Rainbow Brothers Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 33

Annual Report

2010

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The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

CORPORATE INFORMATION

Board of Directors

Executive Directors
Hui Kwan Wah, Hugo *(Chairman)*
An Yu Xin *(Vice Chairman)*
(appointed on January 10, 2011)
Wong Sai Ming
Sun Pei Ying *(appointed on January 14, 2011)*
Ng Chi Man
(resigned with effect from January 10, 2011)
Wong Tat Tung
(resigned with effect from January 13, 2011)

Non-executive Director
Chan Cheuk Ming

Independent Non-executive Directors
Cheung Wah Keung
Anthony Espina
Wong Che Keung

Executive Committee

Hui Kwan Wah, Hugo *(Chairman)*
An Yu Xin *(appointed on January 10, 2011)*
Wong Sai Ming
Sun Pei Ying *(appointed on January 14, 2011)*
Ng Chi Man
(resigned with effect from January 10, 2011)
Wong Tat Tung
(resigned with effect from January 13, 2011)

Audit Committee

Anthony Espina *(Chairman)*
Cheung Wah Keung
Wong Che Keung
Chan Cheuk Ming

Remuneration Committee

Cheung Wah Keung *(Chairman)*
Anthony Espina
Wong Che Keung
Chan Cheuk Ming

Authorised Representatives

Hui Kwan Wah, Hugo
Wu Kwok Choi, Chris

Company Secretary

Wu Kwok Choi, Chris

Website

www.rainbowbrothers.com

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong

29/F Paul Y Centre
51 Hung To Road
Kwun Tong
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

Legal Adviser

Tsang, Chan & Woo
12th Floor Grand Building
15-18 Connaught Road Central
Hong Kong

Auditor

Cheng & Cheng Limited
Certified Public Accountants
10/F, Allied Kajima Building
138 Gloucester Road, Wanchai
Hong Kong

Stock Code

33 (Listed on the Main Board of The Stock Exchange of Hong Kong Limited)

The Group is principally engaged in the credit guarantee and investment business in the PRC, the supplying of party and festivity products to dollar store business operators in North America, the operation of concept hotels in Shenzhen and the provision of financial planning services in Hong Kong.

As at December 31, 2010, the Group had 201 employees, 98 of them are located in Hong Kong.

CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased to present our 2010 annual report to you. As in the past, I will try to be frank and open in our communication.

Our trading business has had a solid year. We obtained most customer orders early in the year and managed to lock in our cost of sales by mid year before oil price and other factors of production deteriorated towards the end of 2010. In 2011, our trading team will need to adjust and deal with these issues, the loss of key merchandising personnel on our side as well as significant changes in personnel on the side of customers. Our second concept hotel was opened in Shenzhen late in the year. Meanwhile, the one we opened in 2009 has run smoothly. The wealth management services business made modest progress. Affected by competition in recruitment and increase in office rental, it broke even for the year. After the success in 2009 of the ad hoc shopping mall investment project in Liaoning, we embarked on a similar one, also ad hoc, in the first half of 2010. The project was well-managed. Approximately HK$17 million of our invested amount of HK$23 million can be returned shortly, and I am hoping for a profit of about HK$8 million later this year.

I doubt if all of you did fully understand the technical terms contained in, or have time to read through, the announcements and circular we issued about the Harmonic Strait acquisition. So I will try to explain in simple terms. In a nutshell, the Group bought a company with a nationwide guarantee business license and partners with excellent PRC and Taiwan relationship network. That company had no track record. The Group paid no cash. Instead, it paid convertible bonds, which might not be ideal for existing shareholders until and unless this new business made significant profit. To help this new business start from nothing, another director and I personally lent it, before the acquisition HK$115 million, which was kept in the subsidiary's bank account in the PRC. For the year 2011, maximum expenses for this new business is HK$15 million, comprising overhead and real interest payments.

To run this venture successfully poses great challenges to the management. It is huge and new to us, and also new in itself. Evaluation of this project involved many judgmental considerations, but we went through a careful thinking process. Its downside is big, but so is its upside. It is unique, a nationwide business of credit guarantee and investment, riding on the national policy of supporting Taiwanese enterprises. It generates Renmenbi income, and will benefit from the rapid economic growth in the PRC. As such it fits our strategic direction. Its success will depend on how well the talents, experience and networks of the PRC partner, the Taiwan partner and ourselves are blended together. The initial one or two years can be difficult, as its management has to work with the limited injected capital of US$20 million to bring back initial results, or to secure attractive projects for further fund raising in the market.

This venture was not smooth in the first six months since September 2010 although our financial loss was less than expected. We are behind in building a good foundation to roll out its business plan. As of today, we have not possessed all the required factors for success yet — recruitment, management system and financial resources. We lost an important director due partly to this project, but we have also brought in from our Beijing partner two executive directors to our main board, so as to maximize its chance of success and to reflect the on-going importance of this venture to the Group. Our belief remains that all the unanticipated obstacles and shocks that we have met will only affect the short-term result of this venture but not its long term success as long as we keep our persistence and focus, bring appropriate talents to it, and succeed in integration of management personnel from all shareholders in the subsidiary.

We have since listing gone through three years of business diversification. This strategy was laid down after our trading business was hit by rising oil prices and appreciation of Renmenbi in 2008. We continue to hold the view of upward trend of these factors, and our desire for Renmenbi income and businesses that will benefit from the fast growing economy in the PRC. Such belief will remain as the cornerstone in formulating our strategies, but diversification will cease to be our direction. Instead, we will in the near future review and analyse what is on hand, compare opportunities, consider consolidation, replenish and realign our management resources, and reset our focus and determine our next 3-year plan.

Last year, I alerted for the end of our high dividend policy. Whereas I am very glad that we still declared high dividends this year, I must reiterate that high dividend is no longer our policy. Companies evolve through different stages of growth. Our Group for the past several years has been remarkably predictable in results and dividends. My personal view is that this stage has ended. The Group is about to enter into the next stage of evolvement, which might have little resemblance of the past in many aspects. This stage will be faster, larger, riskier and more volatile. Fans of ours who enjoyed our past few years should note.

It would not be hard to guess the amount of hard work our colleagues has put in for the past year. I would like to thank them for their valuable contribution and wish 2011 would be a better year for all of them and their families.

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 30, 2011

BUSINESS REVIEW

The Group's Profit before notional interest for the Current Year (year ending December 31, 2010) is HK$23.7 million, which represents a slight decline from the HK$32.5 million of Prior Year (year ending December 31, 2009). The decline was mainly due to a return of HK$12 million from our Liaoning project in Prior Year. We did a similar investment in the Current Year but the return will only be included in our results of 2011. We have presented our result by way of Profit before notional interest to provide a more meaningful comparison with that of the Prior Year since there is a notional interest expense of HK$66.2 million (Prior Year: nil) included in the Net Loss for the Current Year. The notional interest is a theoretical accounting expense related to the convertible bond issued in August 2010 for the acquisition of Harmonic Strait. The Company does not really have to pay any actual interest expense over the terms of these convertible bond. As such, there will neither be cash outlay nor real impact on the Group's results.

In the Current Year, sales in our general trading business continued to grow as our existing customers gave us orders in more product categories. The contribution both in turnover and bottom-line from our concept hotel business in Shenzhen and financial planning services business in Hong Kong are still insignificant to the Group's result in the Current Year. The investment in shopping mall development in Liaoning that we made in early 2010 has progressed well, and is expected to have recognisable profit in 2011. Harmonic Strait has insignificant contribution of guarantee income in its four months of operation in the Current Year as its management has invested much management resources during this period in exploring a few investment projects which are yet to conclude. Under its original business plan, investment business would be secondary to guarantee business in Harmonic Strait's first year of operation. However, its management advised that due to personnel and recruitment issues, the short-term tightening of credit policies in the PRC and some sudden investment opportunities, it would be better to temporarily put more resources to the investment business.

FINANCIAL REVIEW

For Current Year, the Group's turnover was HK$550.3 million, representing an increase of 41% from HK$389.2 million for Prior Year. This increase was mainly due to increased sales to existing customers over expanded product categories.

Gross profit during Current Year was HK$111.9 million, representing an increase of 59% from HK$70.4 million for Prior Year. In terms of gross profit margin, the relevant figure for Current Year was 20%, representing an increase of 2% from 18% for Prior Year. The improvement in gross profit and gross profit margin was mainly due to the higher profit margins of the concept hotel and financial planning services businesses, which were immaterial in the Prior Year.

Other revenue was HK$1.3 million in the Current Year, down from the HK$15.8 million of Prior Year which included the HK$12 million investment return from the Liaoning project mentioned above. For operating expenses, the relevant figure for Current Year was HK$82.8 million, representing an increase of 59% from HK$52.0 million for Prior Year. The increase was mainly attributable to substantial increase in general overhead, and the additional operating expenses in concept hotel and credit guarantee businesses. Operating expenses as a percentage of turnover increased from 13% for Prior Year to 15% for Current Year.

Finance Cost has also increased significantly. However, it was mainly due to the notional interest expenses discussed above, and interest on a related party loan for part of the contributed registered capital of Harmonic Strait. Other than that, finance cost for bank borrowings for Current Year was HK$1.1 million, compared to HK$0.6 million for Prior Year, due to higher bank borrowing levels. The Group's loss attributable to the equity shareholders for the Current Year is HK$42.5 million as compared to a profit of HK$32.5 million was mainly due to the aforementioned notional interest expense of HK$66.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2010, net current assets were HK$68.2 million (December 31, 2009: HK$92.8 million). Current ratio as at December 31, 2010 was 1.3 (December 31, 2009: 3.0). The fluctuation in current ratio was mainly attributable to the financing of US$18 million (HK$138.6 million) capital amount in Harmonic Strait by way of loan. The gearing ratio, total bank borrowings divided by total assets at the end of each period, was 1.1% as at December 31, 2010, representing a decrease from 4.6% as at December 31, 2009, due to the significant increase in our asset size by HK$3.2 billion subsequent to the acquisition of Harmonic Strait in late August 2010.

As at December 31, 2010, the Group had cash and bank balances of HK$165.4 million (December 31, 2009: HK$53.9 million), and bank borrowings of HK$40.6 million (December 31, 2009: HK$8.4 million) which was mainly denominated in HK dollar and US dollar. The bank borrowings bore both fixed interest rate and floating interest rates. As compared to the net cash position as at December 31, 2009 of HK$45.5 million, the Group had stronger net cash position as at December 31, 2010 of HK$124.8 million due mainly to the loan of US$18 million mentioned above.

The Company, and its wholly owned subsidiaries Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with banks, to secure banking facilities granted to the Group. The Group continued to have no structured investment products, foreign exchange contracts and investments in listed shares, bond and debentures. The Group is not exposed to material fluctuations in exchange rate.

As at December 31, 2010, the Group had capital commitments of HK$554.4 million (December 31, 2009: nil) which represent the Group's share of further capital contribution to Harmonic Strait. The operating lease commitment for the Group as at December 31, 2010 was around HK$14.2 million (December 31, 2009: HK$11.2 million). It is the Group's policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity and banking facilities to meet operation requirements and acquisition opportunities.

CONTINGENT LIABILITIES

The Group's contingent liabilities, if any, are set out in the notes to the consolidated financial statements.

HUMAN RESOURCES

As at December 31, 2010, the Group had 201 employees. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of each employee is reviewed every year based on the performance of the employee with reference to the prevailing market conditions.

