business of Hong Kong Polytechnic University. In 1999, he was appointed as a Justice of the Peace (J.P.) by the Hong

Kong Special Administrative Region Government. In 2003, he was appointed as a Committee Member of Shantou People's Political Consultative Conference.

Chau Shing Yim, David

aged 46, was appointed as an Independent Non-executive Director of the Company in July 2009. He is a member of the Audit Committee of the Company. Mr. Chau has over 20 years' experience in corporate finance, working on projects ranging from initial public offering transactions and restructuring of PRC enterprises to cross-border and domestic takeover transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as their head of Merger and Acquisition and Corporate Advisory. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of the ICAEW, and the HKICPA, and was an ex-committee member of the Disciplinary Panel of the HKICPA. He is an executive director of Tidetime Sun Holdings Limited and is also a non-executive director of Lee & Man Paper Manufacturing Limited, Shandong Molong Petroleum Machinery Company Limited and Evergrande Real Estate Group Limited, all of which are listed on the Hong Kong Stock Exchange.

Hou Ziqiang

aged 72, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Remuneration Committee and the Audit Committee of the Company. Mr. Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr. Hou was a Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was a Secretary General of the Chinese Academy of Sciences.

Senior Management's Biographical Information

Domenico Giovanni Antico

aged 41, is the Chief Marketing Officer of the Group. He joined the Group as Managing Director of Varitronix Italia in 1995 and was appointed Chief Marketing Officer of the Group in January 2008.

Park Soo Bin, James

aged 39, is the General Manager – Technical Group. He holds a Bachelor of Physics degree from Sogang University in South Korea. He joined the Group in October 2006.

Lam Cheuk Yin, Kenneth

aged 35, is the Financial Controller of the Group. He has a Bachelor of Business Administration (Accountancy) from City University of Hong Kong, and is an Associate Member of the HKICPA. He joined the Group in July 2005.

Suen Mo Ha, Rossetti

aged 38, is the Senior Manager – Production Material Control & Logistics of the Group. She holds a Master's degree in Statistics from The University of Hong Kong, and a Bachelor's degree in Quantitative Analysis for Business from City Polytechnic University. She joined the Group in December 2000.

Ng Siu Keung, Ricardo

aged 47, is the Senior Manager – Information Service & Customs of the Group. He holds a Master's degree in Business Administration from International University of America. He joined the Group in September 2006.

Chan Siu Wah, Susana

aged 40, is the Senior Manager – Human Resources & Public Relations of the Group. She holds a Bachelor's degree from The Chinese University of Hong Kong. She joined the Group in November 2005.

Corporate Governance Report

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board (the "Board") of the Directors (the "Directors") recognises that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the Board will continue to monitor and revise the Company Code to bring our corporate governance practices in line with the changes in the environment and requirements of the Code.

In the opinion of the Directors, the Company has complied with the code provisions of the Code throughout the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Company benefits from the professional management expertise of its Directors. Brief biographies of the Directors are set out in the "Board of Directors and Senior Management" section in this Annual Report. The professional management expertise of the Directors ensures that the Board has the capabilities of sustaining the Company's continued success.

As at 31 December 2009, the Board comprised four Executive Directors and three Independent Non-executive Directors. The Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2010 or such other date as agreed by the Independent Non-executive Directors. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws. All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as interim and annual results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to management.

The Board meets at least four times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

The Board held five meetings in 2009. The attendance records of individual Directors are set out below:

Name of Director	Number of meetings held during the Director's term of office in 2009	Number of meetings attended
Executive Directors		
Mr. Ko Chun Shun, Johnson *(Chairman)*	5	5
Mr. Tsoi Tong Hoo, Tony *(Chief Executive Officer)*	5	5
Mr. Yuen Kin *(Chief Financial Officer)* (re-designated from Independent Non-executive Director to Executive Director on 1 July 2009)	5	5
Mr. Ho Te Hwai, Cecil	5	5
Independent Non-executive Directors		
Dr. Lo Wing Yan, William	5	5
Mr. Chau Shing Yim, David (appointed on 1 July 2009)	3	3
Mr. Hou Ziqiang	5	5

The Directors have no financial, business, family or other material/relevant relationships among the members of the Board except that:

(1) Messrs. Ko Chun Shun, Johnson and Tsoi Tong Hoo, Tony are directors of China WindPower Group Limited (stock code: 182), a company listed on the Main Board of the Stock Exchange.

In the Board's opinion, these relationships do not affect the Directors' independent judgment and integrity in executing their roles and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman of the Board, Mr. Ko Chun Shun, Johnson and the Chief Executive Officer, Mr. Tsoi Tong Hoo, Tony are separated, with a clear division of responsibilities. The Chairman of the Board is responsible for formulating corporate strategies and overall business development planning. The Chief Executive Officer's duty is to oversee the execution of daily business activities. The division of responsibilities is to ensure a balance of power and authority.

NOMINATION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a nomination committee. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting and monitoring the remuneration policy for all Directors and senior management. The Remuneration Committee comprises Dr. Lo Wing Yan, William (Chairman of the Remuneration Committee), Mr. Hou Ziqiang and Mr. Ko Chun Shun, Johnson.

The Company's remuneration policy is to link remuneration packages for Executive Directors with the achievement of annual and long-term performance goals. By providing competitive and performance-linked compensation, the Company seeks to attract, motivate and retain key executives, which is essential to its long-term success.

The Remuneration Committee held one meeting in 2009, in which the Committee reviewed the Company's remuneration policy and fixed the remuneration packages for the Executive Directors and senior management.

The attendance records of the Committee members are set out below:

Name of Remuneration Committee member	Number of meeting held during the Remuneration Committee member's term of office in 2009	Number of meeting attended
Dr. Lo Wing Yan, William *(Chairman)*	1	1
Mr. Hou Ziqiang	1	1
Mr. Ko Chun Shun, Johnson	1	1

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors: Dr. Lo Wing Yan, William (Chairman of the Audit Committee), Mr. Chau Shing Yim, David and Mr. Hou Ziqiang. The Audit Committee is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors.

The Audit Committee held two meetings in 2009, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters so as to ensure that an effective control environment is maintained.

The Audit Committee also made its recommendation to the Board that the external auditors should be reappointed and approved the remuneration and the terms of engagements of the external auditors.

The internal and external auditors have unrestricted access to the Audit Committee, which ensures that their independence remains unimpaired.

There are no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee meets and holds discussions with the Executive Directors and other senior management of the Group on the interim results, preliminary results announcement and annual reports. The Audit Committee reviews and discusses the management's report and representations with a review to ensure that the Group's consolidated financial statements and prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Group's external auditors, KPMG, on the scope and the outcome of their annual audit of the consolidated financial statements.

The attendance records of the Committee members are set out below:

Name of Audit Committee member	Number of meetings held during the Audit Committee member's term of office in 2009	Number of meetings attended
Dr. Lo Wing Yan, William *(Chairman)*	2	2
Mr. Yuen Kin (resigned on 1 July 2009)	1	1
Mr. Chau Shing Yim, David (appointed on 1 July 2009)	1	1
Mr. Hou Ziqiang	2	2

AUDITORS' REMUNERATION

Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK$4 million (2008: HK$4 million), of which a sum of HK$3 million (2008: HK$3 million) was paid to the Group's principal auditors, KPMG.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

The reporting responsibilities of KPMG, the Company's auditors, are set out in the Report of the Independent Auditor on page 26 of this Annual Report.

INTERNAL CONTROL

To maintain sound and effective internal controls to safeguard shareholders' investment and the Company's assets, the Directors conducted a review of the effectiveness of the Company's system of internal control in 2009. The review covered financial, operational and compliance controls and risk management functions. To further strengthen its control system, the Company has established an Internal Audit Department to perform independent evaluations and reporting of the adequacy and effectiveness of the Company's controls, information system and operations.

BUSINESS IMPROVEMENT TEAM MEETING

Business Improvement Team (BIT) Meeting is held once a month for the discussion about how to improve the Company's business and how to manage operational and business risks. The meetings are chaired by the Chief Executive Officer. In the meetings, department heads review the performance of their corresponding departments, alert the management about operational issues, receive comments on how to improve the performance and report the progress or results of improvement measures initiated in previous BIT meetings. Directors attend these meetings from time to time.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great importance to communicate with shareholders and a number of means, including regular group meetings and plant tours, are used to promote greater understanding and dialogue with investment community. The Company holds press conferences to announce its interim and annual results. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

The Group's website www.varitronix.com contains an "Investor & Media Relations" section which offers timely access to the Company's press releases, financial reports and major announcements.

The annual general meeting is an important opportunity for communicating with shareholders. The Company's Chairman and Directors are available at the annual general meeting to answer questions from shareholders.

Report of the Directors

The Directors submit herewith their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Notes 3 and 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2009 are set out in Note 15 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 77 of this Annual Report.

DIVIDENDS

The Board has recommended declaring a final dividend of 1.0 HK cent (2008: 1.0 HK cent) per share as compared to interim dividend of 1.0 HK cent (2008: 12.0 HK cents) per share representing a total of 2.0 HK cents (2008: 13.0 HK cents) per share for year ended 2009.

The final dividend will be payable on or around Thursday, 8 July 2010 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 27 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 27 May 2010 to Wednesday, 2 June 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 26 May 2010.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 29(c) to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$174,000 (2008: HK$146,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 14 to the financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in Note 29(a) to the financial statements. Details of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

DIRECTORS

The Directors during the financial year and up to the date of this Annual Report were:

Executive Directors:
Mr. Ko Chun Shun, Johnson *(Chairman)*
Mr. Tsoi Tong Hoo, Tony
Mr. Yuen Kin
Mr. Ho Te Hwai, Cecil

Independent Non-executive Directors:
Dr. Lo Wing Yan, William
Mr. Chau Shing Yim, David
Mr. Hou Ziqiang

In accordance with Bye-laws of the Company, Mr. Tsoi Tong Hoo, Tony, Mr. Ho Te Hwai, Cecil and Mr. Chau Shing Yim, David shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of shares in the Company held	Approx. % of the issued share capital of the Company
Ko Chun Shun, Johnson	Interest of Controlled corporations	48,579,000 *(Notes)*	15.02

Notes:

(1) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson, held 37,879,000 shares and 10,700,000 shares of the Company respectively.

(2) The above interests represented long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2009, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company had a share option scheme for employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. This scheme shall be valid and effective for a period of ten years ending on 11 May 2013, after which no further options will be granted. The maximum number of shares in respect of which options may be granted under the third share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the third share option scheme. The maximum entitlement of each participant in the total number of shares issued and to be issued upon exercise of options granted under the third share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The total number of shares available for issue under the share option schemes as at 31 December 2009 represents 4.80% (2008: 4.96%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 28 to the financial statements.

