MAN YUE TECHNOLOGY HOLDINGS LIMITED

萬裕科技集團有限公司

(Stock Code : 00894)


# Annual Report 2010

WE LISTEN | WE CARE | WE DELIVER

This report is printed on environmentally friendly paper

# COMPANY PROFILE

Man Yue Technology Holdings Limited (formerly known as "Man Yue International Holdings Limited") and its subsidiaries (the "Man Yue Tech Group" or "Group") was founded in 1979 and listed on the Hong Kong Stock Exchange in 1997. The Group's core business is the manufacture and sale of high technology electronic components, including aluminum electrolytic capacitors ("E-Caps"), Conductive Polymer Aluminum Solid Capacitors ("Polymer Caps") and other innovative electronic components.

The Group offers a full range of E-Cap products which satisfy the needs of its global customers, consisting mainly of the world's leading information technology, telecommunications, electrical and electronic brands. Since 2006, the Group launched an innovative type of electronic component known as Polymer Caps, duly becoming one of the most influential providers of such component in the world. As an innovative multiple components manufacturers, the Group launched a brand new type of capacitor in 2009, known as Electric Double Layer Capacitors ("EDLC"), which basically acts as an energy storage device in electrical or electronic products.

Over the years, the Group has fostered creativity and inventiveness among some 100 well-trained and highly qualified research and development ("R&D") professionals who have gone on to help the Group develop new and ground-breaking products.

As part of being the fifth largest E-Caps and the fourth largest Polymer Caps manufacturer in the world, the Group owns the renowned SAMXON® and X-CON® brands, both of which are well-known for their advanced technology, superior quality, strong R&D capabilities, and established global network. All of the Group's products comply with RoHS and environmental protection regulations specific to different global markets.

The Man Yue Tech Group is headquartered in Hong Kong and operates state-of-the-art E-Caps manufacturing facilities in Dongguan, Wuxi and Jiangxi, PRC, with total production capacity of over 1 billion pieces per month. The Group also owns two aluminum foil factories located in Qingyuan and Urumqi, PRC, which produces aluminum foil for its own consumption. The Group has distribution offices located in Hong Kong, Mainland China, Taiwan, Malaysia and the United States, complemented by worldwide distribution channels.


## An active participant in environmental protection

The Man Yue Tech Group of companies is fully committed to environmental sustainability. Accordingly, all of its products are halogen free and RoHS compliant. As well, all production facilities of the Group conform to local environmental regulations, having obtained relevant certifications where appropriate. Rather than passively observing regulations, the Group is actively pursuing opportunities to directly contribute to environmental protection. The Group has developed and continues to develop solutions for enhancing energy efficiency, such as capacitors found in LED lamps and high-efficiency lighting and new storage devices for use in environmentally-friendly products. The Group will remain steadfast in its support of environmental protection as it is all part of being a good corporate citizen.

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# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**
Kee Chor Lin *(Chairman)*
Chan Yu Ching, Eugene *(Managing Director)*
Ko Pak On
Tso Yan Wing, Alan
Wong Ching Ming, Stanley

**Independent Non-executive Directors**
Li Sau Hung, Eddy
Lo Kwok Kwei, David
Mar, Selwyn

## AUDIT COMMITTEE

Mar, Selwyn *(Chairman)*
Li Sau Hung, Eddy
Lo Kwok Kwei, David

## REMUNERATION COMMITTEE

Lo Kwok Kwei, David *(Chairman)*
Kee Chor Lin
Li Sau Hung, Eddy

## COMPANY SECRETARY

Tso Yan Wing, Alan

## AUDITOR

PricewaterhouseCoopers, Certified Public Accountants

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
CITIC Bank International Limited
Bank of Tokyo-Mitsubishi UFJ, Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL PLACE OF BUSINESS

16/F., Yiko Industrial Building
10 Ka Yip Street, Chai Wan
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

## CORPORATE WEBSITE

http://www.manyue.com

## INVESTOR RELATIONS CONTACT

E-mail: ir@manyue.com

## STOCK CODE

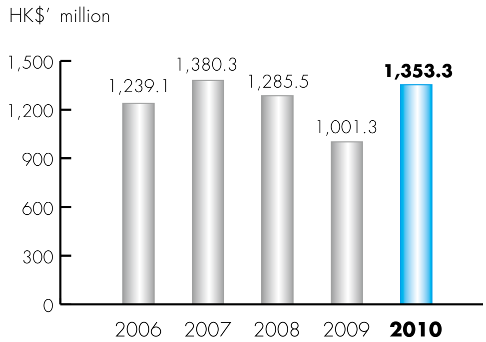
00894

# Financial Highlights

| For the year ended 31 December | 2010 | 2009 (restated) | % changes increase/(decrease) |
|---|---|---|---|
| **Operating results** | **HK$'000** | HK$'000 | % |
| **Revenue** | **1,353,258** | 1,001,258 | 35.16 |
| Gross profit | **312,076** | 227,553 | 37.14 |
| EBITDA | **207,157** | 187,897 | 10.25 |
| Operating profit | **115,747** | 82,145 | 40.91 |
| Net profit | **95,122** | 78,319 | 21.45 |
| **Per share data** | **HK cents** | HK cents | % |
| Earnings per share — basic | **19.97** | 16.47 | 21.25 |
| Total dividend per share | **4.0** | 2.5 | 60.00 |
| Net assets per share | **246.80** | 217.55 | 13.45 |
| **Financial position** | **HK$'000** | HK$'000 | % |
| Total assets | **2,263,424** | 1,865,130 | 21.35 |
| Net assets | **1,180,655** | 1,040,759 | 13.44 |
| **Financial ratios** | **%** | % | % |
| Gross profit to revenue | **23.1** | 22.7 | 1.76 |
| EBITDA to revenue | **15.3** | 18.8 | (18.62) |
| Operating profit to revenue | **8.6** | 8.2 | 4.88 |
| Net profit to revenue | **7.0** | 7.8 | (10.26) |
| Return on equity | **8.1** | 7.5 | 8.00 |
| Net debt to equity | **15.9** | 16.3 | (2.45) |