FINAL DIVIDEND

The Board recommends a final dividend of HK4 cents per share to shareholders whose names appear on the register of members of the Company at the close of business on April 15, 2011. The proposed final dividend will be payable by May 9, 2011 following the AGM's approval scheduled on May 6, 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from April 18 to May 6, 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend (if any), all transfers of shares accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on April 15, 2011.

MAJOR ACQUISITIONS AND TRANSACTIONS

In January 2011, the Group has entered into a sales agency agreement with Mr. Ng Chi Man (an ex-director) whereby the Group will pay Mr. Ng sales commissions of no more than HK$9.6 million per annum on businesses with certain prescribed customers under various terms and conditions. The Group will seek additional approval and fulfill further disclosure requirements as and when the actual figure exceeds this annual cap.

In late August 2010, the Company completed the acquisition of 90% equity interest in Harmonic Strait by issuance of HK$3.24 billion convertible bond. The principal business of Harmonic Strait is conducting credit guarantee and investment business in the PRC.

In February 2010, the Company announced an investment in its second concept hotel with total investment of HK$12.3 million.

In February 2010, the Company announced an investment in a shopping mall development project in Liaoning by acquiring 12.4% to 14.4% equity interest in a joint venture company. The investment made was HK$23.0 million.

Further information of these transactions could be found in the relevant announcements and circulars of the Company by visiting the Hong Kong Stock Exchange website at www.hkex.com.hk or the Company's website at www.rainbowbrothers.com.

OUTLOOK

The addition of Harmonic Strait to the Group in 2010 carved a different basis of our outlook. Although its operating profit or loss is not expected to be substantial in 2010 and 2011, the size of this acquisition, the long term upside in earnings together with the many expectable obstacles, are worth much of our management resources and focus. As such, the Group will be less aggressive in expanding the businesses pre-existing before Harmonic Strait.

Our general trading business had a reasonably good year in 2010. However, 2011 can only be said as uncertain as we see no signs of easing off of the soaring oil prices, Renmenbi appreciation, rise in general cost/price levels in the PRC, labor shortage at factories and further tightening of product safety standards in the U.S. The two hotels in Shenzhen and the financial planning services business in Hong Kong are expected to improve in 2011.

The income side and progress of the Harmonic Strait business for the first six months after its completion in end of August 2010 has fallen below expectation. The executive directors has had various debates but opted for allowing more time for a more harmonic though slower formation and integration of the working team and execution of the original business plan, rather than pushing for the original timetable and bringing in a cultural shock, as the value of Harmonic Strait lies in successfully bringing together and merging the skills, relationship and network of us from Hong Kong and its two other five-percent shareholders from Beijing and Taiwan, all of whom together form the management of Harmonic Strait. It was also to that end that we recently invited two new executive directors from the Beijing shareholder to join our main board. More time may be needed for integration and execution as said above. However, maximum operating expenses and actual interest expenses for 2011 for Harmonic Strait is only in the region of $15 million.

Whereas the operations results, including that of Harmonic Strait, are within more predictable ranges, the net profit for 2011 will be subject to much higher volatility due to two non-operating factors. Firstly, there will be the theoretical expense of notional interest again in 2011. Secondly the goodwill arising from the acquisition of Harmonic Strait will be subject to impairment test on a periodic basis, and might be written down should the business development of Harmonic Strait falls behind schedule or suffers from other setbacks. Both of these two factors would involve amounts very substantial relative to the operations profits of the Group. However, neither of them would involve any real cash outflow from the Group.

Standing in the beginning of 2011, few months after the completion of Harmonic Strait which has become our largest subsidiary, it is inevitable that outlook for the Group is least certain. As in most investment projects or new businesses, the short term results of Harmonic Strait is not easy to project. On the other hand, it also has very strong upside potential, and was meant to be a long term business for us which can change the profile of the Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Hui Kwan Wah, Hugo (許坤華), aged 50, is the Chairman and an Executive Director of the Group. Mr. Hui plays a pivotal role in the Group and is responsible for strategic planning and corporate and business development. Mr. Hui obtained a master degree in business administration from the University of Hong Kong in 1995. He held senior positions in regional finance for multinational companies. Before founding the Group in 1996, Mr. Hui was the Managing Director of a local trading and property group.

Mr. An Yu Xin (安宇新), aged 55, is the Vice Chairman and an Executive Director of the Group. Mr. An is a graduate from Beijing Finance and Economic Management Cadre College, majoring in commerce and corporate management. Mr. An is currently the deputy general manager of Beijing Enterprises Development Corporation and the president of Harmonic Strait, a 90%-owned subsidiary of the Company. Mr. An played a pivotal role in the establishment of Harmonic Strait, and is responsible for its strategic planning, business development and overall management.

Mr. Wong Sai Ming (黃世明), aged 48, is an Executive Director of the Group. Mr. Wong joined the Group after selling his business to the Group in 2005. Mr. Wong has a wide network of business contacts and working relationships in the party products industry. He is now in charge of the Group's concept hotel business and general management.

Ms. Sun Pei Ying (孫培瑩), aged 56, is an Executive Director of the Group. Ms. Sun holds a MBA degree from China Europe International Business School. Ms. Sun was a committee member and administrative executive of Working Committee of Beijing Municipal of Commerce (北京市委商貿工委) from 1990 to 1994, and was a director and deputy secretary of Beijing Petroleum Group Limited (北京石油集團有限公司) from 1994 to 2001. Since 2001, Ms. Sun is a deputy general manager of Beijing Enterprises Development Corporation.

NON-EXECUTIVE DIRECTOR

Mr. Chan Cheuk Ming (陳卓明), aged 53, is a Non-Executive Director of the Group. He has more than 28 years' research and development, logistic and operation management experience in commercial electronic products in various multinational corporations and local enterprises. Mr. Chan graduated from Loughborough University of Technology in United Kingdom with a bachelor degree in Electronic and Electrical Engineering in 1980, and obtained a Master of Science degree in Engineering in 1988 as well as a master degree in Business Administration in 1992, both from the University of Hong Kong. In 1998, Mr. Chan received a Diploma in Accounting for Managers from the Chinese University of Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Wah Keung (張華強), aged 50, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Cheung has over 18 years of experience in management of trading and manufacturing of consumer electronic products. Mr. Cheung graduated from the Chinese University of Hong Kong with a bachelor degree in Business Administration in 1994 and obtained a degree of Master of Corporate Governance from The Hong Kong Polytechnic University in 2010. Mr. Cheung is currently the Chairman and an Executive Director as well as the controlling shareholder of Shinhint Acoustic Link Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2728).

Mr. Anthony Espina, aged 63, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Espina has over 30 years of experience in the accounting and finance industry. He is the Managing Director of Goldride Securities Limited and was the Chairman of the Hong Kong Stockbrokers Association Limited. Mr. Espina was a partner of Arthur Andersen & Co. from 1982 to 1986 and Deloitte Touche Tohmatsu from 1986 to 1990. He was also the president of the Hong Kong Computer Society from 1978 to 1979. He graduated from the University of Southern Queensland with a bachelor degree in business and is the Associate Member of CPA Australia, is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and a Fellow Member of the Hong Kong Institute of Directors. From May 2001 to May 2005, Mr. Espina was a non-executive director of International Financial Network Holdings Ltd., a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Wong Che Keung (黃熾強), aged 47, was appointed as an Independent Non-Executive Director of the Company on June 4, 2007. Mr. Wong has over 20 years of experience in the securities industry including in the Enforcement Division of Securities and Futures Commission of Hong Kong for 7 years. He is a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Wong obtained his bachelor degree in Economics from the University of Hong Kong in 1987 and his master degree in Business Administration from the Chinese University of Hong Kong in 1995. Mr. Wong currently is the Chief Operating Officer and Company Secretary of Shenyin Wanguo (H.K.) Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 218).

SENIOR MANAGEMENT

Mr. Ho Ka Ping (何嘉平), aged 47, is a division General Manager of the Group and is responsible for overseeing the trading activities of the Group especially for markets outside of the United States. He joined the Group after selling his business to the Group in 2006. Mr. Ho has been in the party and novelty products trading industry for approximately 25 years, of which more than 20 years were in party products exporting and customer relationship, especially in Europe, North America and South America.

Mr. Wu Kwok Choi, Chris (胡國才), aged 37, joined the Group in April 2008 as Finance Director and was appointed as the Company Secretary of the Company shortly thereafter. Mr. Wu is responsible for overall finance & accounting matters. Mr. Wu has around 15 years of finance & accounting experience in the Greater China region. Mr. Wu graduated from the Hong Kong University of Science & Technology with a bachelor degree in Business Administration in 1995. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Furthermore, Mr. Wu is a member of the Hong Kong Institute of Directors.

Mr. Chan Wing Yan, Howard (陳永昕), aged 37, is an Assistant General Manager of Rainbow Brothers Limited and is jointly responsible for business development and overall administration of Rainbow Brothers Limited. He is responsible for the operation coordination between the sales function and production and manages customer relationships. He joined the Group in June 2005. Mr. Chan graduated from the University of British Columbia in Canada in 1998 with a bachelor degree of science.

Mr. Li Chung Fai (李松輝), aged 39, is an Assistant General Manager of Rainbow Brothers Limited and is jointly responsible for business development and overall administration of Rainbow Brothers Limited. Mr. Li joined the Group in May 2006, and has over 10 years of experience in the trading industry. Prior to joining the Group, Mr. Li worked for several multinational trading groups. Mr. Li graduated from Lingnan College in Hong Kong with a bachelor degree in Business Administration in 1997 and obtained a professional diploma in Logistics Management from the Hong Kong Management Association in 2000. In 2004, Mr. Li obtained a master degree in Business Administration from the University of Bradford.

We are pleased to present the Directors' Report of the Group for the year ended December 31, 2010 (the "Current Year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Group are set out in the "Company Profile" section of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the Current Year are set out in the consolidated statement of comprehensive income.

The Directors have recommended the payment of a final dividend of HK4 cents per share for the Current Year to those shareholders of the Company whose name appear on the register of members of the Company at the close of business on April 15, 2011.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2010 are set out in the notes to the consolidated financial statements.

DONATION

Donation made by the Group during the year amounted to HK$100,000 (2009: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Current Year are set out in the notes to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Current Year are set out in the notes to the consolidated financial statements.

DIRECTORS

The Directors up to the date of this report were:

Executive Directors

Hui Kwan Wah, Hugo *(Chairman)*
An Yu Xin *(Vice Chairman) (appointed on January 10, 2011)*
Wong Sai Ming
Sun Pei Ying *(appointed on January 14, 2011)*
Ng Chi Man *(resigned with effect from January 10, 2011)*
Wong Tat Tung *(resigned with effect from January 13, 2011)*

Non-executive Director

Chan Cheuk Ming

Independent Non-executive Directors

Cheung Wah Keung
Anthony Espina
Wong Che Keung

None of the Directors offering themselves for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent.

Each of the Independent Non-executive Directors and the Non-executive Director was appointed for a fixed term and is subject to retirement by rotation at the Annual General Meeting.

All Executive Directors have service contracts with fixed terms. On December 28, 2010 and February 1, 2011, Mr. Hui Kwan Wah, Hugo and Mr. Wong Sai Ming each had re-entered into a service contract with the Group for a fixed term of contract for two years and one year respectively commencing from January 1, 2011.