Movements in the Company's share options during the year are as follows:

Category	Date of grant	Number of options at 1 January 2009	Number of options granted during the year	Number of options cancelled/ lapsed during the year	Number of Options exercised during the year	Number of options at 31 December 2009	Exercisable period	Price per share to be paid on exercise of option	Market value per share at date of grant of options	Weighted average market value per share on exercise of options
Directors										
Ko Chun Shun, Johnson	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
Tsoi Tong Hoo, Tony	22 July 2005	3,000,000	–	–	–	3,000,000	22 July 2005 to 21 July 2015	HK$6.60	HK$6.55	N/A
Ho Te Hwai, Cecil	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
Others										
Chang Chu Cheng *(Note)*	30 October 2002	1,000,000	–	–	–	1,000,000	31 October 2002 to 30 October 2012	HK$4.605	HK$4.35	N/A
	21 December 2004	300,000	–	–	–	300,000	21 December 2004 to 20 December 2014	HK$7.45	HK$7.45	N/A
	19 December 2005	3,000,000	–	–	–	3,000,000	19 December 2005 to 18 December 2015	HK$5.73	HK$5.65	N/A
Employees	9 June 1999	121,250	–	(121,250)	–	–	9 July 1999 to 8 July 2009	HK$10.90	HK$15.00	N/A
	1 June 2000	258,000	–	(44,000)	–	214,000	1 July 2000 to 30 June 2010	HK$11.30	HK$13.40	N/A
	30 August 2001	120,500	–	(24,000)	–	96,500	30 August 2001 to 29 August 2011	HK$3.06	HK$3.575	N/A
	13 September 2002	126,000	–	(27,000)	–	99,000	13 September 2002 to 12 September 2012	HK$3.905	HK$3.85	N/A
	6 October 2003	165,000	–	(39,000)	–	126,000	6 October 2003 to 5 October 2013	HK$7.35	HK$7.35	N/A
	20 December 2004	1,953,500	–	(256,500)	–	1,697,000	20 December 2004 to 19 December 2014	HK$7.50	HK$7.50	N/A
		16,044,250	–	(511,750)	–	15,532,500				

Note: Dr. Chang Chu Cheng ("Dr. Chang") retired as Director and became Honorary Chairman on 11 June 2007. The 4,300,000 share options held by Dr. Chang were retained until the end of the expiry of the respective exercisable periods of the share options, and reclassified from the category 'Directors' to 'Others'.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2009, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Ko Chun Shun, Johnson and Rockstead Technology Limited, so far as is known to the Directors and chief executives of the Company, the following company had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Approx. % of the issued share capital of the Company
FMR LLC	Interest in controlled corporation	29,117,000 *(Note)*	9.00

Note: All the above interests represented long positions.

DIRECTORS' SERVICE CONTRACTS

Messrs. Ko Chun Shun, Johnson, Tsoi Tong Hoo, Tony and Ho Te Hwai, Cecil have entered into management agreements with the Company which may be terminated by either party to the agreements at three months' notice.

Mr. Yuen Kin has entered into management agreements with the Company which may be terminated by either party to the agreements at one month's notice.

Non-executive Directors are appointed for a period up to 31 December 2010 or such other date as agreed by the Non-executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, 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 concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law of Bermuda.

BANK LOANS

Particulars of bank loans of the Group at 31 December 2009 are set out in Note 24 to the financial statements.

CAPITALISATION OF INTEREST

No interest was capitalised by the Group during the year.

PROPERTIES

Particulars of the properties held by the Group are shown on page 79 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 78 of this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors of the Company, for the year under review, the Company has maintained the prescribed public float under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the five largest customers of the Group accounted for 32% of the Group's total turnover while the largest customer of the Group accounted for 22% of the Group's total turnover. In addition, for the year ended 31 December 2009, the five largest suppliers of the Group accounted for 35% of the Group's total purchases while the largest supplier of the Group accounted for 10% of the Group's total purchases.

At no time during the year have the Directors or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Ko Chun Shun, Johnson
Chairman

Hong Kong, 23 April 2010

Report of the Independent Auditor

Independent auditor's report to the shareholders of Varitronix International Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Varitronix International Limited (the "Company") set out on pages 27 to 77, which comprise the consolidated and Company balance sheets as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 auditor's 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 auditor considers 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 consolidated 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 loss 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 April 2010

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Continuing operations			
Turnover	3	**1,817,172**	1,720,512
Other operating income/(loss)	4	**66,512**	(62,080)
Change in inventories of finished goods and work in progress		**8,749**	(58,506)
Raw materials and consumables used		**(1,270,314)**	(969,940)
Staff costs		**(259,757)**	(249,707)
Depreciation		**(87,311)**	(83,531)
Other operating expenses		**(221,796)**	(236,486)
Profit from operations		**53,255**	60,262
Finance costs	5(a)	**(3,514)**	(5,820)
Negative goodwill arising on acquisition of an associate	16(b)	**–**	14,861
Share of losses of associates		**(21,809)**	(3,330)
Profit before taxation	5	**27,932**	65,973
Income tax	8(a)	**(11,212)**	(9,485)
Profit for the year from continuing operations		**16,720**	56,488
Discontinued operation			
Loss for the year from discontinued operation	9	**(285,441)**	(39,779)
(Loss)/profit for the year		**(268,721)**	16,709
Attributable to:			
Equity shareholders of the Company	10	**(268,325)**	15,048
Minority interests		**(396)**	1,661
(Loss)/profit for the year		**(268,721)**	16,709

	Note	2009 $'000	2008 $'000
(Loss)/earnings per share			
Basic	12(a)		
– from continuing and discontinued operations		**(83.0) cents**	4.7 cents
– from continuing operations		**5.3 cents**	17.0 cents
– from discontinued operation		**(88.3) cents**	(12.3) cents
Diluted	12(b)		
– from continuing and discontinued operations		**(83.0) cents**	4.7 cents
– from continuing operations		**5.3 cents**	17.0 cents
– from discontinued operation		**(88.3) cents**	(12.3) cents

The notes on pages 34 to 77 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in Note 29(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
(Loss)/profit for the year		**(268,721)**	16,709
Other comprehensive income for the year (after tax and reclassification adjustments):	11		
Foreign currency translation adjustments:			
– exchange differences on translation of financial statements of overseas operations		**7,315**	(2,339)
– transfer to profit or loss on disposal of overseas operations		**19,846**	–
		27,161	(2,339)
Available-for-sale securities: net movement in the fair value reserve		**11,581**	(10,470)

	Note	2009 $'000	2008 $'000
Total comprehensive income for the year from continuing operations		**(229,979)**	3,900
Discontinued operation			
Foreign currency translation adjustment:			
– exchange differences on translation of financial statements of overseas operation		**(139)**	4,557
Total comprehensive income for the year		**(230,118)**	8,457
Attributable to:			
Shareholders of the Company		**(229,831)**	7,520
Minority interests		**(287)**	937
Total comprehensive income for the year		**(230,118)**	8,457

The notes on pages 34 to 77 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Fixed assets	14		
– Investment properties		–	1,460
– Other property, plant and equipment		353,591	454,299
– Interest in leasehold land held for own use		5,648	8,696
		359,239	464,455
Interest in associates	16	99,384	124,141
Loans receivable	17	123,055	132,618
Other financial assets	18	182,798	176,358
Deferred tax assets	27(b)	2,198	4,898
		766,674	902,470
Current assets			
Trading securities	19	144,613	116,758
Inventories	20	276,561	221,799
Trade and other receivables	21	512,501	370,377
Current taxation recoverable	27(a)	1,285	2,840
Cash and cash equivalents	22	380,713	483,880
		1,315,673	1,195,654
Assets of a disposal group classified as held for disposal	23	22,895	246,609
		1,338,568	1,442,263
Current liabilities			
Bank loans	24	218,955	197,112
Trade and other payables	25	519,068	463,296
Current taxation payable	27(a)	1,857	462
		739,880	660,870
Liabilities relating to assets of a disposal group classified as held for disposal	23	157,771	122,388
		897,651	783,258
Net current assets		440,917	659,005
Total assets less current liabilities		1,207,591	1,561,475
Non-current liabilities			
Bank loans	24	37,000	152,666
Other payables		4,104	–
Deferred tax liabilities	27(b)	2,282	80
NET ASSETS		1,164,205	1,408,729
CAPITAL AND RESERVES			
Share capital	29(c)	80,856	80,856
Reserves		1,068,524	1,307,076
Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal		6,026	6,165
Total equity attributable to equity shareholders of the Company		1,155,406	1,394,097
Minority interests		8,799	14,632
TOTAL EQUITY		1,164,205	1,408,729

Approved and authorised for issue by the board of directors on 23 April 2010

Tsoi Tong Hoo, Tony
Director

Ko Chun Shun, Johnson
Director

The notes on pages 34 to 77 form part of these financial statements.

BALANCE SHEET

at 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Non-current assets			
Interest in subsidiaries	15	**641,295**	654,214
Loans receivable	17	**64,371**	56,849
Other financial assets	18	**154,979**	154,979
		860,645	866,042
Current assets			
Trade and other receivables	21	**1,098**	1,010
Cash and cash equivalents	22	**1,227**	890
		2,325	1,900
Current liabilities			
Trade and other payables	25	**2,329**	10,253
Net current liabilities		**(4)**	(8,353)
NET ASSETS		**860,641**	857,689
CAPITAL AND RESERVES			
Share capital	29(c)	**80,856**	80,856
Reserves	29(a)	**779,785**	776,833
TOTAL EQUITY		**860,641**	857,689

Approved and authorised for issue by the board of directors on 23 April 2010

Tsoi Tong Hoo, Tony	**Ko Chun Shun, Johnson**
Director	*Director*

The notes on pages 34 to 77 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company										
	Share capital (note 29(c)) $'000	Share premium (note 29(d)(i)) $'000	Exchange reserve (note 29(d)(iii)) $'000	Fair value reserve (note 29(d)(iv)) $'000	Capital reserve (note 29(d)(v)) $'000	Other reserves (note 29(d)(vi)) $'000	Retained profits $'000	Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal $'000	Total $'000	Minority interests $'000	Total equity $'000
2009											
At 1 January 2009	80,856	695,336	18,430	1,016	11,373	(30,273)	611,194	6,165	1,394,097	14,632	1,408,729
Total comprehensive income for the year	–	–	27,052	11,581	–	–	(268,325)	(139)	(229,831)	(287)	(230,118)
Acquisition of minority interests	–	–	–	–	–	(2,392)	–	–	(2,392)	(5,546)	(7,938)
Dividends approved in respect of the previous year (note 29(b)(ii))	–	–	–	–	–	–	(3,234)	–	(3,234)	–	(3,234)
Interim dividends declared and paid in respect of the current year (note 29(b)(i))	–	–	–	–	–	–	(3,234)	–	(3,234)	–	(3,234)
At 31 December 2009	80,856	695,336	45,482	12,597	11,373	(32,665)	336,401	6,026	1,155,406	8,799	1,164,205