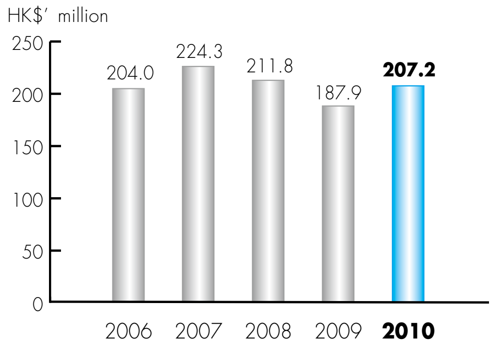
## REVENUE

For the year ended 31 December



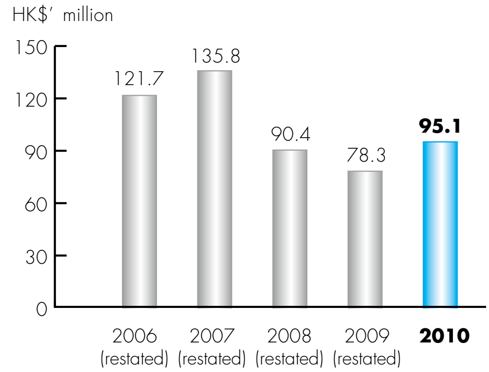

## EBITDA

For the year ended 31 December



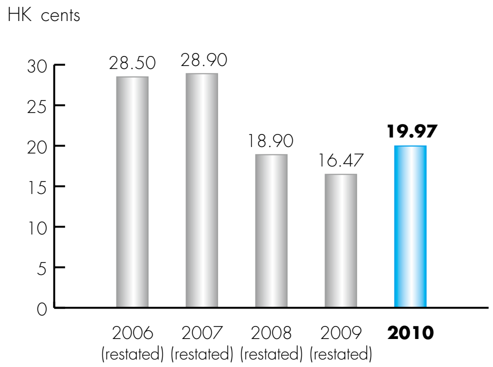

## NET PROFIT

For the year ended 31 December




## EARNINGS PER SHARE — BASIC

For the year ended 31 December



# Chairman's Statement

I am delighted to inform you that Man Yue Technology Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") have recovered strongly from the severe global economic turmoil which broke out in late 2008 and continued during 2009. We have returned to our sustainable growth path.

During the year ended 31 December 2010 (the "Year"), revenue grew by 35.2% to HK$1,353,258,000, which nearly matched the Group's revenue record high of HK$1,380,334,000 set in 2007. Profit for the year also rose by 21.5% to HK$95,122,000. As a result of this satisfactory performance, the Board of Directors recommends the payment of a final dividend of HK3.0 cents per share. Together with the interim dividend of HK1.0 cent per share already declared and paid, total dividend for the year amounted to HK4.0 cents per share.

I am also delighted to inform you that the Group has successfully transformed itself from a global supplier of a single electronic component, i.e. Aluminum Electrolytic Capacitors (or "E-Caps"), into a major global supplier of several critical electronic components, including: Conductive Polymer Aluminum Solid Capacitors ("Polymer Caps"), Electric Double-layer Capacitors ("EDLCs"), Lithium-ion Rechargeable Batteries, etc. This transformation in business activities enables the Group to enjoy multi-dimensional growth drivers in future financial years. We believe the rate of growth for Polymer Caps and other new product families may far exceed that for the E-Caps. Accordingly, we anticipate that over the long run, we will see that revenue contribution from our E-Caps, Polymer Caps and other new products will be more or less the same, i.e. with each core product family sharing approximately the same proportion of the Group's revenue.

Leveraging the Group's research and development ("R&D") capabilities, it will continue to invest in the development of more innovative electronic components. The product development directions will be focused mainly on the application areas of energy management, energy conservation and energy storage. It is the Group's continuing commitment to deliver high quality and advanced technology components for the rapidly changing market demands in next few decades.

Recognising our strength in technological know-how and the R&D directions that we are heading, the Company has changed its name from Man Yue International Holdings Limited to Man Yue Technology Holdings Limited with effect from 14 January 2011.

**Ms. Kee Chor Lin**
*Chairman*

Last, but not the least, I would like to take this opportunity to thank all the shareholders, business partners, bankers and customers for their continuing support to the Group. I would also like to thank my fellow directors, the management team and our staff for their dedication and commitment in contributing to the success of the Group.

**Kee Chor Lin**
*Chairman*

22 March 2011

# Management Discussion And Analysis

## RESULTS HIGHLIGHTS

- Revenue grew by 35.2% to HK$1,353,258,000 (2009: HK$1,001,258,000)
- Gross profit rose by 37.1% to HK$312,076,000 (2009: HK$227,553,000), representing a gross profit margin of 23.1% (2009: 22.7%)
- EBITDA increased by 10.3% to HK$207,157,000 (2009: HK$187,897,000), representing an EBITDA margin of 15.3% (2009: 18.8%)
- Operating profit climbed by 40.9% to HK$115,747,000 (2009: HK$82,145,000)
- Profit for the year grew by 21.5% to HK$95,122,000 (2009: HK$78,319,000), representing a net margin of 7.0% (2009: 7.8%)
- Net debts to equity ratio improved to 15.9% (2009: 16.3%)
- Proposed final dividend of HK3.0 cents per share, making an annual proposed dividend of HK4.0 cents per share
- Net asset value grew by 13.3% to HK$2.47 per share (2009: HK$2.18 per share)

## FINANCIAL REVIEW

Revenue for the financial year ended 31 December 2010 (the "Year") was HK$1,353,258,000, representing a rise of 35.2% from the previous financial year. The rapid growth in revenue has been mainly attributable to the increase in sales volume and a general increase in selling price. Geographically speaking, we have increased the proportion of sales within the Mainland China with sales contracts denominating in Renminbi.

During the Year, the Group reported a gross profit of HK$312,076,000, representing a gross profit margin of 23.1% (2009: 22.7%). This improvement in gross profit margin did not come easily. The Group has executed various profit improvement programmes, including raising the selling price and an adjustment to product mix with a priority given to higher margin products. Although we are facing numerous challenges brought by the rise of raw materials and production costs, the Group has managed to improve its gross profit margin.

During the Year, the Group recognised a loss arising from change in fair value of derivative financial instruments of HK$10,804,000. These derivative financial instruments were long term interest rate swap contracts entered in 2009 and 2010 with the intention to hedge against the Group's future interest rate exposures for the periods covered by these contracts (each contract has a 10-year term). As a result of market volatility prior to the year end date, fair value of these contracts dropped and, accordingly, a loss had been recognised in the Group's consolidated income statement as required by Hong Kong Accounting Standard 39 "Financial instruments: Recognition and measurement". This item does not affect the cash flow of the Group. Management believes that this drop in fair

*Front view of the Group's E-Caps manufacturing facility located in Changan, Dongguan, PRC* value should be temporary and these contracts will eventually bring in positive value to the Group in future financial years.

After deducting the above-mentioned loss arising from changes in fair value of derivative financial instruments, EBITDA stood at HK$207,157,000, representing an EBITDA margin of 15.3% (2009: 18.8%). Had we excluded this one-off item, EBITDA margin would have been 16.1%.

Profit for the Year grew by 21.5% to HK$95,122,000, representing a net profit margin of 7.0% (2009: 7.8%). Basic earnings per share for the year was HK19.97 cents (2009: HK16.47 cents).

The Board of Directors has proposed a final dividend of HK3.0 cents per share. Together with the interim dividend of HK1.0 cent already declared and paid, total dividends for the Year amounted to HK4.0 cents per share, representing a pay-out ratio of 20.1% (2009: 15.3%).

## BUSINESS REVIEW

### Market Overview

The global demand for aluminium electrolytic capacitors ("E-Caps") experienced a marked growth during the Year. This growth has been attributable to booming economies in Asia and other emerging markets. We have also seen clear signs of economic recovery in North America and Europe. Global demand for conductive polymer aluminum solid capacitors ("Polymer Caps") soared even more rapidly during the Year as a result of numerous new product launches by market leaders in the information technology and telecommunication industries.