Mr. An Yu Xin had entered into a service contract with the Group for an initial fixed term of contract from January 10, 2011 for three years. Ms. Sun Pei Ying had entered into a service contract with the Group for an initial fixed term of contract from January 14, 2011 for three years. Saved as aforementioned, none of the Executive Directors has any service contract with any member of the Group.

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

As at December 31, 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Appendix 10 of Listing Rules, were as follows:

Name	**Nature of Interests**	**Number of shares**	**Percentage of the issued share capital of the Company**
Mr. Hui Kwan Wah, Hugo	Interest of a controlled corporation *(Note)*	135,300,000 (long position)	21.3%
Mr. Ng Chi Man	Interest of a controlled corporation *(Note)*	135,300,000 (long position)	21.3%
Mr. Wong Sai Ming	Beneficial Owner	9,528,000 (long position)	1.5%

Note: 135,300,000 shares were held by Direct Value Limited, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man.

Save as disclosed above, as at December 31, 2010, as far as the Directors are aware, none of the Directors and Chief Executive Officer had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director, as at December 31, 2010, other than the interests of the Directors and Chief Executive Officer as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name	Nature of Interests	Number of shares	Percentage to the issued share capital of the Company
Market Speed Limited (“Market Speed”)	Beneficial Owner	2,266,750,000 (long position)	356.5%
		120,000,000 (short position)	18.9%
Mr. Tong Nai Kan	Interest of a controlled corporate	2,266,750,000 (long position)	356.5%
		120,000,000 (short position)	18.9%
New Stature Limited	Beneficial Owner	144,728,000 (long position)	22.8%
Skill Effort Limited	Interest of a controlled corporate	144,728,000 (long position)	22.8%
Fong Stanley Kai Yuen	Interest of a controlled corporate	144,728,000 (long position)	22.8%
Direct Value Limited (“Direct Value”) *(Note 1)*	Beneficial Owner	135,300,000 (long position)	21.3%
Ms. Cheng Yin Lee, Francie *(Note 2)*	Interest of spouse	135,300,000 (long position)	21.3%
Ms. Lee Lai Lai *(Note 3)*	Interest of spouse	135,300,000 (long position)	21.3%
Value Logic Limited	Beneficial Owner	56,000,000 (long position)	8.8%
Yip Sze Pui	Interest of a controlled corporate	56,000,000 (long position)	8.8%

Notes:

1 135,300,000 ordinary shares were held by Direct Value, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man. Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man are deemed to be interested in 135,300,000 ordinary shares held by Direct Value Limited by virtue of SFO. These shares have been included in the interest disclosure of Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man as set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and the Associated Corporations" above.

2 Ms. Cheng Yin Lee, Francie is the spouse of Mr. Hui Kwan Wah, Hugo. By virtue of the SFO, Ms. Cheng Yin Lee, Francie is also deemed, as spouse, to be interested in all the shares in which Mr. Hui Kwan Wah, Hugo is deemed to be interested.

3 Ms. Lee Lai Lai is the spouse of Mr. Ng Chi Man. By virtue of the SFO, Ms. Lee Lai Lai is also deemed, as spouse, to be interested in all the shares in which Mr. Ng Chi Man is deemed to be interested.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed herein, at no time during the Current Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the loan advance from Wider Sun Limited, there is no contract of significance to which the Company, its holding company, any of its subsidiaries or any of its fellow subsidiaries was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

EMPLOYEES AND REMUNERATION POLICIES

The remuneration policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees. The emoluments of the Directors are decided by the Remuneration Committee with regard to the Group's operating results, individual performance and comparable market statistics. None of the Directors or any of their associates, and executive is involved in deciding his own remuneration. As at December 31, 2010, the Group had 201 employees (December 31, 2009: 163 employees). The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical care, provident funds, bonuses and other incentives.

SHARE OPTION SCHEME

On December 30, 2010, the Company has offered share options to several employees (no directors involved) to subscribe for a total of 12,000,000 ordinary shares of HK$0.10 par value each in the capital of the Company pursuant to the share option scheme adopted by the Company on October 30, 2007 subject to the acceptance with conditions by the grantees. As none of the grantees has accepted the conditions for acceptance before the prescribed deadline, the offer for options has lapsed. As at the date of this report, the Company has not granted any share option.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Details of the convertible bond of the Company and its movements during the Current Year are set out in the notes to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2010, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the Current Year, the percentages of purchases attributable to the Group's largest supplier and 5 largest suppliers combined were 14.2% and 30.5%, respectively (December 31, 2009: 11.0% and 26.5%). For the Current Year, the percentages of sales attributable to the Group's largest customer and 5 largest customers combined were 58.9% and 73.6%, respectively (December 31, 2009: 52.4% and 69.0%). At no time during the year did a director, an associate of a director or a substantial shareholder (owned more than 5% of the Company's issued share capital to the knowledge of the directors) has a beneficial interest in any of the Group's five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

The note to the consolidated financial statements under "Related Party Transactions" disclosed the continuing connected transactions. The continuing connected transactions under this section were exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On January 8, 2011, the Company has entered into a continuing connected transaction detail of which was disclosed in the note to the consolidated financial statements under "Events After Reporting Period". The continuing connected transaction was subject to reporting and announcement requirements but was exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms; and

c) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

AUDITOR

The consolidated financial statements of the Group for the Current Year have been audited by Cheng & Cheng Limited ("C&C"). C&C was appointed on April 12, 2010 as the auditor of the Company and hold office until the conclusion of the forthcoming AGM. C&C retires and, being eligible, offers itself for reappointment. C&C was first appointed as our auditor for the annual report December 2008 on November 19, 2008. For the annual report March 2008, the Company had engaged CCIF CPA Limited as the Company's auditor. A resolution for re-appointment of C&C as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 30, 2011

The Company is committed to maintaining a high standard of corporate governance and has put in place self regulatory corporate practices to protect the interests of its shareholders and the enhancement of shareholder's value. We are committed to providing high-quality products and services to the satisfaction of our customers; to maintaining high standards of business ethics and achieving these goals while, at the same time, providing satisfactory and sustainable returns to shareholders. The board had, from January 1, 2010 to December 31, 2010, adopted and complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules regarding directors' securities since its listing on November 19, 2007. Having made specific enquiries to all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code for the Current Year.

THE BOARD

The Board is responsible for the formulation of business policies and strategies in relation to the business operation of the Group, for nomination and appointment of directors, and to ensure the availability of resources as well as to the effectiveness of its system of internal control. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board sub-committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively. Each Director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times. From January 1, 2010 to December 31, 2010, 13 Board meetings were held and the attendance of each director is set out as follows:

Directors	**Number of Attendance**
Executive Directors	
Hui Kwan Wah, Hugo *(Chairman)*	13/13
Ng Chi Man *(resigned with effect from January 10, 2011)*	11/13
Wong Sai Ming	11/13
Wong Tat Tung *(resigned with effect from January 13, 2011)*	11/13
Non-executive Director	
Chan Cheuk Ming	12/13
Independent Non-executive Directors	
Cheung Wah Keung	12/13
Anthony Espina	8/13
Wong Che Keung	11/13

Board minutes are kept by the Company Secretary and are open for inspection by the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the CG Code stipulates that role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual and the division of responsibilities between Chairman and Chief Executive Officer should be established and set out in writing. The chairman of the Company is responsible for the formulation of the Group's overall business development policies while the chief executive officer of the Company is responsible for the implementation of major decisions of the Board and overall management of the Group's businesses.

During the Current Year, Chairman and Chief Executive Officer were two separate persons. Mr. Hui Kwan Wah, Hugo, was the Chairman and Mr. Ng Chi Man was the Chief Executive Officer of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors are persons with academic and professional qualifications as stated in Directors and Senior Management section. They support the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has provided an annual confirmation of independence to the Company and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

BOARD SUB-COMMITTEES

A. EXECUTIVE COMMITTEE

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. To assist the Chief Executive Officer in running the operations on a daily basis, the Board had set up a sub-committee, namely Executive Committee on July 15, 2009. The Executive Committee meets at least six times a year. The terms of reference of the Executive Committee are available on the Company's website at www.rainbowbrothers.com.

For the year ended December 31, 2010, the Executive Committee had held nine meetings. The attendance of each member of Executive Committee is set out as follows:

Directors	Number of Attendance
Executive Directors	
Hui Kwan Wah, Hugo *(Chairman)*	9/9
Ng Chi Man *(resigned with effect from January 10, 2011)*	9/9
Wong Sai Ming	9/9
Wong Tat Tung *(resigned with effect from January 13, 2011)*	8/9

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on October 30, 2007. The Remuneration Committee assists the Board to determine policy and structure for Directors and senior management's remuneration and to develop a formal and transparent remuneration policy.

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Wah Keung, Mr. Anthony Espina, Mr. Wong Che Keung and one Non-executive Director, namely Mr. Chan Cheuk Ming. Mr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee meets at least two times a year. The terms of reference of Remuneration Committee are available on the Company's website at www.rainbowbrothers.com.

From January 1, 2010 to December 31, 2010, two Remuneration Committee meetings were held. The attendance of each member of Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
Independent Non-executive Directors	
Cheung Wah Keung *(Chairman)*	2/2
Anthony Espina	2/2
Wong Che Keung	2/2
Non-executive Director	
Chan Cheuk Ming	2/2

During these meetings, the Remuneration Committee reviewed the remuneration packages for all Directors and senior management, the employee's salary increment proposal and relevant reports.

C. AUDIT COMMITTEE

The Audit Committee was established on October 30, 2007. The Audit Committee is mainly responsible for corporate governance, financial reporting and corporate control.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Anthony Espina, Mr. Cheung Wah Keung, Mr. Wong Che Keung and one Non-executive Director, namely Mr. Chan Cheuk Ming. Mr. Anthony Espina is the Chairman of the Audit Committee.

The Audit Committee meets at least four times a year. The terms of reference of Audit Committee are available on the Company's website at www.rainbowbrothers.com.

From January 1, 2010 to December 31, 2010, the Audit Committee held four meetings. The attendance of each member of Audit Committee is set out as follows:

Directors	**Number of Attendance**
Independent Non-executive Directors	
Anthony Espina (Chairman)	4/4
Cheung Wah Keung	4/4
Wong Che Keung	4/4
Non-executive Director	
Chan Cheuk Ming	4/4

For the Current Year, the work performed by the Audit Committee included:

- reviewing the annual report which comprised the audited consolidated financial statements for the Current Year; and
- reviewing the final result announcement; and
- reviewing the significant accounting issues raised by the management; and
- reviewing the Company's compliance with regulatory and statutory requirements; and
- reviewing the Group's risk management process.

The Audit Committee of the Company has reviewed the Group's financial results for the Current Year.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group for the Current Year and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such consolidated financial statements.

The statement of the external auditor of the Company, Cheng & Cheng Limited, with regard to its reporting responsibilities on the Group's consolidated financial statements, is set out in the Independent Auditor's Report included in this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Group not to continue as a going concern.