	Attributable to shareholders of the Company										
	Share capital (note 29(c)) $'000	Share premium (note 29(d)(i)) $'000	Exchange reserve (note 29(d)(iii)) $'000	Fair value reserve (note 29(d)(iv)) $'000	Capital reserve (note 29(d)(v)) $'000	Other reserves (note 29(d)(vi)) $'000	Retained profits $'000	Amounts recognised in other comprehensive income and accumulated in equity relating to a disposal group classified as held for disposal $'000	Total $'000	Minority interests $'000	Total equity $'000
2008											
At 1 January 2008	80,856	695,336	21,653	11,486	11,373	(30,273)	719,047	–	1,509,478	13,695	1,523,173
Total comprehensive income for the year	–	–	(1,615)	(10,470)	–	–	15,048	4,557	7,520	937	8,457
Transfer of amounts recognised directly in equity relating to a disposal group classified as held for disposal	–	–	(1,608)	–	–	–	–	1,608	–	–	–
Dividends approved in respect of the previous year (note 29(b)(ii))	–	–	–	–	–	–	(84,090)	–	(84,090)	–	(84,090)
Interim dividends declared and paid in respect of the current year (note 29(b)(i))	–	–	–	–	–	–	(38,811)	–	(38,811)	–	(38,811)
At 31 December 2008	80,856	695,336	18,430	1,016	11,373	(30,273)	611,194	6,165	1,394,097	14,632	1,408,729

The notes on pages 34 to 77 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Operating activities			
Profit/(loss) before taxation from			
– continuing operations		**27,932**	65,973
– discontinued operation	9(a)	**(285,441)**	(38,548)
		(257,509)	27,425
Adjustments for:			
– Depreciation		**87,699**	83,892
– Impairment loss on fixed assets	5(c)	**–**	2,895
– Impairment loss on available-for-sale securities	5(c)	**–**	8,519
– Impairment written-back in respect of inventories	5(c)	**(668)**	(9,734)
– Impairment made on assets of a disposal group classified as held for disposal		**255,030**	–
– Finance costs	5(a)	**4,230**	9,278
– Dividend income from investments	4	**(9,178)**	(8,798)
– Interest income		**(15,580)**	(21,504)
– Reclassification from equity on disposal of available-for-sale securities	4	**(78)**	618
– Realised and unrealised (gains)/losses on trading securities	4	**(38,387)**	59,754
– Unrealised (gains)/losses on derivative financial instruments	4	**(15,249)**	12,215
– Realised losses on equity linked notes	4	**–**	48,767
– Share of losses of associates		**21,809**	3,330
– Negative goodwill arising on acquisition of an associate		**–**	(14,861)
– Loss/(gain) on disposal of fixed assets	4	**12,098**	(31,138)
– Loss on disposal of subsidiaries	4	**18,504**	–
– Foreign exchange (gain)/loss		**(1,680)**	27,412
Operating profit before changes in working capital		**61,041**	198,070
(Increase)/decrease in inventories		**(53,717)**	254,801
(Increase)/decrease in trade and other receivables		**(112,779)**	21,906
Increase/(decrease) in trade and other payables		**79,379**	(86,133)
Increase in assets of a disposal group classified as held for disposal		**(31,704)**	–
Increase in liabilities relating to assets of a disposal group classified as held for disposal		**35,383**	–
Cash (used in)/ generated from operations		**(22,397)**	388,644
Tax paid			
– Hong Kong Profits Tax (paid)/refunded		**(669)**	1,492
– Overseas tax paid		**(2,691)**	(17,459)
Net cash (used in)/ generated from operating activities		**(25,757)**	372,677

CONSOLIDATED CASH FLOW STATEMENT (continued)

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Note	2009 $'000	2008 $'000
Investing activities			
Proceeds from disposal of fixed assets		**60,635**	95,431
Payment for purchase of fixed assets		**(94,418)**	(195,317)
Proceeds from disposal of available-for-sale securities		**5,812**	23,356
Payment for purchase of available-for-sale securities		**–**	(154,979)
Proceeds from sale of trading securities		**91,209**	186,425
Payment for purchase of trading securities		**(83,477)**	(235,668)
Proceeds from sale of equity linked notes		**–**	67,483
Payment for purchase of equity linked notes		**–**	(116,250)
Payment for loans receivable		**–**	(93,576)
Repayment of loans receivable		**4,042**	13,027
Payment for purchase of an associate		**–**	(56,689)
Proceeds on disposal of subsidiaries		**24,021**	–
Payment for acquisition of minority interests		**(7,938)**	–
Dividends received from investments in trading and available-for-sale securities		**9,178**	8,798
Dividends received from associates		**2,305**	–
Interest received		**12,222**	21,504
Net cash generated from/(used in) investing activities		**23,591**	(436,455)

	Note	2009 $'000	2008 $'000
Financing activities			
New bank loans		**72,989**	437,079
Repayment of bank loans		**(165,131)**	(266,956)
Interest paid		**(4,230)**	(9,278)
Dividends paid		**(6,468)**	(122,900)
Net cash (used in)/ generated from financing activities		**(102,840)**	37,945
Net decrease in cash and cash equivalents		**(105,006)**	(25,833)
Cash and cash equivalents at 1 January	22	**483,880**	544,987
Cash and cash equivalents of a disposal group classified as held for disposal		**–**	(30,274)
Effect of foreign exchange rates changes		**1,839**	(5,000)
Cash and cash equivalents at 31 December	22	**380,713**	483,880

The notes on pages 34 to 77 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that available-for-sale securities, trading securities and derivative financial instruments are stated at their fair values as explained in notes 1(f) and 1(g).

Non-current assets and disposal group held for sale are stated at the lower of carrying amount and fair value less cost to sell (see note 1(x)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In accessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale, (or included in a disposal group that is classified as held for sale) (see note 1(x)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(x)). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associates' net assets and any impairment loss relating to the investment (see notes 1(e) and (j)). The Group's share of the post-acquisition, post-tax results of associates, and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in associates is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit or group of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's accounting policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicted otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest or dividends earned on these investments as these are recognised in accordance with the accounting policies set out in notes 1(q)(ii) and 1(q)(iii) respectively.

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(q)(iii) and, when these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 1 (q)(ii). When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is reclassified from equity to the profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivative financial instruments are designated as a hedge of the variability in cash flows of a recognised liability which qualifies for cash flow hedge accounting, in which case any gain or loss on remeasurement of the effective portion of the derivative financial instruments to fair value is recognised directly in equity. Any gain or loss on remeasurement of the ineffective portion is recognised immediately in profit or loss.

(h) Investment properties and other property, plant and equipment

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(i)) to earn rental income, or for capital appreciation or for a currently undetermined future use.

Both investment properties and other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

When the Group holds a property interest held under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance lease. Lease payments are accounted for as described in note 1(i).

Depreciation is calculated to write off the cost of items of investment properties and other property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

– Investment properties	33 years
– Leasehold land	Over the lease term
– Buildings	40 years
– Plant and machinery	2 to 7 years
– Tools and equipment	2 to 5 years
– Others	2 to 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an investment property or an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(h)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term except where the property is classified as an investment property (see note 1(h)).

(j) Impairment of assets

(i) Impairment of investments in debt and equity securities and trade and other receivables

Investments in debt and equity securities (other than investments in subsidiaries: see note 1(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity securities below its cost.

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

– For investments in associates recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

– For unquoted equity securities, trade and other receivable and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for unquoted equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets carried at cost or amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors whose recovery is considered doubtful but not remote. In this case, the impairment losses for bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- investments in subsidiaries;
- investment properties and other property, plant and equipment; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- *Reversals of impairment losses*

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debt (see note 1(j)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Loans receivable

Loans receivable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The impairment recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue arising from the sale of goods is recognised on delivery of goods to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Dividend income from listed securities is recognised when the share price of the security goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities is recognised on the trade date.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans and Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in profit or loss as incurred.

In accordance with the rules and regulations in the People's Republic of China ("PRC"), the Group has arranged for its local employees to join defined contribution retirement plans organised by the PRC government. The PRC government undertakes to assume the retirement benefits obligations of all existing and future retired employees payable under the plans. The assets of those plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group is required to make monthly defined contributions to these plans at rates ranging from 15 to 20% of the employees' total salary subject to a certain ceiling. The Group has no other obligations for the payment of retirement and other post-retirement benefit of employees or retirees other than the payments disclosed above.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(t) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries and associates to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(x) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Non-current assets held for sale and discontinued operations (continued)

(i) Non-current assets held for sale (continued)

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries and associates). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the operation is available for sale in its present condition, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(y) Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

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

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has not resulted in any changes to the Group's reportable segments being identified and presented (see note 13).

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 30(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendments has resulted in changes to the Group's accounting policies:

  - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (continued)

– The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognised an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays and related products.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2009 revenues from sales to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately $403,572,000 (2008: $368,332,000). Details of concentrations of credit risk arising from this customer are set out in note 30(a).

Further details regarding the Group's principal activities are disclosed in note 13 to these financial statements.

4 OTHER OPERATING INCOME/(LOSS)

	2009 $'000	2008 $'000
Continuing operations		
Dividend income from listed equity securities	9,178	8,798
Interest income from listed debt securities	570	667
Interest income from unlisted debt securities	5,765	4,337
Other interest income	9,112	15,686
Rental income under operating leases	14,494	16,423
(Loss)/gain on disposal of fixed assets	(12,098)	31,138
Loss on disposal of subsidiaries*	(18,504)	–
Available-for-sale securities: reclassified from equity on disposal (note 11)	78	(618)
Realised and unrealised gains/(losses) on trading securities	38,387	(59,754)
Realised losses on equity linked notes	–	(48,767)
Unrealised gains/(losses) on derivative financial assets	15,249	(12,215)
Exchange gain/(loss)	2,011	(38,917)
Net insurance compensation	–	11,172
Other income	2,270	9,970
	66,512	(62,080)
Discontinued operation		
Interest income	133	814
Exchange loss	(413)	(8,143)
	(280)	(7,329)
	66,232	(69,409)

* During the year, the Group and an independent third party entered into a share transfer agreement under which the Group disposed of its entire 100% equity interest in a subsidiary, Varitronix (Malaysia) Sdn. Bhd. ("VM") and a wholly owned subsidiary held by VM, Cadac Electronic (M) Sdn. Bhd. ("Cadac"). This transaction arose on the disposal by the Group of a property located in Malaysia, which was held by VM. The transaction was completed on 14 December 2009 and VM and Cadac ceased to be subsidiaries of the Group. The transaction resulted in a loss on disposal of $18,504,000, which mainly comprised the foreign exchange loss related to these subsidiaries previously held in the Group's exchange reserve.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2009 $'000	2008 $'000
(a) Finance costs:		
Continuing operations		
Interest on bank advances and other borrowings repayable within five years	**3,514**	5,820
Discontinued operation		
Interest on bank advances and other borrowings repayable within five years	**716**	3,458
(b) Other items:		
Continuing operations		
Cost of inventories	**1,519,891**	1,285,796
Auditors' remuneration – audit services	**3,637**	3,577
Research and development costs	**78,799**	71,558
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	**15,209**	5,037
Contributions to defined contribution retirement plans	**4,337**	5,203
Discontinued operation		
Cost of inventories	**223,278**	674,195
Operating lease charges: minimum lease payments – hire of assets (including property rentals)	**1,678**	1,229