### Operation Review

Supported by strong market demand for E-Caps products, sale of our SAMXON® brand recorded a significant growth during the Year, particularly in industry applications such as computers, LED televisions, energy-saving lamps, LED lighting devices and environmental protection products. We will continue to develop new innovative E-Cap products to support a sustainable sales growth in future. However, priority will be given to more advanced products with relatively higher gross margins.

Polymer Caps experienced a phenomenal growth during the Year. As the global supply of these products is still very tight, the Group's Polymer Caps had been sought-after by top-tier electronic and computer producers. In respond to strong customer demand, we expanded our production capacity by 1.5 times during the Year. Both radial lead and SMT type of Polymer Caps are selling very well. These products are now widely applied in the most popular branded electronic products such as desk-top and notebook computers, game consoles, VGA cards, telecommunication and power supply products.

We have also seen a rapid rise in the demand for electronic components in the new energy sector. As a result, a new product family known as energy storage system ("ESS") was introduced by the Group in 2010. This product family will target to provide a total energy storage system (which mainly includes: EDLCs, Lithium-ion

Rechargeable Batteries and Screw-type E-Caps) to its customers. EDLCs can provide an immediate power supply to the equipment while a Lithium-ion Rechargeable Battery represents mass energy storage solution. Screw-type E-Caps assist the EDLC in providing additional power needed by the equipment. The combination of these three components forms a total solution for an energy storage system. The ESS products are to be applied in new energy sectors such as wind and solar power systems; electric transportation equipments including electric bicycles, electric-vehicles, electric-bus, high-speed trains, etc; and consumer electronic products such as electric tools. During the Year, the revenue from ESS was insignificant as most of these products were launched at the middle or end of the Year. However, we believe that a more significant financial contribution from the ESS will realise in late 2011 and after.

Aluminum foil is one of the most important raw materials used in the production of E-Caps. To ensure sufficiency in the supply and to achieve a better profit margin, the Group has been manufacturing aluminum foils since 2006. During the Year, the supply of aluminum foils remained very tight and the Group has increased its production to keep pace with the volume of demand for E-Caps. Currently the Group is able to produce internally more than 50% of the aluminum foils needed for consumption in its E-Caps.

### Research and Development

The Group is rapidly expanding its R&D teams in order to speed up the rate of development of innovative new products to the market. During the Year, R&D experts in various disciplines were recruited to strengthen our already successful R&D teams. These R&D experts came from the fields such as energy storage, energy conservation, energy management, material science, chemical engineering and mechanical engineering.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's net borrowings in respect of bank loans amounted to HK$659,586,000 (31 December 2009: HK$532,931,000). Of this amount, HK$405,171,000 was included in current liabilities. This amount can be further divided into current portion of long term bank loans of HK$296,407,000; trade finance facilities of HK$72,187,000; and revolving credits of HK$36,577,000. Included in non-current liabilities were bank loan facilities that are repayable between one to two years of HK$79,769,000 and repayable between two to five years of HK$174,646,000.

After deducting cash and cash equivalents of HK$472,592,000 (31 December 2009: HK$364,427,000), the Group's net borrowing position as at 31 December 2010 was HK$186,994,000 (31 December 2009: HK$168,504,000). Shareholders' equity as at 31 December 2010 was HK$1,176,694,000 (31 December 2009: HK$1,036,516,000) and therefore the Group's net borrowing to shareholders' equity ratio improved to 15.9% (31 December 2009: 16.3%).

During the Year, the Group generated net cash inflow from operating activities of HK$101,685,000. This figure represented profit before tax of HK$109,033,000, plus adjustments for non-cash items such as depreciation and amortisation of HK$87,964,000, and net increase in working capital of HK$92,650,000 minus other adjustments of HK$2,662,000. The cash outflow from investing activities for the Year was HK$107,127,000 which included: purchases and prepayment for property, plant and equipment of HK$60,773,000 and HK$37,680,000 respectively and advances to jointly-controlled entities of HK$9,743,000; minus other items of HK$1,069,000.

The Group's financial statements are denominated in Hong Kong dollars. The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars and Japanese yen. As Hong Kong dollar remains pegged to United States dollar, there is no material exchange risk in this respect. To manage the appreciation of Renminbi, the Group has successfully increased its revenue in Mainland China in order to naturally hedge Renminbi receipts and Renminbi payments. The Group continues to monitor its foreign exchange exposure in Japanese yen and Renminbi mainly by entering into forward contracts. Interest rate exposures were hedged by entering into long term interest rate swap contracts. Most of the Group's long-term bank loan facilities are denominated in Hong Kong dollars and carry interests at floating rates. Credit risk was hedged mainly through credit insurance policies.

## EMPLOYMENT AND REMUNERATION POLICY

At 31 December 2010, the Group employed 79 employees in Hong Kong (31 December 2009: 75) and employed a total work force of 3,719 (31 December 2009: 3,375) inclusive of its staff in China and overseas offices. As at the date of this report, the total number of employees increased to 4,318.

Salaries, bonuses and benefits were determined with reference to market terms and the performance, qualifications and experience of individual employees.

## OUTLOOK AND PROSPECTS

The demand for electronic components will continue to rise in 2011. This is mainly driven by economic growth in the emerging markets and the recovery of the North America and European economies. With the Group's three pillars of product families, namely E-Caps, Polymer Caps and ESS, well in place, future growth will take place in multiple dimensions and directions. E-Cap products will continue to sell well as we have gained additional market shares in different industry segments. Polymer Caps will continue to be sought-after by leaders of global branded information technology and electronic products. In addition, the supply of Polymer Caps will continue to be tight in 2011. ESS will start to have significant revenue contribution in 2012 and beyond.

To cope with the increase in business volume, the Group is expanding its production capacity in various locations. Phase 2 development of our Wuxi plant will be completed by the middle of 2011. Our Jiangxi plant is also being expanded to cope with ever-increasing PRC sales. We will establish one more aluminum foil factory in Sichuan to increase the supply of aluminum foils to the Group. Production machinery will also be purchased to support the expansion of production capacities for Polymer Caps and ESS products. All in all, the Group has budgeted for a capital expenditure of HK$200 million in 2011. This capital expenditure will mainly be funded by cash flow from operating activities and long term bank loans. We believe we will maintain a relatively low net debts to equity ratio.

We expect that raw material and production cost will continue to rise in 2011 and we have already started numerous profit enhancement programs to keep improving our gross and net profit margins for 2011 and beyond.

As of today, the earthquake and tsunami occurred in Japan on 11 March 2011 had not caused any material negative impact to the Group. However, we will keep monitoring the situation closely.