AUDITOR'S REMUNERATION

For the Current Year, the fees paid/payable to the Company's auditor in respect of audit and non-audit services provided by the Company's auditor to the Group were as follows:

	HK$'000
Audit services	820
Non-audit services	350
	1,170

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

Pursuant to Article 130 of the Articles of Association of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall, subject to re-election, retire from office by rotation in every Annual General Meeting. Every Director shall be subject to retirement by rotation at least once every 3 years. Accordingly, Mr. Hui Kwan Wah, Hugo, an Executive Director, shall retire from office at Annual General Meeting and shall offer himself for re-election. Further, Mr. An Yu Xin, an Executive Director, and Ms. Sun Pei Ying, an Executive Director, are newly appointed Directors appointed by the Directors and will also retire from office and shall offer themselves for re-election.

The Non-executive Director and the Independent Non-executive Directors were appointed for a fixed term and are subject to re-election in compliance with CG Code A.4.1.

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls is independently conducted by the management on an on-going basis.

The Board confirms that it has reviewed the effectiveness of the internal control system of the Company and its subsidiaries for the Current Year and that the Board considers such system to be sound and effective. The review covered all material controls, including financial, operational, compliance control and risk management functions.

On behalf of the Board

Hui Kwan Wah, Hugo
Chairman

Hong Kong
March 30, 2011

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF RAINBOW BROTHERS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Rainbow Brothers Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 28 to 91 which comprise the consolidated and Company statements of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2010, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2010 and of the Group's loss and cash flows for the year ended December 31, 2010 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cheng & Cheng Limited
Certified Public Accountants

Y.Y. Li, Alice
Practising Certificate Number P03373
Hong Kong
March 30, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Note	**2010** ***HK$'000***	2009 *HK$'000*
Turnover	*3 & 33*	**550,310**	389,186
Cost of sales		**(438,406)**	(318,747)
Gross profit		**111,904**	70,439
Other revenue and other net income	*4*	**1,318**	15,789
Operating expenses		**(82,813)**	(52,010)
Profit from operations		**30,409**	34,218
Finance costs			
On bank borrowing		**(1,069)**	(570)
Other loan		**(3,171)**	—
Notional interest		**(66,175)**	—
	5	**(70,415)**	(570)
(Loss)/Profit before taxation	*6*	**(40,006)**	33,648
Income tax	*7*	**(3,114)**	(1,113)
(Loss)/Profit for the year		**(43,120)**	32,535
Profit for the year, before notional interest	*6*	**23,653**	32,535

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Note	**2010** HK$'000	2009 HK$'000
(Loss)/Profit for the year		**(43,120)**	32,535
Other comprehensive income			
Exchange differences on translating foreign operations		**5,240**	107
Total comprehensive (loss)/income for the year		**(37,880)**	32,642
(Loss)/Profit for the year attributable to:			
Equity shareholders of the Company		**(42,522)**	32,535
Non-controlling interest		**(598)**	—
	8	**(43,120)**	32,535
Total comprehensive (loss)/income attributable to:			
Equity shareholders of the company		**(37,788)**	32,642
Non-controlling interest		**(92)**	—
		(37,880)	32,642
Dividends	*9*	**53,094**	18,000
(Loss)/Earnings per share	*10*		
— Basic		**(HK13 cents)**	HK16 cents
— Diluted		**N/A**	N/A

The notes on pages 36 to 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	*13*	**18,878**	7,161
Goodwill	*14*	**3,288,897**	35,375
Deferred taxation	*26(b)*	**—**	1,559
		3,307,775	44,095
Current assets			
Investment — loan and receivable	*15*	**23,000**	—
Inventories	*16*	**22,318**	16,879
Trade receivables	*17*	**57,294**	35,950
Prepayments, deposits and other receivables	*18*	**35,196**	32,073
Restricted cash	*19*	**49,358**	—
Cash and cash equivalents	*20*	**115,996**	53,928
		303,162	138,830
Total Assets		**3,610,937**	182,925
Capital and reserves			
Share capital	*21*	**63,585**	20,000
Reserves	*22*	**1,641,314**	116,907
Equity attributable to shareholders of the Company		**1,704,899**	136,907
Non-controlling interests	*28*	**15,452**	—
Total Equity		**1,720,351**	136,907
Non-current liabilities			
Deferred taxation	*26(b)*	**202,753**	—
Convertible bond	*27*	**1,452,878**	—
		1,655,631	—

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	**2010** *HK$'000*	2009 *HK$'000*
Current liabilities			
Trade and bills payable	*23*	**27,245**	15,248
Accruals and other payables	*24*	**164,930**	21,054
Bank borrowings-secured	*25*	**40,621**	8,425
Tax payable	*26(a)*	**2,159**	1,291
		234,955	46,018
Total Equity and Liabilities		**3,610,937**	182,925
Net current assets		**68,207**	92,812
Total assets less current liabilities		**3,375,982**	136,907

Approved and authorised for issue by the Board of Directors on March 30, 2011.

On behalf of the board

Hui Kwan Wah, Hugo — *Director* **Au Yu Xin** — *Director*

The notes on pages 36 to 91 form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
Non-current assets			
Investment in subsidiaries	*29*	**3,300,103**	46,971
Current assets			
Prepayments, deposits and other receivables	*18*	**145**	23
Amounts due from subsidiaries	*30*	**74,217**	132,165
Cash and cash equivalents	*20*	**11**	50
		74,373	132,238
Total Assets		**3,374,476**	179,209
Capital and reserves			
Share capital	*21*	**63,585**	20,000
Reserves	*22*	**1,652,368**	157,113
		1,715,953	177,113
Non-current liabilities			
Deferred taxation	*26(b)*	**205,607**	—
Convertible bond	*27*	**1,452,878**	—
		1,658,485	—
Current liabilities			
Accruals and other payables	*24*	**38**	1
Amount due to a subsidiary	*30*	**—**	2,095
		38	2,096
Total Equity and Liabilities		**3,374,476**	179,209
Net current assets		**74,335**	130,142
Total assets less current liabilities		**3,374,438**	177,113

Approved and authorised for issue by the Board of Directors on March 30, 2011.

On behalf of the board

Hui Kwan Wah, Hugo — *Director* **Au Yu Xin** — *Director*

The notes on pages 36 to 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

		Attributable to equity shareholders of the Company							
		Share capital	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Retained profits	Non-controlling interest	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2009		20,000	53,768	—	(15,000)	—	45,497	—	104,265
Total comprehensive income for the year		—	—	107	—	—	32,535	—	32,642
At December 31, 2009 and January 1, 2010		20,000	53,768	107	(15,000)	—	78,032	—	136,907
Dividend paid	*9*	—	(27,660)	—	—	—	(18,000)	—	(45,660)
Acquisition of subsidiaries		—	—	—	—	1,575,960	—	15,544	1,591,504
Issue of new share upon conversion of convertible bond		43,585	502,197	—	—	(210,262)	—	—	335,520
Deferred tax arising from conversion of convertible bond		—	—	—	—	(260,040)	—	—	(260,040)
Total comprehensive income for the year		—	—	4,734	—	—	(42,522)	(92)	(37,880)
At December 31, 2010		63,585	528,305	4,841	(15,000)	1,105,658	17,510	15,452	1,720,351

The notes on pages 36 to 91 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2010

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
(Loss)/profit before taxation		**(40,006)**	33,648
Adjustments for:			
Interest income		**(372)**	(50)
Interest expenses on bank loan		**1,069**	570
Interest expenses on convertible bond		**66,175**	—
Interest expenses on other loan		**3,171**	—
Depreciation		**5,726**	6,646
Dividend income		**—**	(12,000)
Impairment loss on trade receivables		**—**	365
Increase in translation reserve		**5,240**	107
Fixed asset written off		**162**	—
Impairment loss on inventories		**—**	2,000
Operating profit before changes in working capital		**41,165**	31,286
Increase in inventories		**(5,439)**	(5,778)
Increase in trade receivables		**(21,344)**	(1,013)
Increase in prepayments, deposits and other receivables		**(3,093)**	(13,469)
Increase in trade and bills payable		**11,997**	751
Increase in accruals and other payables		**6,832**	6,877
Cash generated from operations		**30,118**	18,654
Hong Kong Profits Tax paid		**(3,541)**	(1,756)
Net cash generated from operating activities		**26,577**	16,898
Investing activities			
Purchase of property, plant and equipment		**(17,366)**	(3,421)
Interest received		**372**	50
Dividend income		**—**	12,000
Payment in loan and receivable		**(23,000)**	—
Proceeds from acquisition of subsidiaries		**139,376**	(9,000)
Increase in restricted cash		**(49,358)**	—
Acquisition of an associate		**—**	(12,000)
Disposal of an associate		**—**	12,000
Net cash generated from/(used in) investing activities		**50,024**	(371)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
Financing activities			
Interest paid		**(1,069)**	(570)
Repayment of bank borrowings		**(8,425)**	—
Increase in bank borrowings		**40,621**	7,425
Dividend paid		**(45,660)**	—
Net cash (used in)/generated from financing activities		**(14,533)**	6,855
Net increase in cash and cash equivalents		**62,068**	23,382
Cash and cash equivalents at beginning of year		**53,928**	30,546
Cash and cash equivalents at end of year	*20*	**115,996**	53,928

The notes on pages 36 to 91 form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

General information

Rainbow Brothers Holdings Limited (the "Company") was incorporated and domiciled in the Cayman Islands under Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability on March 20, 2007. The Company's shares were listed on the Stock Exchange on November 19, 2007.

The Company is an investment holding company. The Group is principally engaged in the credit guarantee and investment business in the PRC, the supplying of party and festivity products to dollar store business operators in North America, the operation of concept hotels in Shenzhen and the provision of financial planning services in Hong Kong.

The address of its principal place of business in Hong Kong is 29/F Paul Y Centre, 51 Hung To Road, Kwun Tong, Hong Kong and the Company has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 4, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) and 2(d) provide information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended December 31, 2010 comprise the Company and the Group have been prepared in accordance with HKFRSs and under the historical cost convention except where stated otherwise in the accounting polices set out below.

The preparation of consolidated 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 believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 38.

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2010

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two 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 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK (Int) 5, *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

c) **Amendments, new standards and interpretations issued and effective for the year ended December 31, 2010** *(Continued)*

The amendment to HKAS 39, HKFRS 3 (revised 2008) and the issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after January 1, 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Amendments, new standards and interpretations issued and effective for the year ended December 31, 2010 *(Continued)*

— Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's consolidated financial statements are as follows:

- As a result of the amendments to HKAS 27, as from January 1, 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended December 31, 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	January 1, 2011
HKFRS 9, *Financial Instruments*	January 1, 2013
Improvements to HKFRSs 2010	July 1, 2010 or January 1, 2011
Amendments to HKAS 12, *Income taxes*	January 1, 2012

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

e) Business Combinations under Common Control Combinations

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the combined financial information incorporates the consolidated financial statements items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No account is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the combined financial information are presented as if the entities or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position an investment in a subsidiary is stated at cost less any impairment losses unless the investment is classified as held for sale.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

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

h) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

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

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(u)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(u)(ii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Other investments in debt and equity securities *(Continued)*

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

i) Property, Plant and Equipment

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

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

Leasehold improvement	the shorter of lease-term or 4 — 5 years
Plant and machinery	2 — 5 years
Furniture, fixtures and equipment	4 — 5 years
Moulds	5 years
Motor vehicles	3 — 5 years

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

j) Leased Assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets

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

Investments in investment in debt and equity securities (other than investments in subsidaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial re-organisation;

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets *(Continued)*

(i) Impairment of investment in debt and equity securities and other receivables (Continued)

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

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investment in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of Assets *(Continued)*

(ii) Impairment of other assets (Continued)

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

l) Inventories

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

Cost is calculated using the weighted average cost formula and comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Inventories *(Continued)*

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

m) Loans and receivables

Loan and receivables, including investment-loan and receivables and trade and other receivables, are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful 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 of doubtful debts.

n) Convertible bond

Convertible bond that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition, the liability component of the convertible bond is measured as the present value of the future interest and principal payments, discounted at the market interest rate for similar liabilities that do not have a conversion option. The remaining proceeds are allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method, until extinguished on conversion or maturity.