	2009 $'000	2008 $'000
(c) Impairment losses recognised/(written-back):		
Continuing operations		
Fixed assets	**–**	2,895
Trade and other receivables	**(1,511)**	(14,276)
Available-for-sale securities	**–**	8,519
Inventories	**(668)**	(9,734)
Discontinued operation		
Fixed assets	**1,059**	–
Trade and other receivables	**103,104**	143
Inventories	**150,867**	–

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 31 December 2008

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors					
Ko Chun Shun, Johnson	–	2,590	–	120	2,710
Tsoi Tong Hoo, Tony	–	5,038	2,000	240	7,278
Ho Te Hwai, Cecil	–	964	250	12	1,226
Non-executive Directors					
Dr. Lo Wing Yan, William	200	–	–	–	200
Yuen Kin	200	–	–	–	200
Hou Ziqiang	200	–	–	–	200
Total	600	8,592	2,250	372	11,814

Year ended 31 December 2009

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive Directors					
Ko Chun Shun, Johnson	–	2,779	–	120	2,899
Tsoi Tong Hoo, Tony	–	5,200	–	240	5,440
Ho Te Hwai, Cecil	–	1,440	–	12	1,452
Yuen Kin*	100	884	–	6	990
Non-executive Directors					
Dr. Lo Wing Yan, William	200	–	–	–	200
Hou Ziqiang	200	–	–	–	200
Chau Shing Yim, David*	100	–	–	–	100
Total	600	10,303	–	378	11,281

* On 1 July 2009, Mr. Yuen Kin was re-designated from Independent Non-executive Director to Executive Director. Included in the remuneration of Mr. Yuen Kin disclosed above are fees of $100,000 received in his position as a Non-executive Director. Mr. Chau Shing Yim, David was appointed as an Independent Non-executive Director on the same day.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2008: two) are Directors, whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2008: three) individuals are as follows:

	2009 $'000	2008 $'000
Salaries and allowances	19,370	6,324
Retirement scheme contributions	4	263
	19,374	6,587

The emoluments of the three (2008: three) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
$1,000,001 – $1,500,000	–	1
$1,500,001 – $2,000,000	–	1
$2,000,001 – $2,500,000	–	–
$3,000,001 – $3,500,000	–	–
$3,500,001 – $4,000,000	1	1
$4,000,001 – $4,500,000	1	–
$11,000,001 – $11,500,000	1	–

8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Continuing operations

(i) Taxation in the consolidated income statement represents:

	2009 $'000	2008 $'000
Current tax – Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	3,089	5,070
Over-provision in respect of prior years	(1,418)	(7,521)
	1,671	(2,451)
Current tax – Overseas		
Provision for the year	4,639	12,966
	4,639	12,966
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	4,902	(1,030)
	11,212	9,485

The provision for Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

In June 2008, the Hong Kong Government promulgated a decrease in the Hong Kong Profits Tax rate applicable to the Group's operations in Hong Kong from 17.5% to 16.5% as from the year ended 31 December 2008. This decrease has been taken into account in the preparation of these financial statements. Accordingly, the opening balance of deferred tax in 2008 has been re-estimated.

As disclosed in the Group's financial statements for the year ended 31 December 2008, a subsidiary had received from the Hong Kong Inland Revenue Department ("IRD") additional assessments relating to the years of assessment 1994/95 to 2004/05 relating to a dispute over the deductibility of certain sub-contracting charges for tax assessment purposes. In 2006, the subsidiary reached an agreement with the IRD for settlement for the years of assessment 1994/95 to 2003/04. However, formal agreement in respect of subsequent years, i.e. the years of assessment 2004/05 to date is still outstanding. Tax returns for these years have been based on the settlement agreed with the IRD in 2006 and the Directors consider that provisions and tax payments made for the years of assessment 2004/05 to 2008/09, which are still subject to agreement by the IRD, are sufficient.

(ii) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2009 $'000	2008 $'000
Profit before taxation	27,932	65,973
Notional tax expense on profit before taxation, calculated at the rates applicable to profits in the countries concerned	6,479	6,041
Tax effect of non-deductible expenses	13,832	42,787
Tax effect of non-taxable revenue	(4,458)	(32,308)
Prior year's tax losses utilised this year	(3,251)	(10)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	(215)
Tax effect of unused tax losses not recognised	28	104
Over-provision in prior years	(1,418)	(7,521)
Others	–	607
Actual tax expense	11,212	9,485

8 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(b) Discontinued operation

(i) Taxation in the consolidated income statement represents:

	2009 $'000	2008 $'000
Current tax – Overseas		
Provision for the year	–	1,231

(ii) Reconciliation between tax expense and accounting loss at the applicable tax rates:

	2009 $'000	2008 $'000
Loss before taxation	(285,441)	(38,548)
Notional tax credit on loss before taxation calculated at the rate applicable to losses in the country concerned	(42,816)	(5,782)
Tax effect of non-deductible expenses	777	719
Tax effect of unused tax losses not recognised	42,039	6,294
Actual tax expense	–	1,231

9 DISCONTINUED OPERATION

On 30 December 2009, the Group passed a written resolution to proceed with a voluntary winding-up of a wholly-owned subsidiary, Varitronix Marketing (China) Limited ("Varitronix Marketing"), which in turn held a 99% equity interest in Varitronix Pengyuan Electronics Limited ("Varitronix Pengyuan"). The remaining 1% equity interest in Varitronix Pengyuan is held by Varitronix Shenzhen Linkscore Limited, an indirect wholly-owned subsidiary of the Group. As a result of the voluntary winding-up, the Group's business operations in the design, manufacture, and sale of thin film transistor-liquid crystal displays ("TFT-LCDs") for the mobile phone market in the PRC were discontinued. Further details in relation to this transaction are set out in the Company's announcement dated 30 December 2009.

(a) The results of the discontinued operation for the years ended 31 December 2009 and 2008 are as follows:

	2009 $'000	2008 $'000
Turnover (note 3)	223,500	691,382
Other operating loss (note 4)	(280)	(7,329)
Changes in inventories of finished goods	(15,330)	(17,529)
Raw materials and consumables used	(207,948)	(656,666)
Staff costs	(6,819)	(13,753)
Depreciation	(388)	(361)
Other operating expenses	(277,460)	(30,834)
Loss from operation	(284,725)	(35,090)
Finance costs (note 5(a))	(716)	(3,458)
Loss before taxation (note 5)	(285,441)	(38,548)
Income tax	–	(1,231)
Loss for the year from discontinued operation attributable to equity shareholders of the Company	(285,441)	(39,779)

(b) The net cash flows of the discontinued operation for the years ended 31 December 2009 and 2008 are as follows:

	2009 $'000	2008 $'000
Net cash (outflow)/inflow from operating activities	(61,149)	33,435
Net cash (outflow)/inflow from investing activities	(151)	555
Net cash inflow/(outflow) from financing activities	50,230	(68,412)
Net cash outflow of the discontinued operation	(11,070)	(34,422)

10 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a profit of $9,420,000 (2008: $14,491,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2009 $'000	2008 $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	9,420	14,491
Dividends from subsidiaries attributable to the profits of subsidiaries, approved and paid during the year	–	36,015
Company's profit for the year (note 29(a))	9,420	50,506

11 OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of the components of other comprehensive income.

Reclassification adjustments relating to components of other comprehensive income are as follows:

	2009 $'000	2008 $'000
Available-for-sale securities:		
Changes in fair value recognised during the year	11,659	(11,223)
Reclassification adjustments for amounts transferred to profit or loss:		
– (gain)/loss on disposal	(78)	618
– impairment loss	–	135
Net movement in the fair value reserve during the period recognised in other comprehensive income	11,581	(10,470)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the loss attributable to equity shareholders of the Company of $268,325,000 (2008: profit of $15,048,000) and the weighted average number of shares of 323,422,204 shares (2008: 323,422,204 shares) in issue during the year, calculated as follows:

	2009		2008	
	Profit/(loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares
Continuing operations	17,116	323,422,204	54,827	323,422,204
Discontinued operation	(285,441)	323,422,204	(39,779)	323,422,204
	(268,325)	323,422,204	15,048	323,422,204

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the loss attributable to equity shareholders of the Company of $268,325,000 (2008: profit of $15,048,000) and the weighted average number of shares of 323,422,204 shares (2008: 323,452,342 shares) after adjusting for the effects of all dilutive potential shares, calculated as follows:

	2009		2008	
	Profit/(loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares	Profit/(loss) attributable to equity shareholders $'000	Weighted average no. of ordinary shares
Continuing operations	17,116	323,422,204	54,827	323,452,342
Discontinued operation	(285,441)	323,422,204	(39,779)	323,452,342
	(268,325)	323,422,204	15,048	323,452,342

(c) Weighted average number of shares (diluted)

	2009 Number of shares	2008 Number of shares
Weighted average number of shares used in calculating basic earnings per share	323,422,204	323,422,204
Effect of deemed issue of shares for no consideration arising from the Company's share option scheme	–	30,138
Weighted average number of shares used in calculating diluted earnings per share	323,422,204	323,452,342

13 SEGMENT REPORTING

(a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the turnover and operating profits is derived from this business segment. The financial statements are already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocated resources. Management has determined that a single operating segment exists based on this internal reporting.

13 SEGMENT REPORTING (continued)

(a) Operating segment results (continued)

The Board assesses the performance of the operating segments based on turnover which is consistent with that in the financial statements. Other information, being the total assets excluding deferred tax, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets and interest in associates ("Specified Non-current Assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of interest in associates.