# Directors' and Senior Management's Biographies

**Board of Directors**

Front (left to right): Mr. Mar, Selwyn, Ms. Kee Chor Lin and Mr. Chan Yu Ching, Eugene

Back (left to right): Dr. Li Sau Hung, Eddy, Mr. Wong Ching Ming, Stanley, Mr. Tso Yan Wing, Alan, Mr. Lo Kwok Kwei, David and Mr. Ko Pak On

## EXECUTIVE DIRECTORS

**Ms. Kee Chor Lin (Mrs. Chan)**, aged 62, is the co-founder of the Group. She was appointed as the Chairman and an Executive Director of the Company on 10 October 2008. Mrs. Chan is the leader of the Group for corporate development, overall planning, strategies and policies making. Mrs. Chan is at present a director of several major operating subsidiaries of the Group and also a member of the remuneration committee of the Company. Mrs. Chan is one of the well-known industrialists in Hong Kong and possesses over 32 years of experience in the business of electronic components. She is the mother of Mr. Chan Yu Ching, Eugene, the Managing Director and an Executive Director of the Group and Ms. Chan Lok Yan, Lorraine, a member of the senior management of the Group.

**Chan Yu Ching, Eugene**, aged 35, joined the Group in 1998 and was appointed as an Executive Director on 18 December 2007 and as Managing Director of the Group on 10 October 2008. Mr. Chan is responsible for overseeing the business development, policies making and implementation of the Group. He is also a director of several major operating subsidiaries of the Group. He holds a Bachelor degree in Applied Science (majored in Electronic and Electrical Engineering) from the University of British Columbia in Canada. Mr. Chan has over 13 years of experience in the industry of electronic components. He received the Young Industrialist Awards of Hong Kong in 2008. He is the son of Mrs. Chan and the brother of Ms. Chan Lok Yan, Lorraine.

**Ko Pak On**, aged 64, is the Company's Executive Director. Mr. Ko joined the Group in 1984 and is mainly responsible for overseeing the Group's manufacturing operations in the Mainland China. He is at present a director of several major operating subsidiaries of the Group. Mr. Ko possesses over 32 years of experience in the industry of electronic components. In 2010, he received the 2009 Advanced Technology Practitioner Award from the People's Government of Changan, Dongguan.

**Tso Yan Wing, Alan**, aged 52, is an Executive Director, Chief Financial Officer and Company Secretary of the Group. He joined the Group in December 2004 and was appointed as an Executive Director on 18 December 2007. Apart from his Executive Director's role, Mr. Tso is also responsible for overseeing the Group's financial planning, control and management, regulatory compliance and investor relationship functions. Prior to joining the Group, Mr. Tso had held various senior management positions, including Chief Financial Officer, Chief Operating Officer and Director of Corporate Communications in various well-known international companies. He had also worked in one of the world's largest international accounting practices for ten years. Mr. Tso has over 29 years' of professional accountancy, financial and executive management experiences. He holds a Master degree in Business Administration from the University of Ottawa and is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Certified General Accountants in Canada.

**Wong Ching Ming, Stanley**, aged 53, was appointed as an Executive Director of the Group in January 2011. He is also the Director of Business Development of the Group. Mr. Wong joined the Group in 2003 and is now primarily responsible for managing the Group's global sales and marketing strategies and operations. He has over 20 years of experience in sales and marketing field and had held a senior management position in an internationally well-known information technology company. Mr. Wong holds a MSc degree and a BSc (Aeronautical Engineering) degree from the University of London's Imperial College of Science and Technology in the United Kingdom. Mr. Wong is also a director of certain subsidiaries and an associate of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Li Sau Hung, Eddy**, aged 56, has over 24 years of experience in the manufacturing industry. Dr. Li is a member of the National Committee of Chinese People's Political Consultative Conference and the president of Hong Kong Economic & Trade Association Ltd. He holds a Ph.D. degree in Economics and a Master degree in Business Administration. Dr. Li was awarded The Ten Outstanding Young Persons in 1991 and the Young Industrialists of Hong Kong in 1993. He is currently an independent non-executive director of Oriental Watch Holdings Limited and Midas International Holdings Limited (all of which were listed on the Main Board of The Stock Exchange of Hong Kong Limited). Dr. Li is also a member of the audit committee and remuneration committee of the Company.

**Lo Kwok Kwei, David**, aged 52, holds the degrees of Bachelor of Laws and Bachelor of Jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984. Mr. Lo has been a member of The Law Society of Hong Kong since 1987. He has been practicing as a solicitor in Hong Kong for over 22 years and is a partner in a law firm in Hong Kong. Mr. Lo is currently a non-executive director of eSun Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. He is also a member of the audit committee and the chairman of the remuneration committee of the Company.

**Mar, Selwyn**, aged 75, graduated from the London School of Economics, University of London, is a fellow member of the Institute of Chartered Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Mar has been active in commercial and industrial undertakings over the past 30 years. At present, he is a partner of Nexia Charles Mar Fan & Co., an independent non-executive director and chairman of the audit committee of Standard Bank Asia Limited. He is also an independent non-executive director and chairman of the audit committee of China Everbright International Limited and Minmetals Land Limited. In respect of public services, he was the President of the Hong Kong Institute of Certified Public Accountants (formerly known as the "Hong Kong Society of Accountants") in 1991, a member of the Appeals Panel of the Securities and Futures Commission and a member of Board of Governors of the Chinese International School. He is at present an Honorary Fellow of the Lingnan University and was appointed member of the Court of Lingnan University by the Chief Executive of the Hong Kong Special Administrative Region. He is also the chairman of the audit committee of the Company.

## SENIOR MANAGEMENT

**Chan Lok Yan, Lorraine**, aged 33, is the Director of Business Control of the Group. Ms. Chan joined the Group in 2001 and is actively involving in the setting of the Group's business strategies, reengineering the Group's business processes and the establishment of business control systems. She has extensive experience in marketing, business operations and information systems management. Ms. Chan holds a BA degree from the University of Toronto, Canada. She is the daughter of Mrs. Chan and the sister of Mr. Chan Yu Ching, Eugene.

**Lui Man Lung, Johnny**, aged 40, is an Assistant Business Development Director of the Group. Mr. Lui joined the Group in 1996 and is mainly responsible for the development of the Group's business in the Greater China and Taiwan region. He has over 16 years of experience in the sales and marketing fields. He holds a bachelor degree of Business Administration from the Lingnan University, Hong Kong.

**Wan Wah, Winner**, aged 41, is an Assistant Business Development Director of the Group. Ms. Wan joined the Group in 1994 and is mainly responsible for the development of the Group's business in Japan. She has over 17 years of experience in the sales and marketing fields and has successfully led sales teams in the development of new and potential markets for the Group. She holds a Master degree of Business Administration from the University of Sydney, Australia.

**Huang Jian**, aged 38, is an Operation Manager of the Group's Dongguan manufacturing facility. Mr. Huang joined the Group in 1997. He has over 13 years of experience in operation management. He graduated from the Chongqing Normal University.