The equity component is recognised in equity, net of any tax effects. When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profits or accumulated losses.

o) Interest-bearing Borrowings

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Trade and Other Payables

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

q) Cash and Cash Equivalents

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

r) Employee Benefits

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

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

s) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income Tax *(Continued)*

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Income Tax *(Continued)*

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

t) Financial Guarantees Issued, Provisions and Contingent Liabilities

i) Financial guarantees issued

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

ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed.

iii) Provision for the guarantee services

Provision for the guarantee services is provided in the amount of 50% on revenue from the credit guarantee business for the year and at 1% on the outstanding guarantee amount at the end of the reporting period as in according to <融資性擔保公司暫行管理規定>.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Financial Guarantees Issued, Provisions and Contingent Liabilities *(Continued)*

iv) Other provisions and contingent liabilities

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

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

u) Revenue Recognition

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

i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Interest income

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

iii) Commission income

Commission income for broking business is recorded as income on a trade date basis.

iv) Credit guarantee service income

Credit guarantee service income consists of guarantee fee and related service income and is recognised when the service is rendered.

v) Dividends income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Revenue Recognition *(Continued)*

vi) Hotel accommodation service

Hotel accommodation service is recognised when the service is rendered.

vii) Other income not stated above is recognised whenever received or receivable.

v) Translation of foreign currencies

i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's functional and presentation currency.

ii) Transactions and balances

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the consolidated statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after January 1, 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before January 1, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) Borrowing Costs

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

x) Related Parties

For the purpose of these consolidated financial statements, parties are 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.

y) 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.

3. TURNOVER

Turnover represents net amounts received and receivable for goods sold, less sales returns and discounts, provision of hotel accommodation service, credit guarantee service income and insurance brokerage commission income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2010	2009
	HK$'000	*HK$'000*
Sales of goods	**521,085**	376,508
Insurance brokerage commission income	**19,816**	12,678
Provision of hotel accommodation service	**6,738**	—
Credit guarantee service income	**2,671**	—
	550,310	389,186

4. OTHER REVENUE AND OTHER NET INCOME

	2010	2009
	HK$'000	*HK$'000*
Other revenue		
Total interest income on financial assets not at fair value through profit or loss	**372**	50
Dividend income	**—**	12,000
Sundry income	**946**	1,617
	1,318	13,667
Other net income		
Net exchange gain	**—**	2,122
	1,318	15,789

5. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest expense on bank borrowings wholly repayable within five years	**1,069**	570
Interest expenses on loan advance from Wider Sun	**3,171**	
Imputed interest expenses on convertible bond	**66,175**	—
Total interest expenses on financial liabilities not at fair value through profit or loss	**70,415**	570

The imputed interest expenses of HK$66,175,000 for the year is in respect of the convertible bond issued by the Company on August 27, 2010. The Company does not have to pay any interest over the life of this convertible bond under the terms of its issuance. It has no real impact on the cash flow of the Group.

6. (LOSS)/PROFIT BEFORE TAXATION

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

	2010	2009
	HK$'000	*HK$'000*
Auditor's remuneration	**820**	575
Cost of inventories *(note 16(b))*	**426,758**	309,687
Depreciation *(note 13)*	**5,726**	6,646
(Impair loss reversed)/impairment loss on trade receivables *(note 17(b))*	**(115)**	365
Impairment loss on inventories	**—**	2,000
Property, plant and equipment written off	**162**	—
Staff costs:		
— Salaries, wages and other benefits (including directors' emoluments)	**42,686**	28,565
— Contributions to defined contribution retirement plans	**1,370**	788
Operating lease charges on rented premises	**11,099**	9,224
Net exchange loss/(gain)	**2,051**	(2,122)

Profit for the year, before notional interest is arrived as the following:

(Loss)/Profit for the year attributable to Equity shareholders of the Company	**(42,522)**	32,535
Add: Notional interest	**66,175**	—
Profit for the year, before notional interest	**23,653**	32,535

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

a) The amount of taxation charged to the consolidated statement of comprehensive income represents:

	2010	2009
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year	**4,371**	3,117
Under provision in respect of prior years	**38**	—
Deferred tax		
Reversal of temporary differences	**(1,295)**	(2,004)
	3,114	1,113

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation of subsidiaries in People's Republic of China and overseas are charged at the appropriate current rates of taxation ruling in the relevant countries.

b) Reconciliation between actual tax expense and notional tax on profit before taxation at the applicable tax rates:

	2010	2009
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(40,006)**	33,648
Notional tax on (loss)/profit before taxation, calculated at the applicable tax rate 16.5% (2009: 16.5%)	**(6,601)**	5,552
Effect of different tax rate in other country	**(877)**	(425)
Tax effect of income not subject to taxation	**(2,602)**	(4,123)
Tax effect of expenses not deductible for taxation purposes	**10,945**	—
Unused tax losses not recognised	**2,210**	84
Under-provision in prior years	**38**	—
Tax effect of origination and reversal of temporary difference	**1**	25
Actual tax expense	**3,114**	1,113

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

The loss attributable to equity shareholders of the Company is dealt with in the consolidated financial statements of the Company to the extent of HK$66,940,000 (2009: Profit of HK$29,682,000).

9. DIVIDENDS

	Note	2010 HK$'000	2009 HK$'000
Interim dividend declared and paid of 3 cents per ordinary share	22	**6,000**	—
Special dividend declared and paid of 5 cents per ordinary share	22	**21,660**	—
Final dividend proposed after the end of the reporting period of 4 cents per ordinary share		**25,434**	18,000
		53,094	18,000
Final dividend of 9 cents per ordinary share paid in respect of the previous financial year	22	**18,000**	—

The Directors have recommended the payment of a final dividend of HK4 cents per share for the Current Year to those shareholders of the Company whose name appear on the register of members of the Company at the close of business on April 15, 2011. The final dividend is subject to the Company's AGM scheduled on May 6, 2011. This proposed dividend was not recognised as dividend payable in the consolidated financial statements for the year 2010.

10. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010 HK$'000	2009 HK$'000
(Loss)/Profit attributable to equity shareholders of the Company	**(42,522)**	32,535

	2010 '000 shares	2009 '000 shares
Weighted average number of ordinary shares		
At the beginning of the year	**200,000**	200,000
Effect of conversion of convertible bond	**120,963**	—
At the end of the year	**320,963**	200,000

Total ordinary shares outstanding at December 31, 2010 was 635,850,000 shares (2009: 200,000,000 shares).

10. (LOSS)/EARNINGS PER SHARE *(Continued)*

b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's only dilutive potential ordinary shares are the convertible bond issued in 2010. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expenses. Since the impact of conversion of convertible bond on earnings per share is anti-dilutive, diluted earnings per share was not presented in both years.

11. RETIREMENT BENEFITS COSTS

The Group has implemented a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from December 1, 2000. The Group contributed according to the minimum requirements of the MPF Ordinance and the contributions are charged to the consolidated statement of comprehensive income.

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY

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

	For the year ended December 31, 2010				
	Fees	Basic salaries, allowance and other benefits	Discretionary bonus	Contributions to retirement scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(Chairman)*	—	2,770	3,000	12	5,782
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*	—	2,770	3,000	12	5,782
Wong Sai Ming	—	1,300	1,000	12	2,312
Wong Tat Tung	—	1,200	—	12	1,212
Non-executive Director					
Chan Cheuk Ming	60	—	—	—	60
Independent Non-executive Directors					
Cheung Wah Keung	150	—	—	—	150
Anthony Espina	150	—	—	—	150
Wong Che Keung	150	—	—	—	150
	510	8,040	7,000	48	15,598

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

a) Directors' remuneration disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows: *(Continued)*

	For the year ended December 31, 2009				
	Fees	Basic salaries, allowance and other benefits	Discretionary bonus	Contributions to retirement scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Hui Kwan Wah, Hugo *(Chairman)*	—	2,200	—	12	2,212
Ng Chi Man *(Vice Chairman and Chief Executive Officer)*	—	2,200	—	12	2,212
Wong Sai Ming	—	1,300	—	12	1,312
Wong Tat Tung	—	961	220	10	1,191
Non-executive Director					
Chan Cheuk Ming	60	—	—	—	60
Independent Non-executive Directors					
Cheung Wah Keung	150	—	—	—	150
Anthony Espina	150	—	—	—	150
Wong Che Keung	150	—	—	—	150
	510	6,661	220	46	7,437

No director waived any emoluments during the year (2009: Nil). No inducement payment or compensation for loss of office was paid or payable to any director for the year ended December 31, 2010 and December 31, 2009.

As at December 31, 2010, no share option has been granted and held by the directors under the Company's share option scheme (2009: Nil). Details of the share option scheme are disclosed in note 20(b).

b) **Individuals with highest emoluments**

Of the five individuals with the highest paid in the Group, four (2009: four) were directors of the Company whose emoluments are disclosed in note 12(a) above. The emoluments of the remaining one (2009: one) individual were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**2,228**	953
Contributions to defined contribution retirement plans	**12**	12
	2,240	965

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST PAY *(Continued)*

b) Individuals with highest emoluments *(Continued)*

This emolument was within the band of HK$2,000,000 to HK$2,500,000 (2009: Up to HK$1,000,000). During the year, no inducement payment or compensation for loss of office was paid to the five highest paid individuals.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	**Plant and machinery**	**Furniture, fixtures and equipment**	**Moulds**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At January 1, 2009	4,218	17,856	4,385	1,015	1,255	28,729
Additions	1,090	229	1,926	176	—	3,421
At December 31, 2009 and January 1, 2010	5,308	18,085	6,311	1,191	1,255	32,150
Additions	14,731	648	1,668	82	237	17,366
Acquisition of subsidiary	—	—	239	—	—	239
Disposal	(770)	(734)	(876)	—	—	(2,380)
At December 31, 2010	19,269	17,999	7,342	1,273	1,492	47,375

	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Moulds	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation						
At January 1, 2009	2,011	11,989	2,453	642	1,248	18,343
Charge for the year	1,250	4,039	1,089	261	7	6,646
At December 31, 2009 and January 1, 2010	3,261	16,028	3,542	903	1,255	24,989
Charge for the year	3,311	1,005	1,254	97	59	5,726
Written back on disposal	(705)	(726)	(787)	—	—	(2,218)
At December 31, 2010	5,867	16,307	4,009	1,000	1,314	28,497
Net book value						
At December 31, 2010	13,402	1,692	3,333	273	178	18,878
At December 31, 2009	2,047	2,057	2,769	288	—	7,161

14. GOODWILL

	2010	2009
	HK$'000	*HK$'000*
At the beginning of the year	**35,375**	26,375
Acquisition of subsidiaries	**3,253,522**	9,000
At the end of the year	**3,288,897**	35,375

All goodwill arose as a result of acquisition of businesses.

