安利

ARNHOLD HOLDINGS LIMITED
安 利 控 股 有 限 公 司

Stock Code : 102

Annual Report 2010

Contents

Highlights

- Results improved as the economy recovered, turnover increased by 4.3%
- Profit attributable to shareholders increased to approximately HK$11.3 million
- Outstanding order book improved to HK$230.5 million (outstanding order book for continuing operations improved to HK$61.2 million)
- Opened a new retail showroom in Mong Kok, Kowloon
- Subsequent events
  - Change in controlling shareholders and the board of directors
  - Disposal of Assets
  - Special Dividend of HK$0.8279 per share
  - General Cash Offer of HK$1.1681 per share

New showroom at Shanghai Street, Mong Kok

2010 was a year of recovery for the Company. Turnover of the Group increased by 4.3% to HK$379.7 million as our export and retail businesses improved in line with the healthier economic climate. Profit attributable to shareholders was HK$11.3 million, a substantial improvement from HK$1.2 million.

Highlights of the results of our Operating Divisions are as follows:

Bathrooms:

Our Bathrooms business was adversely affected by limited new residential development in Hong Kong. We managed to reduce the impact by extending our coverage cautiously on the Mainland.

Retail and Renovation:

Results improved as local consumers regained their confidence. Our new shop in Kowloon helped to enlarge our market share while our Shanghai outlet continued to progress. However, market sentiment is still fragile and cost inflation also raises further uncertainties.

Tiles:

Our Tiles business achieved better results in 2010 as developers resumed their renovation projects in Hong Kong. We expect this trend to continue in the short term.

Marble Export:

The Marble Export operation bounced back as our overseas customers completed their de-stocking process. However, the order book remains unstable so we are widening our product range to capture growth opportunities.

Engineering:

The Division continued to make a positive contribution to the Group and our order book also improved as we successfully secured several tenders for infrastructure projects.

Building Materials Export:

Turnover increased by 36% in 2010 as market conditions improved. We expect material costs will continue to rise in 2011 and our team will focus on strengthening our quality control systems and enhancing our product ranges.

Outlook and Subsequent Events:

In view of delicate market conditions, the Company entered into a disposal agreement on 20 December 2010 to dispose of certain businesses to Green Motherlode Limited, a company owned by my spouse and myself. This transaction was conditional on the completion of the disposal by the controlling shareholders, including myself, of approximately 73.76% interest in the issued share capital of the Company.

Interior of the new showroom

Ribbon-cutting ceremony on Grand Opening Day of the new Kowloon showroom


Event in our Shanghai Showroom


Quality inspection in marble factory

The Company held a Special General Meeting on 17 February 2011 and the shareholders approved, among other things, the above disposal agreement together with the cancellation of the share premium account and the payment of a special dividend of not less than HK$0.7437 per share. Completion of the share disposal and asset disposal took place on 22 February 2011 and payment of a special dividend of HK$0.8279 per share was effected to the qualifying shareholders on 25 February 2011. A Composite Document in relation to an unconditional mandatory general cash offer of HK$1.1681 per share was dispatched to the shareholders on 28 February 2011. Such general cash offer was closed on 21 March 2011.


Marble mosaics

After the release of this report, the existing Board will resign and new directors will be appointed. The new Board will conduct a review of the business operations and financial position of the Group to formulate business plans and strategies for its future.

Finally, I would like to express my gratitude to our fellow directors, employees, shareholders and business partners for their support during my tenure as Chairman.

Michael John Green
Chairman
Hong Kong, 24 March 2011

Review of Operations

During the reporting period, the Group continued to focus on the higher added value opportunities within the building materials and engineering equipment fields and especially the retail of plumbing fixtures and the manufacturing and export of building materials.

Throughout the year the Group recorded turnover of HK$379.7 million with a gross profit of HK$95.2 million (2009: HK$364.1 million and HK$85.0 million respectively). The improvement in the retail and export market was partly offset by the decrease in trading turnover. This also led to a slight improvement in gross profit margin from 23.3% to 25.1%. Depreciation charges and rental expenses increased as we opened a new showroom in Shanghai Street, Kowloon. These increases were offset by our continued cost reduction initiatives with total operating expenses maintained at HK$83.8 million (2009: HK$84.8 million). As a result, the Group's profit attributable to shareholders for the year increased to HK$11.3 million (2009: HK$1.2 million).

The Group continued to improve its services, product quality and new market coverage. In line with the recent economic recovery, outstanding orders on hand improved to HK$230.5 million out of which HK$61.2 million is attributable to continuing operations (At December 2009: HK$173.9 million).

Segmental Information

Revenue from trading operations decreased by HK$30.5 million to HK$193.2 million with the gross profit contribution decreasing by HK$4.7 million to HK$38.4 million (2009: HK$223.7 million and HK$43.1 million respectively). The decrease was mainly due to the limited new residential project development in Hong Kong for our bathroom trading business. However, the Group achieved some growth in the tiles trading operations as the shopping mall renovation projects resumed.

Revenue from manufacturing and export increased from HK$59.6 million in 2009 to HK$84.3 million in 2010, as the global economy recovered slowly. Gross profit also increased from HK$18.2 million in 2009 to HK$24.3 million in 2010.

During the year, the renovation and retail market in Hong Kong recovered strongly while our Shanghai retail outlet gained further momentum. With the opening of one more showroom in Kowloon, turnover increased by 26.6% from HK$80.7 million in 2009 to HK$102.2 million in 2010. Gross profit also increased from HK$23.6 million in 2009 to HK$32.4 million in 2010.

Foreign Exchange Exposure and Financial Hedging

The Group manages its risk exposure to foreign currency fluctuations and forward exchange contracts have been arranged with the Group's principal bankers to mitigate exchange risks. Further information on the forward exchange contracts is disclosed in the notes to the financial statements.

Liquidity and Financial Resources

The Group maintained a healthy balance sheet with no bank borrowing and no gearing as at year end (At 31 December 2009: Nil). The Group remained conservative in working capital management, and generated a positive cash flow of HK$11.8 million (At 31 December 2009: HK$33.4 million) from operating activities with cash balances of HK$75.1 million as at year end (At 31 December 2009: HK$97.6 million). The decrease in cash flow is mainly due to the payment of dividend and the purchase of bond funds by the discontinued operations. The continuing operations alone generated a positive cash flow of HK$2.3 million from operating activities with cash balances of HK$0.3 million as at year end. Most of the Group's cash balances are placed on time deposits with reputable financial institutions. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements from internal resources and bank credit facilities.

Contingent Liabilities and Capital Commitment

Certain subsidiaries have given undertakings to the banks that they will discharge certain contractual financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of these subsidiaries. As at 31 December 2010, the amount of guarantees outstanding for continuing operations and discontinued operations was HK$1.5 million and HK$4.7 million respectively (At 31 December 2009: HK$4.7 million).

There was no capital commitment as at 31 December 2010.

Banking facilities with assets pledged

A leasehold property with net book value of HK$46.7 million at year end held by a subsidiary of the Group attributable to discontinued operations was pledged to a bank to obtain banking facilities.

Employees

At the end of 2010, the Group had approximately 385 employees in the Mainland and approximately 137 employees in Hong Kong. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. Under the existing share option scheme of the Group, and in compliance with the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Directors were authorised to grant share options to eligible persons as incentives. Details of share options granted are disclosed in the Directors' Report annexed to the 2010 annual report.

Outlook and Subsequent Events

Though recent economic data and our order book indicate future growth, the business environment remains challenging. We expect continued cost increases in raw materials, labour, shop rentals and freight charges which will further impact our profitability. Given the uncertainties ahead, the Company entered into a disposal agreement on 20 December 2010 (the "Disposal Agreement") to sell the entire issued share capital of Arnhold (B.V.I.) Limited (the "Disposal Company") and all companies in which the Disposal Company has interests (collectively the "Disposal Group") to Green Motherlode Limited for a consideration of approximately HK$149 million. The disposal will result in the Company and its remaining subsidiaries (collectively the "Remaining Group") being principally engaged in tiles trading and engineering operations (the "Remaining Business") and the Disposal Group will carry on the rest of the existing business operations of the Group (the "Disposal Business"). The Company and Delight Max Limited (the "Offeror") also jointly announced on 28 December 2010, among other things, that Mr. Michael John Green and Mr. Daniel George Green, who are both directors and substantial shareholders of the Company, and HSBC International Trustee Limited (all together the "Vendors") had entered into a share transfer agreement with the Offeror on 20 December 2010 (the "Share Transfer Agreement") to sell their holdings of approximately 73.76% of the issued share capital of the Company as at 31 December 2010 or approximately 73.27% of the issued share capital of the Company as enlarged by the issue of the shares upon full exercise of the share options. Total consideration for the share transfer was HK$203,678,813.

The Company held a Special General Meeting on 17 February 2011 where the shareholders approved, among other things, the above Disposal Agreement, the cancellation of the share premium account and the payment of a special dividend of not less than HK$0.7437 per share. Completion of the Share Transfer Agreement and the Disposal Agreement took place on 22 February 2011, a special dividend of HK$0.8279 per share was paid to the qualifying shareholders on 25 February 2011 and a gain on disposal of HK$1,000,000 was recorded by the Remaining Group. A Composite Document in relation to an unconditional mandatory general cash offers was dispatched to the shareholders on 28 February 2011. Such general cash offers were closed on 21 March 2011.

After the release of this report, the existing Board will resign and the new controlling shareholder will conduct a review of the business operations and financial position of the Remaining Business of the Group for the purpose of formulating business plans and strategies for its future business development.

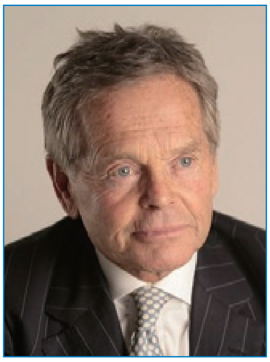
Reference is made to the circular dated 24 January 2011 (the "Circular"). Unless otherwise defined herein, capitalised terms used in this annual report shall have the same meanings as those defined in the Circular.

Profiles of Directors and Senior Management

MICHAEL JOHN GREEN, aged 71, is the Chairman of the Group. Mr. Green obtained a bachelor's degree in electrical engineering from McGill University in Canada in 1962 and is a member of various engineering institutions and associations. He is responsible for the strategic planning and overall management of the Group. Mr. Green joined the Group in 1962. Mr. Green will resign as the Chairman of the Group with effect from midnight of 24 March 2011"

DANIEL GEORGE GREEN, aged 37, an executive Director and the Managing Director of the Group. After gaining his degree in Manufacturing Systems Engineering at the University of Pennsylvania, Mr. Green worked in New York as a strategy consultant for Andersen Consulting (now Accenture), and as an equity analyst for Sofaer Capital's Global Hedge Fund. Mr. Green joined the Group in 2002 and is the son of the Chairman. He will resign as an executive Director and the Managing Director of the Group with effect from midnight of 24 March 2011.

LAI KA TAK, PATRICK, aged 46, is the Finance Director of the Group. Mr. Lai graduated from the Hong Kong Polytechnic and the University of Warwick with a professional diploma in management accountancy and a master's degree in business administration. He is an associate member of the Chartered Institute of Management Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, he was with the Astron Group Ltd., a subsidiary of Flextronics Group, for 3 years as Chief Financial Officer. Mr. Lai joined the Group in November 1998 and will resign as the Finance Director of the Group with effect from midnight of 24 March 2011.



SIMON MURRAY, *CBE*, aged 71, has been an independent non-executive director of the Company since September 2004 and was a non-executive director of the Company from 2002 until 2004. He is the Chairman of General Enterprise Management Services (International) Limited (GEMS Ltd), a private equity fund management company. He is also a director of a number of public listed companies including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited and USI Holdings Ltd. At the same time, he is a director of Compagnie Financière Richemont SA, Sino-Forest Corporation and Vodafone Group Plc, all being listed companies overseas. He will resign as an independent non-executive director of the Company with effect from midnight of 24 March 2011.

CHRISTOPHER JOHN DAVID CLARKE, aged 61, has been a non-executive director of the Company since September 2004 and was an independent non-executive director from 2002 until 2004. He also serves on the Audit Committee and Remuneration Committee of the Company. Mr. Clarke is the Managing Partner of DLA Piper Hong Kong, the Hong Kong office of a leading international law firm. He has over 36 years of experience as a solicitor in England and Hong Kong with extensive experience in commercial litigation and corporate and commercial law and regulation. He will resign as a non-executive director and member of the Remuneration Committee and the Audit Committee of the Company with effect from midnight of 24 March 2011.

LIM GHEE KEONG, age 43, was appointed as a non-executive director of the Company in May 2010. He is currently the Group Treasurer of Malaysian based Usaha Tegas Sdn. Bhd. (Usaha Tegas), which has significant interests in telecommunications, media, power, energy, marine logistics, gaming and real estate and other sectors including several companies listed on the Bursa Malaysia Securities Berhad viz. Tanjong Public Limited Company (also listed on the London Stock Exchange plc), Astro All Asia Networks plc and Maxis Berhad. Prior to joining Usaha Tegas, he was attached to General Electric Capital Corporation in the USA and the former Ban Hin Lee Bank in Malaysia. He has more than 20 years' experience in treasury and credit management. His other directorships include Paxys Inc. (listed on the Philippine Stock Exchange), a business process outsourcing company. Mr. Lim graduated with a Bachelor of Business Administration (Distinction), majoring in Finance from the University of Hawaii at Manoa. He will resign as a non-executive director of the Company with effect from midnight of 24 March 2011.

OWEN MARK LEWELLIN RHYS, aged 69, was appointed as an independent non-executive director of the Company in February 2009. He also serves on the Audit Committee and Remuneration Committee of the Company. He is a fellow of the Institute of Chartered Accountants of England & Wales and a former fellow of the Chartered Institute of Bankers in London. He retired in 2003 as Executive Director and Chief Financial Officer of The HongKong and Shanghai Hotels, Limited. Mr. Rhys' career in Hong Kong commenced with KPMG Peat Marwick (formerly known as Peat, Marwick, Mitchell & Co.), followed by Moller's Limited, HSBC and latterly with China Light & Power Company, Limited. He will resign as an independent non-executive director of the Company, the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company, with effect from midnight of 24 March 2011

THADDEUS T. BECZAK, aged 60, is an independent non-executive director of the Company since 2004. He also serves on the Audit Committee and Remuneration Committee of the Company. He is currently the Chairman of Cowen Latitude Advisors Limited and Vice Chairman of Cowen and Company, LLC. He is also the non-executive Chairman of ACR Capital Holdings Pte Ltd, Artisan Du Luxe Holding Limited and an independent non-executive director of a number of listed companies, including: Advanced Semiconductor Manufacturing Corp Limited based in Shanghai; and Phoenix Satellite Television and Pacific Online Limited, all headquartered in Hong Kong.