(i) Group's revenues from external customers

	2009 $'000	2008 $'000
Continuing operations		
Hong Kong and the PRC (place of domicile)	681,299	450,051
Europe	566,834	753,549
Korea	334,929	228,585
North America	117,711	160,697
Others	116,399	127,630
	1,817,172	1,720,512
Discontinued operation		
The PRC	223,500	691,382
Consolidated turnover	2,040,672	2,411,894

Revenue from external customers located in Europe is analysed as follows:

	2009 $'000	2008 $'000
France	119,340	157,614
Germany	122,581	203,415
United Kingdom	47,403	75,519
Other European countries	277,510	317,001
	566,834	753,549

(ii) Group's Specified Non-current Assets

	2009 $'000	2008 $'000
Continuing operations		
Hong Kong and the PRC (place of domicile)	354,845	432,079
Germany	95,782	121,980
Malaysia	–	28,715
Korea	3,602	2,161
Others	4,394	3,661
	458,623	588,596
Discontinued operation		
The PRC	–	1,250
	458,623	589,846

14 FIXED ASSETS

The Group

	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2009	146,762	951,489	174,197	1,272,448	4,994	19,042	1,296,484
Exchange adjustments	1,080	44	325	1,449	–	108	1,557
Additions	3,671	62,880	27,867	94,418	–	–	94,418
Transfer	–	(235)	235	–	–	–	–
Disposals	(59,954)	(141,806)	(31,853)	(233,613)	(4,994)	(8,147)	(246,754)
At 31 December 2009	91,559	872,372	170,771	1,134,702	–	11,003	1,145,705
Accumulated amortisation and depreciation and impairment losses:							
At 1 January 2009	59,410	618,141	140,598	818,149	3,534	10,346	832,029
Exchange adjustments	610	219	285	1,114	–	72	1,186
Charge for the year	2,707	71,829	12,488	87,024	38	249	87,311
Transfer	–	(234)	234	–	–	–	–
Written back on disposals	(37,192)	(69,909)	(18,075)	(125,176)	(3,572)	(5,312)	(134,060)
At 31 December 2009	25,535	620,046	135,530	781,111	–	5,355	786,466
Net book value:							
At 31 December 2009	66,024	252,326	35,241	353,591	–	5,648	359,239

14 FIXED ASSETS (continued)

The Group (continued)

	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost:							
At 1 January 2008	269,322	797,286	173,030	1,239,638	16,301	37,928	1,293,867
Exchange adjustments	(777)	14,256	2,046	15,525	(1)	14	15,538
Additions	–	175,645	19,672	195,317	–	–	195,317
Transfer	–	(4,055)	4,055	–	–	–	–
Disposals							
– others	(121,783)	(29,222)	(24,606)	(175,611)	(11,306)	(18,900)	(205,817)
– through write off of subsidiary's assets	–	(228)	–	(228)	–	–	(228)
Transfer to assets of a disposal group classified as held for disposal (note 23)	–	(2,193)	–	(2,193)	–	–	(2,193)
At 31 December 2008	146,762	951,489	174,197	1,272,448	4,994	19,042	1,296,484
Accumulated amortisation and depreciation and impairment losses:							
At 1 January 2008	129,969	574,434	149,454	853,857	8,524	18,412	880,793
Exchange adjustments	(1,803)	7,118	1,999	7,314	–	(210)	7,104
Charge for the year	3,184	66,910	13,360	83,454	106	332	83,892
Transfer	–	(87)	87	–	–	–	–
Impairment loss	2,559	–	–	2,559	–	336	2,895
Written back on disposals							
– others	(74,499)	(29,099)	(24,302)	(127,900)	(5,096)	(8,524)	(141,520)
– through write off of subsidiary's assets	–	(192)	–	(192)	–	–	(192)
Transfer to assets of a disposal group classified as held for disposal (note 23)	–	(943)	–	(943)	–	–	(943)
At 31 December 2008	59,410	618,141	140,598	818,149	3,534	10,346	832,029
Net book value:							
At 31 December 2008	87,352	333,348	33,599	454,299	1,460	8,696	464,455

14 FIXED ASSETS (continued)

The Group (continued)

(a) Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

(b) The analysis of the net book value of properties is as follows:

	2009 $'000	2008 $'000
In Hong Kong		
– medium-term leases	8,076	11,090
Outside Hong Kong		
– long-term leases	–	24,080
– medium-term leases	55,054	53,496
– no specified lease term	8,542	8,842
	63,596	86,418
	71,672	97,508
Representing:		
Land and buildings held for own use	66,024	87,352
Investment properties	–	1,460
Interest in leasehold land held for own use under operating leases	5,648	8,696
	71,672	97,508

(c) Investment properties of the Group are stated at cost less accumulated depreciation.

(d) Fixed assets leased out under operating leases

The Group leases out investment properties and certain items of machinery under operating leases. The leases typically ran for an initial period of one to five years, with an option to renew each lease upon expiry at which time all terms were to be renegotiated. The operating leases were terminated during the year ended 31 December 2009.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property. No properties were classified as investment properties as at 31 December 2009. The fair value of the investment properties as at 31 December 2008, as determined by the Directors of the Company by reference to recent market transactions in comparable properties, amounted to $5,962,000. Investment properties were not valued by an independent valuer who held a recognised and relevant professional qualification and had recent experience in the location and category of the investment properties being valued.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2009 $'000	2008 $'000
Within 1 year	–	9,223

15 INTEREST IN SUBSIDIARIES

	The Company	
	2009 $'000	2008 $'000
Unlisted shares, at cost	101,453	101,453
Amounts due from subsidiaries	539,842	552,761
	641,295	654,214

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

15 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

	Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
*	Coway Technology Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
*	In Achieve Investments Limited	British Virgin Islands/ Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
	Link Score Investment Limited	Hong Kong	100 ordinary shares of $1 each	100%	–	100%	Property investment and investment holding
	Polysources Properties Limited	Hong Kong	2 ordinary shares of $100 each 154 non-voting deferred ordinary shares of $100 each	100%	–	100%	Property investment
*	Starel Trading Limited	Republic of Cyprus/ United Kingdom	1,000 shares of €1.71 each	100%	–	100%	Property investment
*	Steding Limited	British Virgin Islands/ Hong Kong	1,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
	Varitronix Limited	Hong Kong	2 ordinary shares of $1,000 each 1,848 non-voting deferred ordinary shares of $1,000 each	100%	–	100%	Design, manufacture and sale of liquid crystal displays and related products
*	Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
#*	Varitronix Electronics (Shenzhen) Limited	The People's Republic of China	US$2,100,000	100%	–	100%	Manufacture of liquid crystal displays and related products
	Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of trading securities

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. (continued)

	Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
	Varitronix France SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants
*	Varitronix GmbH	Germany	100,000 shares of €0.51 each	100%	–	100%	Marketing and sales consultants
#*	Varitronix (Heyuan) Co. Ltd.	The People's Republic of China	RMB78,910,000	90.1%	–	90.1%	Manufacture of liquid crystal displays and related products
#*	Varitronix (Heyuan) Display Technology Limited	The People's Republic of China	RMB389,645,743	100%	–	100%	Manufacture of liquid crystal displays and related products
	Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Investment holding
*	Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
*	Varitronix (Macao Commercial Offshore) Limited	Macau	MOP100,000	100%	–	100%	Trading of electronic components
*	Varitronix Manufacturing (BVI) Limited	British Virgin Islands/ The People's Republic of China	100 ordinary shares of US$1 each	100%	–	100%	Subcontracting and operating production plant in the People's Republic of China
*	Varitronix Marketing Limited	British Virgin Islands/ United Kingdom	1,000 shares of US$1 each	100%	–	100%	Investment holding
#*	Varitronix Pengyuan Electronics Limited (note)	The People's Republic of China	RMB15,000,000	100%	–	100%	Liquid crystal display business
*	Varitronix Shenzhen Linkscore Limited	The People's Republic of China	RMB500,000	100%	–	100%	Trading of electronic components
*	Varitronix (Switzerland) GmbH	Switzerland	CHF30,000	100%	–	100%	Marketing and sales consultants

15 INTEREST IN SUBSIDIARIES (continued)

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. (continued)

	Name of company	Place of incorporation/ operation	Particulars of issued/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
*	Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
*	VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 28% (2008: 28%) and 18% (2008: 17%) respectively of the related consolidated totals.

#	*Name of company*	*Type of legal entity*
	Varitronix Electronics (Shenzhen) Limited	Wholly owned foreign enterprise
	Varitronix (Heyuan) Co. Ltd.	Sino-foreign co-operative joint venture
	Varitronix (Heyuan) Display Technology Limited	Wholly owned foreign enterprise
	Varitronix Pengyuan Electronics Limited	Sino-foreign equity joint venture

Note: The Board of the Company resolved to proceed with a voluntary winding-up of a wholly-owned subsidiary, Varitronix Marketing, which in turn holds a 99% equity interest in Varitronix Pengyuan. The operation is classified as a discontinued operation as at 31 December 2009 (further information in respect of this matter is disclosed in note 9).

16 INTEREST IN ASSOCIATES

	2009 $'000	2008 $'000
Share of net assets	**98,205**	123,041
Amount due from an associate	**1,179**	1,100
	99,384	124,141

The amount due from an associate is unsecured, interest free and has no fixed repayment terms.

(a) Particulars of the associates

Set out below are the particulars of the associates, which principally affected the results or assets of the Group.

Name of associate	Place of incorporation and operation	Particulars of issued/registered capital	Attributable equity interest % indirect	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW5,000 each	50%	Trading of electronic components
Data Modul AG* ("Data Modul")	Germany	3,205,620 ordinary shares of Euro 1 each	20%	Manufacturing of complete flat display monitors in liquid crystal displays and plasma technology for the industrial and professional areas

* Data Modul's shares are listed on the Frankfurt Stock Exchange. The market price of Data Modul's shares as at 31 December 2009 is Euro 8.65 (2008: Euro 9.42) per share. The market value of the Group's effective interest in Data Modul as at 31 December 2009 is Euro 5,546,000 (2008: Euro 6,039,000) (equivalent to $61,779,000 (2008: $65,946,000)).

16 INTEREST IN ASSOCIATES (continued)

(b) Summary financial information on associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	(Losses)/ profits $'000
2009					
100 percent	**800,347**	**(316,591)**	**483,756**	**1,098,580**	**(112,885)**
Group's effective interest	**162,668**	**(64,463)**	**98,205**	**228,502**	**(21,809)**
2008					
100 percent	965,033	(353,012)	612,021	1,530,451	63,352
Group's effective interest	194,358	(71,317)	123,041	29,923	(3,330)

As at 1 January 2008, the Group held a 6.4% equity interest in Data Modul, a company listed on the Frankfurt Stock Exchange which had been acquired for a consideration of $49,119,000.

Up to 30 November 2008, the Group had acquired a further 13.6% equity interest in Data Modul from the Frankfurt Stock Exchange for a consideration of $56,689,000. On 30 November 2008, the Group had a 20% effective interest in Data Modul.

Negative goodwill of $14,861,000 was recognised in the consolidated income statement for the year ended 31 December 2008. This negative goodwill has arisen on the acquisition of Data Modul and represented the excess of the fair value of the Group's share of net assets acquired over the consideration paid.

17 LOANS RECEIVABLE

Loans receivable represent loans which are unsecured, bear interest at rates ranging from 4% to 12% per annum and are fully repayable within three years after 2009. Management considers that these loans are recoverable in full.