Impairment tests for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGU"). The carrying amount of goodwill as at the end of the reporting period is allocated as follows:

	2010	2009
	HK$'000	*HK$'000*
Party products manufacturing and trading business	**26,375**	26,375
Wealth management financial planning services business	**9,000**	9,000
Credit guarantee business	**3,253,522**	—
	3,288,897	35,375

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are assumed to remain constant. The estimated growth rates used are comparable to the growth rate for the industry.

Key assumptions for party products manufacturing and trading businesses used for value-in-use calculations:

	2010	2009
Gross margin	**14%**	16%
Growth rate	**2%**	5%
Discount rate	**22%**	16%

14. GOODWILL *(Continued)*

Impairment tests for cash-generating units containing goodwill *(Continued)*

Key assumptions for wealth management financial planning services business used for value-in-use calculations:

	2010	2009
Gross margin	**52%**	45%
Growth rate	**25% and 20% for the first year and second year respectively and 15% for the next 3 years**	100% for the first year and 20% for the next 4 years
Discount rate	**19%**	19%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments. The carrying amount of the unit approximates to its recoverable amount. Any adverse change in the key assumptions could reduce the recoverable amount below carrying amount. Based on the impairment tests performed, no impairment loss is recognised for the year (2009: Nil).

The key assumptions for credit guarantee business used, include: there will be no major change in the existing political, legal and economic conditions in the locations in which Market Season's Group is operating; there will be no major change in the current taxation law in the locations in which the business are operating, that the rates of tax payable by Market Season's Group regarding its business operations remain unchanged and that all applicable laws and regulations will be complied by Market Season's Group; the interest rates and exchange rates will not differ materially from those presently prevailing; Market Season's Group is free from any unsettled litigations; Market Season's Group shall have no legal impediment to obtain or renew all necessary permits and approvals to carry out its business; Market Season's Group shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its existing and planned businesses; the operating assets, management system and trading platform of Market Season's Group are in a good working condition and can perform efficiently accordingly to the purposes for which they were designed and built; the business forecast of Market Season's Group revealed is based on reasonable grounds, reflecting estimates which have been arrived at after due and careful consideration and the availability of finance will not be a constraint on the forecast growth of Market Season's Group's operations and other assumptions, etc.

	2010
Gross margin	**N/A**
Growth rate	**N/A**
Discount rate	**14%**

15. INVESTMENT — LOAN AND RECEIVABLE

	2010	2009
	HK$'000	*HK$'000*
Other loan and receivable	**23,000**	—

On February 8, 2010, the Group, through a wholly-owned subsidiary, entered into an agreement to acquire approximately 12.4% equity interest in a joint venture company. The investment cost of HK$460 is not shown on the consolidated statement of financial position as the amount has been rounded off. The Group advanced to the investee a loan of HK$22,999,540, which is unsecured, interest free and has no fixed repayment terms. The carrying amount is approximate to its fair value.

16. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**8,598**	5,844
Work-in-progress	**7,570**	7,039
Finished goods	**6,150**	3,996
	22,318	16,879

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

		2010	2009
	Note	*HK$'000*	*HK$'000*
Carrying amount of inventories sold		**426,758**	307,687
Impairment loss on inventories		**—**	2,000
	6	**426,758**	309,687

17. TRADE RECEIVABLES

Customers are usually offered a credit period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the Group's credit policy are set out in note 37(a)(i).

17. TRADE RECEIVABLES *(Continued)*

a) An ageing analysis of trade receivables is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**40,955**	26,899
31 to 60 days	**9,278**	4,214
61 to 90 days	**1,546**	2,812
Over 90 days	**5,765**	2,390
	57,544	36,315
Less: Provision for impairment	**(250)**	(365)
	57,294	35,950

Trade receivables included HK$5,515,000 (2009: HK$2,025,000) which were past due at December 31, 2010. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

b) Impairment loss on trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for doubtful debts:

		2010	2009
	Note	***HK$'000***	*HK$'000*
At the beginning of the year		**365**	482
Impairment loss (reversed)/recognised	*6*	**(115)**	365
Uncollectible amount written off		**—**	(482)
At the end of the year		**250**	365

For the year ended December 31, 2010, trade receivables of the Group amounting to HK$115,000 (2009: HK$365,000) were individually determined to be (reversed against previously provided impairment loss)/impaired.

c) Trade receivables denominated in other currency

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency, which is Hong Kong dollar:

	2010	2009
	US$'000	*US$'000*
	5,036	2,535

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade deposits and other receivables	**15,695**	14,708	**—**	—
Prepayments	**16,033**	14,034	**145**	23
Rental, utility and sundry deposits	**3,167**	2,683	**—**	—
Staff advances	**301**	648	**—**	—
	35,196	32,073	**145**	23

The carrying amounts of prepayments, deposits and other receivables at the end of the reporting period approximated their fair values. As at December 31, 2010 and 2009, none of the prepayments, deposits and other receivables were impaired. All of the prepayment, trade deposits and other receivables are expected to be recovered, capitalised as fixed assets or recognised as expenses within one year.

19. RESTRICTED CASH

Approximately HK$49,358,000 (RMB42 million) (2009: Nil) of the bank balances is restricted to be drawn down since the balance is served as guarantee for its guarantee business.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**57,234**	53,928	**11**	50
Time deposits	**58,762**	—	**—**	—
Cash and cash equivalents	**115,996**	53,928	**11**	50

Cash and cash equivalents in the consolidated cash flow statements as at December 31, 2010 and 2009 were HK$115,996,000 and HK$53,928,000 respectively.

Cash and cash equivalents include short-term bank deposit, carrying interest at prevailing market rates. The carrying amounts at the end of the reporting period approximated their fair values.

20. CASH AND CASH EQUIVALENTS *(Continued)*

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	The Group	
	2010	2009
	'000	*'000*
	US$568	US$3,526
	RMB88,043	RMB2,807

21. SHARE CAPITAL

	The Group and the Company	
	Number of shares	**Amount**
	'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
As at January 1, 2009 and December 31, 2009	1,000,000	100,000
Increase in authorised share capital	4,000,000	400,000
As at December 31, 2010	5,000,000	500,000
Issued and fully paid:		
As at January 1, 2009 and December 31, 2009	200,000	20,000
Issue of new shares upon conversion of convertible bond	435,850	43,585
As at December 31, 2010	635,850	63,585

a) The Company was incorporated in the Cayman Islands on March 20, 2007. Details of the changes in par value, total number of authorised share capital and fully paid-up share capital can be found in the Company's Prospectus and previous annual reports.

b) The Company has a share option scheme, under which the Company may grant options to any employee or director to subscribe for shares in the Company, up to a maximum of 10% of the issued share capital of the Company at our IPO date (absolute maximum number of share option: 20 million shares). On December 30, 2010, share options to subscribe for a total of 12,000,000 ordinary shares of HK$0.10 par value each were offered to various employees (no director was involved). By January 2011, the Company has not received any signed acceptance from theses employees and thus, those 12,000,000 share options were not granted.

c) By an ordinary resolution by the shareholders on August 24, 2010, the authorised share capital of the Company was increased from HK$100 million divided into 1,000 million ordinary shares in the capital of the Company of a par value of HK$0.10 each (each a "Share") to HK$500 million divided into 5,000 million Shares by the creation of 4,000 million additional new Shares.

d) During the year, convertible bond with principal amount of HK$544,812,500 were converted into 435,850,000 ordinary shares of the Company of HK$0.1 each at a conversion price of HK$1.25 each.

22. RESERVES

The Group

	Note	Share premium	Translation reserve	Capital reserve	Convertible bond reserve	Retained profits	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2009		53,768	—	(15,000)	—	45,497	84,265
Total comprehensive income for the year		—	107	—	—	32,535	32,642
At December 31, 2009 and January 1, 2010		53,768	107	(15,000)	—	78,032	116,907
Dividend paid	9	(27,660)	—	—	—	(18,000)	(45,660)
Acquisition of subsidiaries		—	—	—	1,575,960	—	1,575,960
Issue of new share upon conversion of convertible bond		502,197	—	—	(210,262)	—	291,935
Deferred tax arising from conversion of convertible bond		—	—	—	(260,040)	—	(260,040)
Total comprehensive income for the year		—	4,734	—	—	(42,522)	(37,788)
At December 31, 2010		528,305	4,841	(15,000)	1,105,658	17,510	1,641,314

The Company

	Share premium	Contributed surplus	Convertible bond reserve	Retained profits/ (Accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2009	53,768	31,971	—	41,692	127,431
Total comprehensive income for the year	—	—	—	29,682	29,682
At December 31, 2009 and January 1, 2010	53,768	31,971	—	71,374	157,113
Dividend paid	(27,660)	—	—	(18,000)	(45,660)
Acquisition of subsidiaries	—	—	1,575,960	—	1,575,960
Issue of new share upon conversion of convertible bond	502,197	—	(210,262)	—	291,935
Deferred tax arising from conversion of convertible bond	—	—	(260,040)	—	(260,040)
Total comprehensive income for the year	—	—	—	(66,940)	(66,940)
At December 31, 2010	528,305	31,971	1,105,658	(13,566)	1,652,368

22. RESERVES *(Continued)*

i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operation.

iii) Capital reserve

Capital reserve of the Group represents the difference between the nominal values of the ordinary shares issued by the Company and the share capital of Silver Pattern Limited acquired through the share swap pursuant to the Reorganisation.

iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Silver Pattern Limited determined on the basis of the consolidated net assets of Silver Pattern Limited at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

v) Convertible bond reserve

The convertible bond reserve represents the unexercised equity component of the convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond in Note 2(x).

vi) Distributability of reserves

At December 31, 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK$514,739,000 (2009: HK$125,142,000).

23. TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 30 days	**23,584**	9,785
31 to 60 days	**1,240**	2,413
61 to 90 days	**182**	1,376
Over 90 days	**2,239**	1,674
	27,245	15,248

The trade and bills payable are non-interest bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payable at the end of the reporting period approximated their fair values.

Included in trade and bills payable are the following amounts denominated in currencies other than the functional currency, which is Hong Kong dollar:

	2010	2009
	'000	*'000*
	US$12	US$637
	RMB11,808	RMB7,145

24. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest payables	**3,556**	31	**—**	—
Accrued salaries and bonuses	**11,256**	2,979	**—**	—
Trade deposits received	**6,577**	5,873	**—**	—
Accrued expenses	**10,342**	12,171	**38**	1
Other short-term loan	**133,199**	—	**—**	—
	164,930	21,054	**38**	1

The carrying amounts of accruals and other payables at the end of the reporting period approximated their fair values. All of the accruals and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

25. BANK BORROWINGS — SECURED

The analysis of the carrying amount of bank borrowings is as follows:

	2010	2009
	HK$'000	*HK$'000*
Current liabilities		
Portion of bank borrowing due for repayment within one year	**15,989**	8,425
Portion of bank borrowing due for repayment after one year which contain a repayment on demand clause	**24,632**	—
	40,621	8,425

The carrying amounts at the end of the reporting period approximated their fair values. Bank borrowings of the Group consisted of fixed-rate borrowings and floating-rate borrowings. Fixed-rate borrowings bore interest at effective interest rate ranging from 2.0% to 5.0% (2009: 2.0% to 4.0%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate. Floating-rate borrowings bore interest at effective interest rate ranging from 1.0% to 3.0% per annum (2009: 1.5% to 4.5%) over Hong Kong Interbank Offered Rate or Singapore Interbank Offered Rate.