Mr. Beczak is also an adjunct professor of the MBA Program of Hong Kong University of Science and Technology.

Mr. Beczak was the independent non-executive director of Namtai Electronic & Electrical Products Limited from May 2004 to May 2009. He was also the Senior Advisor at Nomura International (Hong Kong) Limited and was also the Chairman of Nomura Asia Holdings N.V. from 2006 until March 2008.

From November 1997 until December 2002, Mr. Beczak was Chairman of the Listing Committee of the Hong Kong Stock Exchange and a member of the Hong Kong Stock Exchange Board of Directors from 1998 until 2001. From June 2001 until May 2007, Mr. Beczak was a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong. Currently, he is a member of the International Advisory Committee of the China Securities Regulatory Commission.

From September 1997 until December 2003, Mr. Beczak was a Director of Kerry Holdings Limited. During this time he also held various Board and operating positions within the group, including Deputy Chairman of SCMP Holdings Limited and Publisher of South China Morning Post Publishers Limited, Deputy Chairman of Shangri-La Asia Limited, Deputy Chairman of Kuok Philippines Properties, a Director of China World Trade Center Limited and a Director of Kerry Properties Limited.

Prior to joining the Kerry Group, Mr. Beczak was a Managing Director of J.P. Morgan Inc., and President of J.P. Morgan Securities Asia from 1990 until 1997. While at J.P. Morgan, Hong Kong, he was a Director of the Bank of the Philippine Islands and a Committee Member of the Hong Kong Association of Banks. Mr. Beczak has over 30 years of experience in Asia.

Mr. Beczak is a graduate of Georgetown University (B.S.F.S.), and Columbia University (M.B.A). He is a member of the Board of Advisors of the School of Foreign Service at Georgetown.

Mr. Beczak will resign as an independent non-executive director, the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company, with effect from midnight of 24 March 2011.

The Board has approved the appointment of the following directors and company secretary with effect from 25 March 2011:

WANG, JOHN PETER BEN (aged 50)
Chairman and Executive Director

Mr. Wang will become the Chairman and Executive Director of the Company with effect from 25 March 2011. He is currently a director of Melco Crown Entertainment Limited, a company listed on the NASDAQ Global Select Market in the United States. He also holds non-executive directorships in Oriental Ginza Holdings Limited and China Precious Metal Resources Holdings Co., Ltd., both of which are listed on the Main Board of the Hong Kong Stock Exchange. He is also a non-executive director of MelcoLot Limited, a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. Before joining Melco International Development Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, in 2004 where he held the position of group chief financial officer until September 2009, Mr. Wang had substantial working experience in the investment banking industry. His previous employers include JS Cresvale International Limited, Deutsche Morgan Grenfell Securities Hong Kong Limited, Credit Lyonnais Securities (Asia) Limited, Carr Indosuez Asia Limited and Bear Stearns (Hong Kong) Limited. Mr. Wang qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales in 1985.

TSUI YIU WA, ALEC (aged 61)
Independent Non-executive Director

Mr. Tsui will become an Independent Non-executive Director of the Company with effect from 25 March 2011. He will also become the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. He is currently the Chairman of WAG Worldsec Corporate Finance Limited and an independent non-executive director of a number of listed companies in Hong Kong, Nasdaq and Shanghai, including China Chengtong Development Group Limited, COSCO International Holdings Limited, China Power International Development Limited, China Blue Chemical Limited, Pacific Online Ltd., all listed on the Hong Kong Stock Exchange, and China Oilfield Services Limited, a company listed on both the Hong Kong Stock Exchange and Shanghai Stock Exchange, and Melco Crown Entertainment Limited and ATA Inc., both listed on Nasdaq. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited ("ICBC (Asia)") starting from 2000. ICBC (Asia) was listed on the Hong Kong Stock Exchange until December 2010 when it was privatized. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management, having served at various international companies. He held key positions at the SFC prior to joining the Stock Exchange in 1994 as an Executive Director of the Finance and Operations Services Division and became the chief executive in 1997. He was the Chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He previously served as an independent non-executive director of certain Hong Kong listed companies, namely Synergis Holdings Limited, Vertex Group Limited, Greentown China Holdings Limited and China Huiyuan Juice Group Limited. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a Master of Engineering degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government at Harvard University.

PANG HING CHUNG, ALFRED (aged 49)
Independent Non-executive Director

Mr. Pang will become an Independent Non-executive Director of the Company with effect from 25 March 2011. He will also become a member of the Audit Committee of the Company. He is currently the Vice Chairman, Asia Coverage & Banking and a director of Standard Bank Asia Limited ("Standard Bank") (also a member of Standard Bank's Asia Executive Committee) and an independent non-executive director of MelcoLot Limited, a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. Mr. Pang has over 25 years of financial, management and investment banking experience in China, Asia and the United States. Before joining Standard Bank, Mr. Pang was the Managing Director and Vice Chairman, Investment Banking Division, at BOC International Holdings Ltd. ("BOCI") where he was also the Chairman of BOCI's Commitment Committee. Prior to joining BOCI, he was the Managing Director and President, Asia at the US investment banking firm of Donaldson Lufkin & Jenrette. Mr. Pang holds dual Bachelor of Arts (in Economics) & Bachelor of Science (in Electrical Engineering) Degrees from Cornell University, and MBA Degree from Stanford University Graduate School of Business in the United States.

TYEN KAN HEE, ANTHONY (aged 55)
Independent Non-executive Director

Dr. Tyen will become an Independent Non-executive Director of the Company with effect from 25 March 2011. He will also become the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is currently an independent non-executive director of Melco International Development Limited, a company listed on the Hong Kong Stock Exchange and an independent director of Entertainment Gaming Asia Inc., a company listed on the New York Stock Exchange (NYSE-Amex). He was previously an independent non-executive director of two Hong Kong listed companies, namely, Value Convergence Holdings Limited and Recruit Holdings Limited. Dr. Tyen holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators and a member of both the Chinese Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is currently a practising certified public accountant in Hong Kong and has over 30 years' experience in auditing, accounting, management and company secretarial practice.

TSANG YUEN WAI, SAMUEL
Company Secretary

Mr. Tsang will become the Company Secretary of the Company with effect from 25 March 2011. Mr. Tsang is a solicitor admitted in Hong Kong, England and Australia. Mr. Tsang has worked as a lawyer with major law firms and listed conglomerates in Hong Kong for over 20 years. He holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management.

Registered Office
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Company Secretary
Lai Ka Tak, Patrick

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
Credit Agricole Corporate & Investment Bank

Auditors
PricewaterhouseCoopers

Head Office and Principal Place of Business
6/F Victoria Centre
15 Watson Road
North Point, Hong Kong

Shanghai Office
Unit 210,
Man Po International Business Centre
664 Xin Hua Road
Shanghai
The People's Republic of China

Macau Office
20/F, AIA Tower
251A-301, Avenida Commercial De Macau

Principal Share Registrar and Transfer Agent
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke HM08, Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Unit 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Website
http://www.arnhold.com.hk

The directors have pleasure in submitting the annual report together with the audited financial statements of Arnhold Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are shown in note 20 to the financial statements.

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the consolidated financial statements.

Major Customers and Suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers during the financial year are as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	9.9%	
Five largest customers in aggregate	26.3%	
The largest supplier		20.5%
Five largest suppliers in aggregate		49.8%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these major customers or suppliers.

Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 39.

The board of directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2010.

The Board recommended the declaration of a special dividend of not less than HK$0.7437 per share (based on 236,396,000 shares in issue as at 31 December 2010 and assuming 1,600,000 share options outstanding as at 31 December 2010 to be exercised in full) amounting to not less than HK$177,000,000 (2009: HK$ Nil), subject to the completion of the Share Transfer Agreement and the Disposal Agreement. This proposed special dividend was approved by the shareholders at the Special General Meeting on the 17 February 2011.

On 22 February 2011, the Board resolved that the actual special dividend be HK$0.8279 per share to be distributed to the shareholders whose names appear on the registrar of members of the Company on 16 February 2011. The special dividend which amounted to HK$196,990,000 was paid on 25 February 2011.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: final dividend of HK$0.055 per share, totalling HK$12,424,000).

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 30 to the consolidated financial statements.

Charitable Donations

Donations made by the Group during the year amounted to HK$21,000 (2009: HK$15,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

Principal Properties

Details of the principal properties are set out on page 104.

Share Capital

Details of the movements in share capital of the Company are set out in note 29 to the consolidated financial statements.

Distributable Reserves

Distributable reserves include contributed surplus and retained earnings. A memorandum of reduction of share premium of the Company was delivered to the Registrar of Companies on 21 February 2011, resulting in cancellation of the entire amount standing to the credit of the Company's share premium account as at 31 December 2010 of HK$98,427,000. Following this, the share premium was classified as a distributable reserve.

Distributable reserves of the Company at 31 December 2010, as defined by the Companies Act 1981 of Bermuda, amounted to HK$78,392,000 (2009: HK$89,461,000).

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 103.

Retirement Schemes

Particulars of the retirement schemes of the Group and the Company as at 31 December 2010 are set out in note 11 to the consolidated financial statements.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year ended 31 December 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Pre-emptive Rights

No pre-emptive rights exist under the laws of Bermuda in relation to issue of new shares by the Company.

Directors

The directors of the Company during the year and up to the date of the Report are:

Existing directors:
Executive directors:
Mr. Michael John Green *(also appointed as alternate director to Simon Murray)*
Mr. Daniel George Green
Mr. Lai Ka Tak, Patrick

Non-executive directors:
Mr. Augustus Ralph Marshall *(retired as director on 13 May 2010)*
Mr. Lim Ghee Keong *(appointed on 13 May 2010)*
Mr. Christopher John David Clarke

Independent non-executive directors:
Mr. Owen Mark Lewellin Rhys
Mr. Thaddeus Thomas Beczak
Mr. Simon Murray

The Company has received annual confirmations of independence from each of Messrs. Owen Mark Lewellin Rhys, Simon Murray and Thaddeus Thomas Beczak and considered them as independent in accordance with the Listing Rules.

All the existing directors will resign from the Board with effect from midnight of 24 March 2011.

Directors (cont'd)

Newly appointed directors:

The Board has approved the appointment of the following directors with effect from 25 March 2011:

Executive director:

Mr. Wang, John Peter Ben *(Chairman)*

Independent non-executive directors:

Mr. Tsui Yiu Wa, Alec

Mr. Pang Hing Chung, Alfred

Dr. Tyen Kan Hee, Anthony

Pursuant to bye-law 86(2) of the Bye-laws of the Company (the "Bye-laws"), any director appointed during the year shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. In addition, pursuant to code provision A.4.2 of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment. On 22 February 2011, the Board approved the appointment of Mr. Wang, John Peter Ben, Mr. Tsui Yiu Wa, Alec, Mr. Pang Hing Chung, Alfred and Dr. Tyen Kan Hee, Anthony as directors of the Company, all with effect from 25 March 2011. In accordance with the provisions of the Bye-law and CG Code, such directors will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the directors who will be proposed for re-election at the forthcoming annual general meeting (i.e. Mr. Wang, John Peter Ben, Mr. Tsui Yiu Wa, Alec, Mr. Pang Hing Chung, Alfred and Dr. Tyen Kan Hee, Anthony) has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Related Party Transactions

Significant related party transactions entered into by the Group during the year ended 31 December 2010, which do not constitute connected transactions under the Listing Rules are disclosed in note 35 to the consolidated financial statements.

Share Option Scheme

A Share Option Scheme ("the Scheme") was approved and adopted by the shareholders at a special general meeting of the Company on 11 July 2002. The following information relating to the Scheme is made pursuant to the requirements as contained in Chapter 17 of the Listing Rules (reference is made to the circular of the Company dated 24 June 2002 (the "Share Option Scheme Circular"). Terms defined in the Share Option Scheme Circular have the same meanings when used in the following summary unless the context requires otherwise):

i) Purpose of the Scheme

The purpose of the Scheme is to recognise and acknowledge the contribution that Eligible Persons have made or may make to the Company and to attract and retain and motivate talented staff.

ii) Participants of the Scheme

The participants of the Scheme shall be such Eligible Persons as the Board in its absolute discretion determines.

iii) Maximum number of Shares available for issue under the Scheme

The maximum number of the Shares which may be issued upon exercise of all outstanding Options to subscribe for Shares granted and yet to be exercised under the Scheme and any other share option scheme shall not exceed 10% of the total number of Shares in issue of the Company as at the date of approval of the Scheme. As at 31 December 2010 and the date of this report, 8,949,600 Shares were available for issue under the Scheme representing 3.79% of the issued share capital of the Company.

iv) Maximum entitlement to any one participant

Under the Scheme, the maximum entitlement to Options of each Eligible Person shall be such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to him/her in any 12 months period up to each Commencement Date must not exceed 1% of the issued share capital of the Company at the relevant Commencement Date.

v) Period and payment on acceptance of options

Under the Scheme, an Offer may be accepted by an Eligible Person in whole or in part in respect of all Shares for which it is offered to such Eligible Person when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Person together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within forty days from the Offer Date.

Share Option Scheme (cont'd)

vi) The basis of determining the exercise price

The Subscription Price in respect of any Option shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the relevant Commencement Date in respect of such Option, which must be a Business Day; (ii) an amount equivalent to the mean closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the relevant Commencement Date in respect of such Option, which must be a Business Day, and (iii) the nominal value of a Share.

vii) Remaining life of the Scheme

The Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless otherwise terminated under the terms of the Scheme.

Details of Options granted to directors and employees under the Scheme as at 31 December 2010 are as follows:

	Date of options granted	Outstanding options as at 1 January 2010	Granted during the year	Exercised/ lapsed/cancelled during the year	Outstanding options as at 31 December 2010	Subscription price per share HK$
Directors						
Daniel George Green	18 September 2003	1,200,000	–	(1,200,000)	–	0.500
	19 November 2004	2,000,000	–	(2,000,000)	–	0.602
	21 November 2005	2,200,000	–	(2,200,000)	–	0.700
	02 January 2008	1,600,000	–	–	1,600,000	1.490
Lai Ka Tak, Patrick	18 September 2003	900,000	–	(900,000)	–	0.500
	19 November 2004	1,700,000	–	(1,700,000)	–	0.602
	21 November 2005	1,800,000	–	(1,800,000)	–	0.700
Employees	18 September 2003	200,000	–	(200,000)	–	0.500
	21 November 2005	500,000	–	(500,000)	–	0.700
		12,100,000	–	(10,500,000)	1,600,000	

Share Option Scheme (cont'd)

On the days before the Options were granted, 17 September 2003, 18 November 2004, 20 November 2005 and 31 December 2007, the market value per share was HK$0.50, HK$0.60, HK$0.70 and HK$1.49 respectively.