**Pan Su Qing**, aged 49, is the Vice Chief Engineer of the Group's Dongguan manufacturing facility. Ms. Pan joined the Group in 1996. She is responsible for product development, product design, technical support and product cost management of the Group. Prior to joining the Group, she worked in the research & development department of a well known state-owned National 4321 Factory and engaged in the development of new aluminum electrolytic capacitor products for commercial customers and military uses. She graduated from the Nan Chang Radio Technological School, majored in electronics component and material in 1983.

**Li Shen Guang**, aged 45, is a Quality Assurance Manager of the Group's Dongguan manufacturing facility. Mr. Li joined the Group in 2003. He has over 20 years of experience in the management of electronic components. He has over 17 years of experience in quality management, technology, research & development of aluminum electrolytic capacitors. He holds a Bachelor degree in the Electronic Engineering from the Tianjin University.

**Peng Shu Hong**, aged 36, is the Operation Manager of the Group's Qingyuan aluminum foil manufacturing facility. Mr. Peng joined the Group in June 1997 with the responsibility of managing the production, planning and logistics operations. He has about 12 years of experience in operation management and logistics field. He graduated from the Chongqing Normal University.

**Liao Guang Hui**, aged 37, is the Operation Manager of the Group's Wuxi manufacturing facility. Mr. Liao joined the Group in 1996. He has over 12 years of experience in operation management. He graduated from the Chongqing Information Technology Engineering College.

# Corporate Governance Report

The board of directors (the "Board" or "Directors") and management are committed to maintaining high standards of corporate governance. The principles of corporate governance adopted by the Company emphasise on an effective Board for leadership and control, sound business ethics and integrity in all business activities, transparency and accountability to shareholders.

The Company adopted the Code on Corporate Governance Practices (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance practices with the exception of the following deviation:

Under the code provision A.4.1., non-executive directors and independent non-executive directors ("INEDs") should be appointed for a specific term. Currently, the INEDs are subject to retirement by rotation at the annual general meeting under bye-law 87 of the Company's bye-laws.

Save as disclosed above, the Company considers that sufficient measures have been taken to ensure that corporate governance practices of the Company were in line with the code provisions for the year ended 31 December 2010 (the "Year").

## THE BOARD

The Board currently comprises five executive Directors and three INEDs. The number of INEDs represents more than one third of the Board. Their names are identified in various corporate communications and in all announcements. The biographical details and the relationship among the members of the Board are disclosed under the section headed "Directors' and Senior Management's Biographies" on pages 9 to 11 of the annual report for the Company for 2010. Also, the Board has established two Board committees, namely, the audit committee and the remuneration committee.

### The Composition of the Board

The Directors believe that the current composition reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Group and the effective leadership. The INEDs of the Group are experts in various business sectors. The Directors are of the opinion that the present structure can ensure independence and objectivity and provide checks and balances to safeguard the interests of the shareholders and the Company.

### The Chairman and the Managing Director

The Board believes that the clear division of responsibilities between the chairman and the managing Director is crucial to the effective running of the Board and the development of the Group. The current positions of the chairman and the managing Director of the Company are held by two different executive Directors namely, Ms. Kee Chor Lin (or Mrs. Chan) and Mr. Chan Yu Ching, Eugene respectively. Their roles and duties are separate. Ms. Kee Chor Lin, the chairman, is to lead the Board to form strategic plans whilst Mr. Chan Yu Ching, Eugene, holding the role of managing Director, is to implement the policies and answerable to the Board for the operations of the Company. Mrs. Chan is the mother of Mr. Chan Yu Ching, Eugene.

### The Board Meetings

During the Year, the Board of Directors met five times whilst there were four audit committee meetings and two remuneration committee meetings. The Board and the remuneration committee reviewed and approved the proposal of the grant of shares options in the respective meetings held on 15 September 2010.

Individual attendance record of the relevant Director during the Year is as follows:

| Directors | Board Meetings | Audit Committee Meetings | Remuneration Committee Meetings |
|---|---|---|---|
| | Number of Meetings attended/held | | |
| ***Executive Directors:*** | | | |
| Ms. Kee Chor Lin (Note 1) | 4/5 | 4/4 | 2/2 |
| Mr. Chan Yu Ching, Eugene (Note 1) | 5/5 | 4/4 | N/A |
| Mr. Ko Pak On (Note 1) | 5/5 | 1/1 | N/A |
| Mr. Tso Yan Wing, Alan (Note 2) | 5/5 | 4/4 | 2/2 |
| Mr. Wong Ching Ming, Stanley (Note 3) | N/A | N/A | N/A |
| ***Independent Non-executive Directors:*** | | | |
| Dr. Li Sau Hung, Eddy | 5/5 | 4/4 | 2/2 |
| Mr. Lo Kwok Kwei, David | 5/5 | 4/4 | 2/2 |
| Mr. Mar, Selwyn | 4/5 | 4/4 | N/A |

Notes:

1. Ms. Kee Chor Lin and Mr. Chan Yu Ching, Eugene attended all audit committee meetings as management representatives and Mr. Ko Pak On attended an audit committee meeting as requested by the audit committee.

2. Mr. Tso Yan Wing, Alan attended all audit committee and remuneration committee meetings as secretary to the respective committees.

3. Mr. Wong Ching Ming, Stanley was appointed as an executive Director with effect from 1 January 2011.

**Proceedings of Meetings**

The chairman is responsible for drawing up and approving the agenda for each Board meeting in consultation with all Directors and the company secretary.

Prior notice of each Board meeting was given to all Directors at least 14 days in advance of the Board meeting and the Directors were invited to include matters for discussion in the agenda. The agenda and accompanying board papers were then sent in full to all Directors at least three days in advance or within reasonable time prior to the relevant Board meetings.

The minutes of the Board meeting recorded in sufficient details the matters considered by the Board. The minutes of all Board meetings and all other committee meetings are kept by the company secretary and are available for inspection by any Director, auditors or any relevant eligible parties who are entitled to have access to such information.

The Directors were reminded to declare any conflicts of interest at the Board meetings and to abstain from voting and be excluded from counting as quorum in that meeting whenever there are potential or actual conflicts of interest arising.

**The Appointment, Re-election and Removal of Directors**

The bye-laws of the Company have provisions for the appointment, re-election and removal of Directors.

*Appointment of Directors*

Subject to the bye-law 86(1) of the Company, the Directors shall be elected or appointed in the first place at the statutory meeting of members and thereafter at the annual general meeting. However, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board subject to bye-law 86(2).

*Re-election of Directors*

Bye-law 86(2) also provides that any Directors so appointed by the Board 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. Pursuant to the bye-law 87, one-third of the Directors for the time being shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting.

*Removal of Directors*

Under the bye-law 86(4), the members may, at any general meeting and by an ordinary resolution remove a Director at any time before the expiration of his/her period of office provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director not less than 14 days before the meeting and at such meeting such Director shall be entitled to be heard on the motion for his removal.