The loans receivable are repayable as follows:

	The Group		The Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Within 1 year *	**39,098**	25,854	**–**	–
After 1 year but within 5 years	**123,055**	132,618	**64,371**	56,849
	162,153	158,472	**64,371**	56,849

* The current portion of loans receivable has been included in trade and other receivables.

18 OTHER NON-CURRENT FINANCIAL ASSETS

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Available-for-sale debt securities				
Listed outside Hong Kong	**8,727**	13,080	**–**	–
Unlisted, carried at fair value	**6,085**	3,569	**–**	–
	14,812	16,649	**–**	–
Available-for-sale equity securities				
Listed				
– in Hong Kong	**7,880**	4,730	**–**	–
– outside Hong Kong	**5,127**	–	**–**	–
Unlisted, carried at cost	**154,979**	154,979	**154,979**	154,979
	167,986	159,709	**154,979**	154,979
Total available-for-sale securities	**182,798**	176,358	**154,979**	154,979

Movements in available-for-sale securities are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
At 1 January	**176,358**	105,077	**154,979**	–
Additions	**593**	154,979	**–**	154,979
Disposals	**(5,812)**	(23,356)	**–**	–
Revaluation surplus/(deficit)	**11,659**	(11,223)	**–**	–
Transfer to profit or loss on impairment	**–**	(8,384)	**–**	–
Transfer to interest in associates	**–**	(40,735)	**–**	–
Total	**182,798**	176,358	**154,979**	154,979

19 TRADING SECURITIES (AT FAIR VALUE)

	The Group	
	2009	2008
	$'000	$'000
Debt securities		
Listed		
– outside Hong Kong	**2,732**	2,248
Equity securities		
Listed		
– in Hong Kong	**141,881**	114,510
Total	**144,613**	116,758

20 INVENTORIES

(a) **Inventories in the balance sheet comprise:**

	The Group	
	2009	2008
	$'000	$'000
Raw materials	**135,075**	89,062
Work in progress	**71,322**	46,628
Finished goods	**70,164**	86,109
Continuing operations	**276,561**	221,799
Assets of a disposal group classified as held for disposal (note 23)	**3,690**	78,457
	280,251	300,256

20 INVENTORIES (continued)

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009 $'000	2008 $'000
Continuing operations		
Carrying amount of inventories sold	1,520,559	1,295,530
Write down of inventories	6,494	21,263
Reversal of write down of inventories	(7,162)	(30,997)
	1,519,891	1,285,796
Discontinued operation		
Carrying amount of inventories sold	223,278	674,195
Write down of inventories	150,867	–
	374,145	674,195
	1,894,036	1,959,991

The reversal of write down of inventories made in prior years is due to an increase in the estimated net realisable value of certain TFT-LCDs as a result of changes in consumer preferences.

21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade debtors and bills receivable	439,186	296,128	–	–
Less: Allowance for doubtful debts	(4,014)	(5,525)	–	–
	435,172	290,603	–	–
Other receivables	34,057	43,679	760	367
	469,229	334,282	760	367
Loans receivable (note 17)	39,098	25,854	–	–
	508,327	360,136	760	367
Derivative financial instruments	133	1,539	–	–
Deposits and prepayments	4,041	8,702	338	643
Continuing operations	512,501	370,377	1,098	1,010
Assets of a disposal group classified as held for disposal (note 23)	–	136,628		
	512,501	507,005		

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

21 TRADE AND OTHER RECEIVABLES (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	$'000	$'000
Within 60 days of the invoice issue date	320,340	199,803
61 to 90 days after the invoice issue date	88,541	61,500
91 to 120 days after the invoice issue date	21,752	23,455
More than 120 days but less than 12 months after the invoice issue date	4,478	5,784
More than 12 months after the invoice issue date	61	61
	435,172	290,603

Debts are due within 90 days from the date of the invoice.

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(j)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
At 1 January	5,525	19,801	–	–
Impairment loss reversed	(1,511)	(14,276)	–	–
At 31 December	4,014	5,525	–	–

At 31 December 2009, the Group's and the Company's trade debtors and bills receivable of $5,724,000 (2008: $7,982,000) and $Nil (2008: Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific and general allowances for doubtful debts of $4,014,000 (2008: $4,090,000) and $Nil (2008: $1,435,000) respectively were recognised. The Group does not hold any collateral over these balances.

21 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Within 60 days of the invoice issue date	**320,340**	198,704	**–**	–
61 to 90 days after the invoice issue date	**88,296**	61,122	**–**	–
91 to 120 days after the invoice issue date	**20,947**	23,439	**–**	–
More than 120 days but less than 12 months after the invoice issue date	**3,818**	4,820	**–**	–
More than 12 months	**61**	61	**–**	–
	113,122	89,442	**–**	–
	433,462	288,146	**–**	–

Receivables that were within 60 days of the invoice issue date and not impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were over 60 days of the invoice issue date but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Deposits with banks and other financial institutions	**129,223**	211,358	**–**	–
Cash at bank and in hand	**251,490**	272,522	**1,227**	890
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**380,713**	483,880	**1,227**	890
Assets of a disposal group classified as held for disposal (note 23)	**15,511**	30,274		
	396,224	514,154		

23 ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR DISPOSAL

The carrying amount of major classes of assets and liabilities classified as assets of a disposal group classified as held for disposal are analysed as follows:

		The Group	
		2009	2008
	Note	**$'000**	$'000
Assets of a disposal group classified as held for disposal			
Fixed assets	14	**–**	1,250
Inventories	20	**3,690**	78,457
Trade and other receivables	21	**–**	136,628
Restricted cash at bank		**3,694**	–
Cash and cash equivalents	22	**15,511**	30,274
		22,895	246,609
Liabilities relating to assets of a disposal group classified as held for disposal			
Current taxation payables	27	**–**	671
Trade and other payables	25	**95,830**	110,722
Bank loans	24	**61,941**	10,995
		157,771	122,388

On 30 December 2009, the Group passed a written resolution to proceed with a voluntary winding-up of a wholly-owned subsidiary, Varitronix Marketing, which in turn held a 99% equity interest in Varitronix Pengyuan. Varitronix Pengyuan was engaged in the design, manufacture and sale of TFT-LCDs for the mobile phone market in the PRC (see note 9). The assets and liabilities attributable to these subsidiaries have been classified as a disposal group held for disposal and are presented separately in the consolidated balance sheet as at 31 December 2009 and 2008.

24 BANK LOANS

Unsecured, interest-bearing bank loans and overdrafts are repayable as follows:

	The Group	
	2009	2008
	$'000	$'000
Within 1 year or on demand	**218,955**	197,112
After 1 year but within 2 years	**37,000**	82,333
After 2 years but within 5 years	**–**	70,333
	37,000	152,666
Continuing operations	**255,955**	349,778
Liabilities relating to assets of a disposal group classified as held for disposal (note 23)	**61,941**	10,995
	317,896	360,773

Certain of the Group's banking facilities are subject to the fulfilment of covenants which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(b).

24 BANK LOANS (continued)

As at 31 December 2009, the Group had breached covenants relating to one of the drawn down facilities. Such facility which amounts to $201,180,000 was utilised to the extent of $120,355,000. Included in the amount utilised is $51,229,000 (2008: $Nil) which, in accordance with the terms of the banking facilities, was scheduled to be repaid after twelve months from the balance sheet date but, is classified within current liabilities in the consolidated balance sheet as the Group does not have an unconditional right, at the balance sheet date, to defer settlement for at least the next twelve months as a result of the breach of the covenants. Subsequent to 31 December 2009, the Group has received a waiver from compliance with the covenants from the lender concerned.

The Directors are of the opinion that adequate banking facilities will continue to be made available to the Group to finance its operations in the foreseeable future.

25 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade and other creditors	**442,830**	321,873	**–**	–
Fixed assets payable	**27,616**	27,616	**–**	–
Accrued charges	**48,422**	99,048	**2,329**	10,253
Derivative financial instruments	**200**	14,759	**–**	–
Continuing operations	**519,068**	463,296	**2,329**	10,253
Liabilities relating to assets of a disposal group classified as held for disposal (note 23)	**95,830**	110,722		
	614,898	574,018		

All creditors and accrued charges of the Group are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as at the balance sheet date:

	The Group	
	2009	2008
	$'000	$'000
Within 60 days of supplier invoice date	**308,524**	155,490
61 to 120 days after supplier invoice date	**125,181**	151,819
More than 120 days but within 12 months after supplier invoice date	**8,945**	14,414
More than 12 months after supplier invoice date	**180**	150
	442,830	321,873

26 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2009	2008
	$'000	$'000
Derivative financial instruments used for hedging:		
Interest rate swaps	**(86)**	(11,367)
Foreign exchange forward contracts	**19**	(1,853)
	(67)	(13,220)
Represented by:		
Derivative financial instruments assets (note 21)	**133**	1,539
Derivative financial instruments liabilities (note 25)	**(200)**	(14,759)
	(67)	(13,220)

27 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2009	2008
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**3,089**	5,070
Provisional Hong Kong Profits Tax paid	**(4,501)**	(5,045)
Balance of Hong Kong Profits Tax relating to prior years	**2,768**	329
Overseas taxation	**(784)**	(2,061)
	572	(1,707)
Current taxation recoverable	**(1,285)**	(2,840)
Current taxation payable	**1,857**	462
Continuing operations	**572**	(2,378)
Liabilities relating to assets of a disposal group classified as held for disposal (note 23)	**–**	671
	572	(1,707)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax liabilities/(assets) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	**Provisions**	**Total**
	$'000	$'000	$'000
At 1 January 2008	1,904	(5,692)	(3,788)
Credited to profit or loss (note 8(a))	(205)	(825)	(1,030)
At 31 December 2008	1,699	(6,517)	(4,818)
At 1 January 2009	**1,699**	**(6,517)**	**(4,818)**
(Credited)/charged to profit or loss (note 8(a))	**(1,486)**	**6,388**	**4,902**
At 31 December 2009	**213**	**(129)**	**84**

	The Group	
	2009	2008
	$'000	$'000
Net deferred tax assets recognised in the balance sheet	**(2,198)**	(4,898)
Net deferred tax liabilities recognised in the balance sheet	**2,282**	80
	84	(4,818)

(Expressed in Hong Kong dollars unless otherwise indicated)

27 INCOME TAX IN THE BALANCE SHEET (continued)

(c) Deferred tax assets not recognised

Continuing operations

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $13,539,000 (2008: $32,793,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under current tax legislation.

Discontinued operation

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $322,222,000 (2008: $41,962,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity for the foreseeable future. The tax losses will expire in the coming three to five years.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company had a Share Option Scheme for the employees of the Group which was adopted on 6 June 1991, subsequently amended on 8 June 1999 and expired on 5 June 2001. The options under the first Share Option Scheme are exercisable for a period of ten years following the date of grant. A second Share Option Scheme of the Company for the employees of the Group was adopted on 22 June 2001 and terminated on 12 May 2003. The options under the second Share Option Scheme are exercisable for a period of ten years following the date of grant.