The Options granted on 18 September 2003 can be exercised in two instalments, 50% of which at any time between 1 September 2005 and 30 August 2010 and the remaining 50% at any time between 1 September 2006 and 30 August 2010.

The Options granted on 19 November 2004 can be exercised in two instalments, 50% of which at any time between 1 November 2006 and 30 August 2010 and the remaining 50% at any time between 1 November 2007 and 30 August 2010.

The Options granted on 21 November 2005 can be exercised in two instalments, 50% of which at any time between 1 November 2007 and 30 August 2010 and the remaining 50% at any time between 1 November 2008 and 30 August 2010.

The Options granted on 2 January 2008 can be exercised in two instalments, 50% of which at any time between 2 January 2010 and 10 July 2012 and the remaining 50% at any time between 2 January 2011 and 10 July 2012.

Apart from the Scheme mentioned above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. Apart from the Scheme mentioned above, none of the directors (including their spouses and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the Company.

Based on the binomial option pricing model, the fair value of the Options granted on 18 September 2003, 19 November 2004, 21 November 2005 and 2 January 2008 are HK$0.248, HK$0.141, HK$0.180 and HK$0.680 respectively. However, since the valuation relies on subjective assumptions such as the estimated volatility of the Share price, the binomial option pricing model does not necessarily provide a reliable measure of the fair value of the Options. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Share Option Scheme (cont'd)

The weighted average assumptions used are as follows:

	Options granted on 2 January 2008	21 November 2005	19 November 2004	18 September 2003
Risk free interest rate (in %)	2.7	4.4	2.8	3.8
Expected life (in years)	4.5	5.0	6.0	6.9
Volatility (in %)	65.4	51.2	49.2	77.5
Expected dividend per share (cents)	4.4	4.4	4.4	4.4

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2010, the interests and short positions of each director in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HK$0.10 each

	Number of shares held						
	Personal interests	Family interests	Corporate interests	Trusts and similar interests	Equity derivatives (Note iii)	Total interests	Percentage of issued share capital
Executive directors:							
Michael John Green	1,272,000	–	–	166,093,617 (Note i)	–	167,365,617	70.80%
Daniel George Green	7,002,000	–	–	166,093,617 (Note ii)	1,600,000	174,695,617	73.90%
Lai Ka Tak, Patrick	2,000,000	–	–	–	–	2,000,000	0.85%
Non-executive directors:							
Christopher John David Clarke	200,000	–	–	–	–	200,000	0.08%
Lim Ghee Keong	–	–	–	–	–	–	–
Independent non-executive directors:							
Owen Mark Lewellin Rhys	–	–	–	–	–	–	–
Thaddeus Thomas Beczak	–	–	–	–	–	–	–
Simon Murray	343,487	–	–	–	–	343,487	0.15%

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures (cont'd)

Notes:

(i) Such shares were held through corporations on behalf of the Michael Green Family Trust.

(ii) Such shares were held through corporations on behalf of the Michael Green Family Trust in which Mr. Daniel George Green has a beneficial interest.

(iii) These represented interests of options granted to directors under a share option scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme" of this report.

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the directors held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, at no time during the year, the directors and chief executives (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2010, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued ordinary share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives:

Name of shareholder	Ordinary shares held	Percentage of total issued shares
Pacific Investments (BVI) Limited	16,957,431	7.17%

Pacific Investments (BVI) Limited is a wholly-owned subsidiary of Usaha Tegas Sdn. Bhd.

Save as disclosed above, as at 31 December 2010, the directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Management Contracts

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

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 36.

Sufficiency of Public Float

Based on the information after the close of the Offers on 21 March 2011, approximately not more than 42,600,000 Shares, representing approximately 17.9% of the issued share capital of the Company, were in the hands of the public. Accordingly, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules was not satisfied. The Company has applied to the Stock Exchange for a waiver, for the period from the closing date of the Offers up to and including 18 April 2011, from strict compliance with Rule 8.08(1)(a) of the Listing Rules. The directors of the Company will take appropriate steps to restore the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules as soon as possible.

Subsequent events

On 21 January 2011, a supplemental agreement to the Disposal Agreement was entered into between the Company and Green Motherlode (the "Supplemental Disposal Agreement") to provide for, among other things, with respect to the business contracts, including purchase orders, supply orders and distribution contracts relating to the Remaining Business (the "Business Contracts"), that could not be novated/assigned by the Disposal Group to the Remaining Group, where as agreed by the Company and Green Motherlode under the Supplemental Disposal Agreement, (i) the transfer of money received by the Disposal Group in respect of the Remaining Business (with no service fee) to the Remaining Group within 3 business days upon receipt of such monies, and (ii) the assumption and performance by the Remaining Group of all benefits, rights, obligations and liabilities under such Business Contracts of the Remaining Business as if the Remaining Group had been an original party to such Business Contracts, and including a deed of undertaking to be entered into between Arnhold & Company Limited and Arnhold Trading Limited on Disposal Completion (collectively the "Supplemental Arrangements"). In addition, for Capital Reorganisation, it had been proposed to amend to transfer the entire amount of HK$98,426,610 standing to the credit of the share premium account of the Company as at 31 December 2010 to the Company's contributed surplus account.

Subsequent events (cont'd)

On the same date, a supplemental share transfer agreement was entered into between the Offeror and the Vendors (the "Supplemental Share Transfer Agreement") to provide for, among other things, (i) the amendment of the references to the Disposal Agreement in the Share Transfer Agreement to include references to the Disposal Agreement as amended by the Supplemental Disposal Agreement; and (ii) the change of the release of the HSBC guarantee from a share transfer condition to a post-share transfer completion undertaking.

The Supplemental Arrangements, being part of the Disposal, also constitute a special deal for the Company under Rule 25 of the Takeovers Code and require the consent of the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong. Such consent was granted and was subjected to (i) the independent financial adviser publicly stating that in its opinion the terms of the disposal (including the Supplemental Arrangements) are fair and reasonable (please refer to the circular dated 24 January 2011 for details); and (ii) the approval of the disposal (including the Supplemental Arrangements) by the special deal independent shareholders at special general meeting.

All of the above transactions, including the terms and conditions in the Disposal Agreement, Share Transfer Agreement and Lease Agreement, were approved by the shareholders by way of poll in an special general meeting held on the 17 February 2011.

The Group announced on the 22 February 2011 that, subject to and upon Disposal Completion and the Capital Reorganisation becoming effective, the board of directors had resolved that a special dividend out of the distributable reserve of the Company of HK$0.8279 per share (approximately HK$197 million in total) be distributed to the shareholders, as approved by the shareholders in the same special general meeting on the 17 February 2011. The special dividend was paid on the 25 February 2011.

On the same date, the board of directors announced that, as a result of the completion of the share transfer, all existing members of the board and the existing company secretary of the Company would resign with effect from midnight of 24 March 2011. In the same announcement, the board was also pleased to announce that Mr. Wang, John Peter Ben would be appointed as executive director; Mr. Tsui Yiu Wa, Alec, Mr. Pang Hing Chung, Alfred and Dr. Tyen Kan Hee, Anthony would be appointed as independent non-executive directors and Mr. Tsang Yuen Wai, Samuel would be appointed as company secretary, all with effect from 25 March 2011.

Following the completion of the disposal and the share transfer on 22 February 2011, the Offeror made an unconditional mandatory general cash offer for the existing shares, excluding shares owned by the Offeror, and share options, as required by Rule 26.1 and 13 of the Takeovers Code.

Reference is made to the circular dated 24 January 2011 (the "Circular"). Unless otherwise defined herein, capitalised terms used in this Annual Report shall have the same meanings as those defined in the Circular.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2010 with the directors.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Michael John Green
Chairman

Hong Kong, 24 March 2011

The Company is committed to maintaining high standards of corporate governance in fulfilling the responsibilities to shareholders. Our business culture and practices are founded upon a common set of values that govern our relationships with customers, employees, shareholders, suppliers and the communities in which we operate. The Company also acknowledges and appreciates its responsibility towards society at large and has embarked upon various initiatives to effectuate this.

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules which came into effect in January 2005 and was further updated in February 2009. Throughout the year and up to the date of this report, the Group has complied with all the code provisions of the Code, except that it was noted that a director of the Company, Mr. Christopher John David Clarke, sold a total of 100,000 shares in the Company on 2 March 2011 and 3 March 2011. These transactions took place within the black-out period under rule A3(a)(i) of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") without notification to the chairman of the Company. The non-compliance was not deliberate and completely unintentional and was due to a misunderstanding on the part of Mr. Clarke regarding the effective date of his resignation as a non-executive director of the Company. Such change of interest was subsequently disclosed on 21 March 2011 immediately after it was bought to the attention of the Company and the director concerned.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company, having made specific enquiries, confirms that all Directors complied throughout the year with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions. However, one exception was noted after the year end and the details were disclosed above. The Company has paid due regard to this non-compliance and in order to prevent the occurrence of similar incidents, the management of the Company has immediately taken steps to remind the directors of the dealing restriction during the black-out period.

The Board

Composition of the Board

The Board of the Company comprises eight members. Apart from the Chairman who is an executive Director, the Board comprises two executive Directors and five non-executive directors of which three are independent. The composition of the Board is in conformity with rules 3.10(1) and 3.10(2) of the Listing Rules which stipulates a minimum of three independent non-executive Directors with at least one of the independent non-executive Director possesses professional appropriate qualifications and expertise.

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

Executive Directors
Mr. Michael John Green *(Chairman) (also appointed as alternate director to Simon Murray)*
Mr. Daniel George Green *(Managing Director)*
Mr. Lai Ka Tak, Patrick

Non-executive Directors
Mr. Lim Ghee Keong
Mr. Christopher John David Clarke

Independent non-executive Directors
Mr. Owen Mark Lewellin Rhys
Mr. Thaddeus Thomas Beczak
Mr. Simon Murray

The Board (cont'd)

Composition of the Board (cont'd)

Mr. Michael John Green is the father of Mr. Daniel George Green and has certain investments made in common with Mr. Simon Murray. Biographies of the Directors are set out on pages 9 to 12 of this Report.

The Company has received the annual confirmations of independence from each of the independent non-executive Directors and the Company considers all independent non-executive Directors to be independent.

After the release of this report, the existing directors will resign from the Board and the Board has approved the appointments of the new directors with effect from 25 March 2011. Details of the new Board and profile of the new directors are set out on page 13 to page 14.

Throughout the year, the Board held 4 meetings. A summary of the attendance of respective Directors is stated below:

			No. of meetings	
Name of Directors	Designation in the Board	Category	Held during the year	Attended
Michael John Green	Chairman	Executive Director	4	4
Daniel George Green	Managing Director	Executive Director	4	4
Lai Ka Tak Patrick	Finance Director	Executive Director	4	4
Augustus Ralph Marshall (retired on 13 May 2010)	Director	Non-executive Director	4	1*
Lim Ghee Keong (appointed on 13 May 2010)	Director	Non-executive Director	4	3
Christopher John David Clarke	Director	Non-executive Director	4	3
Owen Mark Lewellin Rhys	Director	Independent non-executive Director	4	4
Thaddeus Thomas Beczak	Director	Independent non-executive Director	4	4
Simon Murray	Director	Independent non-executive Director	4	4**

* Attended by Mr. Lim Ghee Keong as alternate Director

** Attended by Mr. Michael John Green as alternate Director in 3 of the meetings

Division of Responsibilities

The Board is chaired by the Chairman and daily management is overseen by the Managing Director ("MD") whose role is similar to that of a CEO. The Board members meet from time to time to discharge their duties effectively including setting corporate strategic objectives; identifying potential risks and affirming that available policies are in hand; delivering standards of directors, chief executives' ethical behaviour; ensuring company accounts are prepared on a going concern basis; and disclosures are communicated to authorities and the public on a timely basis. The management formulates and implements the Board's decisions while the Board ratifies and monitors the same.

Mr. Michael John Green and Mr. Daniel George Green hold the posts of Chairman and MD respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the MD's responsibility to manage the Company's business.

As the Chairman of the Company, Mr. Michael John Green not only oversees the effective running of the Board but also plays a full and constructive part in the development and determination of the Group's strategies and overall commercial objectives. With close consultation with the Chairman, other Board members and the management team, the MD develops the Group's strategies and implements the decisions of the Board and its committees. The Board also comprises independent non-executive Directors who bring strong independent judgement, knowledge and experience to the Board's deliberations.

Directors' Appointment

The Board as a whole is responsible for considering the suitability of an individual to act as a director of the Company, and approving and terminating the appointment of a director of the Company. No nomination committee has been established by the Company

The executive directors of the Company are responsible for selecting and recommending suitable candidates for members of the Board based on their characters, qualifications, experience and background, when there is a vacancy or an additional director is considered necessary.

Non-executive Directors

Under the Code, non-executive directors should be appointed for a specific term. The Company has entered into service contracts with all existing non-executive directors of the Company for a term of one year directorships all of which are subject to an annual retirement and the re-election of the director of the Company is subject to the approval of shareholders at the Company's annual general meeting in each year.

Remuneration of Committee

The Company established the Remuneration Committee in 2005 with written terms of reference in compliance with the Code (which were approved and adopted by the Board in December 2009). The Committee comprises two independent non-executive Directors and one non-executive Director. Mr. Thaddeus Thomas Beczak was appointed Chairman of the Committee.

The Remuneration Committee makes recommendations to the Board in respect of the Company's policy on directors' remuneration packages. The Committee helps to establish and maintain an appropriate and competitive level of remuneration to attract, retain and motivate people of highest calibre and experience needed to shape and execute strategy and deliver shareholder value in the context of an ever more competitive employment market. Adopted terms of reference of the Remuneration Committee are available on the website of the Company.

During the year, the Remuneration Committee members met once to determine the remuneration policies of the Group, assess performance of executive Directors and approving the terms of executive Directors' service contracts. No executive Director takes part in any discussion about his own remuneration. Details of Directors' emoluments and retirement benefits and the granting of share options during the year are disclosed on pages 73 to 75 and pages 20 to 21 of this Report respectively.

