# VICTORY GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1139)**

**(the "Company")**

**ANNUAL REPORT 2010**

# CONTENTS

# CORPORATE INFORMATION

**BOARD OF DIRECTORS**

**Executive Directors**

Chan Chun Choi
*(Chairman and Managing Director)*
Lu Su Hua *(Deputy Chairman)*

**Independent Non-executive Directors**

Leung Wai Tat, Henry
(appointed on 2 February 2009)
Leung Wai Kei
(appointed on 3 April 2009)
Ip Ka Keung
(appointed on 18 January 2010)
Hong Po Kui, Martin
(appointed on 10 June 2009 and resigned on 11 January 2010)
Wong Ka Hing
(appointed on 2 February 2009 and resigned on 10 June 2009)

**AUDIT COMMITTEE**

Leung Wai Kei *(Chairman)*
Ip Ka Keung
Leung Wai Tat, Henry

**REMUNERATION COMMITTEE**

Ip Ka Keung *(Chairman)*
Leung Wai Tat, Henry
Leung Wai Kei

**NOMINATION COMMITTEE**

Leung Wai Tat, Henry *(Chairman)*
Ip Ka Keung
Leung Wai Kei

**COMPANY SECRETARY**

Joshua Lee *FCCA CPA*
(appointed on 1 April 2009)

**PRINCIPAL BANKER**

Standard Chartered Bank (HK) Limited
Shop No. 1, 2, 3
G/F, Katherine House
No. 53–55 Chatham Road South
Kowloon
Hong Kong

**AUDITOR**

Lak & Associates C.P.A. Limited
Unit 1603-06,
16th Floor, Alliance Building
130-136 Connaught Road Central
Sheung Wan, Hong Kong

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Tengis Limited
Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

**REGISTERED OFFICE**

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

**PRINCIPAL PLACE OF BUSINESS**

Suite 1609
New East Ocean Centre
No. 9 Science Museum Road
Tsimshatsui East
Kowloon
Hong Kong

**STOCK CODE**

1139

## EXECUTIVE DIRECTORS

**Mr. Chan Chun Choi**, aged 64, is the chairman and managing director of the Company. Mr. Chan, together with his ex-wife, Madam Lam Mo Kuen, Anna, founded Victory Group Limited (the "Company") in mid-1980s. Mr. Chan has been engaged in the distribution and marketing of automotive products for over 26 years, principally in the People's Republic of China (the "PRC"). Mr. Chan is responsible for the strategic planning and business development of the Company and its subsidiaries (together the "Group"). Mr. Chan had been a member of the Consultative Conference of Guangdong Province, a committee member of the China Council for the Promotion of Peaceful National Reunification, an honorary citizen of Jiangmen and Enping, the PRC, and the honorary chairman of the Federation of Hong Kong Guangdong Community Organization Limited. Save as disclosed above, Mr. Chan did not act as a director in any other listed public company in the last three years.

**Ms. Lu Su Hua**, aged 40, was graduated from the Beijing Foreign Studies University in 1999, and in 2003 Ms. Lu obtained her MBA degree from the University of Ballarat in Australia. Ms. Lu was appointed executive director of the Company on 6 October 2003. Ms. Lu is the spouse of Mr. Chan Chun Choi. Save as disclosed above, Ms. Lu did not act as a director in any other listed public company in the last three years.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Leung Wai Tat, Henry**, aged 60, a practicing engineer and has been a director of Honesty Consultants Limited. He had held positions such as Managing Director of an international engineering consulting company for 15 years, and had worked with contractors, consultants and government for over 35 years. He was a Hong Kong University graduate in 1973.

**Ms. Leung Wai Kei**, aged 44, a member of Hong Kong Institute of Certified Public Accountants, and graduated from The Curtin University of Technology with a Master of Accounting. She has worked in different industries and has over 24 years of experience in the accounting field.

**Mr. Ip Ka Keung**, aged 41, has been working in the fund industry for a number of years. Having qualified with a big four accountancy firm in London in the nineties and worked for their Hong Kong office specializing in audit, due diligence and initial public offering work for listed, multi-national and clients from China. Mr. Ip joined the legal division of a major Hong Kong Blue Chip company and managed their Regulatory Affairs function thereafter. Mr. Ip was also the Chief Financial Officer and the Head of Compliance of a Securities and Future Commission licensed Hong Kong asset management company as well as an associate director of a transaction services department of an international accountancy firm. Mr. Ip holds an honors bachelor degree in Accounting and Finance and a LLB honors degree from the London University. Mr. Ip is a Certified Public Accountant, a Fellow member of Chartered Certified Accountant and a member of Hong Kong and U.S. Society of Financial Analyst. He is also currently a member of the Hong Kong Institute of Directors.

Dear Shareholders,

I hereby present the annual report for the year ended 31 December 2009 of Victory Group Limited and its subsidiaries (collectively referred to as the "Group") on behalf of the Board of Directors.

**FINANCIAL REVIEW HIGHLIGHT**

For the year ended 31 December 2009, the Group had no revenue for the year. Net loss attributable to shareholders of the Company for the year was HK$4.02 million.

The Board did not recommend to pay any dividend for the year ended 31 December 2009 (2008: Nil).

**BUSINESS REVIEW**

During the year under review, the principal activity is investment holding. Same as previous financial years, the Company will continue to exercise stringent cost control under limited funding situation. Furthermore, the Board will use its best endeavors to look for new business opportunities and/or investment opportunities with an aim to improving the Group's revenue stream and turning the bottom-line around.

As stated in the 2007 and 2008 results announcement of the Company, trading of the Company's shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year 2009, the Directors had been actively looking for business opportunities and/or potential acquisitions which could improve the Company's financial and operating performance.

During the year 2009, the Board had been restructured and on 29 May 2009, the Company submitted a resumption proposal in relation to the resumption of trading in the Company's shares to the Stock Exchange. Upon successfully reorganized, the Group will have adequate resources to continue with sustainable business operations. As of the date of this report, the said resumptions proposal is still under review by the Stock Exchange, the Board is confident to bring the Company back profitable track once the trading of the Company's shares is resumed.

During the year under review, the Board comprised Mr. Chan Chun Choi and Ms. Lu Su Hua as executive directors; Mr. Leung Wai Tat, Henry, Ms. Leung Wai Kei and Mr. Ip Ka Keung as independent non-executive directors.

## APPRECIATION

I would like to express sincere thanks to all our management and staff for their contribution and commitment. On behalf of the Board, I would also like to take this opportunity to thank our shareholders, professional advisors for their encouragement and support.

By Order of the Board
**Chan Chun Choi**
*Chairman and Managing Director*

Hong Kong, 30 April 2010

## RESULTS

For the year ended 31 December 2009, the Group had no revenue for the year. Net loss attributable to shareholders of the Company for the year was HK$4.02 million.

## BUSINESS REVIEW

Comparing to last financial year, the increased audited net loss for 2009 was primarily due to an increase of approximately HK$1.56 million of administrative expense.

During the year under review, the Group's overall running cost had been sustained at its minimal level through the strict cost control measures. The human resources had also been maintained at the least possible status to generate maximum productivity. In brief, the cost structure of the Group has always been successfully locked at the least possible efficient level.

During the year under review, the Group had no revenue for the year.

## LIQUIDITY AND FINANCIAL RESOURCES

The current ratio of the Group in 2009 was 0.04 (2008: 0.45). The Group' gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.74 (2008: 2.49). Details of the Group's exposure to credit risk, liquidity risk, fluctuation in exchange rates and any related hedges are stated in note 6 to this financial statements. At as 31 December 2009, the Group had no trade receivables and trade payables amounted to HK$0.1 million (2008: 12.5 million).

As at 31 December 2009, the Group's net current liabilities amounted to HK$25,940,000 (2008: HK$21,145,000) and net liabilities amounted to HK$10,008,000 (2008: HK$5,991,000). At the same day, the Group's cash and bank balances amounted to HK$549,000 (2008: HK$2,838,000). The total bank and other borrowings at 31 December 2009 were HK$18,622,000 (2008: HK$15,249,000).

## SUSPENSION OF TRADING

Trading of the Company's shares has been suspended since 27 September 2006. On 18 December 2008, the Listing Committee of the Stock Exchange decided to place the Company in the third stage of the delisting procedures in accordance with Practice Note 17 of the Listing Rules.

## FUTURE OUTLOOK

During the year 2009, the Board had been restructured and on 29 May 2009, the Company submitted a resumption proposal in relation to the resumption of trading in the Company's shares to the Stock Exchange. The Board will use its best endeavors to look for new business and investment opportunities with an aim to broadening the Group's revenue stream and turning the bottom-line around. Upon successfully reorganized, the Group will have adequate resources to continue with sustainable business operations. The Board is confident to bring the Company back profitable once the trading of the Company's shares is resumed.

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group had no revenue generated. In 2008, the Group was principally engaged in the provision of installation services of LED screen and facade lighting. In 2007, the Group was principally engaged in marketing and distribution of automotive products.

## RESULTS AND DIVIDEND

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 page 26 to 75.

No dividends had been paid or declared by the Company for both years presented.

## SEGMENTAL INFORMATION

Details of segmental information are set out in note 30 to the financial statements.

## SUMMARY FINANCIAL INFORMATION

The results, assets and liabilities of the Group for the last five financial years are summarised on page 76. This summary is not part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENT

Details of movements in property, plant and equipment and land lease prepayment of the Group are set out in notes 16 and 17 to the financial statements respectively.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

## BORROWINGS

Details of the Group's borrowings are set out in note 24 to the financial statements.

## RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance from 1 December 2000. The Company contributed according to the minimum requirements of the MPF Ordinance (that is, 5 per cent of staffs' relevant income with maximum limit of HK$1,000) and the contributions are charged to the income statement.

## SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the Company's share capital, warrants and share options during the year and subsequent to the balance sheet date, together with the reasons for the issue thereof, are set out in note 26 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2009, the Company had no reserves available for cash distribution and distribution in specie computed in accordance with the Companies Act 1981 of Bermuda except for the Company's share premium account which may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda, the Company may make distributions from its contributed surplus in certain circumstances, prescribed by Section 54 thereof, which the Company was unable to satisfy as at 31 December 2009.

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Company and the Group as at 31 December 2009 are set out in note 33 to the financial statements.

## SIGNIFICANT ISSUES

During the years presented, there were no significant investments and material acquisitions or disposals of subsidiaries or associated companies. The Group had no exposure to fluctuation in exchange rates and any related hedges. Furthermore, the Company and the Group had no significant commitments during both years presented.

There was also no material change in capital structure and pledge of assets of the Group during the two years presented.

For the year ended 31 December 2009, the Directors are not aware of any significant change from the position as at 31 December 2008 and the information published in the report and accounts for the year ended 31 December 2008. The capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.

## RELATED PARTY TRANSACTIONS

Except for the disclosure in the note 34 to financial statements, there were no related party transactions in the year under review.

## SIGNIFICANT SUBSEQUENT EVENT

Details of the significant subsequent event are set out in note 35 to the financial statements.

## EMPLOYEES

As at 31 December 2009, the Group had a total of 6 employees (2008: 3 employees), of whom all were based in Hong Kong. The remuneration package for Hong Kong staff was strictly on a monthly-salary basis. Year-end bonus was linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly. Total staff costs for the year amounted to HK$1,141,000 (2008: HK$1,041,000). On irregular but necessary basis, adequate on-job training had been provided to staff in need.

The Group did not operate any pension or retirement schemes for its Directors or employees until the implementation of MPF in December 2000. The Group has a share option scheme, which was duly approved by the shareholders on 22 January 1998, available for any full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

## PLEDGE OF ASSETS

The Group's leasehold building and land with an aggregate carrying amount of HK$16,310,000 (2008: HK$15,498,000) was pledged to secure bank and other borrowings of the Group. The Group borrowed a loan of HK$30 million from a potential investor pursuant to a loan agreement dated 28 December 2007. The loan is secured by a share mortgage in respect of entire issued share capital in OSL, interest free and repayable on demand.

## PROPERTY VALUATION

A property valuation had been carried out by RHL Appraisal Limited, an independent professional valuer, in respect of the Group's land lease prepayment and building. The Group's land lease prepayment and building were valued at HK$18,274,300 and HK$2,725,700 respectively giving a reversal of an impairment loss on land lease prepayment of HK$1,209,000 (2008: impairment loss on land lease prepayment of HK$992,000).

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

During the year, there were no material acquisitions and disposals of the Company's subsidiaries.

## DIRECTORS

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

**Executive Directors:**

| | |
|---|---|
| Chan Chun Choi | *(Chairman and Managing Director)* |
| Lu Su Hua | *(Deputy Chairman)* |

**Independent non-executive Directors:**

| | |
|---|---|
| Leung Wai Tat, Henry | (appointed on 2 February 2009) |
| Leung Wai Kei | (appointed on 3 April 2009) |
| Ip Ka Keung | (appointed on 18 January 2010) |
| Hong Po Kui, Martin | (appointed on 10 June 2009 and resigned on 11 January 2010) |
| Wong Ka Hing | (appointed on 2 February 2009 and resigned on 10 June 2009) |

In accordance with clause 86(2) of the Company's bye-laws, Mr. Ip Ka Keung, shall retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting on 28 June 2010.

## DIRECTORS BIOGRAPHIES

Biographical details of the Directors are set out on page 3 of this report.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of the Directors and the five highest paid individuals in the Group are set out in notes 11 and 12 to the financial statements, respectively.

## DIRECTORS' SERVICE CONTRACTS

All Directors (except for the independent non-executive directors) had entered service contracts with the Company for an initial term of two years. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

## DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party transactions as disclosed in the note 34 to the financial statements, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

## MANAGEMENT CONTRACTS

Except for those as disclosed in note 34 to the financial statements, no other 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.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

The Company operates a share option scheme for the purpose of providing incentives and rewards to employees including the executive directors of the Company and its subsidiaries of the Group ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved a share option scheme ("the Scheme") under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme. The Scheme was lapsed on 21 January 2008.

Subsequent to the adoption of the Scheme on 22 January 1998, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on the Scheme. These new rules came into effect on 1 September 2001. Since then no share options have been granted under the Scheme. However, any option to be granted in the future under the Scheme shall be subject to the new changes which include, inter alia, the following:

(a) the maximum number of shares issuable under share options to each Eligible Participant within any 12-month period is limited to 1 per cent of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;

(b) share options granted to a Director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive Directors; and

(c) the exercise price of share options is determined by Directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Under the existing Scheme, the Directors may at their discretion grant options at $1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

Summary details of the Scheme are also set out in note 26 to the financial statements.

Other than the share option scheme as described in note 26 to the financial statements, at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL OF THE COMPANY (OUTSTANDING)

At the balance sheet date, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations, as recorded in the register required to be kept by the Company under Section 352 of the Securities and Future Ordinance (the "SFO"), or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

**(i) The Company**

| Name of Directors | Number of shares held (other interest) |
|---|---|
| Chan Chun Choi | 43,337,758 |

(i) 6,837,758 shares are held by Eternal Victory Enterprises Inc. ("EVEI"), a company incorporated in the British Virgin Islands, as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi ("Mr. Chan"). Mr. Chan holds all the issued share of EVEI; and

(ii) 36,500,000 shares are held by Winsley Investment Limited ("Winsley").

**(ii) Associated Corporation**

| Name of associated corporation | Name of Directors | Number of shares held | Class of shares | Type of interest |
|---|---|---|---|---|
| Victory Motors Centre Limited | Chan Chun Choi | 100,000 | Non-voting deferred | Personal |
| | | 2,800,000 | Non-voting deferred | Corporate *(Note)* |

*Note:* The 2,800,000 non-voting deferred shares are held by Victory Petro Chemical Limited (formerly known as Kwong Hung Hing Enterprises Co. Limited) of which Mr. Chan and Madam Lam Mo Kuen, Anna together hold the entire issued share capital.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SFO.

## ULTIMATE HOLDING COMPANY AND SUBSTANTIAL SHAREHOLDERS

The Directors consider the ultimate holding company of the Company at the balances sheet date to be Winsley, details of whose share interests are set out under the section headed "Directors' and Chief Executives' Interests in Share Capital of the Company".

At the balance sheet date, other than Winsley, EVEI and the person set out below, no persons were registered as having an interest of 5 per cent or more in the share capital of the Company that were required to be recorded in pursuant to Section 336 of the SFO.

**Long Position**

| Name | Number of issued Shares held | Percentage of the issued share capital of the Company |
|---|---|---|
| Au Yu Siu | 11,804,000 | 7.63 per cent |

## AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Lak & Associates C.P.A. Limited as auditor of the Company.

## APPRECIATION

Although the operating results for the financial year under review were again unsatisfactory, the Company and its Board believe that more efforts must be required to overturn the performance in the challenging years ahead. In the mean time, the Board would like to thank all the staff for their hard work and hope to have their continuous support and patience in the attempt of making future years success.

On Behalf of the Board
**Chan Chun Choi**
*Chairman and Managing Director*

Hong Kong, 30 April 2010

This report is a product of the Company's compliance with all relevant recommendations laid down in the "Corporate Governance Report" as set out in Appendix 23 of the Listing Rules.

The Company is committed to exercising a high standard of corporate governance practices at all times. The Board believes that good corporate governance helps the Company safeguard the interests of its stakeholders and improve the performance of the Group. During the year under review, the Company had complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") throughout the accounting period covered by the Company's 2009 Annual Report.

## THE BOARD OF DIRECTORS

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

**Executive Directors:**

Chan Chun Choi *(Chairman and Managing Director)*
Lu Su Hua *(Deputy Chairman)*

**Independent non-executive Directors:**

| | |
|---|---|
| Leung Wai Tat, Henry | (appointed on 2 February 2009) |
| Leung Wai Kei | (appointed on 3 April 2009) |
| Ip Ka Keung | (appointed on 18 January 2010) |
| Hong Po Kui, Martin | (appointed on 10 June 2009 and resigned on 11 January 2010) |
| Wong Ka Hing | (appointed on 2 February 2009 and resigned on 10 June 2009) |

Lu Su Hua is the spouse of Mr. Chan Chun Choi.

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the teams to fulfill corporate goals. The mission of the Board is to undertake the role for strategic planning and development of the Group with the objective to maximize its shareholders' value. Through the aids of senior management and the internal control mechanism, the Board monitors and supervises, from time to time, the ongoing performance of the Group.

Of the three independent non-executive Directors ("INEDs"), Ms. Leung Wai Kei (appointed on 3 April 2009) and Mr. Ip Ka Keung (appointed on 18 January 2010) possess appropriate professional accounting qualifications and financial management expertise, satisfying Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the INEDs provide independent directives on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls and risk management.