## NOMINATION OF DIRECTORS

The Company does not have a nomination committee. During the Year, the Chairman nominated Mr. Wong Ching Ming, Stanley ("Mr. Wong") as an executive Director of the Company. He was appointed at the Board meeting held on 14 December 2010 as an executive Director with effect from 1 January 2011. The Board believes that with his appointment as an executive Director, the business development of the Group will be strengthened as Mr. Wong has over 20 years of experience in sales and marketing field and had held a senior management position in an internationally well-known information technology company.

The company secretarial department conducted a brief induction for Mr. Wong to explain a director's duties under legal and regulatory requirements and the Company's policies.

## THE RESPONSIBILITIES OF DIRECTORS

The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

The chairman leads the Board to formulate corporate mission, visions and policies of the Group and to ensure that all Directors are properly briefed on issues.

All executive Directors are involved heavily in their roles as an executive Director and attend to the affairs of the Company, whilst all INEDs have been participating in Board meeting and have brought independent views and judgments on various issues. Two of the INEDs serve on both audit and remuneration committees whilst the other one serves only on the audit committee to provide independent judgments on issues.

Each of the INEDs has been appointed with formal letters of appointment setting out the key terms and conditions of their appointment. Prior to their respective appointments, each of the INEDs has submitted a written confirmation to the Company and the Stock Exchange confirming their independence and has undertaken to inform the Company and the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

The Company reviews annually and obtains confirmation of independence from each of the INEDs during their terms of appointment. The Company has received from each of the INEDs a written confirmation of his independence during the Year by reference to the rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that the INEDs are independent.

### Directors' Securities Transactions

The Company has adopted a code of conduct governing securities transactions by Directors on terms as set out in appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they had fully complied with the required standard set out in the Model Code during the Year.

### Directors and Officers' Indemnity

The Company continues to subscribe an insurance policy to indemnify the Directors and senior executives from any losses, claims, damages, liabilities and expenses, including without limitation, any proceedings brought against the executive, arising from the performance of his/her duties pursuant to his/her appointment under his/her respective service agreements entered into with the Company. The current policy has been renewed and shall be under constant review.

## DELEGATION BY THE BOARD

While at all times the Board retains full responsibility for guiding and monitoring the operations of the Group, in discharging its duties, certain responsibilities are delegated to the senior management team of the Company including the day-to-day operations of the Group. Such senior management team is answerable to the Board.

During the Year, each executive Director had frequently met with the management team in order to maintain an effective feedback system and enable the Company to react to changes or problems quickly and efficiently. The Board shall review its arrangement on delegation of responsibilities and authority regularly to ensure that such delegations are appropriate in view of the Company's prevailing circumstances and that appropriate reporting system is in place.

Each Director is free to seek advice from and has access to the Company's management team independently.

## BOARD COMMITTEES

### Audit Committee

At present, the audit committee consists of three INEDs namely:

Mr. Mar, Selwyn *(Chairman)*
Dr. Li Sau Hung, Eddy
Mr. Lo Kwok Kwei, David

The Board considers that each audit committee member has broad commercial experience and is a suitable mix of expertise in various business, financial and legal sectors and that the composition and establishment of the audit committee complies with the requirements under rule 3.21 of the Listing Rules.

The audit committee has the responsibilities and powers set forth in the terms of reference of the audit committee. Committee members shall meet at least twice to consider the interim and final results prepared by the Board.

The terms of reference of the audit committee were published on the Company's website and are available for inspection by the shareholders of the Company upon request made to the company secretary.

During the Year, the audit committee met four times. The attendance of individual Directors at the audit committee meetings is set out on page 13 of this annual report.

The following is a summary of work performed by the audit committee during the Year:

1. *Review of the financial reporting for the interim period ended 30 June 2010 and for the year ended 31 December 2009*
   The audit committee reviewed the Group's unaudited consolidated financial statements for the interim period ended 30 June 2010 and the audited consolidated financial statement for the year ended 31 December 2009. The audit committee is of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

2. *Review of and recommendations to the Board the appointment of PricewaterhouseCoopers as the external auditor of the Company*
   The audit committee reviewed and considered the appointment of PricewaterhouseCoopers as the external auditor of the Company. The audit committee had also reviewed the remuneration payable to PricewaterhouseCoopers, for services provided during the year ended 31 December 2010 as follows:

| **Services rendered by External Auditor** | **Fees paid/ payable** HK$'000 |
|---|---|
| Audit services | 1,660 |
| Non-audit services | 518 |
| Total | 2,178 |

   The audit committee reflected their views to the Board that the payable to the Company's external auditor are reasonable and there has been no major disagreement between the external auditor and the management of the Company during the Year.

3. *Review of the internal audit work*
   In connection with the internal control review conducted in the Year, the audit committee has periodically reviewed the internal audit work and has had meetings with the internal auditor of the Company to follow up on the findings being identified in the assessment reports prepared by the internal auditor of the Company. The audit committee members are of the view that the key areas of the Company's internal control system have reasonably implemented and no material issues calling for concerns by the Board.

**Remuneration Committee**

The Company was established the remuneration committee with written terms of reference. The Board has delegated the authority to the remuneration committee to review and recommend to the Board the compensation scheme of the Company to the Directors.

The remuneration committee is at present has three members comprising one executive Director and two INEDs, namely

Mr. Lo Kwok Kwei, David *(Chairman)*
Ms. Kee Chor Lin
Dr. Li Sau Hung, Eddy

The main function of the remuneration committee is to assist the Board to oversee the Group's remuneration packages payable to the Directors and senior management, to determine the specific remuneration packages of all executive Directors and senior management and to establish a transparent procedure for developing policy on such remuneration. The Board would consult with the chairman of the remuneration committee and provide sufficient resources to the remuneration committee to enable it to discharge its duties.

During the Year, the remuneration committee met twice and the attendance of each individual Director is set out in page 13 of this annual report of the Company for 2010. The following matters were dealt with in the said meeting:

1. reviewing and confirming the latest organisation chart of the Company;

2. reviewing and approving the remuneration package of the Directors and key management employees; and

3. reviewing and making recommendation on the proposal of the grant of share options to the grantees under the share option scheme of the Company for the Board's consideration and approval.

The terms of reference of the remuneration committee were published in the Company's website and are available for inspection by the shareholders of the Company upon request made to the company secretary.

## FINANCIAL REPORTING

The Board acknowledges its responsibility for the preparation of the financial statements for each financial year, which shall give a true and fair view of the state of affairs of the Company.

During the Year, the Board is not aware of any material uncertainties relating to event or condition that might cast significant doubt upon the Company's ability to continue in business. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Company commits to announce its interim and annual results as soon as reasonably practicable after the end of the relevant period and the financial year as required by the Listing Rules respectively and disclose all such information as would enable shareholders of the Company to assess the performance, financial position and prospects of the Company.

## INTERNAL AUDIT

The Company's internal audit department is led by the internal audit manager and includes professional staff. The internal audit manager reports directly to the audit committee.