Composition of the Remuneration Committee and details of members' attendance to the Committee are set out below:

Name of member	Designation in the Committee	Number of meetings Held during the year	Attended
Mr. Thaddeus Thomas Beczak	Chairman	1	1
Mr. Owen Mark Lewellin Rhys	Member	1	1
Mr. Christopher John David Clarke	Member	1	1
Mr. Michael John Green	Advisor	1	1

Audit Committee

The Audit Committee was established with written terms of reference that describe the authority and duties of the Committee. Such terms of reference were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and in compliance with the code provisions stipulated in the Code. Currently, the Audit Committee comprises two independent non-executive Directors, namely Messrs. Owen Mark Lewellin Rhys and Thaddeus Thomas Beczak and a non-executive director, Mr. Christopher John David Clarke, who among themselves possess appropriate professional qualifications or expertise as required under rule 3.21 of the Listing Rules. Mr. Owen Mark Lewellin Rhys is the Chairman of the Audit Committee. Adopted terms of reference of the Audit Committee are available on the website of the Company.

The Audit Committee is accountable to the Board. It provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. The Group's external auditors are PricewaterhouseCoopers. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee reviews the effectiveness of the external audit and of internal controls and risk evaluation. In fulfilling its responsibilities, the work of the Audit Committee during the year include the following:

i) a review of the draft annual and interim financial statements and the draft results announcements of the Company focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval;

ii) a review of the results of external audit and discussion with the external auditors;

iii) a review of the potential risks in areas of operation and financial information systems as well as the industry environment as a whole and possible ways to migrate such risks; and

iv) a review of the adequacy and effectiveness of the Group's system of internal controls, through review of the work undertaken by the management and external auditors.

Audit Committee (cont'd)

Composition of the Audit Committee and details of members' attendance to the Committee meetings are set out below:

Name of member	Designation in the Committee	Number of meetings Held during the year	Attended
Mr. Owen Mark Lewellin Rhys	Chairman	2	2
Mr. Thaddeus Thomas Beczak	Member	2	2
Mr. Christopher John David Clarke	Member	2	1

Auditor's Remuneration

During the year, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

Nature of services	Amount (HK$)
Audit services	1,849,595
Non audit services	
(i) Tax services	186,960
(ii) Other services	1,300,000

Directors' Acknowledgement Re Preparation on Financial Statements

The Board acknowledges its responsibility to prepare the financial statements of the Group. In the statements, the generally accepted accounting standards in Hong Kong have been adopted; appropriate accounting policies have been used and applied consistently; reasonable and prudent judgements and estimates have been made; and relevant financial disclosure obligations under the Listing Rules have been taken into account.

The relevant responsibility statement from the external auditors made pursuant to the Code is set out in the Report of the Auditors on pages 37 to 38.

The Board has reviewed the business plan of the Group in respect of the forthcoming financial year and is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Internal Controls

The Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company maintains a well-established control framework comprising clear structures and accountabilities, well-understood policies and procedures and budgeting and review process. The management meets monthly with the executive Directors to review divisional financial performance, business development plans, management issues, financial budgets and forecasts and capital expenditure proposals. The executive Directors also regularly receive reports from executives and functional heads on key risk subjects.

The Board works together with the Audit Committee to discharge its internal control responsibility for the ongoing oversight of the internal control framework which provides an important key to reinforcing the organisation's commitment to internal control.

The Company has implemented an annual programme to conduct an in-depth review of financial, operational and compliance controls and compliance with company financial policies at business units. The Board reports its findings to the Audit Committee and any material issues are reported and discussed with the Board.

Investor Relations

The Chairmen of the Company and of the Committees are available at annual general meetings to answer questions raised by shareholders of the Company or other parties. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

Changes to constitutional documents

The Company adopted, at the annual general meeting held on 6 May 2005, a new set of Bye-laws to incorporate the changes promulgated by the new Listing Rules effective on 1 January 2004, bringing it up to date with the Securities and Futures Ordinance and in line with current best practices.

Investor Relations (cont'd)

General meeting

The general meeting provides a forum for the Board to communicate with the shareholders. During the year and up to the date of the report, the Company held one annual general meeting on 13 May 2010 and one special general meeting on 17 February 2011. The following ordinary resolutions were passed at the annual general meeting by way of poll:

1. To receive and adopt the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2009.

2. To declare a final dividend of 5.5 HK cents per share for the year ended 31 December 2009

3. To re-elect Mr. Michael John Green as a director.

4. To re-elect Mr. Daniel George Green as a director.

5. To re-elect Mr. Lai Ka Tak, Patrick as a director.

6. To re-elect Mr. Christopher John David Clarke as a director.

7. To re-elect Mr. Owen Mark Lewellin Rhys as a director.

8. To re-elect Mr. Simon Murray as a director.

9. To re-elect Thaddeus Thomas Beczak as a director.

10. To appoint Mr. Lim Ghee Keong as a director.

11. To authorise the board of directors to fix the remuneration of the directors.

12. To re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company and authorise the board of directors to fix their remuneration..

13A. To grant a general mandate to the directors to issue securities.

13B. To grant a general mandate to the directors to repurchase the Company's securities.

13C. To extend the securities issue mandate granted to the directors to include securities repurchased by the Company.

Investor Relations (cont'd)

General meeting (cont'd)

The following resolutions were passed at the special general meeting on 17 February 2011 by way of poll:

1A. The terms and conditions of the Disposal Agreement in relation to the sale and purchase of all the Sale Shares between the Company as vendor and Green Motherlode as purchaser dated 20 December 2010 and the transactions contemplated thereunder and were approved and the execution of the Disposal Agreement (including the conditional agreement dated 20 December 2010 in relation to the Disposal, as amended and supplemented by the Supplemental Disposal Agreement dated 21 January 2011) by a Director was approved, confirmed and ratified in all respects; and the Directors (or anyone of them) were authorised to do such acts or things and execute such documents (including but not limited to the affixing of the seal of the Company) which in their/his/her opinion may be necessary, desirable or expedient to carry out or to give effect.

1B. The terms and conditions of the Lease Agreement in relation to the leasing of certain office space to be entered into between Arnhold Properties (BVI) Limited as the lessor and ATL as the lessee for a period of 1 year at a rent of HK$24,000 per month and the transactions contemplated thereunder were approved and the execution of the Lease Agreement by a Director was approved, confirmed and ratified in all respects; and the Directors (or any one of them) were authorised to do such acts or things and execute such documents (including but not limited to the affixing of the seal of the Company) which in their/his/her opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under the Lease Agreement.

2. Subject to and upon the Disposal Completion and the Share Transfer Completion and upon the Capital Reorganisation becoming effective, a special dividend of not less than HK$0.7437 for each Share held by the Qualifying Shareholders to be declared and paid out of the contributed surplus account of the Company and the Directors were authorised and delegated the power to determine the final amount of the said special dividend to be paid on such terms, in such manner and on such date as the Directors in their absolute discretion determine; and the Directors (or any one of them)were authorised to do such acts or things and execute such documents (including but not limited to the affixing of the seal of the Company) which in their/his/her opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under this resolution.

3. Subject to the passing of the resolution numbered 2 as set out in the Notice of the SGM of which this resolution formed part, the entire amount of HK$98,426,610 standing to the credit of the share premium account of the Company as at 31 December 2010 to be cancelled and transferred to the contributed surplus account of the Company and the Directors (or any one of them) were authorised to apply all the credit standing to the contributed surplus account of the Company in such manner as may be permitted by all applicable laws; and the Directors (or any one of them)were authorised to do such acts or things and execute such documents (including but not limited to the affixing of the seal of the Company) which in their/his/ her opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under this resolution.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ARNHOLD HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Arnhold Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 102, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2011

Consolidated Statement of Comprehensive Income

	Note	For the year ended 31 December 2010 HK$'000	2009 HK$'000 (Restated)
CONTINUING OPERATIONS			
Turnover	5	**89,034**	107,134
Cost of sales	6	**(70,703)**	(86,494)
Gross profit		**18,331**	20,640
Operating expenses	7	**(17,020)**	(19,623)
Operating profit		**1,311**	1,017
Finance income	8	**80**	94
Finance costs	8	**–**	(4)
Profit before income tax		**1,391**	1,107
Income tax expense	12	**–**	–
Profit for the year from continuing operations		**1,391**	1,107
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	14	**9,955**	85
PROFIT FOR THE YEAR, ATTRIBUTABLE TO SHAREHOLDERS		**11,346**	1,192
Other comprehensive income			
Surplus on revaluation of available-for-sale financial assets attributable to discontinued operations	30	**234**	88
Total comprehensive income for the year, attributable to shareholders		**11,580**	1,280
Basic earnings per share (HK cents)	15		
– continuing operations		**0.60**	0.49
– discontinued operations		**4.30**	0.04
		4.90	0.53
Diluted earnings per share (HK cents)	15		
– continuing operations		**0.60**	0.48
– discontinued operations		**4.29**	0.04
		4.89	0.52
Proposed dividend	16	**196,990**	12,424
Proposed dividend per share (HK cents)	16	**82.8**	5.5

The notes on pages 47 to 102 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December		
	Note	**2010 HK$'000**	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
NON-CURRENT ASSETS				
Investment property	17	**–**	–	3,341
Property, plant and equipment	18	**–**	89,792	93,456
Lease prepayments	19	**–**	4,064	4,150
Available-for-sale financial assets	21	**–**	2,875	2,787
Deferred income tax assets	31	**–**	246	246
		–	96,977	103,980
CURRENT ASSETS				
Investment property held for sale	22	**–**	2,681	–
Inventories	23	**5,358**	20,968	27,385
Trade and other receivables	24	**15,437**	90,693	107,008
Derivative financial instruments	25	**184**	285	371
Current income tax recoverable		**–**	–	1
Cash and cash equivalents	26	**334**	97,575	77,108
		21,313	212,202	211,873
Assets of disposal group classified as held for sale	14	**307,212**	–	–
Total current assets		**328,525**	212,202	211,873
CURRENT LIABILITIES				
Trade and other payables	27	**18,447**	86,041	78,946
Derivative financial instruments	25	**272**	856	4,413
Provisions	28	**255**	2,155	2,375
Current income tax liabilities		**–**	340	–
		18,974	89,392	85,734
Liabilities of disposal group classified as held for sale	14	**84,664**	–	–
Total current liabilities		**103,638**	89,392	85,734
NET CURRENT ASSETS		**224,887**	122,810	126,139

	Note	2010 HK$'000	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
		As at 31 December		
TOTAL ASSETS LESS CURRENT LIABILITIES		**224,887**	219,787	230,119
NON-CURRENT LIABILITIES				
Deferred income tax liabilities	31	**–**	509	472
NET ASSETS		**224,887**	219,278	229,647
CAPITAL AND RESERVES				
Share capital	29	**23,640**	22,590	22,530
Reserves	30			
Proposed final dividend		**–**	12,424	12,391
Proposed special dividend		**196,990**	–	–
Others		**4,257**	184,264	194,726
		201,247	196,688	207,117
SHAREHOLDERS' FUNDS		**224,887**	219,278	229,647

Approved by the board of directors on 24 March 2011.

Michael John Green
Chairman

Lai Ka Tak, Patrick
Finance Director

The notes on pages 47 to 102 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	–	194,303
CURRENT ASSETS			
Non-current assets held for sale	20	**89,468**	–
Trade and other receivables	24	**829**	264
Amount due from a subsidiary	20	**111,599**	13,222
Cash and cash equivalents	26	**304**	474
		202,200	13,960
CURRENT LIABILITIES			
Trade and other payables	27	**653**	256
NET CURRENT ASSETS		**201,547**	13,704
NET ASSETS		**201,547**	208,007
CAPITAL AND RESERVES			
Share capital	29	**23,640**	22,590
Reserves	30	**177,907**	185,417
SHAREHOLDERS' FUNDS		**201,547**	208,007

Approved by the board of directors on 24 March 2011.

Michael John Green
Chairman

Lai Ka Tak, Patrick
Finance Director

The notes on pages 47 to 102 are an integral part of these consolidated financial statements.

	Note	For the year ended 31 December 2010 HK$'000	(Restated) 2009 HK$'000
CONTINUING OPERATIONS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax including discontinued operations		**1,391**	3,043
Depreciation of property, plant and equipment		**–**	5,809
Amortisation of lease prepayment		**–**	86
Interest income		**(80)**	(320)
Interest expenses		**–**	11
Loss on disposal of property, plant and equipment		**–**	20
Fair value loss on investment property held for sale		**–**	660
Net fair value loss/(gain) on derivative financial instruments		**1,039**	(381)
Employee share-based compensation benefits		**–**	453
CHANGES IN WORKING CAPITAL		**2,350**	9,381
(Increase)/decrease in inventories		**(3,273)**	6,417
(Increase)/decrease in trade and other receivables		**(4,432)**	16,315
Increase in trade and other payables		**8,819**	5,762
Decrease in provisions		**(190)**	(220)
CASH GENERATED FROM OPERATIONS		**3,274**	37,655
Interest received		**80**	320
Interest paid		**–**	(11)
Net settlement on derivative financial instruments		**(1,104)**	(3,090)
Hong Kong profits tax refund		**–**	179
Overseas tax paid		**–**	(1,652)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**2,250**	33,401
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		**–**	(2,171)
Proceeds from disposal of property, plant and equipment		**–**	6
Receipts in advance from disposal of investment property held for sale		**–**	1,333
NET CASH USED IN INVESTING ACTIVITIES		**–**	(832)
NET CASH OUTFLOW FROM DISCONTINUED OPERATIONS	14	**(18,599)**	–

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2010 HK$'000	(Restated) 2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		**6,528**	300
Dividend paid		**(12,680)**	(12,402)
NET CASH USED IN FINANCING ACTIVITIES		**(6,152)**	(12,102)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(22,501)**	20,467
Cash and cash equivalents at the beginning of the year		**97,575**	77,108
Cash and cash equivalents at the end of the year		**75,074**	97,575
Cash and cash equivalents attributable to continuing operations		**334**	97,575
Cash and cash equivalents attributable to discontinued operations		**74,740**	–
Cash and cash equivalents at the end of the year		**75,074**	97,575

The notes on pages 47 to 102 are an integral part of these consolidated financial statements.