The Company has received, from each of its INEDs, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers that all INEDs are independent.

The bye-laws of the Company (the "Bye-laws") allow board meetings to be conducted by way of telephone or video conference and all Directors are given fourteen-day notices for regular board meetings. Sufficient information was supplied by management to facilitate the board meetings in making decisions. In both regular and ad hoc board meetings as required by business needs, the Directors are free to include matters of interest for discussion in the agenda. Other than the board papers and related materials, documents of all kinds in relation to the entire Group are accessible to all Directors at any time with one-day notice.

Due to the shortage of resources faced by the Group and resignations of some Directors during the year, only two audit committee meetings were held during the year.

## RE-ELECTION OF DIRECTORS

Each Director has entered into a letter of appointment with the Company for a term governed by the Bye-laws numbered 87(1) where one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting of the Company. In accordance with clause 86(2) of the Bye-laws, Mr. Ip Ka Keung would retire from his office and offer himself for re-election at the Company's upcoming annual general meeting.

## THE CHAIRMAN AND MANAGEMENT TEAM

The Company implements a clear division of responsibilities among its top management. The Chairman is kept separate from the control of daily operations. The Chairman solely oversees the functions of the Board and the management team takes responsibility for the Group's day-to-day business operations.

## INTERNAL CONTROL

The Board ensures the maintenance of sound and effective internal controls to safeguard the Shareholders' investment and the assets of the Company. The Board also considered that there was room for improvement upon the finalization of the 2009 audit. Given its simplicity and the relatively small size of the operations, the Board and the Audit Committee concluded that the internal audit or internal auditors was not needed.

## FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The Directors will also ensure the publication of the financial statements of the Group in a timely manner. Equally important, they are also responsible for keeping proper accounting records and disclosures.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquires of all Directors regarding any non-compliance with the Model Code during the year and satisfied that all Directors had fully complied with the required standard set out in the Model Code.

## AUDITOR'S REMUNERATION

During the financial year, fees paid/payable to Lak & Associates C.P.A. Limited, the auditor of the Company (the "Auditor") for audit services was HK$150,000 and for non-audit service was HK$100,000.

## AUDIT COMMITTEE

The Audit Committee comprises members who are the INEDs with a rotational chairmanship structure. The composition and member of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference, which describe the authority and duties of the Audit Committee, were adopted since its establishment and had been amended to conform to the provisions of the Code.

The Audit Committee provides the following consultative services to the Board:

- reviewing and monitoring audit process, financial reporting, internal controls, risk management system, and accounting policies and practices;
- deciding the appointment and terms of engagement of external auditors; and
- involving in the decision making for all non-audit engagements.

The Audit Committee convenes at least three meetings a year to review with management the accounting principles and practices adopted by the Group and all other matters within the scope of its terms of reference and the maintenance of the independence and objectivity of the external auditors. For the audit of 2009 accounts, the existing Committee members satisfy with the performance by the Auditor, who presented the implications of those accounting standards enforceable in this and subsequent financial years to the Audit Committee.

The Group's 2009 audited financial statements had been duly reviewed by the Audit Committee with management and the Auditor. The members of the Audit Committee unanimously recommended for approval by the Board. The Audit Committee has concluded that it is satisfied with the professional performance of the Auditor and therefore recommends the Board that the Auditor be re-appointed as our auditor in the Company's upcoming annual general meeting.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2009 consolidated financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

During the year, two Audit Committee meetings were held and the attendance summary is as below:

| Name of Director | Number of attendance | Attendance rate |
|---|---|---|
| Leung Wai Tat, Henry | 2 | 100% |
| Leung Wai Kei | 2 | 100% |
| Hong Po Kui, Martin | 1 | 50% |
| Wong Ka Hing | 1 | 50% |

During 25 August 2008 to 3 April 2009 and 11 January 2010 to 17 January 2010, the Company was not in compliance with Rule 3.10 of the Listing Rules regarding the minimum number of independent non-executive Directors during that period. The Company has appointed sufficient number of independent non-executive Directors afterward.

**REMUNERATION COMMITTEE**

The remuneration committee of the Company (the "Remuneration Committee") was established in January 2005 with specific terms of reference. The Remuneration Committee members are all the INEDs with a rotational chairmanship structure. The Remuneration Committee provides objective opinions in helping the Group formulating remuneration policies, especially for those involving Directors or senior management. Moreover, the Remuneration Committee ensures that no conflicting parties are involved in the decision process of committing remuneration packages. In short, the objective of this Remuneration Committee is to assure that the Group is able to attract, retain, and motivate a high-caliber management team which is essential to the future of the Company.

If a Director's emolument were to be determined, the Remuneration Committee would certainly consider various factors, including market comparability, complexity of duties, and the performance expectation.

The Remuneration Committee convenes meetings when necessary.

The remuneration package for Hong Kong staff is strictly on a monthly-salary basis. Year-end bonus is linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF Ordinance in late 2000. The Group has a share options scheme, which was approved by the shareholders on 22 January 1998, available for any full time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options had been granted since the approval of the scheme.

Due to its unfavorable performance over years, the Group offered no benefits of any kind, except the employer's contribution to MPF, to its directors and staff in 2009.

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

| **Name of Directors** | **Director's Fee 2009** *HK$'000* | **Salaries, allowances and other benefits 2009** *HK$'000* | **Employer's contribution to MPF 2009** *HK$'000* | **Total 2009** *HK$'000* | **Total 2008** *HK$'000* |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Chan Chun Choi | 0 | 12 | 12 | 24 | 24 |
| Lu Su Hua | 100 | 0 | 0 | 100 | 100 |
| | 100 | 12 | 12 | 124 | 124 |
| **Independent Non-executive Directors** | | | | | |
| Ng Chi Shing (resigned on 25 August 2008) | 0 | 0 | 0 | 0 | 65 |
| Yuen Kwok Wah (resigned on 25 August 2008) | 0 | 0 | 0 | 0 | 65 |
| Lam Williamson (resigned on 10 September 2008) | 0 | 0 | 0 | 0 | 34 |

| Name of Directors | Director's Fee 2009 *HK$'000* | Salaries, allowances and other benefits 2009 *HK$'000* | Employer's contribution to MPF 2009 *HK$'000* | Total 2009 *HK$'000* | Total 2008 *HK$'000* |
|---|---|---|---|---|---|
| Wong Ka Hing (appointed on 2 February 2009 and resigned on 10 June 2009) | 0 | 0 | 0 | 0 | 0 |
| Leung Wai Kei (appointed on 3 April 2009) | 75 | 0 | 0 | 75 | 0 |
| Leung Wai Tat, Henry (appointed on 2 February 2009) | 91 | 0 | 0 | 91 | 0 |
| Hong Po Kui, Martin (appointed on 10 June 2009 and resigned on 11 January 2010) | 84 | 0 | 0 | 84 | 0 |
| | 250 | 0 | 0 | 250 | 164 |
| Total | 350 | 12 | 12 | 374 | 288 |

No share options have been granted to the Directors since the approval of the Company's share option scheme.

The emoluments of the Directors fell within the following bands:

| | 2009 Number of Directors | 2008 Number of Directors |
|---|---|---|
| Nil – HK$1,000,000 | 6 | 5 |

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

**TO THE SHAREHOLDERS OF VICTORY GROUP LIMITED**
*(Incorporated in the Bermuda with limited liability)*

We have audited the consolidated financial statements of Victory Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 75, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, 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. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## BASIS FOR DISCLAIMER OF OPINION

### (a) Scope limitation – Prior year's audit scope limitation affecting opening balances

As detailed in our auditor's report on the consolidated financial statements for the year ended 31 December 2008, we disclaimed our opinion because of the significance of the possible effects of the limitation in evidence made available to us resulting from the inability of the Directors of the Company to locate sufficient documentary information. It was explained by the Directors of the Company that due to the fact that the Directors of the Company have lost contact with the sole director of Oriental Surplus Limited ("OSL"), a wholly-own subsidiary of the Company incorporated in the British Virgin Islands, and for borrowing a loan facility of HK$30,000,000 from a potential investor, which was secured by the entire share capital of OSL, the Directors of the Company were unable to represent that all transactions entered into by OSL for the year ended 31 December 2008 and subsequent to 31 December 2008 have been properly reflected in the books and records and in the financial statements of OSL. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group as at 31 December 2008 and the results of the Group for the year ended 31 December 2008 were fairly stated. Any adjustments to the opening balances as at 1 January 2009 would affect the net liabilities of the Group as at 31 December 2009 and the results of the Group for the year ended 31 December 2009. Also the comparative figures in respect of the net liabilities of the Group as at 31 December 2008 and the results of the Group for the year ended 31 December 2008 may not be comparable with the figures for the current year.

**(b) Scope limitation -Material uncertainty relating to a subsidiary, Oriental Surplus Limited**

(i) As explained in note 2 to the financial statements, the financial statements of OSL have been prepared based on the available books and records maintained by the Company and OSL. However, due to the fact that the Directors of the Company have lost contact with the sole director of OSL since early 2008 and the lack of sufficient documentary evidence available, the Directors of the Company were unable to represent that all transactions entered into by OSL for the year ended 31 December 2009 and subsequent to the end of the reporting period have been properly reflected in the books and records and in the financial statements of OSL. The Directors of the Company were unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group as at 31 December 2009.