The internal audit department's primary responsibilities include:

- reviewing the work-flow and the implementation status of the Group's policies and procedures of all functional departments;
- reviewing the compliance status on rules and regulations that are applied on the Group;
- reviewing the areas of concern identified by the audit committee or management;
- Reporting significant issues related to the processes for controlling the activities of the Group, including potential improvements to those processes and providing information concerning such issues to the audit committee;
- Issuing periodic reports to the audit committee and the Board summarising results of audit activities and of the substantive follow-up of audit recommendations; and
- Investigating significant suspected fraudulent activities within the organisation.

The internal audit department carries out annual risk assessment on each identified audit area and devises an annual audit plan according to the nature of business and risk exposures, and the scope of work includes financial and operational reviews. The audit plan is reviewed and agreed by the audit committee.

## INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal controls system within the Group, particularly in respect of financial, operational, compliance controls and risk management systems, and set appropriate policies so that the objectives of the Group can be achieved and the risks associated can be monitored and mitigated in an acceptable level.

Appropriate policies and procedures are provided to the staff to (i) safeguard assets against unauthorised use or disposition; (ii) keep proper and accurate accounting records and enhance the reliability of financing reporting; and (iii) ensure efficiency and effectiveness of operations and compliance with applicable laws and regulations. The design of internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage and minimise rather than eliminate the risk of failure in the Group's operational systems.

The Group's internal control framework includes the following major components:

- an organisation structure with defined responsibility, proper segregation of duties and delegated authority;
- policies and procedures of financial control, internal control and risk management to identify and measure risks and conduct quarterly risk assessment to monitor the risk relief;
- operational and financial budgeting and forecasting systems for performance measurement, including regular budgeting analysis;
- clear rules and guidelines for the review and approval of major capital and current expenditures; and
- strict internal procedures and controls for the handling and dissemination of price sensitive information.

The internal audit department evaluates the overall adequacy and effectiveness of the Group's internal control system. Identified deficiencies are reported to the audit committee and recommendations are given to the Board and management.

## INVESTOR RELATIONS AND COMMUNICATIONS

The Board recognises the importance of maintaining on-going communication with the shareholders and establishes different communication channels with its shareholders and the investor.

The annual general meeting provides a forum for the Company's shareholders to raise comments and exchange views with the Board. The chairman of the Board, the chairman of the audit committee as well as the chairman of the remuneration committee shall attend each annual general meeting or any general meeting to answer questions from the shareholders.

Updated company news and published announcements of the Group are made available on the websites of the Stock Exchange and the Company.

In addition, meetings with various investors were held with the directors of the Company during the Year to enhance interactive communications with shareholders and investors.

## SHAREHOLDERS' RIGHT

The bye-law 58 of the Company provides that any shareholder holding not less than 10% of the paid up capital of the Company, can deposit a requisition to the Board or the company secretary of the Company to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

## ENVIRONMENTAL PROTECTION

The Group committed to environmental protection. In this area, the Group established an environmental management system that conforms to global standards and was granted with ISO14001 accreditation in 2004. The quality control department controls the products quality and the use of certain chemical substances.

Besides, the implementation of the European Union's Directives on Restriction of the use of the certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS") in August 2005 in European Union members' states has impacted on the electronic industry. The Group installed new equipments and established a comprehensive set of policies and procedures to ensure the Group's products completely satisfies RoHS requirements for the European Community and equivalent requirement for the rest of the world. The Group had also made it mandatory for all vendors and business partners to comply with its RoHS requirements.

# Report of the Directors

The directors of the Company (the "Directors") present their report and audited financial statements of the Company and the Group for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 22 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the Company's special general meeting held on 11 January 2011 and an approval from the Registrar of Companies in Bermuda on 14 January 2011, the name of the Company has been changed from "Man Yue International Holdings Limited" to "Man Yue Technology Holdings Limited" and a new Chinese name of "萬裕科技集團有限公司" has been adopted as the Company's secondary name with effect from 14 January 2011.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 29.

An interim dividend of HK1.0 cent per ordinary share was paid on 8 October 2010. The Directors recommend the payment of a final dividend of HK3.0 cents per ordinary share, totalling HK$14,352,000 payable on or around Monday, 4 July 2011 to shareholders whose names appear on the Register of Members of the Company on Thursday, 19 May 2011.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 110. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the Company's share capital, share options and warrants during the year are set out in notes 34 and 35 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

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

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

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 36 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$132,669,000 (2009: HK$77,554,000), of which HK$14,352,000 (2009: HK$9,568,000) has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$165,640,000, may be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$530,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 21.4% (2009: 27.3%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 8.8% (2009: 13.6%).

Purchases from the Group's five largest suppliers accounted for approximately 40.7% (2009: 46.9%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.8% (2009: 16.7%).

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

## DIRECTORS

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

**Executive Directors**

Ms. Kee Chor Lin
Mr. Chan Yu Ching, Eugene
Mr. Ko Pak On
Mr. Tso Yan Wing, Alan
Mr. Wong Ching Ming, Stanley *(appointed on 1 January 2011)*

**Independent Non-executive Directors ("INEDs")**

Dr. Li Sau Hung, Eddy
Mr. Lo Kwok Kwei, David
Mr. Mar, Selwyn

In accordance with bye-law 86 of the Company's bye-laws, Mr. Wong Ching Ming, Stanley shall retire from office and, being eligible, shall offer himself for re-election at the forthcoming annual general meeting.

In accordance with bye-law 87 of the Company's bye-laws, Mr. Chan Yu Ching, Eugene, Dr. Li Sau Hung, Eddy and Mr. Mar, Selwyn shall retire from office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Dr. Li Sau Hung, Eddy, Mr. Lo Kwok Kwei, David and Mr. Mar, Selwyn pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 9 to 11 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' REMUNERATION

The Directors' remuneration are subject to shareholders' approval at the annual general meetings. Other emoluments are determined by the Company's remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Company.

## REMUNERATION COMMITTEE

A remuneration committee was established on 22 March 2006 by the Company to consider the remuneration of the Directors and the senior management of the Company. The remuneration committee comprises two INEDs and one executive Director.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

Long positions in ordinary shares and underlying shares of the Company:

| | Capacity, nature of interest and number of shares and underlying shares held | | | | |
|---|---|---|---|---|---|
| **Name of director** | **Capacity** | **Nature of interest** | **Interests in shares** | **Interest in share options** | **Approximate percentage of the Company's issued share capital** |
| Kee Chor Lin | Interest of controlled corporation *(note)* | Corporate | 209,689,667 | – | 43.83% |
| Kee Chor Lin | Beneficial owner | Personal | 50,364,334 | – | 10.53% |
| | | | 260,054,001 | – | 54.36% |
| Chan Yu Ching, Eugene | Beneficial owner | Personal | 4,716,666 | – | 0.99% |
| Ko Pak On | Beneficial owner | Personal | 2,066,666 | 1,500,000 | 0.75% |
| Tso Yan Wing, Alan | Beneficial owner | Personal | 116,000 | 1,700,000 | 0.38% |

Note: These shares are held by Man Yue Holding Inc., a company wholly and beneficially owned by Ms. Kee Chor Lin, the chairman of the Company.