A third Share Option Scheme of the Company was adopted on 12 May 2003 as an incentive to the Group's employees and business associates. The directors of the Company are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors, or business associate of any company in the Group, to take up options to subscribe for shares in the Company at a price determined by the board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the third Share Option Scheme and any other Share Option Schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of the third Share Option Scheme. The options under the third Share Option Scheme are exercisable for a period of ten years from the date of grant.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 22 July 2005	3,000,000	Immediate from the date of grant	10 years
– 19 December 2005	6,000,000	Immediate from the date of grant	10 years
Options granted to employees:			
– 9 June 1999	121,250	One month from the date of grant	10 years
– 1 June 2000	258,000	One month from the date of grant	10 years
– 30 August 2001	120,500	Immediate from the date of grant	10 years
– 13 September 2002	126,000	Immediate from the date of grant	10 years
– 6 October 2003	165,000	Immediate from the date of grant	10 years
– 20 December 2004	1,953,500	Immediate from the date of grant	10 years
Others:			
– 30 October 2002	1,000,000	One day from the date of grant	10 years
– 21 December 2004	300,000	Immediate from the date of grant	10 years
– 19 December 2005	3,000,000	Immediate from the date of grant	10 years

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2009 Weighted average exercise price	2009 Number of options	2008 Weighted average exercise price	2008 Number of options
Outstanding at the beginning of the year	**$6.181**	**16,044,250**	$6.218	16,295,250
Forfeited during the year	**$8.223**	**(511,750)**	$8.589	(251,000)
Outstanding at the end of the year	**$6.114**	**15,532,500**	$6.181	16,044,250
Exercisable at the end of the year		**15,532,500**		16,044,250

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

No new options were granted during 2009 and 2008.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital (note c) $'000	Share premium (note d(i)) $'000	Contributed surplus (note d(ii)) $'000	Capital reserve (note d(v)) $'000	Retained profits $'000	Total $'000
At 1 January 2008	80,856	695,336	51,636	11,373	90,883	930,084
Final dividends approved in respect of the previous year (note b(ii))	–	–	–	–	(84,090)	(84,090)
Profit for the year (note 10)	–	–	–	–	50,506	50,506
Interim dividend declared in respect of the current year (note b(i))	–	–	–	–	(38,811)	(38,811)
At 31 December 2008	80,856	695,336	51,636	11,373	18,488	857,689

	Share capital (note c) $'000	**Share premium (note d(i)) $'000**	**Contributed surplus (note d(ii)) $'000**	**Capital reserve (note d(v)) $'000**	**Retained profits $'000**	**Total $'000**
At 1 January 2009	**80,856**	**695,336**	**51,636**	**11,373**	**18,488**	**857,689**
Final dividends approved in respect of the previous year (note b(ii))	**–**	**–**	**–**	**–**	**(3,234)**	**(3,234)**
Profit for the year (note 10)	**–**	**–**	**–**	**–**	**9,420**	**9,420**
Interim dividend declared in respect of the current year (note b(i))	**–**	**–**	**–**	**–**	**(3,234)**	**(3,234)**
At 31 December 2009	**80,856**	**695,336**	**51,636**	**11,373**	**21,440**	**860,641**

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2009 $'000	2008 $'000
Interim dividend declared and paid of 1.0 cent (2008: 12.0 cents) per share	**3,234**	38,811
Final dividend proposed after the balance sheet date of 1.0 cent (2008: 1.0 cent) per share	**3,234**	3,234
	6,468	42,045

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2009 $'000	2008 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.0 cent (2008: 26.0 cents) per share	**3,234**	84,090

(c) Share capital

(i) Authorised and issued share capital

	2009 No. of shares '000	2009 No. of Amount $'000	2008 No. of shares '000	2008 No. of Amount $'000
Authorised:				
Ordinary shares of $0.25 each	**400,000**	**100,000**	400,000	100,000
Issued and fully paid:				
At 1 January and at 31 December	**323,422**	**80,856**	323,422	80,856

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price HK$	2009 Number	2008 Number
9 July 1999 to 8 July 2009	10.900	**–**	121,250
1 July 2000 to 30 June 2010	11.300	**214,000**	258,000
30 August 2001 to 29 August 2011	3.060	**96,500**	120,500
13 September 2002 to 12 September 2012	3.905	**99,000**	126,000
31 October 2002 to 30 October 2012	4.605	**1,000,000**	1,000,000
6 October 2003 to 5 October 2013	7.350	**126,000**	165,000
20 December 2004 to 19 December 2014	7.500	**1,697,000**	1,953,500
21 December 2004 to 20 December 2014	7.450	**300,000**	300,000
22 July 2005 to 21 July 2015	6.600	**3,000,000**	3,000,000
19 December 2005 to 18 December 2015	5.730	**9,000,000**	9,000,000
		15,532,500	16,044,250

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

29 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.

(ii) Contributed surplus

The excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the directors have no current intention to distribute this surplus.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(f) and (j).

(v) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(r).

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of the PRC incorporated subsidiaries and the premium paid for the acquisition of the minority interests of the PRC incorporated subsidiaries.

(vii) Distributability of reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to shareholders of the Company was $73,076,000 (2008: $70,124,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less trading securities and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain the net debt-to-adjusted capital ratio at the lower end of the range 10% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2009 and 2008 was as follows:

		The Group	
		2009	2008
	Note	**$'000**	$'000
Current liabilities			
Trade and other payables	25	**519,068**	463,296
Bank loans	24	**218,955**	197,112
		738,023	660,408
Non-current liabilities			
Other payables		**4,104**	–
Bank loans	24	**37,000**	152,666
Total debt		**779,127**	813,074
Add: Proposed dividends		**3,234**	3,234
Less: Trading securities	19	**(144,613)**	(116,758)
Cash and cash equivalents	22	**(380,713)**	(483,880)
Net debt		**257,035**	215,670
Total equity		**1,164,205**	1,408,729
Less: Proposed dividends		**(3,234)**	(3,234)
Adjusted capital		**1,160,971**	1,405,495
Net debt-to-adjusted capital ratio		**22%**	15%

The Company is not subject to any externally imposed capital requirements. The Group is subject to certain externally imposed capital requirements to maintain the value of net assets at a level specified in its bank loan covenants (note 24).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at banks, bank deposits, trade and other receivables and loans receivable. Management has a credit policy in place and exposures to these credit risks are monitored on an on-going basis.

Cash at bank and bank deposits are placed with licensed financial institutions. Bankruptcy or insolvency of these financial institutions may cause the Group's rights with respect to these assets to be delayed or limited. The Group monitors the credit rating of these financial institutions on an on-going basis. If the credit rating of these financial institutions were to deteriorate significantly, the Group would move the cash and deposit to other financial institutions.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. Customers are generally granted credit terms of 90 days. Normally, the Group does not obtain collateral from customers.

In respect of loans receivable, the Group reviews the borrowers' financial information periodically. Management considers the credit quality of such loans to be good since the borrowers have a good repayment history.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 28% (2008: 10%) and 35% (2008: 15%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 32, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 32.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date that the Group and the Company can be required to pay:

The Group

	2009					2008				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank loans	255,955	257,229	219,968	37,261	–	349,778	359,102	203,270	84,732	71,100
Trade and other payables	522,972	522,972	518,868	1,026	3,078	448,537	448,537	448,537	–	–
	778,927	780,201	738,836	38,287	3,078	798,315	807,639	651,807	84,732	71,100

	2009				2008			
	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivatives settled gross:								
– Forward foreign exchange contracts								
– outflow	200	200	–	–	14,759	14,759	–	–

The Company

	2009					2008				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	2,329	2,329	2,329	–	–	10,253	10,253	10,253	–	–
Financial guarantees issued:										
Maximum amount guaranteed (note 32)	319,996	323,461	234,481	88,980	–	363,566	373,163	217,331	84,732	71,100

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Loans receivable of $162,153,000 (2008: $158,472,000) bear interest at fixed rates and are carried at amortised cost. Accordingly, they do not expose the Group to cash flow interest rate risk on their interest income or fair value interest rate risk on their carrying amount. The Group regularly reviews its strategy on interest rate risk management in light of prevailing market conditions.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the balance sheet date:

	The Group			
	2009		2008	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Variable rate borrowings:				
Bank loans	**1.53**	**(255,955)**	2.57	(349,779)

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased its retained profits by approximately $2,137,000 (2008: decreased/increased profit after taxation and retained profits by approximately $2,921,000). Other components of equity would not have been affected (2008: $Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis has been performed on the same basis for 2008.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group is also exposed to currency risk through bank loans drawn and loans receivable made which are denominated in a foreign currency. The currencies giving rise to this risk are primarily Euros, British Pounds, Japanese Yen, Renminbi and Korean Won.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk (continued)

	2009 Exposure to foreign currencies (expressed in Hong Kong dollars)						2008 Exposure to foreign currencies (expressed in Hong Kong dollars)					
	United States Dollars	Euros	Japanese Yen	Renminbi	Korean Won	British Pounds	United States Dollars	Euros	Japanese Yen	Renminbi	Korean Won	British Pounds
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Group												
Trade and other receivables	363,299	21,030	–	–	403	–	269,282	17,901	–	–	–	–
Loans receivable	97,782	–	–	–	64,371	–	101,623	–	–	–	56,849	–
Cash and cash equivalents	228,322	14,715	4	614	–	17,334	340,868	7,282	22	16,741	–	18,623
Trade and other payables	(237,639)	(551)	(66,205)	(11,715)	–	–	(186,481)	(456)	(45,019)	(19,730)	–	–
Bank loans	(95,037)	–	(8,251)	–	–	–	(72,238)	–	(71,623)	–	–	–
	356,727	35,194	(74,452)	(11,101)	64,774	17,334	453,054	24,727	(116,620)	(2,989)	56,849	18,623
The Company												
Trade and other receivables	–	–	–	–	403	–	–	–	–	–	–	–
Cash and cash equivalents	1,211	–	–	–	–	–	711	–	–	–	–	–
Loans receivable	–	–	–	–	64,371	–	–	–	–	–	56,849	–
	1,211	–	–	–	64,774	–	711	–	–	–	56,849	–

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2009			2008	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss after taxation	Increase/ (decrease) in retained profits	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits
		$'000	$'000		$'000
The Group					
Euros	10%	(3,182)	3,182	10%	2,473
	(10)%	3,182	(3,182)	(10)%	(2,473)
Japanese Yen	10%	6,353	(6,353)	10%	(11,662)
	(10)%	(6,353)	6,353	(10)%	11,662
Renminbi	10%	1,001	(1,001)	10%	(299)
	(10)%	(1,001)	1,001	(10)%	299
Korean Won	10%	(6,470)	6,470	10%	5,500
	(10)%	6,470	(6,470)	(10)%	(5,500)
British Pounds	10%	(1,733)	1,733	10%	1,862
	(10)%	1,733	(1,733)	(10)%	(1,862)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2008.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 19) and available-for-sale securities (see note 18).