In this context, the Directors of the Company were unable to represent as to the completeness and correctness of the financial information of OSL and all the related disclosures required by the Hong Kong Companies Ordinance, Hong Kong Financial Reporting Standards and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including but not limited to the disclosures of commitments, contingent liabilities and events after the reporting period included in the financial statements of the Group.

Accordingly, we have not been provided with adequate evidence to satisfy ourselves as to the completeness and accuracy of the following amounts included in the financial statements recorded by the Group and as to the reliability of the related disclosures in the financial statements.

*The Group*

Included in consolidated income statement

– Other income of HK$1,575,000

– Directors' remuneration of HK$374,000

– Taxation with HK$Nil amount

– Loss attributable to equity shareholders of the Company of HK$4,017,000

Included in consolidated statement of financial position

– Cash and cash equivalents of HK$549,000

– Bank and other borrowings of HK$18,622,000

(ii) As more fully explained in note 2 to the financial statements, the Directors of the Company were unable to provide documentary evidence in support of the ownership of the Group's interest in OSL. Accordingly, we were unable to satisfy ourselves the ownership of interest in OSL as at 31 December 2009.

In addition, for the same reasons stated above, we have not been able to obtain all necessary information for us to conduct a review of events after the reporting period. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the financial statements of the Group as at 31 December 2009.

There were no alternative audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustments to the liabilities, commitments and contingent liabilities of OSL may have consequential significant effects on the Group's net liabilities as at 31 December 2009, the Group's loss for the year then ended, and on classification of such items and their related disclosures in the financial statements.

**(c) Material uncertainty relating to going concern basis**

The Group incurred a loss of approximately HK$4,017,000 for the year ended 31 December 2009 and, as at 31 December 2009, the Group had net current liabilities of approximately HK$25,940,000. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As detailed in note 2 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the ongoing support from the Group's bankers, and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful.

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this material uncertainty relating to whether the gong concern basis is appropriate is so extreme that we have disclaimed our opinion.

**DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and 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 as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Lak & Associates C.P.A. Limited**
*Certified Public Accountants*
Unit 1603-1606, 16th Floor, Alliance Building
No. 130-136 Connaught Road Central
Sheung Wan
Hong Kong
30 April 2010

**Yip Ka Ki**
Practising Certificate Number P05061

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2009*

| | *Note* | **2009** *HK$'000* | **2008** *HK$'000* |
|---|---|---|---|
| **Revenue** | *7* | – | 17,600 |
| Direct costs | | – | (16,930) |
| **Gross profit** | | – | 670 |
| Other income | *8* | 1,575 | 94 |
| Administrative expenses | | (5,201) | (3,643) |
| **Loss from operation** | | (3,626) | (2,879) |
| Finance costs | *9* | (391) | (492) |
| **Loss before taxation** | *10* | (4,017) | (3,371) |
| Taxation | *13* | – | – |
| **Loss for the year attributable to equity shareholders of the Company** | *14* | (4,017) | (3,371) |
| **Loss per share – Basic and diluted** | *15* | (2.60 cents) | (2.18 cents) |

The annexed notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Loss for the year** | (4,017) | (3,371) |
| **Total comprehensive loss for the year attributable to equity shareholders of the Company** | (4,017) | (3,371) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2009*

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 1,841 | 1,891 |
| Land lease prepayment | 17 | 14,091 | 13,263 |
| | | 15,932 | 15,154 |
| **Current assets** | | | |
| Land lease prepayment | 17 | 381 | 349 |
| Trade receivable | 19 | – | 14,088 |
| Prepayments, deposits and other receivables | 19 | 47 | 53 |
| Cash and cash equivalents | 20 | 549 | 2,838 |
| | | 977 | 17,328 |
| **Current liabilities** | | | |
| Trade payables | 21 | 100 | 12,543 |
| Other payables and accruals | 21 | 1,531 | 2,010 |
| Amount due to a related party | 22 | 2,197 | 2,197 |
| Amounts due to directors | 22 | 4,467 | 6,474 |
| Bank and other borrowings | 24 | 18,622 | 15,249 |
| | | 26,917 | 38,473 |
| **Net current liabilities** | | (25,940) | (21,145) |
| **Total assets less current liabilities** | | (10,008) | (5,991) |
| **Non-current liabilities** | | | |
| Provision for long service payment | 25 | – | – |
| **NET LIABILITIES** | | (10,008) | (5,991) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | 15,480 | 15,480 |
| Reserves | 27 | (25,488) | (21,471) |
| **TOTAL EQUITY** | | (10,008) | (5,991) |

The annexed notes form an integral part of these financial statements.

| | |
|---|---|
| **Chan Chun Choi** | **Lu Su Hua** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year eneded 31 December 2009*

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | (4,017) | (3,371) |
| **Adjustments for:** | | | |
| Interest expenses | | 391 | 492 |
| Interest income | | – | (25) |
| Depreciation | | 53 | 52 |
| Amortisation of land lease prepayment | | 349 | 374 |
| Impairment loss on land lease prepayment | | – | 992 |
| Reversal of impairment loss on land lease prepayment | | (1,209) | – |
| **Operating loss before changes in working capital** | | (4,433) | (1,486) |
| Decrease/(increase) in trade receivable | | 14,088 | (14,088) |
| Decrease in prepayments, deposits and other receivables | | 6 | 10 |
| (Decrease)/increase in trade payables | | (12,443) | 12,543 |
| (Decrease)/increase in other payables and accruals | | (439) | 937 |
| Decrease in provision for long service payment | | – | (66) |
| **Cash used in operation** | | (3,221) | (2,150) |
| Interest received | | – | 25 |
| Interest paid | | (431) | (485) |
| **Net cash used in operating activities** | | (3,652) | (2,610) |
| **Investing activities** | | | |
| Purchase of office equipment | | (3) | – |
| **Net cash used in investing activities** | | (3) | – |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from new trust receipt loans | | – | 3,260 |
| Repayment of trust receipt loans | | (2,000) | (2,006) |
| Repayment of other borrowings | | (2,627) | (27,251) |
| Proceeds from other borrowings | | 5,960 | – |
| Cash advance from directors | | 3,090 | 2,144 |
| Cash repaid to directors | | (3,057) | (265) |
| **Net cash from/(used in) financing activities** | | 1,366 | (24,118) |
| **Net decrease in cash and cash equivalents** | | (2,289) | (26,728) |
| **Cash and cash equivalents at 1 January** | | (7,662) | 19,066 |
| **Cash and cash equivalents at 31 December** | *20* | (9,951) | (7,662) |

The annexed notes form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

*As at 31 December 2009*

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 18 | – | – |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | 19 | – | 4 |
| Cash and cash equivalents | 20 | 375 | 2 |
| | | 375 | 6 |
| **Current liabilities** | | | |
| Accruals | 21 | 1,449 | 1,049 |
| Amounts due to directors | 22 | 1,607 | 2,558 |
| | | 3,056 | 3,607 |
| **Net current liabilities** | | (2,681) | (3,601) |
| **Total assets less current liabilities** | | (2,681) | (3,601) |
| **Non-current liabilities** | | | |
| Amounts due to subsidiaries | 23 | 6,098 | 173 |
| **NET LIABILITIES** | | (8,779) | (3,774) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | 15,480 | 15,480 |
| Reserves | 27 | (24,259) | (19,254) |
| **TOTAL EQUITY** | | (8,779) | (3,774) |

The annexed notes form an integral part of these financial statements.

| | |
|---|---|
| **Chan Chun Choi**<br>*Director* | **Lu Su Hua**<br>*Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2009*

| | Share capital | Share premium account | Contributed surplus | Enterprise expansion fund | Exchange fluctuation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2008 | 15,480 | 50,091 | 710 | 445 | (165) | (69,181) | (2,620) |
| Total comprehensive loss for the year | – | – | – | – | – | (3,371) | (3,371) |
| **At 31 December 2008 and 1 January 2009** | 15,480 | 50,091 | 710 | 445 | (165) | (72,552) | (5,991) |
| **Total comprehensive loss for the year** | – | – | – | – | – | (4,017) | (4,017) |
| **At 31 December 2009** | 15,480 | 50,091 | 710 | 445 | (165) | (76,569) | (10,008) |

*For the year ended 31 December 2009*

## 1. GENERAL

The Company is a public listed company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of Company's shares has been suspended since 27 September 2006.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

In the opinion of the Directors, the parent and ultimate controlling party is Winsley Investment Limited ("Winsley") which is incorporated in Hong Kong.

The principal activity of the Company is investment holding. During the year, the Group had no revenue generated. In 2008, the Group was principally engaged in the provision of installation services of LED screen and facade lighting.

The financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Group.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### Going concern

The Group sustained a loss attributable to equity shareholders of the Company of approximately HK$4,017,000 (2008: HK$3,371,000) for the year ended 31 December 2009. At 31 December 2009, the Group had net current liabilities and net liabilities of approximately HK$25,940,000 (2008: HK$21,145,000) and HK$10,008,000 (2008: HK$5,991,000) respectively.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the Directors of the Company have adopted the following measures:

(i) The Directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including but not limited to, a private placement, an open offer or a right issue of new shares of the Company.