Cash and cash equivalents at the end of the year include cash and cash equivalents of disposal group amounting to HK$74,740,000 (2009: HK$97,101,000). (See note 14)

	For the year ended 31 December						
	Share capital HK$'000	Contributed surplus HK$'000	Retained earnings HK$'000	Share premium HK$'000	Available-for-sale investment reserve HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2009	22,530	808	110,273	92,709	624	2,703	229,647
Comprehensive income							
Profit attributable to shareholders	–	–	1,192	–	–	–	1,192
Other comprehensive income:							
Surplus on revaluation	–	–	–	–	88	–	88
Total comprehensive income	–	–	1,192	–	88	–	1,280
Employee share option scheme:							
Issuance of ordinary shares	60	–	–	240	–	–	300
Transfer among reserves	–	–	149	–	–	(149)	–
Dividend relating to 2008 and paid in May 2009	–	–	(12,402)	–	–	–	(12,402)
Employee share-based compensation benefits	–	–	–	–	–	453	453
Total transactions with owners	60	–	(12,253)	240	–	304	(11,649)
At 31 December 2009	22,590	808	99,212	92,949	712	3,007	219,278
Representing:							
2009 Proposed final dividend			12,424				
Others			86,788				
Retained earnings attributable to shareholders as at 31 December 2009			99,212				
At 1 January 2010	22,590	808	99,212	92,949	712	3,007	219,278
Comprehensive income							
Profit attributable to shareholders	–	–	11,346	–	–	–	11,346
Other comprehensive income:							
Surplus on revaluation	–	–	–	–	234	–	234
Total comprehensive income	–	–	11,346	–	234	–	11,580
Employee share option scheme:							
Issuance of ordinary shares	1,050	–	–	5,478	–	–	6,528
Transfer among reserves	–	–	2,100	–	–	(2,100)	–
Dividend relating to 2009 and paid in May 2010	–	–	(12,680)	–	–	–	(12,680)
Employee share-based compensation benefits	–	–	–	–	–	181	181
Total transactions with owners	1,050	–	(10,580)	5,478	–	(1,919)	(5,971)
At 31 December 2010	**23,640**	**808**	**99,978**	**98,427**	**946**	**1,088**	**224,887**
Representing:							
Retained earnings attributable to shareholders at 31 December 2010			**99,978**				

The Board did not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: HK$0.055 per ordinary share, totalling HK$12,424,000) but recommended the declaration of a special dividend of not less than HK$0.7437 per share (based on 236,396,000 shares in issue as at 31 December 2010 and assuming 1,600,000 share options outstanding as at 31 December 2010 to be exercised in full) amounting to not less than HK$177,000,000 (2009: HK$ Nil), subject to the completion of the Share Transfer Agreement and the Disposal Agreement. This proposed special dividend was approved by the shareholders at the Special General Meeting on the 17 February 2011.

On 22 February 2011, the Board resolved that the actual special dividend be HK$0.8279 per share to be distributed to the shareholders whose names appeared on the registrar of members of the Company on 16 February 2011. The special dividend which amounted to HK$196,990,000 was paid on 25 February 2011.

1 General Information

The principal activities of Arnhold Holdings Limited (the "Company") and its subsidiaries (together the "Group") are (i) trading, (ii) manufacturing and export and (iii) retail and renovation operations.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2011.

2 Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value; and assets and liabilities of disposal group classified as held for sale, which are carried at lower of carrying amount and fair value less cost to sell.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The applicable HKFRSs include all applicable Hong Kong Accounting Standards ("HKASs") and Hong Kong International Financial Reporting Interpretations ("HK(IFRIC)s") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2 Summary of Significant Accounting Policies (cont'd)

2.1 Basis of Preparation (cont'd)

(a) New and amended standards adopted by the Group

The HKICPA has issued a number of revised/amended HKFRSs and new interpretations that are first effective for the financial year beginning 1 January 2010. Of these, the following developments are relevant to the Company's financial statements:

HKAS 1 (amendment)	Presentation of Financial Statements
HKAS 36 (amendment)	Impairment of Assets
HKFRS 3 (revised)	Business Combinations
HKAS 27 (revised)	Consolidated and Separate Financial Statements
HKFRS 2 (amendments)	Group Cash-Settled Share-Based Payment Transactions
HKFRS 5 (amendment)	Non-current Assets Held for Sale and Discontinued Operation
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 16	Hedges of a New Investment in a Foreign Operation
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause
HKAS 39 (amendment)	Eligible hedged items

2 Summary of Significant Accounting Policies (cont'd)

2.1 Basis of Preparation (cont'd)

(a) New and amended standards adopted by the Group

The adoption of these new and revised standards, amendments and interpretations has no material impact on the Group's results and finance position for the current or prior period except for the adoption of HKAS 17 (Amendment), "Leases".

The amendments to HKAS 17 "Leases" are effective for the Group from 1 January 2010. Amendments to HKAS 17 require that the classification of leases is based on the extent to which the risks and rewards incidental to ownership of an asset lie with the lessor or the lessee. In particular, the amendments deleted the specific guidance in the standard which previously required that the land element in a lease is normally classified as an operating lease unless title to the land is expected to be passed to the lessee by the end of the lease term. Under the amended HKAS 17, a lease of land is classified as property, plant and equipment if the lease transfers substantially all the risks and rewards incidental to ownership of the leasehold land to the lessee. The amendments to HKAS 17 are required to be applied retrospectively. Comparative information has been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of certain lease prepayments to property, plant and equipment in the consolidated balance sheet attributable to discontinued operations, as follow:

	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2009 HK$'000
Increase/(decrease) in:			
Property, plant and equipment	**41,765**	42,725	43,687
Lease prepayments	**(41,765)**	(42,725)	(43,687)
Depreciation of property, plant and equipment	**960**	962	961
Amortisation of lease prepayments	**(960)**	(962)	(961)

2 Summary of Significant Accounting Policies (cont'd)

2.1 Basis of Preparation (cont'd)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group early

The following new standard, revised/amendments to standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods.

		Effective date
HKAS 24 (revised)	Related Party Disclosures	1 January 2011
HKAS 32 (amendment)	Classification of Right Issues	1 January 2011
HKFRS 9	Financial Instruments	1 January 2013
HKAS 12 (amendments)	Deferred Tax: Recovery of Underlying Assets	1 January 2012
HKFRS 7 (amendments)	Financial Instruments: Disclosure	1 July 2011
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement	1 January 2011
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 February 2010

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

2.3 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (note 2.10). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of Significant Accounting Policies (cont'd)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the 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 dollars, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) *Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

2 Summary of Significant Accounting Policies (cont'd)

2.6 Property, plant and equipment

Buildings comprise mainly leasehold land classified as finance lease, a factory, warehouses and offices. Buildings are shown at cost less accumulated depreciation and impairment losses. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold buildings	50 years
Leasehold improvements	2 – 5 years
Furniture and equipment	3 – 5 years
Plant and machinery	5 – 10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating expenses, in the consolidated statement of comprehensive income.

2.7 Lease prepayments

Lease prepayments represent interests in leasehold land classified as operating lease and land use rights and are carried at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of lease prepayments on a straight-line basis over the respective lease periods.

2 Summary of Significant Accounting Policies (cont'd)

2.8 Investment property

Investment property represents land and building which are owned or held under a leasehold interest to earn rental income and/or capital appreciation or both, and that are not occupied by the companies in the consolidated Group.

After initial recognition, investment property is stated in the balance sheet at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset, determined annually by independent qualified valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of comprehensive income. Rental income from investment property is accounted for as described in note 2.25.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated statement of comprehensive income.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expenses in the consolidated statement of comprehensive income during the financial period in which they are incurred.

2.9 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2 Summary of Significant Accounting Policies (cont'd)

2.10 Impairment of investments in subsidiaries and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (note 2.14).

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 Summary of Significant Accounting Policies (cont'd)

2.11 Financial assets (cont'd)

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through consolidated profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the consolidated statement of comprehensive income within 'cost of sales' in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of comprehensive income – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (cont'd)

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date the financial derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The changes in fair value of qualified hedging instruments are recognised in equity. For derivative instruments that do not qualify for hedge accounting, changes in fair value are recognised immediately in the consolidated statement of comprehensive income.

2.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula. The cost of finished goods and work in progress comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet, if any.

2.16 Share capital

Ordinary shares are classified as equity.

2 Summary of Significant Accounting Policies (cont'd)

2.17 Borrowings

Borrowings, when appropriate, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of Significant Accounting Policies (cont'd)

2.19 Current and deferred income tax (cont'd)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.22 Employee benefits

(a) Long service payments

Provision for long service payments is recognised for the best estimate of the long service payments that are required to be made to the employees of the Group in respect of their services to date less any amounts that would be expected to be met out of the Group's retirement schemes.

2 Summary of Significant Accounting Policies (cont'd)

2.22 Employee benefits (cont'd)

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made by the Group for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity are not recognised until the time of leave.

(c) *Profit sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) *Pension obligations*

The Group operate defined contribution pension schemes regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and AIA-JF Premium Mandatory Provident Fund Scheme ("MPF") (collectively known as "Retirement Schemes"). The Group pays contributions to trustee-administered funds. Contributions to the Retirement Schemes by the Group and employees are calculated as a percentage of the employees' basic salaries. The Group has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(e) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2 Summary of Significant Accounting Policies (cont'd)

2.23 Share-based payments

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2.24 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

2 Summary of Significant Accounting Policies (cont'd)

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognised when the goods are delivered at customers' premises which is taken to be the point in time when customers have accepted the goods and the related risks and rewards of ownership.

Revenue from sale of services is recognised in the accounting period in which the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised in the consolidated statement of comprehensive income in equal instalments over the period of the lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

3 FINANCIAL RISK MANAGEMENT(cont'd)

3.1 Financial risk management (cont'd)

Under the Group's risk management program, each department identifies and documents their key tasks and the risk associated with their tasks. The risks are summarized in a risk assessment program where they are graded by likelihood and consequences and where the procedures and controls for management risks are recorded.

(a) Market risk

(i) Foreign exchange risk

The operations of the Group are exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. To mitigate risks arising from fluctuations in exchanges rates, forward foreign exchange contracts are used to monitor the currency exposure of the Group.

The Group's risk management policy is to monitor the anticipated cash flows (mainly purchase of merchandise and inventory) in each major foreign currency for the subsequent 12 months. Forward foreign exchange contracts are generally used to hedge the purchase costs to confirmed orders.

At 31 December 2010, if the HK dollar had weakened/strengthened by 3% against the Euro with all other variables held constant, pre-tax profit for the year attributable to continuing operations would have been HK$247,000 and pre-tax profit for the year attributable to discontinued operations would have been HK$1,714,000 (2009: HK$1,105,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated cash and cash equivalents and foreign exchange losses/gains on translation of Euro-denominated trade payables offset by gains/losses on derivative financial instruments at fair value through profit or loss.

At 31 December 2010, if the HK dollar had weakened/strengthened by 5% against the RMB with all other variable held constant, pre-tax profit for the year attributable to discontinued operations only would have been HK$2,470,000 (2009: HK$1,439,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade receivables and cash and cash equivalents and trade payables.

3 FINANCIAL RISK MANAGEMENT(cont'd)

3.1 Financial risk management (cont'd)

(a) Market risk (cont'd)

(ii) Price risk

The Group is exposed to debt investments price risk in relation to investments held by the Group attributable to discontinued operations, which are classified in the consolidated balance sheet as fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in debt investments, the Group diversifies its portfolio. The carrying amount of listed debt investments would be an estimated HK$1,139,000 (2009: Nil) lower or higher if the prices of the above mentioned investments were to differ by 5% (2009: 5%)

The Group's exposure to price risks is considered insignificant in relation to the investments held by the Group attributable to discontinued operations for those unlisted club debentures, which are classified in the consolidated balance sheet as available-for-sale.

(iii) Interest rate risk

The Group has no significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

3 FINANCIAL RISK MANAGEMENT(cont'd)

3.1 Financial risk management (cont'd)

(b) Credit risk

The Group has no significant concentration of credit risk. The credit risk of the Group mainly arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to customers.

The Group has policies that limit the amount of credit exposure to any financial institution. All bank deposits are held with reputable financial institutions.

The Group manages its exposure to derivative counter-parties by taking into account their financial strength and are limited to high-credit-quality financial institutions.

The Group has policies in place to ensure that sales of goods and services are provided to customers with an appropriate credit history. The Group's credit control team assesses on each of the Group's individual customers and determines the respective credit limits based on, among other factors, the trading and settlement history and the financial background of each individual customer.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling cashflow forecasts of the Group's to ensure it has sufficient cash to meet operational needs. All trade payables and customers' deposits as at 31 December 2010 and 2009 are expected to be settled within one year. The impact of discounting is not significant on the basis of expected cash flow.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis in less than 1 year based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT(cont'd)

3.1 Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

The Group	2010 Continuing operations HK$'000	2010 Discontinued operations HK$'000	2010 Total HK$'000	2009 Total HK$'000
Forward foreign exchange contracts:				
Outflow	(16,553)	(45,787)	(62,340)	(47,946)
Inflow	16,465	45,545	62,010	47,375

3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The Group had no bank borrowings and no gearing as at 31 December 2010 and 2009.

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.3 Fair value estimation

Effective 1 January 2010, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the assets and liabilities attributable to continuing operations that are measured at fair value at 31 December 2010.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets			
Financial assets at fair value through profit or loss			
– Derivative financial instruments	–	184	–
Total assets	–	184	–
Liabilities			
Financial liabilities at fair value through profit or loss			
– Derivative financial instruments	–	272	–
Total liabilities	–	272	–

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.3 Fair value estimation (cont'd)

The following table presents the assets and liabilities attributable to discontinued operations that are measured at fair value at 31 December 2010.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets			
Financial assets at fair value through profit or loss			
– Listed fund investments	22,769	–	–
– Derivative financial instruments	–	509	–
Available-for-sale financial assets			
– Non-current portion	–	3,109	–
Total assets	22,769	3,618	–
Liabilities			
Financial liabilities at fair value through profit or loss			
– Derivative financial instruments	–	752	–
Total liabilities	–	752	–

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 are listed fund investments.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

4 Critical Accounting Estimates and Judgements

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

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

(a) Impairment of receivables

The impairment of receivables is assessed based on the evaluation of the collectibility and aging analysis, including the creditworthiness and the collection history of each customer. Judgement is required when assessing the realisability of these receivables.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Segment Information

The principal activities of the Group are (i) trading (ii) manufacturing and export and (iii) retail and renovation operations. Continuing operations only focus on trading while discontinued operations are mainly trading, manufacturing and export and retail and renovation. The principal activities of the subsidiaries are set out in note 20 of the consolidated financial statements.

	2010			2009		
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Turnover						
Sales of goods	89,034	290,712	379,746	107,134	256,955	364,089
Other revenues						
Gross rental income from investment property	–	15	15	–	75	75
Sundry income	–	1,850	1,850	–	2,519	2,519
	–	1,865	1,865	–	2,594	2,594
Total revenues	89,034	292,577	381,611	107,134	259,549	366,683

5 Segment Information (cont'd)

The analysis of the Group's performance for the year is from both a business and geographical perspective. From a business perspective, management assesses the performance of (i) trading, (ii) manufacturing and export and (iii) retail and renovation operations. Trading is further evaluated on a geographic basis (Hong Kong and Macau, and Mainland China).

The Group assesses the performance of the operating segments based on a measure of gross profit. Finance income, finance costs and income tax expenses are not allocated to segments, as these types of activities are managed on a central basis.

Segment assets comprise trade receivables and inventories.