At December 31, 2010, interest-bearing bank loans were due for repayment as follows:

	2010	2009
	HK$'000	*HK$'000*
Portion of bank borrowing due for repayment within one year	**15,989**	8,425
Bank borrowing due for repayment after one year *(Note 1)*:		
After 1 year but within 2 years	**8,363**	—
After 2 years but within 5 years	**16,269**	—
	40,621	8,425

Note 1 — The amounts due are based on the scheduled repayment dates set out in the loan agreements

The Company, and its wholly-owned subsidiaries, Rainbow Brothers Limited and Silver Lining Limited have provided corporate guarantees and, in association therewith, floating charges on monies standing to the credits of, or owing to, the Group's accounts with Banks, to secure banking facilities granted to the Group.

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

a) Tax (payable)/recoverable in the consolidated statement of financial position represents:

	2010	2009
	HK$'000	*HK$'000*
At the beginning of the year	**(1,291)**	70
Provision for Hong Kong Profits tax	**(4,371)**	(3,117)
Under-provision in prior years	**(38)**	—
Hong Kong Profits Tax paid	**3,541**	1,756
At the end of the year	**(2,159)**	(1,291)

b) Deferred tax liabilities/(assets) recognised:

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

The Group

	Depreciation allowance in excess of the related depreciation	**Unused tax losses**	**Convertible bond**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At January 1, 2009	445	—	—	445
Credited to profit or loss	(272)	(1,732)	—	(2,004)
At December 31, 2009 and January 1, 2010	173	(1,732)	—	(1,559)
Recognised upon issuance of convertible bond	—	—	260,040	260,040
Credited to reserve	—	—	(54,433)	(54,433)
Credited to profit or loss	(191)	(1,104)	—	(1,295)
At December 31, 2010	(18)	(2,836)	205,607	202,753

	2010	2009
	HK$'000	*HK$'000*
Deferred tax assets recognised	**205,607**	173
Deferred tax liabilities recognised	**2,854**	1,732

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

b) Deferred tax liabilities/(assets) recognised: *(Continued)*

The Company

	Convertible bond	Total
	HK$'000	*HK$'000*
At January 1, 2009 and December 31, 2009	—	—
Recognised upon issuance of convertible bond	260,040	260,040
Credited to reserve	(54,433)	(54,433)
At December 31, 2010	205,607	205,607

27. CONVERTIBLE BOND

On August 27, 2010, the Company issued convertible bond with an aggregated principal amount of HK$3,243,750,000 with a term of five years as consideration for the acquisition of 90% beneficial interest in 和協海峽信用擔保有限公司. The bond are unsecured and carry zero coupon interest rate. The bond are convertible into ordinary shares of the Company at a conversion price of HK$1.25 per conversion share at any time during the period commencing from the date of issue of convertible bond.

At the initial recognition on August 27, 2010 which was the issue date of the convertible bond, the fair value of the embedded derivatives portion of the convertible bond were determined by an independent professional valuer, Asset Appraisal Limited, using the binominal options pricing model; the liability component of the convertible bond at the issue date is the residual amount after recognising the fair value of the embedded derivatives and subsequently carried at amortised cost using an effective interest rate of 14% per annum.

	The Group and Company		
	Equity portion	Liability portion	Total
	HK$'000	*HK$'000*	*HK$'000*
At January 1, 2009 and December 31, 2009	—	—	—
Principal value of convertible bond on the date of issue	1,575,960	1,667,790	3,243,750
Imputed interest amortised charged to consolidated statement of comprehensive income	—	66,175	66,175
Conversion into new shares	(210,262)	(281,087)	(491,349)
Deferred tax arising from conversion of convertible bond	(260,040)	—	(260,040)
At December 31, 2010	1,105,658	1,452,878	2,558,536

28. NON-CONTROLLING INTEREST

	2010	2009
	HK$'000	*HK$'000*
At January 1, 2009 and December 31, 2009	**—**	—
Non-controlling interests arising on the acquisition	**15,544**	—
Total comprehensive income for the year	**(92)**	—
At December 31, 2010	**15,452**	—

29. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries represents investments in unlisted shares at cost.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Silver Pattern Limited	British Virgin Islands	US$1	100%	Investment holdings
Rainbow Brothers Limited	Hong Kong	HK$200,000	100%	General trading
Silver Lining Limited	Hong Kong	HK$1	100%	General trading and production of party products
Cheerful Arts Limited	Hong Kong	HK$1	100%	Investment holdings
呼嚕棧酒店管理(深圳)有限公司#, ###	The People's Republic of China	US$2,000,000	100%	Hotel management and general trading
潮藝酒店管理(深圳)有限公司#, ###	The People's Republic of China	US$1,000,000	100%	Hotel management
Hotel Zzz Franchise Limited	British Virgin Islands	US$1	100%	Franchise holdings
Soccer Sky Limited	British Virgin Islands	US$1	100%	Investment holdings
Clear Action Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Services Limited	British Virgin Islands	US$1	100%	Investment holdings
Channel 8 Financial Planning Limited	Hong Kong	HK$100	100%	Inactive

29. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activities
Channel 8 Wealth Management Limited	Hong Kong	HK$10,000,000	100%	Provision of wealth management financial planning service
Channel 8 Securities Limited	Hong Kong	HK$1	100%	Inactive
Channel 8 Immigration Consulting Limited	Hong Kong	HK$1	100%	Provision of immigration consulting service
Market Season Limited	British Virgin Islands	US$1	100%	Investment holdings
Green Link Holdings Limited	Hong Kong	HK$1	100%	Investment holdings
Hong Kong New Smart Energy Group Limited	Hong Kong	HK$1,000,000	100%	Investment holdings
和協海峽信用擔保有限公司##, ###	The Peoples's Republic of China	US$20,000,000	90%	Provision of credit service and conduct investment business

The Group's effective interest in Silver Pattern Limited and Market Season Limited is held directly by the Company. Effective interest in all other subsidiaries is held indirectly.

These subsidiaries are registered as wholly-owned foreign enterprises under the PRC law.

This subsidiary is registered as a sino-foreign joint venture limited liability company incorporated in PRC.

Companies are not audited by Cheng & Cheng Limited.

30. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

31. ACQUISITION OF A SUBSIDIARY

On August 27, 2010, the Company issued convertible bond with an aggregated principle amount of HK$3,243,750,000 with a term of five years as consideration for the acquisition of Market Season Limited which held 90% beneficial interest in 和協海峽信用擔保有限公司.

The fair value of the net assets acquired in the transaction, and goodwill on acquisition, are as follows:

	HK$'000
Purchase consideration	
— Issuance of convertible bond	3,243,750
Transaction costs incurred directly attributable to the acquisition	9,382
Total consideration	3,253,132
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	239
Other receivables	31
Cash and bank balances	148,758
Amount due to a related company	(115,335)
Amount due to a related party	(17,970)
Accrued charges and other payables	(569)
Total identifiable net liabilities	15,154
Non-controlling interest	(15,544)
Goodwill	3,253,522
	3,253,132
Net cash inflow arising on acquisition	
Cash and cash equivalent acquired	148,758
Transaction costs incurred directly attributable to the acquisition	(9,382)
	139,376

Goodwill arose in the business combination because the cost of the combination included amount in relation to the benefits of revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured. None of the goodwill recognised is expected to be deductible for income tax purposes.

31. ACQUISITION OF A SUBSIDIARY *(Continued)*

The gross contractual amount of the other receivables is same as the fair value of it as they are estimated to be recovered in nearly future and none of them is expected to be uncollectible.

The fair value of the non-controlling interest in 和協海峽信用擔保有限公司, an unlisted company, was measured at the non-controlling interests' proportionate share of the acquiree's net assets.

Had Market Season Limited group been consolidated from January 1, 2010 the consolidated statement of comprehensive income would show revenue of HK$2,671,000 and loss of HK$ 9,536,000.

32. INTEREST IN AN ASSOCIATE

	2010	2009
	HK$'000	*HK$'000*
Acquisition of an associate	—	12,000
Disposal of an associate	—	(12,000)
	—	—

The Group, through a wholly-owned subsidiary, has entered into a shareholders agreement to acquire 20% equity interest in an investment holding company registered in the BVI and which, in turn, effectively holds a shopping mall property development project in Liaoning, China. The Group had sold its effective equity interest in this associate during 2009.

33. SEGMENT REPORTING

During 2009, only one business segment was significant enough for disclosure. However, with the acquisition in 2010 of Harmonic Strait, its credit guarantee business qualifies as a reportable operating segment; the comparatives are therefore consistently presented in this regard.

(a) Segment Revenues and Results

The following is an analysis of the Group's revenue and results by operation segment:

Year ended December 31, 2010

	Credit guarantee business	General trading business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	**2,671**	**521,086**	**26,553**	**550,310**
Result				
Segment results	**(2,409)**	**42,125**	**(2,024)**	**37,692**
Interest revenue				**372**
Other income				**946**
Unallocated corporate expenses				**(2,875)**
Interest expense				**(70,415)**
Depreciation and amortisation				**(5,726)**
Loss before taxation				**(40,006)**
Income tax expenses				**(3,114)**
Loss for the year				**(43,120)**

33. SEGMENT REPORTING *(Continued)*

(a) Segment Revenues and Results *(Continued)*

Year ended December 31, 2009

	Credit guarantee business	General trading business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	—	376,333	12,853	389,186
Result				
Segment results	—	32,153	(6,669)	25,485
Interest revenue				50
Other income				3,837
Dividend income				12,000
Unallocated corporate expenses				(508)
Interest expense				(570)
Depreciation and amortisation				(6,646)
Profit before taxation				33,648
Income tax expenses				(1,113)
Profit for the year				32,535

The accounting policies of the operating segments are the same as the accounting policies of the Group. Segment profit represents the profit earned by each segment without allocation of administrative expenses, other income, other gains and losses (except impairment loss on goodwill), and finance cost. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

The revenue included in the consolidated statement of comprehensive income since August 27, 2010 contributed by the Market Season Limited group was HK$2,671,000. The Market Season Limited group has incurred loss of HK$9,145,000 which included HK$3.1 million interest expenses and HK$3.9 million exchange loss over the same period.

33. SEGMENT REPORTING *(Continued)*

(b) Segment Assets and Liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

Year ended December 31, 2010

	Credit guarantee business	**General trading business**	**Other**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
ASSETS				
Segment assets	**51,530**	**100,823**	**11,667**	**164,020**
Bank balances and cash				**115,996**
Unallocated corporate assets				**3,330,921**
Consolidated total assets				**3,610,937**
LIABILITIES				
Segment liabilities	**4,623**	**48,406**	**16,216**	**69,245**
Bank borrowings				**40,621**
Unallocated corporate liabilities				**1,780,720**
Consolidated total liabilities				**1,890,586**

Year ended December 31, 2009

	Credit guarantee business	General trading business	Other	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	—	70,613	14,263	84,876
Bank balances and cash				53,928
Unallocated corporate assets				44,121
Consolidated total assets				182,925
LIABILITIES				
Segment liabilities	—	30,742	5,571	36,313
Bank borrowings				8,425
Unallocated corporate liabilities				1,280
Consolidated total liabilities				46,018

33. SEGMENT REPORTING *(Continued)*

(b) Segment Assets and Liabilities *(Continued)*

For the purpose of monitoring segment performances and allocating resources between segments:

— all assets are allocated to operating segments other than certain plant and equipment, prepaid lease payments, other receivables, bank balance and cash; and

— all liabilities are allocated to operating segments other than certain other payables and bank borrowings.