(ii) The Directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2009.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

**Oriental Surplus Limited**

Oriental Surplus Limited ("OSL") is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 2 October 2007. In the opinion of the Directors of the Company, OSL was established for borrowing a loan facility of HK$30,000,000 from a potential investor, which was secured by the entire share capital of OSL, as set out in note 24 to the financial statements. The loan facility is primarily for the purpose of providing funds for costs and expenses of restructuring in relation to the Agreement for the Implementation of a Restructuring Proposal dated 9 November 2007 (the "Agreement") and as working capital to revitalize the business of the Group. The Directors of the Company represented that OSL was inactive during the year ended 31 December 2009. The unaudited financial information of OSL for the year ended 31 December 2009 was included in the financial statements of the Group based on the available books and records maintained by the Directors of the Company and OSL.

However, due to the fact that the Directors of the Company have lost contact with the sole director of OSL since early 2008 and the lack of sufficient documentary evidence available, the Directors of the Company were unable to represent that all transactions entered into by OSL for the year ended 31 December 2009 and subsequent to the end of the reporting period have been properly reflected in the books and records and in the financial statements of OSL. In this context, the Directors of the Company were unable to represent as to the completeness and correctness of the financial information of OSL included in the financial statements of the Group.

In addition, in the opinion of the Directors of the Company, the Agreement was not executed and was lapsed during the year ended 31 December 2008. The Directors of the Company were unable to provide documentary evidence in support of the ownership of the Group's interest in OSL as at 31 December 2009.

As a consequence, the following amounts included in the financial statements recorded by the Group and all the related disclosures in the financial statements may not be satisfactorily substantiated or otherwise supported.

*The Group*

Included in consolidated income statement

– Other income of HK$1,575,000

– Directors' remuneration of HK$374,000

– Taxation with HK$Nil amount

– Loss attributable to equity shareholders of the Company of HK$4,017,000

Included in consolidated statement of financial position

– Cash and cash equivalents of HK$549,000

– Bank and other borrowings of HK$18,622,000

In this context, the Directors of the Company were uncertain as to the accuracy and completeness of all related disclosures required by the Hong Kong Companies Ordinance, Hong Kong Financial Reporting Standards and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including but not limited to the disclosures of commitments, contingent liabilities and events after the end of the reporting period included in the financial statements of the Group.

**Basis of preparation of the financial statements**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include 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"), and accounting principles generally accepted in Hong Kong. The financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. They have been prepared under the historical cost convention.

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 significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

The amendments to HKAS 23 and Improvements to HKFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

– HKFRS 8 requires segment disclosures 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. This contrasts with the policy applicable for prior years which was focused on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in the Group being classified as one segment (see note 30). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the financial statements which explain the basis of preparation of the information.

- 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 liabilities for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 6(d) about the fair value measurement of the Group's financial instruments, categorizing 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 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, associates and jointly controlled entities, 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 recognise 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.

The Group has not applied any new and revised HKFRSs, that have been issued but are not yet effective in these financial statements (see note 37).

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### (b) Subsidiaries

Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from date that control ceases.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (note 4(f)), unless the investment is classified as held for sale. The carrying amount of the interests in subsidiaries is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for to the extent of dividends received and receivable.

### (c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to profit or loss.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is provided to write off the cost of the assets to their estimated residual value, if any, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold building | Over the shorter of the unexpired term of lease and its estimated useful life |
| Leasehold improvements | Over their expected useful lives or the term of the relevant lease whichever shorter |
| Furniture and fixtures | 20% – 30% |
| Office equipment | 20% – 30% |
| Motor vehicles | 30% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

The Group assesses at the end of each reporting period whether there is any indication that any items of property, plant and equipment may be impaired and that an impairment loss recognised in prior periods for an item may have decreased. If any such indication exists, the Group estimates the recoverable amount of the item. An impairment loss, being the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, or a reversal of impairment loss is recognised immediately in profit or loss.

**(d) Land lease prepayments**

Land lease prepayments under operating leases are up-front payments to acquire long term interest in lessee-occupied properties. Land lease prepayments are stated at cost less accumulated amortisation and any impairment (note 4(f)), and are amortised over the remaining lease terms on the straight-line basis to profit or loss.

**(e) Leased assets**

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to profit or loss on the straight-line basis over the lease terms.

**(f) Impairment of non-financial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(g) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment loss of doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment loss of doubtful debts.

Impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due. When the Group considers that the debt is doubtful, the impairment loss of doubtful debts is recorded using an allowance account. When the Group is satisfied that the recovery of debt is remote, the amount considered irrecoverable is written off against other receivable directly and any amount held in the allowance account relating to that debt is 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.

Trade and other receivables are derecognised when the rights to receive cash flows from the trade and other receivables expire or, the trade and other receivables are transferred and the Group has transferred substantially all the risks and rewards of ownership of the trade and other receivables. On derecognition of a receivable, the difference between the receivable's carrying amount and the sum of the consideration received and receivable.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. 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 statement of cash flows.

**(i) Financial liabilities**

Financial liabilities including trade and other payables, amounts due to related parties/directors and bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in profit or loss.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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

**(j) 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 end of the reporting period, 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.

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

**(k) Revenue recognition**

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

Installation service income is recognised when the services are rendered.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Rental income is recognised on the straight-line basis over the lease term.

Bank interest income is accrued using the effective interest method.

**(l) Borrowing costs**

All borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

**(m) Translation of foreign currencies**

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. 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 items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

**(n) Employee benefits**

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

(a) Contributions to Mandatory Provident Fund ("MPF") as required under the Hong Kong MPF Scheme Ordinance are recognised as an expense in profit or loss as incurred.

(b) Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the end of the reporting period.

(c) Employment entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

*(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 binomial lattice 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.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/ credited to the 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).

Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(o) Related parties**

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

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

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

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

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

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

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

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

**(p) 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.

**(q) 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 instruments.

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 4(q)(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 Company or the Group 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 expenditures 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.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

**Key sources of estimates uncertainty**

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

*(a)* *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

*(b)* *Impairment of receivables*

The policy for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current credit-worthiness and the past collection history of each debtor. If the financial conditions of debtor of the Group were to deteriorate resulting in an impairment of their ability to make payments, additional impairment may be required.

## 6. FINANCIAL INSTRUMENTS

**Financial instruments by category**

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

**The Group**

| **Financial assets** | **Loans and receivables** | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| Trade receivable | – | 14,088 |
| Prepayments, deposits and other receivables | 47 | 47 |
| Cash and cash equivalents | 549 | 2,838 |
| | 596 | 16,973 |

| **Financial liabilities** | **Financial liabilities at amortised cost** | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| Trade payables | 100 | 12,543 |
| Other payables and accruals | 1,517 | 2,007 |
| Bank and other borrowings, secured | | |
| – Bank revolving loan | 10,500 | 10,500 |
| – Trust receipt loans | – | 2,000 |
| – Other loans | 8,122 | 2,749 |
| Amount due to a related party | 2,197 | 2,197 |
| Amounts due to directors | 4,467 | 6,474 |
| | 26,903 | 38,470 |

**The Company**

| **Financial assets** | **Loans and receivables** | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| Cash and cash equivalents | 375 | 2 |

| **Financial liabilities** | **Financial liabilities at amortised cost 2009** *HK$'000* | **2008** *HK$'000* |
|---|---|---|
| Accruals | 1,449 | 1,049 |
| Amounts due to directors | 1,607 | 2,558 |
| Amounts due to subsidiaries | 6,098 | 173 |
| | 9,154 | 3,780 |

**Financial risk management**

Exposure to credit risk, liquidity risk and market risks arises in the normal course of the Group's business. These risks are mitigated by the Group's financial management policies and practices described below.

*(a)* *Credit risk*

The Group's maximum exposure to credit risk was represented by the carrying amount of cash balances at banks which are concentrated on a single counterparty. The credit risk and the concentration of credit risk on these assets were limited because the cash and bank balances were placed with licensed and creditworthy commercial banks in Hong Kong.

For 2008, the Group's maximum exposure to credit risk was attributable to trade receivable and bank balances. The Group had significant concentration of credit risk in relation to the trade receivable and bank balances as the balance of the trade receivable was due from a single counterparty and 98% of the bank balances was due from a single banker respectively. The Group managed its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. In this regard, the Directors of the Group considered that the Group's credit risk was significantly reduced. Although the bank balances were concentrated on a single counterparty, the concentration of credit risk on these assets was limited because the bank balances were placed with licensed and creditworthy commercial banks in Hong Kong.