The segment information for the year ended 31 December 2010 is as follows:

	Continuing operations	Discontinued operations						Total
	Trading	Trading	Trading	Manufacturing and export	Retail and renovation	Corporate	Sub-total	
	Hong Kong and Macau HK$'000	Hong Kong and Macau HK$'000	Mainland China HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total turnover	89,155	62,928	41,484	131,767	102,191	–	338,370	427,525
Inter-segment turnover	(121)	(215)	–	(47,443)	–	–	(47,658)	(47,779)
Turnover (from external customers)	89,034	62,713	41,484	84,324	102,191	–	290,712	379,746
Gross profit	18,331	11,147	8,961	24,331	32,433	–	76,872	95,203
Depreciation of property, plant and equipment	–	(102)	(79)	(2,570)	(1,349)	(2,232)	(6,332)	(6,332)
Amortisation of lease prepayments	–	–	–	–	–	(87)	(87)	(87)
Segment assets	19,376	29,062	24,080	27,103	26,455	–	106,700	126,076

5 Segment Information (cont'd)

The segment information for the year ended 31 December 2009 is as follows:

	Continuing operations	Discontinued operations						Total
	Trading	Trading	Trading	Manufacturing and export	Retail and renovation	Corporate	Sub-total	
	Hong Kong and Macau HK$'000	Hong Kong and Macau HK$'000	Mainland China HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total turnover	107,172	97,262	19,368	102,813	80,735	–	300,178	407,350
Inter-segment turnover	(38)	(41)	–	(43,182)	–	–	(43,223)	(43,261)
Turnover (from external customers)	107,134	97,221	19,368	59,631	80,735	–	256,955	364,089
Gross profit	20,640	18,648	3,838	18,232	23,593	–	64,311	84,951
Depreciation of property, plant and equipment – as restated	–	(819)	–	(1,393)	(2,050)	(1,547)	(5,809)	(5,809)
Amortisation of lease prepayments – as restated	–	–	–	–	–	(86)	(86)	(86)
Segment assets	10,716	35,155	14,453	21,856	22,736	–	94,200	104,916

5 Segment Information (cont'd)

A reconciliation of gross profit to total profit before income tax is provided as follows:

	2010			2009		
	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Gross profit	18,331	76,872	95,203	20,640	64,311	84,951
Other revenues	–	1,865	1,865	–	2,594	2,594
Depreciation of property, plant and equipment	–	(6,332)	(6,332)	–	(5,755)	(5,755)
Amortisation of lease prepayments	–	(87)	(87)	–	(86)	(86)
Other expenses	(17,020)	(60,366)	(77,386)	(19,623)	(59,347)	(78,970)
Operating profit	1,311	11,952	13,263	1,017	1,717	2,734
Finance income	80	264	344	94	226	320
Finance costs	–	–	–	(4)	(7)	(11)
Profit before income tax	1,391	12,216	13,607	1,107	1,936	3,043

Reportable segments' assets are reconciled to total assets as follows:

	2010 HK$'000	2009 HK$'000 (Restated)
Segment assets	126,076	104,916
Unallocated:		
Property, plant and equipment	89,893	89,792
Lease prepayments	3,977	4,064
Available-for-sale financial assets	3,109	2,875
Investment property held for sale	–	2,681
Prepayments and other receivables	6,238	6,745
Deferred income tax assets	696	246
Financial assets at fair value through profit and loss	22,769	–
Cash and cash equivalents	75,074	97,575
Derivative financial instruments	693	285
Total assets	328,525	309,179

6 Cost of Sales

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	**69,663**	86,574
Net fair value loss/(gain) on derivative financial instruments	**1,040**	(80)
	70,703	86,494

7 Operating Expenses

	2010 HK$'000	2009 HK$'000
Administrative expenses:		
Employee benefit expenses (note 9)	**12,480**	14,720
Operating lease rentals on properties paid to third parties	**874**	914
Travelling expenses	**285**	326
Entertainment expenses	**89**	116
Stamps, postage and telephone	**111**	161
Auditor's remuneration	**259**	288
Legal and professional fees	**299**	355
Advertising & promotion expenses	**164**	163
	14,561	17,043
Other operating expenses:		
Provision for stock obsolescence	**15**	14
Provision/(write back of provision) for long service payments	**58**	(169)
Provision for employee leave entitlements	**197**	24
Sundry expenses	**2,189**	2,711
	2,459	2,580
	17,020	19,623

8 Finance Income and Finance Costs

	2010 HK$'000	2009 HK$'000
Finance income		
Interest income from bank deposits	**80**	94
Finance cost		
Interest expenses on bank overdrafts	**–**	(4)

9 Employee Benefit Expenses

	2010 HK$'000	2009 HK$'000
Wages and salaries	**11,892**	14,061
Retirement Schemes contributions (note 11)	**588**	659
	12,480	14,720

10 Directors' and Senior Management's Emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments paid or payable to directors pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2010 HK$'000	2009 HK$'000
Fees	**750**	750
Salaries and other benefits	**5,646**	5,860
Discretionary bonus	**5**	20
Year end bonus	**497**	497
Retirement Schemes contributions (note 11)	**513**	489
Employee share-based compensation benefits (note 29)	**181**	453
	7,592	8,069

10 Directors' and Senior Management's Emoluments (cont'd)

(a) Directors' remuneration (cont'd)

Included in the directors' remuneration were fees of HK$750,000 (2009: HK$750,000) paid to non-executive directors and independent non-executive directors during the year.

The remuneration of every director for the year ended 31 December 2010 is set out below:

Name of Director	Fee HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Year end bonus HK$'000	Pension scheme contribution HK$'000	Employee share-based compensation benefits HK$'000	Other benefits in kind HK$'000	Total HK$'000
Michael John Green	–	1,669	–	139	167	–	87	2,062
Daniel George Green	–	1,391	–	198	178	181	576	2,524
Lai Ka Tak, Patrick	–	1,923	5	160	168	–	–	2,256
Augustus Ralph Marshall	54	–	–	–	–	–	–	54
Christopher John David Clarke	150	–	–	–	–	–	–	150
Simon Murray	150	–	–	–	–	–	–	150
Owen Mark Lewellin Rhys	150	–	–	–	–	–	–	150
Thaddeus Thomas Beczak	150	–	–	–	–	–	–	150
Lim Ghee Keong	96	–	–	–	–	–	–	96
	750	4,983	5	497	513	181	663	7,592

The remuneration of every director for the year ended 31 December 2009 is set out below:

Name of Director	Fee HK$'000	Salary HK$'000	Discretionary bonus HK$'000	Year end bonus HK$'000	Pension scheme contribution HK$'000	Employee share-based compensation benefits HK$'000	Other benefits in kind HK$'000	Total HK$'000
Michael John Green	–	1,669	–	139	167	–	119	2,094
Daniel George Green	–	1,573	–	198	178	453	576	2,978
Lai Ka Tak, Patrick	–	1,923	20	160	144	–	–	2,247
Augustus Ralph Marshall	150	–	–	–	–	–	–	150
Christopher John David Clarke	150	–	–	–	–	–	–	150
Simon Murray	150	–	–	–	–	–	–	150
Owen Mark Lewellin Rhys	150	–	–	–	–	–	–	150
Thaddeus Thomas Beczak	150	–	–	–	–	–	–	150
Lim Ghee Keong	–	–	–	–	–	–	–	–
	750	5,165	20	497	489	453	695	8,069

10 Directors' and Senior Management's Emoluments (cont'd)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, three (2009: three) were directors whose emoluments are disclosed in note (a) above. The highest emoluments payable to the remaining two (2009: two) individuals during the year is as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	1,799	1,728
Discretionary bonus	691	453
Year end bonus	156	144
Retirement Schemes contributions	161	150
	2,807	2,475

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following band:

	Number of individuals	
Emoluments' band	2010	2009
HK$1,000,001 – HK$1,500,000	2	2

The Group usually determines and pays discretionary bonuses to employees (including directors) around January/February each year based on the actual financial results of the Group for the preceding year. The discretionary bonuses shown above therefore represent actual payments to the employees (including directors) during the current financial year in relation to performance for the preceding year.

11 Retirement Schemes

The Group's contributions to the ORSO Scheme were reduced by contributions forfeited on those employees who left the ORSO Scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK$295,000 (2009: HK$174,000) were fully utilised during the year.

Contributions of HK$306,000 (2009: HK$306,000) were payable to the Retirement Schemes at the year-end.

12 Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation attributable to discontinued operations and credited/(charged) to the audited consolidated statement of comprehensive income represents:

	For the year ended 31 December	
	2010	2009
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**(602)**	(43)
Overseas taxation	**(1,952)**	(1,023)
Under-provision of overseas taxation in prior year	**–**	(748)
Deferred income tax	**293**	(37)
	(2,261)	(1,851)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2010	2009
	HK$'000	HK$'000
Profit before income tax		
– continuing operations	**1,391**	1,107
– discontinued operations	**12,216**	1,936
	13,607	3,043
Calculated at a taxation rate of 16.5%	**2,245**	502
Effect of different taxation rates in other countries	**564**	789
Income not subject to tax	**(15)**	(26)
Expenses not deductible for tax purposes	**166**	321
Tax loss for which no deferred income tax asset was recognised	**40**	631
Utilisation of previously unrecognised tax losses	**(446)**	(1,151)
Recognition of previously unrecognised temporary differences	**(293)**	37
Adjustment in respect of prior years	**–**	748
Income tax expense	**2,261**	1,851

13 Unconsolidated Profit Attributable to Shareholders

The loss of the Company attributable to shareholders was HK$489,000 (2009: profit of HK$12,526,000) (note 30).

14 Disposal Group Classified as held for Sale and Discontinued Operations

On 20 December 2010, the Company entered into an agreement to sell its wholly owned subsidiary, Arnhold (B.V.I.) Limited, to Green Motherlode Limited, a company controlled by the Green family. Members of the Green family are beneficiaries of the Michael Green Family Trust, the controlling shareholder of the Company (see note 36). As a result of this transaction, the Company and its remaining subsidiaries will be principally engaged in tiles trading and engineering operations with the majority of the Group's operations disposed of to the Green family. The transaction was completed on 22 February 2011.

The following information represents the financial information of the results, assets and liabilities of the discontinued operations presented in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

(a) The analysis of the profit from the discontinued operations is as follows:

	2010 **HK$'000**	2009 HK$'000
Turnover	**290,712**	256,955
Cost of sales	**(213,840)**	(192,644)
Gross profit	**76,872**	64,311
Other revenues	**1,865**	2,594
Operating expenses	**(66,785)**	(65,188)
Operating profit	**11,952**	1,717
Finance income	**264**	226
Finance costs	**–**	(7)
Profit before income tax	**12,216**	1,936
Income tax expense	**(2,261)**	(1,851)
Profit for the year from discontinued operations	**9,955**	85

14 Disposal Group Classified as held for Sale and Discontinued Operations (cont'd)

(b) The analysis of the net assets of disposal group classified as held for sale is as follows:

	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	89,893	89,792
Lease prepayments	3,977	4,064
Available-for-sale financial assets	3,109	2,875
Deferred income tax assets	696	246
	97,675	96,977
CURRENT ASSETS		
Investment property held for sale	–	2,681
Inventories	32,872	18,883
Trade and other receivables	78,647	81,024
Derivative financial instruments	509	226
Financial assets at fair value through profit and loss	22,769	–
Cash and cash equivalents	74,740	97,101
	209,537	199,915
CURRENT LIABILITIES		
Trade and other payables	80,310	76,412
Derivative financial instruments	752	677
Provisions	1,696	1,711
Current income tax liabilities	1,240	340
	83,998	79,140
NET CURRENT ASSETS	125,539	120,775
TOTAL ASSETS LESS CURRENT LIABILITIES	223,214	217,752
NON-CURRENT LIABILITIES		
Deferred income tax liabilities	666	509
NET ASSETS	222,548	217,243
FINANCED BY:		
Account with the Company	222,548	217,243

14 Disposal Group Classified as held for Sale and Discontinued Operations (cont'd)

The analysis of the cash flows from discontinued operations is as follows:

	2010 HK$'000	2009 HK$'000
Net cash generated from operating activities	**9,555**	23,840
Net cash used in investing activities	**(28,154)**	(832)
	(18,599)	23,008

15 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit from continuing operations and discontinued operations attributable to ordinary shareholders of HK$11,346,000 (2009: HK$1,192,000) and the weighted average number of 231,645,589 (2009: 225,440,658) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the Group's profit from continuing operations and discontinued operations attributable to ordinary shareholders of HK$11,346,000 (2009: HK$1,192,000) and the weighted average number of 231,810,885 (2009: 231,164,511) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliation

	2010 Number of shares	2009 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**231,645,589**	225,440,658
Deemed issue of ordinary shares relating to share options	**165,296**	5,723,853
Weighted average number of ordinary shares used in calculating diluted earnings per share	**231,810,885**	231,164,511

16 Proposed Dividend

The Board did not recommend the payment of any final dividend for the year ended 31 December 2010 (2009: HK$0.055 per ordinary share, totalling HK$12,424,000) but recommended the declaration of a special dividend of not less than HK$0.7437 per share (based on 236,396,000 shares in issue as at 31 December 2010 and assuming 1,600,000 share options outstanding as at 31 December 2010 to be exercised in full) amounting to not less than HK$177,000,000 (2009: HK$ Nil), subject to the completion of the Share Transfer Agreement and the Disposal Agreement. This proposed special dividend was approved by the shareholders at the Special General Meeting on the 17 February 2011.

On 22 February 2011, the Board resolved that the actual special dividend be HK$0.8279 per share and be distributed to the shareholders whose names appeared on the registrar of members of the Company on 16 February 2011. The special dividend which amounted to HK$196,990,000 was paid on 25 February 2011.

The dividend for the year ended 31 December 2009 and amounting to HK$12,680,000 was paid in May 2010.