Information About Major Customers

Revenue from the only customer in the corresponding years contributing over 10% of the total sales of the Group from the general trading business is as follows:

	2010	2009
	HK$'000	*HK$'000*
Customer A	**322,477**	203,880

34. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the consolidated statement of comprehensive income:

	2010	2009
	HK$'000	*HK$'000*
Purchase of a subsidiary from Mr. Wong Tat Tung *(Note (i))*	**—**	9,000
Commission income generated from a director and his close family member *(Note (ii))*	**—**	530
Interest on loan advance from Wider Sun *(note (iii))*	**3,171**	—

Note:

i) This transaction was regarded as a Discloseable and Connected Transaction under the relevant chapters of 14 and 14A of the Listing Rules. Further pursuant to Rule 14A.32 of the Listing Rules, this transaction was exempted from independent shareholders' approval. On March 10, 2009, the Company made such announcement with the key details as follows:

The Group entered into a sales and purchase agreement with Mr. Wong Tat Tung with a consideration of HK$9.0 million to acquire 100% equity interest in a financial planning services company wholly-owned by Mr. Wong. On the same day, Mr. Wong was appointed as an executive director with effect from March 13, 2009.

34. RELATED PARTY TRANSACTIONS *(Continued)*

a) Related party transactions included in the consolidated statement of comprehensive income: *(Continued)*

ii) This transaction was regarded as a continuing connected transaction.

iii) The interest was paid for the loan advanced to a subsidiary acquired during the year since August 27, 2010, the interest rate was calculated at 3% per annum before October 30, 2010 and 5% per annum thereafter.

b) Compensation of key management of the Group:

	2010	2009
	HK$'000	*HK$'000*
Salaries, allowance and other benefits	**18,664**	10,900
Contributions to defined contribution retirement plans	**108**	106
	18,772	11,006

Note: Further details of post-employment benefits and directors' and employees' emoluments are included in note 12 to the consolidated financial statements. Total remuneration is included in "staff costs" (see note 6).

c) Financing arrangements

	2010	2009
	HK$'000	*HK$'000*
Loan from a related company[#]	**118,505**	—
Loan from a substantial shareholder[##]	**18,199**	—

The above loans are part of the contributed registered capital of a subsidiary acquired on August 27, 2010.

[#] The loan from the related company bears interest at 3% per annum before October 30, 2010 and 5% per annum thereafter, is unsecured and repayable on demand. *(note 34(a)(ii))*

[##] The loan from Tong Nai Kan, substantial shareholder, is unsecured, interest-free and repayable on demand.

35. COMMITMENTS

a) Capital Commitments

As at December 31, 2010, the Group had the following capital commitments:

	2010	2009
	HK$'000	*HK$'000*
Contracted but not provided for	**554,400**	—

35. COMMITMENTS *(Continued)*

b) Operating Lease Commitments

The Group leases office premises under operating lease arrangements. At the end of each reporting period, the Group had future aggregate minimum lease payment under non-cancellable operating leases arrangements as follows:

	2010	2009
	HK$'000	*HK$'000*
Within one year	**5,945**	7,976
In the second to fifth year, inclusive	**8,282**	3,259
	14,227	11,235

36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

The Group, through, Harmonic Strait , has entered into contracts with banks in the PRC to guarantee non-group companies, under which, the maximum contingent liabilities that Harmonic Strait would take up is about HK$69 million (RMB 59 million).

At December 31, 2010, the loan drawn down by the Group amounted to approximately HK$40.6 million (2009: HK$8.4 million).

As at December 31, 2010, except for those disclosed above, the Board of Directors was not aware of any possible material contingent liabilities.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial risk factors

The Group's major financial instruments include, cash and cash equivalents, trade and other receivables, trade and bills payable, other payables and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The Group does not hold or issue derivate financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

a) Financial risk factors *(Continued)*

i) *Credit risk*

Credit risk arises from the possibility that the counterparty to transaction is unwilling or unable to fulfill its obligation thereby incurring financial loss to the Group.

— Trade and other receivables

As at December 31, 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

In respect of trade and other receivables, in order to minimise risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of customers' financial position and condition are performed on all customers periodically. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are usually due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collaterals from customers.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At December 31, 2010, the Group has a certain concentration of credit risk as approximately equals to 54.5% (2009: 52.4%) and 85.1% (2009: 69.0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

— Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

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

a) Financial risk factors *(Continued)*

i) Credit risk (Continued)

— Financial guarantee

It represents financing guarantee to customers under the financial guarantee business, individual credit evaluations are performed on all customers. These evaluations focus on the customer's financial background and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

ii) Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due.

The Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay.

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

a) Financial risk factors *(Continued)*

ii) Liquidity risk (Continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	As at December 31, 2010					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Trade and bill payable	**27,245**	**—**	**—**	**—**	**27,245**	**27,245**
Accruals and other payables	**164,930**	**—**	**—**	**—**	**164,930**	**164,930**
Bank borrowings subject to a repayment on demand clause	**40,621**	**—**	**—**	**—**	**40,621**	**40,621**
Convertible bond	**—**	**—**	**—**	**2,698,938**	**2,698,938**	**1,452,878**
	232,796	**—**	**—**	**2,698,938**	**2,931,734**	**1,685,674**

	As at December 31, 2009					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bill payable	15,248	—	—	—	15,248	15,248
Accruals and other payables	21,054	—	—	—	21,054	21,054
Bank borrowings subject to a repayment on demand clause	8,425	—	—	—	8,425	8,425
	44,727	—	—	—	44,727	44,727

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

a) Financial risk factors *(Continued)*

ii) Liquidity risk (Continued)

The table that follows summaries the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Term loans subject to a repayment on demand clause based on scheduled repayments					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
December 31, 2010	16,233	8,554	16,492	—	41,279	40,621
December 31, 2009	8,425	—	—	—	8,425	8,425

iii) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on ongoing basis and will consider hedging the interest rate should the need arise.

a) Interest rate profile

The effective interest rate of bank loans is disclosed in note 25. The interest rates and terms of repayment of the other payable to a related company is disclosed in notes 34.

b) Sensitivity analysis

At December 31, 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's (loss)/profit after tax and retained profits by approximately $984,000 (2009: $450,000). Other components of consolidated equity would not be affected (2009: Nil) in response to the general increase/decrease in interest rates.

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

a) Financial risk factors *(Continued)*

iii) Interest rate risk (Continued)

b) Sensitivity analysis (Continued)

The sensitivity analysis above indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period, the impact on the Group's (loss)/profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

iv) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

1) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency which is Hong Kong dollar of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollar and Renminbi.

	December 31, 2010	
	US$'000	***RMB'000***
Cash and cash equivalents	**568**	**130,043**
Trade and other receivables	**5,036**	**9,201**
Trade and other payables	**(12)**	**(24,639)**
Overall exposure arising from recognised assets and liabilities	**5,592**	**114,605**

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

a) Financial risk factors *(Continued)*

iv) Currency risk (Continued)

1) Exposure to currency risk *(Continued)*

	December 31, 2009	
	US$'000	*RMB'000*
Cash and cash equivalents	3,526	2,807
Trade and other receivables	3,112	14,079
Trade and other payables	(637)	(10,133)
Overall exposure arising from recognised assets and liabilities	6,001	6,753

Management closely monitors currency risk position to ensure that the net exposure is kept at an acceptable level.

2) Sensitivity analysis

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

	December 31, 2010		December 31, 2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		HK$'000		*HK$'000*
Renminbi	**5%**	**5,857**	5%	338
	(5%)	**(5,857)**	(5%)	(338)

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

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

a) Financial risk factors *(Continued)*

iv) Currency risk (Continued)

2) Sensitivity analysis *(Continued)*

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

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

The fair values of cash and cash equivalents, bank deposits, trade and other receivables, trade and bills payable and accruals and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of bank borrowings and overdrafts approximated its fair value.

b) Capital risk management

The primary objective of the Group's capital risk management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank borrowings and overdrafts less cash and cash equivalents. Total equity represents equity attributable to the equity shareholders of the Group.

A subsidiary of the Group (the "Regulated Subsidiary") is registered with Securities and Futures Commission ("SFC") for the business they operate in. The Regulated Subsidiary is subject to liquid capital requirements under Securities and Futures (Financial Resources) Rules ("SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Regulated Subsidiary must maintain its liquid capital in excess of HK$3 million or 5% of its total adjusted liabilities, whichever is higher. The required information is filed with SFC on a monthly basis. This Regulated Subsidiary is also a member of The Hong Kong Conferderation of Insurance Brokers and is required to maintain a minimum net asset value of HK$100,000 at all times.

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

b) Capital risk management *(Continued)*

Another subsidiary of the Group operated in PRC is subject to the capital requirements under《融資性擔保公司暫行管理規定》. The subsidiary is required to maintain a minimum paid up capital of RMB50,000,000.

c) Estimation of fair values

The fair values of interest-bearing bank borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts and liabilities within the next financial year, as discussed below.

i) Impairment of property, plant and equipment

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based on periodic evaluation of the recoverability of the trade and other receivables. The estimates are based on the ageing of the trade and other receivables and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

a) Key sources of estimation uncertainty *(Continued)*

iii) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. If the recoverable amount exceeds the estimated value in use of the cash generating unit, additional impairment allowance may be required.

iv) Estimated net realisable value of inventories

The Group's management writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventories will be written down where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed is required to be made.

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

39. EVENTS AFTER THE REPORTING PERIOD

In January 2011, the Group entered into a sales agency agreement with Mr. Ng Chi Man (an ex-director) whereby the Group will pay Mr. Ng 4% as commissions on sales to certain prescribed customers under various terms and conditions. The annual cap for such sales commission is HK$9.6 million. The Group will follow up with approval and disclosure requirement should the actual figure exceed this annual cap.

40. ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The directors consider Market Speed Limited, a company incorporated in British Virgin Islands, to be the ultimate holding company. The directors regard Mr. Tong Nai Kan, through his direct shareholding in Market Speed Limited, as being the ultimate controlling party.

FINANCIAL SUMMARY

The financial results and the assets and liabilities of the Group for the last five years/periods are summarised as follows:

Results	**12 months ended December 31, 2010**	12 months ended December 31, 2009	9 Months ended December 31, 2008	12 Months ended March 31, 2008	12 Months ended March 31, 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**550,310**	389,186	335,739	371,558	314,837
(Loss)/Profit before taxation	**(40,006)**	33,648	12,686	29,229	42,464
Income tax	**(3,114)**	(1,113)	(1,705)	(3,689)	(5,191)
(Loss)/Profit for the year/period	**(43,120)**	32,535	10,981	25,540	37,273
Attributable to:					
Equity shareholders of the Company	**(42,522)**	32,535	10,981	25,540	37,273
Profit for the year/period before notional interest	**23,653**	32,535	10,981	25,540	37,273

	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008	As at March 31, 2008	As at March 31, 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**3,610,937**	182,925	134,384	153,968	107,228
Total liabilities	**(1,890,586)**	(46,018)	(30,119)	(42,684)	(50,252)
Total equity	**1,720,351**	136,907	104,265	111,284	56,976