*(b)* *Liquidity risk*

The Group is exposed to liquidity risk on financial liabilities. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from the Group's bankers to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

**The Group**

| **2009** | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 3 months or on demand** | **4 to less than 12 months** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 100 | 100 | 100 | – |
| Other payables and accruals | 1,517 | 1,517 | 1,517 | – |
| Bank and other borrowings, secured | | | | |
| – Bank revolving loan | 10,500 | 10,595 | 10,595 | – |
| – Trust receipt loans | – | – | – | – |
| – Other loans | 8,122 | 8,122 | 122 | 8,000 |
| Amount due to a related party | 2,197 | 2,197 | 2,197 | – |
| Amounts due to directors | 4,467 | 4,467 | 4,467 | – |
| | 26,903 | 26,998 | 18,998 | 8,000 |

| **2008** | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 3 months or on demand** | **4 to less than 12 months** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 12,543 | 12,543 | 12,543 | – |
| Other payables and accruals | 2,007 | 2,007 | 2,007 | – |
| Bank and other borrowings, secured | | | | |
| – Bank revolving loan | 10,500 | 10,511 | 10,511 | – |
| – Trust receipt loans | 2,000 | 2,002 | 2,002 | – |
| – Other loan | 2,749 | 2,749 | 2,749 | – |
| Amount due to a related party | 2,197 | 2,197 | 2,197 | – |
| Amounts due to directors | 6,474 | 6,474 | 6,474 | – |
| | 38,470 | 38,483 | 38,483 | – |

**The Company**

| 2009 | Carrying amount<br>*HK$'000* | Total contractual undiscounted cash flow<br>*HK$'000* | Within 3 months or on demand<br>*HK$'000* | 4 to less than 12 months<br>*HK$'000* | More than 12 months<br>*HK$'000* |
|---|---|---|---|---|---|
| Accruals | 1,449 | 1,449 | 1,449 | – | – |
| Amounts due to directors | 1,607 | 1,607 | 1,607 | – | – |
| Amounts due to subsidiaries | 6,098 | 6,098 | – | – | 6,098 |
| | 9,154 | 9,154 | 3,056 | – | 6,098 |

| 2008 | Carrying amount<br>*HK$'000* | Total contractual undiscounted cash flow<br>*HK$'000* | Within 3 months or on demand<br>*HK$'000* | 4 to less than 12 months<br>*HK$'000* | More than 12 months<br>*HK$'000* |
|---|---|---|---|---|---|
| Accruals | 1,049 | 1,049 | 1,049 | – | – |
| Amounts due to directors | 2,558 | 2,558 | 2,558 | – | – |
| Amounts due to subsidiaries | 173 | 173 | – | – | 173 |
| | 3,780 | 3,780 | 3,607 | – | 173 |

*(c) Market risks*

***(i) Foreign currency risk***

The Group has certain financial assets and liabilities denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Exposure to foreign currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

**The Group**

| **2009** | **Japanese Yen** *("JPY'000")* | **United States Dollars** *("USD'000")* | **Euro Dollars** *("EURO'000")* |
|---|---|---|---|
| Cash and cash equivalents | 198 | – | – |
| Other payables and accruals | – | (3) | – |
| Overall net exposure | 198 | (3) | – |

| **2008** | **Japanese Yen** *("JPY'000")* | **United States Dollars** *("USD'000")* | **Euro Dollars** *("EURO'000")* |
|---|---|---|---|
| Cash and cash equivalents | 198 | 293 | 32 |
| Other payables and accruals | – | (2) | – |
| Overall net exposure | 198 | 291 | 32 |

**The Company**

| | **2009** **United States Dollars** *("USD'000")* | **2008** **United States Dollars** *("USD'000")* |
|---|---|---|
| Accruals | (3) | (2) |
| Overall net exposure | (3) | (2) |

Sensitivity analysis

In the opinion of the management, since HKD is pegged to USD, the exposure to exchange fluctuation is limited and hence no sensitivity analysis in related to HKD against USD is presented. The Group therefore mainly exposes to the currencies of JPY and EURO.

The following table indicates the approximate change in the Group's loss after tax and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

**The Group**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in loss after tax | Increase/ (decrease) in accumulated losses | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in loss after tax | Increase/ (decrease) in accumulated losses |
| | | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* |
| JPY | 5% | (1) | (1) | 5% | (1) | (1) |
| | (5%) | 1 | 1 | (5%) | 1 | 1 |
| EURO | 5% | – | – | 5% | (18) | (18) |
| | (5%) | – | – | (5%) | 18 | 18 |

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies. The analysis has been performed on the same basis for 2008.

In the management's opinion, the sensitivity analysis is unrepresentative of the exchange rate risk as the year end exposure does not reflect the exposure during the year.

***(ii) Interest rate risk***

The Group is exposed to cash flow interest rate risk primarily arising from bank revolving loan and trust receipt loans which carrying at floating interest rates.

Sensitivity analysis

It is estimated that a general increase/decrease of 50 (2008: 100) basis points in interest rates at 31 December 2009, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated losses by approximately HK$53,000 (2008: HK$125,000).

The sensitivity analysis above has been determined based on the exposure to interest rates for floating bank revolving loan and trust receipt loans as at the end of the reporting period. It has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. For the floating rate bank revolving loan and trust receipt loans, the analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. The 50 (2008: 100) basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis has been performed on the same basis for 2008.

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

*(d) Fair values*

***(i) Financial instrument carried at fair values***

The amendments to HKFRS 7, Financial instruments: Disclosures, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is 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

At 31 December 2009, the Group has no financial instruments carried at fair value.

***(ii) Fair values of financial instrument carried at other than fair values***

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008, except for the amounts due to subsidiaries which are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose their fair values.

## 7. REVENUE

The Group had no revenue during the year. In 2008, revenue represented the invoiced value of installation services rendered.

The amount of each significant category of revenue recognised in revenue during the year is as follows:

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Installation services of LED screen and facade lighting | – | 17,600 |
| | – | 17,600 |

## 8. OTHER INCOME

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Discount received from a trade creditor | 366 | – |
| Foreign exchange gain, net | – | 3 |
| Interest income | – | 25 |
| Reversal of impairment loss on land lease prepayment | 1,209 | – |
| Provision for long service payment written back | – | 66 |
| | 1,575 | 94 |

## 9. FINANCE COSTS

Interest on bank and other borrowings wholly repayable within 5 years:

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on bank overdrafts | – | 32 |
| Interest on trust receipt loans | 9 | 63 |
| Interest on bank revolving loan | 382 | 397 |
| | 391 | 492 |

## 10. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Auditor's remuneration | | |
| – audit services | 150 | 200 |
| – other services | 100 | – |
| | 250 | 200 |
| Amortisation of land lease prepayment | 349 | 374 |
| Direct costs | | |
| – Subcontracting fee | – | 16,930 |
| Depreciation | 53 | 52 |
| Impairment loss on land lease prepayment | – | 992 |
| Interest on bank and other borrowings wholly repayable within five years | 391 | 492 |
| Staff costs (including directors' remuneration – *Note 11*) | | |
| – salaries, allowances and other benefits | 1,098 | 1,004 |
| – contributions to defined contribution plans | 43 | 37 |
| | 1,141 | 1,041 |
| Discount received from a trade creditor | (366) | – |
| Foreign exchange gain, net | – | (3) |
| Interest income | – | (25) |
| Reversal of impairment loss on land lease prepayment | (1,209) | – |
| Provision for long service payment written back | – | (66) |

## 11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is presented in the "Corporate Governance Report".

## 12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: one) directors, details of whose remuneration are set out in the "Corporate Governance Report". Details of the remuneration of the remaining three (2008 : four) non-director, highest paid employees for the year are as follows:

| | **2009** | **2008** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 462 | 703 |
| Retirement scheme contributions | 19 | 23 |
| | 481 | 726 |

The remuneration of the above non-director, highest paid employees were within the band of HK$Nil to HK$1,000,000 in both years presented.

During the years presented, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

## 13. TAXATION

(a) No Hong Kong or overseas income taxes have been provided for in the financial year as neither the Company nor any of its subsidiaries derived any assessable profit that is subject to Hong Kong or overseas income taxes (2008: HK$Nil).

(b) Reconciliation between taxation charge and the Group's accounting loss at applicable tax rates is set out below:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Loss before taxation | (4,017) | (3,371) |
| Tax at statutory tax rate of 16.5% (2008: 16.5%) | (663) | (556) |
| Tax effect of: | | |
| – income not subject to taxation | (199) | (5) |
| – expenses not deductible for taxation purposes | 627 | 352 |
| – prior year's unrecognised deferred tax asset from impairment loss of land lease prepayment utilised in this year | (41) | (40) |
| – unrecognised deferred tax assets in respect of tax losses | 276 | 249 |
| Tax charge for the year | – | – |

*Notes:*

(i) The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

**14. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

The net loss attributable to equity shareholders of the Company includes a loss of approximately HK$5,005,000 (2008: HK$1,266,000) which has been dealt with in the financial statements of the Company.

**15. LOSS PER SHARE**

The calculation of the basic loss per share amounts is based on the net loss for the year attributable to equity shareholders of the Company of HK$4,017,000 (2008: HK$3,371,000), and on the number of 154,801,160 (2008: 154,801,160) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of dilution as no diluting events existed during those years.

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Leasehold building *HK$'000* | Leasehold improvements *HK$'000* | Furniture and fixtures *HK$'000* | Office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2008, 31 December 2008 and 1 January 2009 | 2,661 | 69 | 567 | 1,118 | 2,421 | 6,836 |
| Additions | – | – | – | 3 | – | 3 |
| At 31 December 2009 | 2,661 | 69 | 567 | 1,121 | 2,421 | 6,839 |
| Accumulated depreciation | | | | | | |
| At 1 January 2008 | 726 | 69 | 567 | 1,110 | 2,421 | 4,893 |
| Charge for the year | 49 | – | – | 3 | – | 52 |
| At 31 December 2008 and 1 January 2009 | 775 | 69 | 567 | 1,113 | 2,421 | 4,945 |
| Charge for the year | 48 | – | – | 5 | – | 53 |
| At 31 December 2009 | 823 | 69 | 567 | 1,118 | 2,421 | 4,998 |
| Carrying amount | | | | | | |
| At 31 December 2009 | 1,838 | – | – | 3 | – | 1,841 |
| At 31 December 2008 | 1,886 | – | – | 5 | – | 1,891 |

The Group's leasehold building is situated in Hong Kong and is held on medium term lease.