The proposed final/special dividend for the year ended 31 December 2010 is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Proposed final dividend of HK$ Nil (2009: HK$0.055) per ordinary share	–	12,424
Proposed special dividend of HK$0.8279 (2009:HK$ Nil) per ordinary share	**196,990**	–

17 Investment Property

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	–	3,341
Transfer to investment property held for sale	–	(3,341)
At 31 December	–	–

18 Property, Plant and Equipment

The Group	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2009						
Cost	45,534	16,771	39,786	18,612	1,448	122,151
Effect of adoption of HKAS17 (Amendment)	59,148	–	–	–	–	59,148
Cost as restated	104,682	16,771	39,786	18,612	1,448	181,299
Accumulated depreciation, as previously reported	(10,403)	(16,115)	(29,902)	(14,705)	(1,257)	(72,382)
Effect of adoption of HKAS17 (Amendment)	(15,461)	–	–	–	–	(15,461)
Accumulated depreciation, as restated	(25,864)	(16,115)	(29,902)	(14,705)	(1,257)	(87,843)
Net book value	78,818	656	9,884	3,907	191	93,456
Year ended 31 December 2009						
Opening net book value, as previously reported	35,131	656	9,884	3,907	191	49,769
Effect of adoption of HKAS17 (Amendment)	43,687	–	–	–	–	43,687
Opening net book value, as restated	78,818	656	9,884	3,907	191	93,456
Additions	456	784	799	132	–	2,171
Depreciation	(1,887)	(419)	(2,701)	(692)	(110)	(5,809)
Disposals	–	–	(26)	–	–	(26)
Closing net book value	77,387	1,021	7,956	3,347	81	89,792
At 31 December 2009						
Cost	45,990	17,555	40,559	18,744	1,448	124,296
Effect of adoption of HKAS17 (Amendment)	59,148	–	–	–	–	59,148
Cost as restated	105,138	17,555	40,559	18,744	1,448	183,444
Accumulated depreciation, as previously reported	(11,328)	(16,534)	(32,603)	(15,397)	(1,367)	(77,229)
Effect of adoption of HKAS17 (Amendment)	(16,423)	–	–	–	–	(16,423)
Accumulated depreciation, as restated	(27,751)	(16,534)	(32,603)	(15,397)	(1,367)	(93,652)
Net book value	77,387	1,021	7,956	3,347	81	89,792

18 Property, Plant and Equipment (cont'd)

The Group	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2010						
Opening net book value	34,662	1,021	7,956	3,347	81	47,067
Effect of adoption of HKAS17 (Amendment)	42,725	–	–	–	–	42,725
Opening net book value, as restated	77,387	1,021	7,956	3,347	81	89,792
Additions	–	1,684	773	928	3,069	6,454
Depreciation	(1,893)	(852)	(2,584)	(667)	(336)	(6,332)
Disposals	–	–	–	–	(21)	(21)
Closing net book value	75,494	1,853	6,145	3,608	2,793	89,893
Net book value attributable to discontinued operations	(75,494)	(1,853)	(6,145)	(3,608)	(2,793)	(89,893)
Closing net book value for continuing operations	–	–	–	–	–	–
At 31 December 2010						
Cost	105,138	19,181	41,081	19,683	3,248	188,331
Accumulated depreciation	(29,644)	(17,328)	(34,936)	(16,075)	(455)	(98,438)
Net book value	75,494	1,853	6,145	3,608	2,793	89,893
Net book value attributable to discontinued operations	(75,494)	(1,853)	(6,145)	(3,608)	(2,793)	(89,893)
Closing net book value for continuing operations	–	–	–	–	–	–

All property, plant and equipment at 31 December 2010 and 31 December 2009 of the Group is stated at cost.

19 Lease Prepayments

The Group's lease prepayments represent interests in leasehold land and land use rights under operating lease and their net book values are analysed as follows:

	The Group		
	2010	2009	2008
	HK$'000	HK$'000	HK$'000
Outside Hong Kong, held on:			
Leases of between 10 to 50 years	**–**	4,064	4,150

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January, as previously reported	**46,789**	47,837
Effect of adoption of HKAS17 (Amendment)	**(42,725)**	(43,687)
At 1 January, as restated	**4,064**	4,150
Amortisation	**(87)**	(86)
Lease prepayments attributable to discontinued operations	**(3,977)**	–
At 31 December	**–**	4,064

At 31 December 2010, a property held by a subsidiary of the Group attributable to discontinued operations was pledged to a bank to obtain banking facilities, including issue of shipping guarantee, trust receipt loan, purchase of export bills and opening of documentary credits, as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Lease prepayments	**38,915**	39,799
Leasehold building	**7,786**	8,030
Net book value of property charged to a bank to obtain banking facilities	**46,701**	47,829

20 Investments in Subsidiaries and Amount Due from a Subsidiary

	The Company 2010 HK$'000	2009 HK$'000
Investments, at cost	–	89,288
Advance to a subsidiary	–	105,015
Non current assets held for sale, at cost	89,468	–
	89,468	194,303

The advance to a subsidiary is unsecured, interest free, has no fixed terms of repayment and is stated at cost.

The amount due from a subsidiary is unsecured, interest free, and repayable on demand. The carrying amount approximates its fair value and is denominated in Hong Kong dollars.

The following is a list of the principal subsidiaries as at 31 December 2010:

Name of company	Place of incorporation/ operations	Group equity interest held by The Company %	Group equity interest held by Subsidiaries %	Issued and paid up ordinary share capital	Principal activities
Anagram Company Limited	British Virgin Islands	–	100	US$1	Investment holding
Arnhold & Company, Limited	Hong Kong	–	100	HK$20,000,000	Trading and engineering
Arnhold & Company (Shanghai) Limited*	Shanghai	–	100	US$200,000	Trading
Arnhold (B.V.I.) Limited	British Virgin Islands/ Hong Kong	100	–	US$1,000	Investment holding
Arnhold China Limited	Hong Kong	–	100	HK$2	Inactive
Arnhold Design Centres Limited	Hong Kong	–	100	HK$2	Retailing

20 Investments in Subsidiaries and Amount Due from a Subsidiary (cont'd)

Name of company	Place of incorporation/ operations	Group equity interest held by The Company %	Group equity interest held by Subsidiaries %	Issued and paid up ordinary share capital	Principal activities
Arnhold Investments Limited	Hong Kong	–	100	Ordinary HK$1 Non-voting deferred HK$1,000,000	Investment holding
Arnhold (Macau) Limited	Macau	–	100	MOP25,000	Trading of construction materials
Arnhold Marble China Limited	Hong Kong	–	100	HK$12	Trading and management services
Arnhold Marble Limited	Hong Kong	–	100	HK$2	Inactive
Arnhold Properties (B.V.I.) Limited	British Virgin Islands/ Hong Kong	–	100	US$1	Property holding
Bain d'Or Building Materials Limited	Hong Kong	–	100	HK$2	Inactive
Bain d'Or Inc.	USA	–	100	US$2,000	Inactive
Bain d'Or Trading Limited	Hong Kong	–	100	HK$1	Inactive
Dongguan Arnhold Marble Limited*	Dongguan	–	100	RMB 17,546,951	Natural stones processing
Grandful Limited	Hong Kong	–	100	HK$2	Inactive
Palatial Properties Limited	British Virgin Islands/ Hong Kong	–	100	US$1	Property holding
Arnhold Sourcing Limited	Hong Kong	–	100	HK$1	Trading and export of building materials

20 Investments in Subsidiaries and Amount Due from a Subsidiary (cont'd)

Name of company	Place of incorporation/ operations	Group equity interest held by The Company %	Group equity interest held by Subsidiaries %	Issued and paid up ordinary share capital	Principal activities
Elements Mosaics Designs Limited	Hong Kong	–	100	HK$2	Inactive
European Design Concept Limited	Hong Kong	–	100	HK$1	Trading of building material
AHL Services Limited	Hong Kong	–	100	HK$1	Services for supply and installation of marble
AHL Stone Limited	British Virgin Islands/ Hong Kong	–	100	US$1	Trading and export of marble product
上海鋑麗貿易有限公司*	Shanghai	–	100	RMB 500,000	Retailing
Arnhold Trading Limited	Hong Kong	–	100	HK$1	Trading
Easy Market Trading Limited	British Virgin Islands	100	–	US$1	Investment holding

* Wholly-owned foreign enterprise, which is incorporated in Mainland China and is a limited liability company.

21 Available-for-sale Financial Assets

	The Group 2010 HK$'000	2009 HK$'000
At 1 January	**2,875**	2,787
Net surplus transferred to reserves (note 30)	**234**	88
Available-for-sale financial assets attributable to discontinued operations	**(3,109)**	–
At 31 December	**–**	2,875

Available-for-sale financial assets represent the unlisted club debentures held by the Group, and are stated at fair value at year ended 31 December 2010.

22 Investment Property Held for Sale

	2010 HK$'000	2009 HK$'000
At 1 January	**2,681**	–
Transfer from investment property	–	3,341
Less: Fair value loss on investment property held for sale	–	(660)
Less: Disposal	**(2,681)**	–
At 31 December	–	2,681

During the year 2009, the Group entered into an agreement to dispose of its investment property in Shanghai PRC. At 31 December 2009, the investment property was revalued based on the sales price as indicated in the sales and purchase agreement made.

23 Inventories

	The Group	
	2010 HK$'000	2009 HK$'000
Merchandise	**5,358**	8,569
Consumable inventories	–	4,174
Raw materials	–	3,155
Work in progress	–	4,046
Finished goods	–	1,024
	5,358	20,968

The cost of inventories recognised as expense and included in cost of sales amounted to HK$69,663,000 for continuing operations and HK$207,413,000 for discontinued operations (2009: HK$279,465,000). The Group has not reversed any past balance of a previous write-down value in 2010 (2009: HK$ Nil).

24 Trade and other receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**13,512**	78,586	**–**	–
Retention receivables	**506**	6,353	**–**	–
Gross trade and retention receivables	**14,018**	84,939	**–**	–
Less: provision for impairment of receivables	**–**	(991)	**–**	–
Net trade and retention receivables	**14,018**	83,948	**–**	–
Prepayments and other receivables	**1,419**	6,745	**829**	264
	15,437	90,693	**829**	264

The carrying amounts of trade and other receivables approximate their fair values. The Group normally allows a credit period ranging from 30 to 90 days. Debtors with balances that are long overdue are normally requested to settle all outstanding balances before any further credit is granted.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The aging analysis of trade and other receivables is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current	**7,330**	53,287
One to three months overdue	**5,423**	25,213
Three to twelve months overdue	**825**	3,404
Overdue more than twelve months	**440**	3,035
Total trade and retention receivables	**14,018**	84,939
Provision for impairment of receivables	**–**	(991)
Net trade and retention receivables	**14,018**	83,948
Prepayments and other receivables	**1,419**	6,745
	15,437	90,693

24 Trade and other receivables (cont'd)

The Group normally allows a credit period ranging from 30 to 90 days. Debtors with balances that are long overdue are normally requested to settle all outstanding balances before any further credit is granted.

The trade and retention receivables include in the above aging are considered not impaired as these relate to a number of independent customers for whom there is no recent history of default. All the impaired overdue trade and retention receivables have been provided for. As at 31 December 2010, no trade and retention receivables (2009: HK$991,000) were impaired and provided for.

Movements on the provision for impairment of trade receivables are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**991**	1,368
Provision for receivable impairment	**251**	–
Receivables written off during the year as uncollectible	**(629)**	(208)
Unused amounts reversed	**(362)**	(169)
Provision for impairment attributable to discontinued operations	**(251)**	–
At 31 December	**–**	991

As at 31 December 2009 and 2010, other than the trade and retention receivables as disclosed above, all other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group's trade and retention receivables are denominated in the following currencies:

	The Group	
	2010	2009
	HK$'000	HK$'000
HKD	**13,740**	58,867
RMB	**–**	14,086
MOP	**–**	430
USD	**278**	9,919
Other currencies	**–**	1,637
	14,018	84,939

25 Derivative financial instruments

	The Group	
	2010	2009
	HK$'000	HK$'000
Forward foreign exchange contracts – held for trading		
– Assets	**184**	285
– Liabilities	**(272)**	(856)

Trading derivatives are classified as current assets or liabilities.

The net fair value gain or loss on forward foreign exchange contracts as at 31 December 2009 and 2010 which are not qualified as hedges has been accounted for in the cost of sales in the consolidated statement of comprehensive income.

Details of the outstanding forward foreign contracts held by the Group as at 31 December 2010 are disclosed in note 34(b). These contracts expire through 2011.

26 Cash and Cash Equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits with original maturity of three months or less	**–**	69,299	**–**	–
Cash at bank and in hand	**334**	28,276	**304**	474
	334	97,575	**304**	474

The effective interest rate on short-term bank deposits is ranging from 0.01% to 1.71% (2009: ranging from 0.01% to 1.71%). These deposits have an average maturity of 79 days (2009: 43 days).

26 Cash and Cash Equivalents (cont'd)

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	The Group	
	2010	2009
	HK$'000	HK$'000
HKD	**329**	43,702
RMB	**–**	15,805
EUR	**–**	3,853
USD	**5**	34,186
Other currencies	**–**	29
	334	97,575

27 Trade and other payables

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**11,385**	45,330	**–**	–
Accruals and other payables	**4,477**	29,357	**653**	256
Advances received from customers	**2,585**	11,354	**–**	–
	18,447	86,041	**653**	256

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

The carrying amounts of trade and other payables approximate their fair values.

27 Trade and other payables (cont'd)

The aging analysis of trade and other payables is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current	**10,405**	37,281
One to three months overdue	**612**	5,871
Overdue more than three months	**368**	2,178
Total trade and bills payables	**11,385**	45,330
Accruals and others payables	**4,477**	29,357
Advances received from customers	**2,585**	11,354
	18,447	86,041

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	The Group	
	2010	2009
	HK$'000	HK$'000
HKD	**3,153**	7,097
RMB	**3**	1,105
EUR	**7,547**	12,358
USD	**452**	24,604
Other currencies	**230**	166
	11,385	45,330

28 Provisions

	Long service payments HK$'000	Employee leave entitlements HK$'000	Total HK$'000
At 1 January 2010	670	1,485	2,155
Additional provisions	201	1,092	1,293
Less: Amounts utilised	(116)	(1,075)	(1,191)
Charged to consolidated statement of comprehensive income	85	17	102
Less: Amounts settled	(114)	(192)	(306)
Net effect on provisions	(29)	(175)	(204)
Provisions attributable to discontinued operations	(583)	(1,113)	(1,696)
	(612)	(1,288)	(1,900)
At 31 December 2010	**58**	**197**	**255**

29 Share Capital

Ordinary shares of HK$0.10 each	Authorised	Issued and fully paid	Ordinary shares	Share premium	Total
	Number of shares		HK$'000	HK$'000	HK$'000
At 1 January 2009	800,000,000	225,296,000	22,530	92,709	115,239
Employees share option scheme – proceeds from shares issued	–	600,000	60	240	300
At 31 December 2009	800,000,000	225,896,000	22,590	92,949	115,539
Employees share option scheme – proceeds from shares issued	–	10,500,000	1,050	5,478	6,528
At 31 December 2010	**800,000,000**	**236,396,000**	**23,640**	**98,427**	**122,067**

A Share Option Scheme ("the Scheme") was approved and adopted by the shareholders at a special general meeting of the Company on 11 July 2002 under which the Board may, at its discretion, invite Eligible Persons to take up options to subscribe for shares of the Company.