All available-for-sale securities are held for long term strategic purposes. Their performance is reviewed regularly based on information available to the Group. Unlisted investments that do not have a quoted market price in an active market are stated at cost. Any increase/decrease in impairment losses in respect of these investments would affect the Group's net profit. As at the balance sheet date, none of these unlisted investments was considered to be impaired.

All trading securities are listed. Decision to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the global equity market and other industry indicators, as well as the Group's liquidity needs.

With regards to the effect on securities held as trading securities is concerned, as at 31 December 2009, it is estimated that, an increase/decrease of 3% in the relevant stock market index (for listed investments) with all other variables held constant would have decreased/increased the Group's loss after taxation and increased/decreased retained profits by approximately $1,815,000 (2008: increased/decreased the Group's profit after taxation and retained profits by approximately $1,673,000).

The analysis has been performed on the same basis for 2008.

(f) Fair values

Financial instruments carried at fair value

The following table represents the carrying value of the financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair values (continued)

Financial instruments carried at fair value (continued)

2009

	The Group		
	Level 1 $'000	Level 2 $'000	Total $'000
Assets			
Available-for-sale debt securities:			
– Listed	8,727	–	8,727
– Unlisted	–	6,085	6,085
Available-for-sale equity securities:			
– Listed	13,007	–	13,007
Trading securities:	144,613	–	144,613
Derivative financial instruments:			
– Interest rate swaps	–	112	112
– Forward exchange contracts	–	21	21
	166,347	6,218	172,565
Liabilities			
Derivative financial instruments:			
– Interest rate swaps	–	(198)	(198)
– Forward exchange contracts	–	(2)	(2)
	–	(200)	(200)

During the year there were no significant transfers between instruments in Level 1 and Level 2.

The gains or losses arising from the disposal of the unlisted available-for-sale equity securities are presented in "Other operating income" in the consolidated income statement.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008 except as follows:

	2009		2008	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
The Group:				
Loans receivable	162,153	159,578	158,472	157,434
Unlisted available-for-sale equity securities, carried at cost*	154,979	*	154,979	*
The Company:				
Loans receivable	64,371	63,712	56,849	57,702

The Group has no intention of disposing of the loans receivable and the unlisted available-for-sale equity securities.

* The fair value of available-for-sale equity securities, which are unlisted and carried at cost, has not been disclosed because their fair value cannot be measured reliably.

31 COMMITMENTS

(a) Capital commitments for purchase of property, plant and equipment not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	$'000	$'000
Authorised but not contracted for	**233**	–
Contracted for	**3,026**	48,240
	3,259	48,240

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases for properties are payable as follows:

	The Group	
	2009	2008
	$'000	$'000
Within 1 year	**3,046**	7,906
After 1 year but within 5 years	**4,363**	16,519
	7,409	24,425

32 CONTINGENT LIABILITIES

Financial guarantees issued

As at the balance sheet date, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the balance sheet date, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued and the facility drawn down by the subsidiaries is $319,996,000 (2008: $363,566,000).

33 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors is disclosed in note 6 and certain of the highest paid employees is disclosed in note 7.

(b) Recurring transactions

During the year, Varitronix Limited, a subsidiary of the Group sold goods amounting to US$7,124,000 (2008: US$11,000,000) (equivalent to $55,216,000 (2008: $85,219,000)) to Data Modul AG, an associate of the Group. The directors of the Company are of the opinion that this related party transaction was conducted on normal commercial terms with reference to prevailing market prices, and in the ordinary course of business.

(c) Acquisition of minority interest in a subsidiary

On 24 July 2009, the Group entered into an agreement with Data Modul AG, pursuant to which the Group has agreed to acquire 40% of the issued share capital of Varitronix GmbH from Data Modul AG for a total consideration of HK$7,938,000. Further details in relation to this transaction are set out in the Company's circular dated 24 July 2009. Data Modul AG is an associate of the Group.

34 COMPARATIVE FIGURES

As a result of the discontinued operation, reclassification of assets of a disposal group held for disposal, the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in notes 2, 9 and 23.

35 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When an indication of impairment is identified, management evaluates impairment provisions in accordance with the accounting policy set out in note 1(j). A considerable level of judgement is exercised when assessing impairment provisions. Any increase or decrease in the estimated impairment provisions would affect the net (loss)/profit in the current and future years.

(b) Provision for inventories

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 1(n). Management estimates that net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversal of write-down made in prior years and affect the Group's net asset value and (loss)/profit.

(c) Depreciation

Investment properties and other property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimations.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2005 $'000	2006 $'000	2007 $'000	2008 $'000	**2009** **$'000**
Results:					
Turnover	1,307,357	1,326,244	1,489,647	1,720,512	**1,817,172**
Profit/(loss) from operations	(120,309)	211,414	229,910	60,262	**53,255**
Finance costs	(6,785)	(3,297)	(3,422)	(5,820)	**(3,514)**
Negative goodwill arising on acquisition of an associate	–	–	–	14,861	**–**
Share of losses of associates	–	–	(40)	(3,330)	**(21,809)**
Profit/(loss) before taxation	(127,094)	208,117	226,448	65,973	**27,932**
Income tax	(31,004)	(33,358)	(27,312)	(9,485)	**(11,212)**
Profit/(loss) for the year from continuing operations	(158,098)	174,759	199,136	56,488	**16,720**
Discontinued operation					
Profit/(loss) for the year from discontinued operation	(46,221)	(11,415)	55,343	(39,779)	**(285,441)**
Profit/(loss) for the year	(204,319)	163,344	254,479	16,709	**(268,721)**
Attributable to:					
Equity shareholders of the Company	(178,976)	173,228	260,367	15,048	**(268,325)**
Minority interests	(25,343)	(9,884)	(5,888)	1,661	**(396)**
Profit/(loss) for the year	(204,319)	163,344	254,479	16,709	**(268,721)**
Assets and liabilities:					
Fixed assets	369,647	335,619	413,074	464,455	**359,239**
Interest in associates	–	–	2,306	124,141	**99,384**
Loans receivable	–	–	52,048	132,618	**123,055**
Other financial assets	185,325	73,534	105,077	176,358	**182,798**
Deferred tax assets	8,725	4,957	3,983	4,898	**2,198**
Net current assets	790,722	928,200	946,880	659,005	**440,917**
Total assets less current liabilities	1,354,419	1,342,310	1,523,368	1,561,475	**1,207,591**
Non-current bank loans	–	–	–	(152,666)	**(37,000)**
Convertible notes	(30,109)	–	–	–	**–**
Non-current other payables	–	–	–	–	**(4,104)**
Deferred tax liabilities	(1,373)	(240)	(195)	(80)	**(2,282)**
NET ASSETS	1,322,937	1,342,070	1,523,173	1,408,729	**1,164,205**
Capital and reserves					
Share capital	80,614	80,856	80,856	80,856	**80,856**
Reserves	1,208,531	1,241,598	1,428,622	1,307,076	**1,068,524**
Amount recognised directly in equity relating to a disposal group classified as held for disposal	–	–	–	6,165	**6,026**
Total equity attributable to equity shareholders of the Company	1,289,145	1,322,454	1,509,478	1,394,097	**1,155,406**
Minority interests	33,792	19,616	13,695	14,632	**8,799**
Total equity	1,322,937	1,342,070	1,523,173	1,408,729	**1,164,205**
Earnings/(loss) per share (HK cents)					
Continuing operations					
Basic	(48.9)	56.8	63.4	17.0	**5.3**
Diluted	(48.9)	56.8	63.4	17.0	**5.3**
Discontinued operation					
Basic	(7.3)	(3.2)	17.1	(12.3)	**(88.3)**
Diluted	(7.3)	(3.2)	17.1	(12.3)	**(88.3)**

Note to the five year financial summary

In 2005, the Group adopted a number of new and revised HKFRSs issued by the HKICPA as part of its ongoing programme to align HKFRSs with International Financial Reporting Standards. Under the transitional arrangements, a number of the new standards were adopted prospectively, such as HKAS 32, *Financial Instruments: Disclosure and Presentation* and HKAS 39, *Financial Instruments: Recognition and Measurement* whilst Amendments to HKFRS 2, *Share-based payments* were adopted retrospectively but using applicable transitional provisions.

Properties Held by the Group

	Location	Existing use	Percentage holding
1.	9th Floor, Liven House, Nos. 61-63 King Yip Street, Kwun Tong, Kowloon.	Office	100%
2.	10th Floor Liven House, Nos. 61-63 King Yip Street, Kwun Tong, Kowloon.	Office	100%
3.	Flat G, 22nd Floor, Tower 1, Yue Man Centre, Nos. 300 and 302 Ngau Tau Kok Road, Kwun Tong, Kowloon.	Staff quarters	100%
4.	Dongpu Town, Yuancheng District, Heyuan City, Guangdong, The People's Republic of China.	Industrial	90.1%
5.	Tangliaoxiacun, Xintang, Administrative Region, Dongpu Town, Yuancheng District, Heyuan City, Guangdong, The People's Republic of China.	Industrial	100%
6.	128 Heyuan Road, Yuancheng District Heyuan City, Guangdong, The People's Republic of China.	Industrial	100%
7.	Flat C601-604, 6th Floor, Block 10, Nam Wai Centre, Buket, Baoan County, Guangdong Province, The People's Republic of China.	Staff quarters	100%
8.	Unit 3 Milbanke Court, Milbanke Way, Bracknell, Berkshire, United Kingdom.	Office	100%

Note: The above properties are either held on long or medium-term leases or have no specified lease term.

Corporate Information

HONORARY CHAIRMAN

Chang Chu Cheng

BOARD OF DIRECTORS

Ko Chun Shun, Johnson *(Chairman)*
Tsoi Tong Hoo, Tony
Yuen Kin
Ho Te Hwai, Cecil
Lo Wing Yan, William*
Chau Shing Yim, David*
Hou Ziqiang*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Ho Te Hwai, Cecil

QUALIFIED ACCOUNTANT

Ho Te Hwai, Cecil

AUDIT COMMITTEE

Lo Wing Yan, William *(Chairman)*
Chau Shing Yim, David
Hou Ziqiang

REMUNERATION COMMITTEE

Lo Wing Yan, William *(Chairman)*
Hou Ziqiang
Ko Chun Shun, Johnson

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL BANKERS

The Bank of Tokyo-Mitsubishi UFJ Ltd
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9/F., Liven House
61-63 King Yip Street
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F., Hopewell Centre
183 Queen's Road East
Hong Kong

ADR DEPOSITARY

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New York, NY 10286
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STOCK CODE

710

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YELLOW CREATIVE (HK) LIMITED