As at 31 December 2009, the Group's leasehold building with carrying amount of approximately HK$1,838,000 (2008: HK$1,886,000) was pledged to secure general banking facilities and other borrowing as set out in note 24 to the financial statements.

## 17. LAND LEASE PREPAYMENT

| | The Group |
|---|---|
| | *HK$'000* |
| Cost | |
| At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009 | 20,945 |
| Accumulated amortisation and impairment loss | |
| At 1 January 2008 | 5,967 |
| Amortisation charge for the year | 374 |
| Impairment loss for the year | 992 |
| At 31 December 2008 and 1 January 2009 | 7,333 |
| Amortisation charge for the year | 349 |
| Reversal of impairment loss for the year | (1,209) |
| At 31 December 2009 | 6,473 |
| Carrying amount | |
| At 31 December 2009 | 14,472 |
| At 31 December 2008 | 13,612 |

| | 2009 | 2008 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Analysed for reporting purposes as: | | |
| Current asset | 381 | 349 |
| Non-current asset | 14,091 | 13,263 |
| | 14,472 | 13,612 |

The Group's land lease prepayment is situated in Hong Kong and is held on medium term lease.

As at 31 December 2009, the Group's land lease prepayment with carrying amount of approximately HK$14,472,000 (2008: HK$13,612,000) was pledged to secure general banking facilities and other borrowing as set out in note 24 to the financial statements.

Reversal of impairment loss made for the year ended 31 December 2009 was determined by reference to property valuations carried out by an external qualified valuer, RHL Appraisal Limited (2008: Impairment loss for the year ended 31 December 2008 was determined by reference to property valuations carried out by an external qualified valuer, Vigers Appraisal & Consulting Limited).

## 18. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 76,310 | 76,310 |
| Amounts due from subsidiaries | 83,516 | 82,080 |
| | 159,826 | 158,390 |
| Impairment loss | (159,826) | (158,390) |
| | – | – |

Movement in the allowance for impairment loss on the amounts due from subsidiaries is as follows:

| | The Company | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| At 1 January | 158,390 | 158,022 |
| Impairment loss for the year | 1,436 | 368 |
| At 31 December | 159,826 | 158,390 |

The allowance for impairment loss on the amounts due from subsidiaries was concluded from the assessment of the financial position of the subsidiaries individually.

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

In the opinion of the Directors, no repayment will demand within the next twelve months from the end of the reporting period. Accordingly, the amounts due were classified as non-current assets.

Details of the principal subsidiaries are as follows:

| Name of company | Place of incorporation/ registration and operation | Nominal value of issued/registered share capital | Attributable equity interest | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Victory Group (BVI) Limited# | British Virgin Islands | Ordinary HK$100,000 | 100% | – | Investment holding |
| Victory Motors Centre Limited | Hong Kong | Ordinary HK$1,000<br>Non-voting deferred HK$3,000,000 | – | 100% | Investment holding |
| Victory Realty Limited | Hong Kong | Ordinary HK$10,000 | – | 100% | Inactive |
| Hong Kong Waho Development Limited | Hong Kong | Ordinary HK$1,000,000 | – | 100% | Property holding (2008: Property holding, trading of automotive products and installation of LED screen and facade lighting) |
| Waret Investment Limited | Hong Kong | Ordinary HK$2 | – | 100% | Inactive |
| Victory H-Tech Company Limited | Hong Kong | Ordinary HK$100,000 | – | 100% | Inactive |
| Oriental Surplus Limited# | British Virgin Islands | Ordinary US$100 | 100% | – | Inactive |

# Not audited by Lak & Associates C.P.A. Limited

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results for the year or formed a substantial portion of the net liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 19. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivable | – | 14,088 | – | – |
| Prepayments, deposits and other receivables | 91 | 97 | 5 | 9 |
| *Less:* Impairment loss on other receivables | (44) | (44) | (5) | (5) |
| | 47 | 53 | – | 4 |
| Trade receivable, prepayments, deposits and other receivables | 47 | 14,141 | – | 4 |

Movement in the allowance for impairment loss on other receivables is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January and 31 December | 44 | 44 | 5 | 5 |

Aging analysis included in trade and other receivables are trade receivable (net of specific provisions for bad and doubtful debts) based on the invoice date, as at the end of the reporting period is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 3 months | – | 14,088 | – | – |

Normally, debts are due within 60 days from the date of billing.

Aging analysis of trade receivable that is neither individually nor collectively considered to be impaired is as follows:

| | The Group | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| Neither past due nor impaired | – | 14,088 |

Receivables that are neither past due nor impaired relate to an independent customer for whom there was no recent history of default.

The Group does not hold any collateral over these balances.

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

## 20. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash and bank balances | 549 | 2,838 | 375 | 2 |
| Cash and cash equivalents in the statement of financial position | 549 | 2,838 | 375 | 2 |
| Bank revolving loan with maturity within three month *(note 24)* | (10,500) | (10,500) | | |
| Cash and cash equivalents in the consolidated statement of cash flows | (9,951) | (7,662) | | |

Cash at banks earn interest at floating rates based on daily bank deposits rates.

## 21. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 100 | 12,543 | – | – |
| Other payables | 53 | 53 | – | – |
| Accruals | 1,478 | 1,957 | 1,449 | 1,049 |
| | 1,531 | 2,010 | 1,449 | 1,049 |
| | 1,631 | 14,553 | 1,449 | 1,049 |

Aging analysis included in trade and other payables are trade payables based on the invoice date, as at the end of the reporting period is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Within 3 months | – | 12,543 | – | – |
| Within 3 to 6 months | – | – | – | – |
| Within 6 to 12 months | 100 | – | – | – |
| | 100 | 12,543 | – | – |

All of the trade and other payables are expected to be settled within one year.

## 22. AMOUNTS DUE TO A RELATED PARTY/DIRECTORS

The amounts due to a related party/directors are unsecured, interest free and repayable on demand.

## 23. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and have no fixed term of repayment. In the opinion of the Directors of the Company, no repayment will be demanded within the next twelve months from the end of the reporting period. Accordingly, the amounts are classified as non-current liabilities.

## 24. BANK AND OTHER BORROWINGS

| | The Group | | | |
|---|---|---|---|---|
| | **Maturity** | **2009** | **Maturity** | **2008** |
| | | *HK$'000* | | *HK$'000* |
| Bank borrowings: | | | | |
| Bank revolving loan, secured *(note i)* | 2010 | 10,500 | 2009 | 10,500 |
| Trust receipt loans, secured *(note i)* | | – | 2009 | 2,000 |
| | | 10,500 | | 12,500 |
| Other borrowings: | | | | |
| Other loan, secured *(note ii)* | On demand | 122 | On demand | 2,749 |
| Other loan, secured *(note iii)* | 2010 | 8,000 | | – |
| | | 8,122 | | 2,749 |
| | | 18,622 | | 15,249 |

All of the bank and other borrowings are repayable within one year and classified under current liabilities.

(i) The bank revolving loan and trust receipt loans bear interest at HIBOR plus 3.5% (2008: HIBOR plus 3.5%) and HIBOR plus 2.5% (2008: HIBOR plus 2.5%) per annum respectively.

As at 31 December 2009, the bank borrowing facilities of HK$14,000,000 (2008: HK$14,000,000) granted by a banker are secured by the Group's leasehold land and building with an aggregate carrying amount of approximately HK$16,310,000 (2008: HK$15,498,000), joint and several personal guarantee to be executed by the director, Mr. Chan Chun Choi and a third party of HK$14,000,000 (2008: HK$14,000,000) plus accrued interest. At the end of the reporting period, the facilities were utilised by the Group to the extent of approximately HK$10,500,000 (2008: HK$12,500,000).

(ii) The Group borrowed a loan of HK$30,000,000 pursuant to the loan agreement dated 28 December 2007 from a potential investor. The loan facilities are primarily for the purpose of providing funds for costs and expenses of restructuring in relation to the Agreement for the Implementation of a Restructuring Proposal dated 9 November 2007 and as working capital to revitalise the business of the Group. The loan is secured by a share mortgage in respect of entire issued shares capital in a wholly-owned subsidiary of the Company, Oriental Surplus Limited, interest free and repayable on demand. As at 31 December 2009, the balance was approximately HK$122,000 (2008: HK$2,749,000).

(iii) The Group borrowed a loan of HK$8,000,000 pursuant to the loan agreement dated 16 November 2009 from a third party for general business purpose. The loan and the interest thereon is secured by a second legal charge over the Group's leasehold land and building with an aggregate carrying amount of approximately HK$16,310,000. As at 31 December 2009, the balance was HK$8,000,000.

The amount due is repayable on 15 May 2010 unless the lender has given not less than seven working days notice to demand for repayment of any outstanding amount.

The amount due is interest free except for overdue sum at the interest rate of 12% per annum until full repayment.

## 25. PROVISION FOR LONG SERVICE PAYMENT

| | The Group | |
|---|---|---|
| | **2009** | **2008** |
| | *HK$'000* | *HK$'000* |
| At 1 January | – | 66 |
| Provision for long service payment written back | – | (66) |
| At 31 December | – | – |

## 26. SHARE CAPITAL

| | The Company | | | |
|---|---|---|---|---|
| | Number of shares | | Share capital | |
| | 2009 | 2008 | 2009 | 2008 |
| | | | *HK$'000* | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.1 each (2008: HK$0.1 each) | 220,558,640 | 220,558,640 | 22,056 | 22,056 |
| **Issued and fully paid:** | | | | |
| At 1 January and 31 December Ordinary shares of HK$0.1 each (2008: HK$0.1 each) | 154,801,160 | 154,801,160 | 15,480 | 15,480 |

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.