29 Share Capital (cont'd)

Details of options granted to directors and employees under the Scheme were as follows:

Date of options granted	Outstanding options as at 1 January 2010	Granted during the year	Exercised/ lapsed/cancelled during the year	Outstanding options as at 31 December 2010	Subscription price per share HK$
18 September 2003	**2,300,000**	**–**	**(2,300,000)**	**–**	0.500
19 November 2004	**3,700,000**	**–**	**(3,700,000)**	**–**	0.602
21 November 2005	**4,500,000**	**–**	**(4,500,000)**	**–**	0.700
02 January 2008	**1,600,000**	**–**	**–**	**1,600,000**	1.490
	12,100,000	**–**	**(10,500,000)**	**1,600,000**	

Date of options granted	Outstanding options as at 1 January 2009	Granted during the year	Exercised/ lapsed/cancelled during the year	Outstanding options as at 31 December 2009	Subscription price per share HK$
18 September 2003	2,900,000	–	(600,000)	2,300,000	0.500
19 November 2004	3,700,000	–	–	3,700,000	0.602
21 November 2005	4,500,000	–	–	4,500,000	0.700
02 January 2008	1,600,000	–	–	1,600,000	1.490
	12,700,000	–	(600,000)	12,100,000	

Based on the binomial option pricing model, the fair value of the Options granted on 18 September 2003, 19 November 2004, 21 November 2005 and 2 January 2008 are HK$0.248, HK$0.141, HK$0.180 and HK$0.680 respectively. However, since the valuation relies on subjective assumptions such as the estimated volatility of the Share price, the binomial option pricing model does not necessarily provide a reliable measure of the fair value of the Options. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

29 Share Capital (cont'd)

The weighted average assumptions used are as follows:

	Options granted on			
	2 January 2008	21 November 2005	19 November 2004	18 September 2003
Risk free interest rate (in %)	2.7	4.4	2.8	3.8
Expected life (in years)	4.5	5.0	6.0	6.9
Volatility (in %)	65.4	51.2	49.2	77.5
Expected dividend per share (HK cents)	4.4	4.4	4.4	4.4

At the date before the options were granted, 17 September 2003, 18 November 2004, 20 November 2005 and 31 December 2007, the market value per share were HK$0.500, HK$0.602, HK$0.700 and HK$1.490 respectively.

The Options granted on 18 September 2003 can be exercised in two instalments, 50% at any time between 1 September 2005 and 30 August 2010 and 50% at any time between 1 September 2006 and 30 August 2010.

The Options granted on 19 November 2004 can be exercised in two instalments, 50% at any time between 1 November 2006 and 30 August 2010 and 50% at any time between 1 November 2007 and 30 August 2010.

The Options granted on 21 November 2005 can be exercised in two instalments, 50% at any time between 1 November 2007 and 30 August 2010 and 50% at any time between 1 November 2008 and 30 August 2010.

The Options granted on 2 January 2008 can be exercised in two instalments, 50% of which at any time between 2 January 2010 and 10 July 2012 and the remaining 50% at any time between 2 January 2011 and 10 July 2012.

30 Reserves

The Group	Contributed surplus HK$'000	Retained earnings HK$'000	Total distributable reserves HK$'000	Share premium HK$'000	Available-for-sale investment reserve HK$'000	Employee share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2009	808	110,273	111,081	92,709	624	2,703	207,117
Profit attributable to shareholders	–	1,192	1,192	–	–	–	1,192
Dividend relating to 2008 and paid in May 2009	–	(12,402)	(12,402)	–	–	–	(12,402)
Employee share-based compensation benefits	–	–	–	–	–	453	453
Employee share option scheme:							
Issuance of ordinary shares	–	–	–	240	–	–	240
Transfer among reserves	–	149	149	–	–	(149)	–
Surplus on revaluation	–	–	–	–	88	–	88
At 31 December 2009	808	99,212	100,020	92,949	712	3,007	196,688
Representing							
2009 Proposed final dividend		12,424					
Others		86,788					
Retained earnings attributable to shareholders as at 31 December 2009		99,212					
At 1 January 2010	808	99,212	100,020	92,949	712	3,007	196,688
Profit attributable to shareholders	–	11,346	11,346	–	–	–	11,346
Dividend relating to 2009 and paid in May 2010	–	(12,680)	(12,680)	–	–	–	(12,680)
Employee share-based compensation benefits	–	–	–	–	–	181	181
Employee share option scheme:							
Issuance of ordinary shares	–	–	–	5,478	–	–	5,478
Transfer among reserves	–	2,100	2,100	–	–	(2,100)	–
Surplus on revaluation	–	–	–	–	234	–	234
At 31 December 2010	808	99,978	100,786	98,427	946	1,088	201,247
Representing:							
Retained earnings attributable to shareholders as at 31 December 2010		99,978					

30 Reserves (cont'd)

The Company	Contributed surplus HK$'000	Retained earnings HK$'000	Total distributable reserves HK$'000	Share premium HK$'000	Employee Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2009	75,067	14,121	89,188	92,709	2,703	184,600
Profit for the year	–	12,526	12,526	–	–	12,526
Dividend relating to 2008 and paid in May 2009	–	(12,402)	(12,402)	–	–	(12,402)
Issuance of ordinary shares	–	–	–	240	–	240
Transfer among reserve	–	149	149	–	(149)	–
Employee share-based compensation benefits	–	–	–	–	453	453
At 31 December 2009	75,067	14,394	89,461	92,949	3,007	185,417
Representing:						
2009 Proposed final dividend		12,424				
Others		1,970				
Retained earnings as at 31 December 2009		14,394				
At 1 January 2010	75,067	14,394	89,461	92,949	3,007	185,417
Loss for the year	–	(489)	(489)	–	–	(489)
Dividend relating to 2009 and paid in May 2010	–	(12,680)	(12,680)	–	–	(12,680)
Employee share option scheme:	–	–	–	–	–	–
Issuance of ordinary shares	–	–	–	5,478	–	5,478
Transfer among reserves	–	2,100	2,100	–	(2,100)	–
Employee share-based compensation benefits	–	–	–	–	181	181
At 31 December 2010	**75,067**	**3,325**	**78,392**	**98,427**	**1,088**	**177,907**
Representing:						
Retained earnings attributable to shareholders at 31 December 2010		**3,325**				

30 Reserves (cont'd)

The distributable reserves of the Company at 31 December 2010, under the Companies Act 1981 of Bermuda, amounted to HK$78,392,000 (2009: HK$89,461,000).

A memorandum of reduction of share premium of the Company was delivered to the Registrar of Companies on 21 February 2011, resulting in cancellation of the entire amount standing to the credit of the Company's share premium account as at 31 December 2010 of HK$98,427,000. Following this, the share premium was then classified as a distributable reserve.

The contributed surplus of the Group represents the excess of the nominal value of the shares of Arnhold (B.V.I.) Limited and the nominal value of the deferred shares of Arnhold Investments Limited acquired over the nominal value of the Company's shares issued in exchange therefore pursuant to the Group's re-organisation in December 1993.

The contributed surplus of the Company represents the undistributed excess of the net assets of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefore pursuant to the Group's reorganisation in December 1993. Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable.

31 Deferred Income Tax

Deferred income tax has been calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2009: 16.5%).

The movement of the deferred income tax assets/(liabilities) attributable to discontinued operations during the year is as follows:

	Tax loss HK$'000	Accelerated depreciation allowance HK$'000	Total HK$'000
At 1 January 2009	–	(226)	(226)
Deferred income tax credited/(debited) to the consolidated statement of comprehensive income (note 12)	–	(37)	(37)
At 31 December 2009	–	(263)	(263)
Deferred income tax credited/(debited) to the consolidated statement of comprehensive income (note 12)	400	(107)	293
At 31 December 2010	400	(370)	30

31 Deferred Income Tax (cont'd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated balance sheet attributable to discontinued operations include the following:

	The Group	
	2010	2009
	HK$'000	HK$'000
Deferred income tax assets to be recovered after more than 12 months	**696**	246
Deferred income tax liabilities to be recovered after more than 12 months	**(666)**	(509)
Deferred tax assets/(liabilities) – net	**30**	(263)

32 Financial Instruments by Category

The Group	Loans and receivables/ financial liabilities HK$'000	At fair value through profit and loss HK$'000	Available-for-sale HK$'000	Total HK$'000
Assets as per consolidated balance sheet 31 December 2010				
Derivative financial instruments (note 25)	**–**	**184**	**–**	**184**
Trade and retention receivables (note 24)	**14,018**	**–**	**–**	**14,018**
Cash and cash equivalents (note 26)	**334**	**–**	**–**	**334**
Total	**14,352**	**184**	**–**	**14,536**
Assets as per consolidated balance sheet 31 December 2009				
Available-for-sale financial assets (note 21)	–	–	2,875	2,875
Derivative financial instruments (note 25)	–	285	–	285
Trade and retention receivables (note 24)	84,939	–	–	84,939
Cash and cash equivalents (note 26)	97,575	–	–	97,575
Total	182,514	285	2,875	185,674

32 Financial Instruments by Category (cont'd)

The Group	Loans and receivables/ financial liabilities HK$'000	At fair value through profit and loss HK$'000	Available-for-sale HK$'000	Total HK$'000
Liabilities as per consolidated balance sheet 31 December 2010				
Trade and bills payables (note 27)	**11,385**	**–**	**–**	**11,385**
Derivative financial instruments (note 25)	**–**	**272**	**–**	**272**
Total	**11,385**	**272**	**–**	**11,657**
Liabilities as per consolidated balance sheet 31 December 2009				
Trade and bills payables (note 27)	45,330	–	–	45,330
Derivative financial instruments (note 25)	–	856	–	856
Total	45,330	856	–	46,186

The Company	Loans and receivables HK$'000
Assets as per balance sheet 31 December 2010	
Amount due from a subsidiary (note 20)	**6,583**
Cash and cash equivalents (note 26)	**304**
Total	**6,887**
Assets as per balance sheet 31 December 2009	
Amount due from a subsidiary (note 20)	13,222
Cash and cash equivalents (note 26)	474
Total	13,696

33 Contingent Liabilities

(a) At 31 December 2010, there were contingent liabilities in respect of the following:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	**–**	–	**279,000**	279,000

(b) Certain subsidiaries have given undertakings to banks that they will perform certain contractual financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of these subsidiaries. As at 31 December 2010, the amount of guarantees outstanding for continuing operations was HK$1,485,000 and discontinued operations of HK$4,734,000 (2009: HK$4,743,000).

34 Commitments

(a) Commitments under operating lease

The Group leases various retail outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases attributable to discontinued operations was as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Land and buildings		
– Not later than one year	**5,496**	3,260
– Later than one year and not later than five years	**3,137**	1,144
	8,633	4,404

The Company leases land and buildings under various agreements which terminate between 2011 to 2013. The agreements do not include an extension option.

(b) Forward exchange contracts

At 31 December 2010, the Group had outstanding forward exchange contracts to buy EUR 1,489,000 at various rates totaling approximately HK$15,488,000 for continuing operations and outstanding forward exchange contracts to buy EUR 4,119,000 at various rates totaling approximately HK$42,840,000 for discontinued operations (2009: EUR 3,997,000 at various rates totaling approximately HK$45,127,000).

34 Commitments (cont'd)

(b) Forward exchange contracts (cont'd)

At 31 December 2010, the Group had outstanding forward exchange contracts to buy JPY 11,277,000 at various rates totaling approximately HK$1,065,000 for continuing operations and outstanding forward exchange contracts to buy JPY 31,193,000 at various rates totaling approximately HK$2,947,000 for discontinued operations (2009: JPY 32,433,000 at various rates totaling approximately HK$2,819,000).

35 Related Party Transactions

The directors regard the Michael Green Family Trust, which owns 70.26% in the Company's shares, to be the controlling party of the Company. The Company agreed to dispose its major business operations to a company controlled by the Green's family on 20 December 2010 with the transaction completed on 22 February 2011 (See note 14).

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	2010 HK$'000	2009 HK$'000
Purchases of goods and services		
Professional fees paid to related party	–	75
Key management compensation		
Salaries and other emoluments	5,686	5,860
Discretionary bonus	5	20
Year end bonus	497	497
Retirement Schemes contributions	513	489
Employee share-based compensation benefits	181	453

Professional fees of HK$75,000 for year end 2009 were paid to a firm in which a non-executive director is a partner.

It is the intention of the directors of the Company that the Group will continue its business relationships with related parties under similar bases as adopted in previous years. In the opinion of the directors of the Company, the transactions with the related companies were carried out in the ordinary course of business on normal commercial terms.

36 Events After Balance Sheet Date

On 20 December 2010, the Company entered into an agreement to sell its wholly owned subsidiary, Arnhold (B.V.I.) Limited to Green Motherlode Limited, a company controlled by the Green Family. The transaction was completed on 22 February 2011 and a gain on disposal of HK$1,000,000 was recorded by the Group subsequent to the year end.

(I) Five-year Financial Summary

	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	Continued and discontinued operations 2010 HK$'000
Results					
Turnover	297,550	387,904	418,221	364,089	379,746
Operating profit	2,536	16,727	22,579	2,734	13,263
Finance income	1,750	1,540	1,506	320	344
Finance costs	(196)	(146)	(93)	(11)	–
Share of loss of associates	(1,767)	(1,101)	–	–	–
Profit before income tax	2,323	17,020	23,992	3,043	13,607
Income tax expenses	(182)	(215)	(2,079)	(1,851)	(2,261)
Profit attributable to shareholders	2,141	16,805	21,913	1,192	11,346
Proposed final/special dividend	–	9,913	12,391	12,424	196,990
Assets and liabilities					
Total assets	267,889	324,514	315,607	308,933	328,525
Total liabilities	(68,870)	(107,063)	(85,960)	(89,655)	(103,638)
Shareholders' funds	199,019	217,451	229,647	219,278	224,887

(II) Schedule of Principal Properties

Leasehold land and buildings

	Address	Use	Gross floor area	Term of lease	Attributable interest of the Group
(a)	Unit B on 6/F, Portion of Flat roof on 1/F, and car parking spaces nos. 58, 59, 60, 61 and 62 on 3/F, Victoria Centre, 15 Watson Road, North Point, Hong Kong	Office premises	1,678 square meters	75 years expiring in 2054	100%
(b)	5/F, Block A and car parking space No. L11 on 1/F, Kerry BCI Godown Centre, 3 Kin Chuen Street, Kwai Chung, New Territories, Hong Kong	Godown	2,548 square meters	58 years expiring in 2047	100%
(c)	Yaoshan Village, Xiegang Town, Dongguan City, Guangdong Province, The People's Republic of China	Factory	30,000 square meters	50 years expiring in 2055	100%