*Note:*

**Share options**

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to employees including the executive directors of the Company or of its subsidiaries ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved the Scheme under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the Scheme, the Directors may at their discretion grant options at HK$1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

The Scheme expired on 16 February 2008 and no options have been granted since the approval of the Scheme.

## 27. RESERVES

### (a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

The contributed surplus of the Group represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.

The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

### (b) The Company

| | Share premium account *HK$'000* | Contributed surplus# *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| At 1 January 2008 | 50,091 | 64,809 | (132,888) | (17,988) |
| Total comprehensive loss for the year | – | – | (1,266) | (1,266) |
| At 31 December 2008 | 50,091 | 64,809 | (134,154) | (19,254) |
| At 1 January 2009 | 50,091 | 64,809 | (134,154) | (19,254) |
| Total comprehensive loss for the year | – | – | (5,005) | (5,005) |
| At 31 December 2009 | 50,091 | 64,809 | (139,159) | (24,259) |

# The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

## 28. CAPITAL MANAGEMENT

Capital comprises of share capital and reserves stated on the statement of financial position. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analyses. The share capital of the Company is approximately HK$15,480,000. If there is a deficit in capital, the Group's operation would source from fund-raising exercises or using banking facilities of bank overdrafts and bank loans. The objectives and polices were unchanged during the years presented.

The Group is not subject to either internally or externally imposed capital requirements.

## 29. DEFERRED TAXATION

### (a) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the years presented are as follows:

| **Deferred tax arising from:** | **Accelerated tax depreciation** | **Impairment loss of land lease prepayment** | **Tax losses** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Aa 1 January 2008 | 514 | (514) | – | – |
| Effect of reduction of taxes | (29) | 29 | – | – |
| Charged/(credited) to consolidated income statement | 39 | (39) | – | – |
| At 31 December 2008 | 524 | (524) | – | – |
| At 1 January 2009 | 524 | (524) | – | – |
| Charged/(credited) to consolidated income statement | 41 | (41) | – | – |
| At 31 December 2009 | 565 | (565) | – | – |

At 31 December 2009, the Group has unused tax losses of approximately HK$126,738,000 (2008: HK$125,060,000) available for offset against future profits. No deferred tax asset has been recognised in respect of HK$126,735,000 (2008: HK$125,060,000) of such tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

In addition, the Group has deductible temporary differences of approximately HK$3,432,000 (2008: HK$4,641,000). Deferred tax assets have been recognised in respect of approximately HK$3,427,000 (2008: HK$3,178,000) of such differences. No deferred tax assets have been recognised in respect of the remaining HK$5,000 (2008: HK$1,463,000) due to the unpredictability of future profit streams from such asset.

**(b) The Company**

The Company has no material deferred taxation for the year and at the end of the reporting period (2008: HK$Nil).

**30. SEGMENT REPORTING**

**(a) Services from which the Group derive its revenue**

During the year, the Group was inactive and had no revenue.

In 2008, segment information reported externally under HKAS 14, Segmental Reporting, was analysed on the basis of the types of services provided by the Group, and it had been concluded that the Group had been operating principally in a single business and geographical segment. As explained in Note 2, HKFRS 8 requires disclosures of operating segment information based on information reported to the Group's senior management for the purposes of resource allocation and performance assessment. From the perspective of the Group's senior management, it is considered that assessment of operating performance is focused on the Group as a whole, as all of the Group's activities are considered to be primarily depending on the volume of trading activities in Hong Kong and are highly integrated and interdependent on each other. Resources are allocated based on what is beneficial for the Group rather than any particular department. Therefore, management considers the Group continuous to have one operating segment under the requirement of HKFRS 8.

Reconciliation of segmental information to the information presented in the financial statements has not been presented, as the reconciling items are considered to be immaterial.

**(b) Revenues from major services**

The Group's revenue from its major services are set out in note 7.

**(c) Geographical information**

No geographical information is shown as the revenue and operating loss of the Group is substantially derived from activities in Hong Kong.

**(d) Information about major customers**

During the year, the Group had no revenue generated. In 2008, the Group provided installation services of LED screen and facade lighting to an individual customer.

## 31. RETIREMENT SCHEME

The Group operates a MPF scheme under the Hong Kong MPF Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2009, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK$43,000 (2008: HK$37,000). As at 31 December 2009 and 2008, there was no forfeited contribution available to reduce future contribution.

## 32. COMMITMENTS

At the end of the reporting period, neither the Group nor the Company had any significant commitments outstanding.

## 33. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

## 34. RELATED PARTY TRANSACTIONS

**(a)** In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

| Name | Nature of transaction | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|---|
| *A Director* | | | |
| Mr. Chan Chun Choi | Settlement of liabilities by the Group on behalf | – | 85 |
| | Settlement of liabilities on behalf of the Group | 120 | – |

**(b)** Balances with related parties:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Non-trade balances due to directors | 4,467 | 6,474 |
| Non-trade balance due to a related party | 2,197 | 2,197 |

**(c)** **Key management personnel compensation**

Key management personnel of the Group in 2009 and 2008 included all Directors of the Company and details of their emoluments are also disclosed in the "Corporate Governance Report".

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| Short-term employee benefits | 362 | 276 |
| Post-employment benefits | 12 | 12 |
| | 374 | 288 |

**(d)** During the year, the Group obtained a loan of HK$8,000,000 from a third party (see note 24). Part of the proceeds of HK$2,040,000 was received by the director, Mr Chan Chun Choi, on behalf of the Group as a partial settlement of the amount due to the director.

## 35. EVENTS AFTER THE REPORTING PERIOD

### (a) Loss of contact with the sole director of OSL

As explained in note 2 to the financial statements, the Directors of the Company have lost contact with the sole director of OSL since early 2008. In this context, the Directors of the Company were unable to provide sufficient documentary evidence for the transactions entered into by OSL subsequent to the end of the reporting period.

Subsequent to the end of the reporting period, the Directors of the Company were unable to represent the directorship of OSL. In this event, because of conflicting instructions have been received by the OSL's banker from one or more of the authorised signatories of the account(s) who has/have requested the banker not to permit further operation of the account(s), the banker was unable to act on any instructions to operate the account(s) and the account(s) was frozen effective from 18 March 2009.

### (b) Proceeding to third stage of delisting procedures

On 18 December 2008, the Stock Exchange announced that effective from 18 December 2008, the Company was placed into the third stage of delisting procedures in accordance with Practice Note 17 of the Listing Rules (the "Delisting Procedures").

Further announcement will be made in this regard in compliance with the Listing Rules. Trading in the shares of the Company will remain suspended until further notice.

## 36. COMPARATIVE FIGURES

Certain comparative figures have been restated or reclassified as a result of the changes in accounting policies and details of the changes in accounting policies are in note 3 to the financial statements.

## 37. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

HKFRSs that have been issued but are not yet effective for the year include the following HKFRSs which may be relevant to the Group's operations and financial statements:

| | Effective for accounting periods beginning on or after |
|---|---|
| HKAS 1 (amendment), Presentation of financial statements | 1 January 2010 |
| HKAS 7 (amendment), Statement of cash flows | 1 January 2010 |
| HKAS 17 (amendment), Leases | 1 January 2010 |
| HKAS 18 (amendment), Revenue | 1 January 2010 |
| HKAS 24 (revised), Related party disclosures | 1 January 2011 |
| HKAS 27 (revised), Consolidated and separate financial statements | 1 July 2009 |
| HKAS 36 (amendment), Impairment of assets | 1 January 2010 |
| HKAS 39 (amendment), Financial instruments: recognition and measurement | 1 January 2010 |
| HKFRS 3 (Revised), Business combinations | 1 July 2009 |
| HKFRS 8 (amendment), Operating segments | 1 January 2010 |
| HKFRS 9, Financial instruments | 1 January 2013 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 April 2010.

*For the year ended 31 December 2009*

| RESULTS | Year ended 31 December 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | – | 17,600 | 6,585 | 8,024 | 4,488 |
| Loss before taxation | (4,017) | (3,371) | (430) | (6,068) | (1,175) |
| Taxation | – | – | – | – | – |
| Net loss attributable to equity shareholders of the Company | (4,017) | (3,371) | (430) | (6,068) | (1,175) |

| ASSETS AND LIABILITIES | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 1,841 | 1,891 | 1,943 | 1,983 | 2,032 |
| Land lease prepayment – non-current portion | 14,091 | 13,263 | 14,604 | 13,083 | 14,096 |
| Current assets | 977 | 17,328 | 30,533 | 12,111 | 1,116 |
| Current liabilities | (26,917) | (38,473) | (49,634) | (29,301) | (16,463) |
| Net current liabilities | (25,940) | (21,145) | (19,101) | (17,190) | (15,347) |
| Total assets less current liabilities | (10,008) | (5,991) | (2,554) | (2,124) | 781 |
| Non-current liabilities | – | – | (66) | (66) | (44) |
| Net (liabilities)/assets | (10,008) | (5,991) | (2,620) | (2,190) | 737 |