Save as disclosed above and as disclosed under the heading "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES", as at 31 December 2010, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 35 to the consolidated financial statements.

As at 31 December 2010, 6,960,000 share options remained outstanding under the Share Option Scheme and the details of the movements of the said outstanding share options were as follows:

| Name or category of participant | At 1 January 2010 | Granted during the year | At 31 December 2010 | Date of grant of share options | Exercise period of share options[1] | Price of the Company's shares[3]: Exercise price of share option[2] HK$ per share | Price of the Company's shares[3]: Immediately before the grant date of options HK$ per share |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Ko Pak On | 500,000 | – | 500,000 | 8.8.2006 | 8.8.2006 to 25.5.2016 | 1.6 | 1.6 |
| | 500,000 | – | 500,000 | 8.8.2006 | 8.8.2007 to 25.5.2016 | 1.6 | 1.6 |
| | – | 250,000 | 250,000 | 15.9.2010 | 15.9.2011 to 14.9.2020 | 2.262 | 2.25 |
| | – | 250,000 | 250,000 | 15.9.2010 | 15.9.2012 to 14.9.2020 | 2.262 | 2.25 |
| | 1,000,000 | 500,000 | 1,500,000 | | | | |
| Tso Yan Wing, Alan | 700,000 | – | 700,000 | 8.8.2006 | 8.8.2006 to 25.5.2016 | 1.6 | 1.6 |
| | – | 500,000 | 500,000 | 15.9.2010 | 15.9.2011 to 14.9.2020 | 2.262 | 2.25 |
| | – | 500,000 | 500,000 | 15.9.2010 | 15.9.2012 to 14.9.2020 | 2.262 | 2.25 |
| | 700,000 | 1,000,000 | 1,700,000 | | | | |
| **Other employees** | | | | | | | |
| In aggregate | 150,000 | – | 150,000 | 8.8.2006 | 8.8.2006 to 25.5.2016 | 1.6 | 1.6 |
| In aggregate | 400,000 | – | 400,000 | 8.8.2006 | 8.8.2007 to 25.5.2016 | 1.6 | 1.6 |
| In aggregate[3] | – | 1,616,000 | 1,616,000 | 15.9.2010 | 15.9.2011 to 14.9.2020 | 2.262 | 2.25 |
| In aggregate[4] | – | 1,594,000 | 1,594,000 | 15.9.2010 | 15.9.2012 to 14.9.2020 | 2.262 | 2.25 |
| | 550,000 | 3,210,000 | 3,760,000 | | | | |
| | 2,250,000 | 4,710,000 | 6,960,000 | | | | |

1 The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2 The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

3 & 4 The aggregate amounts include 250,000 share options granted to Mr. Wong Ching Ming, Stanley, who was appointed as an executive Director of the Company with effect from 1 January 2011.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "SHARE OPTION SCHEME" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

At 31 December 2010, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|
| Man Yue Holdings Inc. | | Personal/Beneficial Owner | 209,689,667 | 43.83% |
| DJE Investment S.A. ("DJE") | 1, 2 & 3 | Investment manager | 43,062,000 | 9.00% |
| Dr. Jens Ehrhardt Kapital AG ("DJE AG") | 1, 2 & 3 | Corporate/Interest of controlled corporation | 43,062,000 | 9.00% |
| Dr. Jens Alfred Karl Ehrhardt ("Dr. Ehrhardt") | 2 & 3 | Corporate/Interest of controlled corporation | 43,062,000 | 9.00% |
| Martin Currie (Holdings) Limited | | Corporate/Interest of controlled corporation | 43,147,600 | 9.02% |

Notes:

1. DJE AG holds an 81% interest in DJE and is accordingly deemed to have interests in the shares held by DJE.

2. Dr. Ehrhardt holds a 68.5% interest in DJE AG and is accordingly deemed to have interests in the shares held by DJE or deemed to be interested by DJE AG.

3. The interests of DJE, DJE AG and Dr. Ehrhardt are in respect of the same 43,062,000 shares and duplicated each other.

Save as disclosed above, as at 31 December 2010, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDIT COMMITTEE

The audit committee comprises three members and all of whom are the INEDs. None of whom is employed by or otherwise affiliated with the former or existing auditors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group in the annual report for the year.

## AUDITOR

Messrs. Ernst & Young ("EY") resigned as auditor of the Company with effect from 9 July 2009. Messrs. PricewaterhouseCoopers ("PwC") has been appointed as auditor of the Company with effect from 14 July 2009 to fill the casual vacancy following the resignation of EY.

PwC will retire at the forthcoming annual general meeting of the Company and a resolution will be proposed at the meeting to re-appoint PwC as the auditor of the Company.

On behalf of the board

**Kee Chor Lin**
*Chairman*

Hong Kong, 22 March 2011

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**PricewaterhouseCoopers**
22/F, Prince's Building
Central, Hong Kong
Telephone : (852) 2289 8888
Facsimile : (852) 2810 9888
www.pwchk.com

**TO THE SHAREHOLDERS OF MAN YUE TECHNOLOGY HOLDINGS LIMITED**
**(Formerly known as Man Yue International Holdings Limited)**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Man Yue Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 109, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory 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 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, 22 March 2011

# Consolidated Income Statement

| | Notes | Year ended 31 December 2010 HK$'000 | 2009 HK$'000 (restated) |
|---|---|---|---|
| **Revenue** | 5 & 6 | **1,353,258** | 1,001,258 |
| Cost of sales | | **(1,041,182)** | (773,705) |
| Gross profit | | **312,076** | 227,553 |
| Other income | 6 | **4,323** | 6,498 |
| Other (losses)/gains, net | 6 | **(7,244)** | 3,672 |
| Selling and distribution costs | | **(51,970)** | (39,868) |
| Administrative expenses | | **(140,504)** | (115,347) |
| Other operating expenses | | **(934)** | (363) |
| Operating profit | 7 | **115,747** | 82,145 |
| Change in fair value of derivative financial instruments | 8 | **(10,804)** | — |
| Finance costs | 9 | **(10,160)** | (12,348) |
| Finance income | 10 | **3,534** | 4,529 |
| Share of results of jointly-controlled entities | 23 | **6,895** | 8,372 |
| Share of results of an associate | 24 | **3,821** | 1,360 |
| Profit before tax | | **109,033** | 84,058 |
| Tax | 13 | **(13,911)** | (5,739) |
| Profit for the year | | **95,122** | 78,319 |
| Profit attributable to: | | | |
| — Equity holders of the Company | | **95,542** | 78,769 |
| — Non-controlling interests | | **(420)** | (450) |
| | | **95,122** | 78,319 |
| **Earnings per share for profit attributable to the equity holders of the Company** | 15 | | |
| — Basic | | **HK19.97 cents** | HK16.47 cents |
| — Diluted | | **HK19.94 cents** | HK16.47 cents |
| **Dividends** | 16 | | |
| — Interim | | **4,784** | 2,391 |
| — Proposed final | | **14,352** | 9,568 |
| | | **19,136** | 11,959 |

The notes on pages 37 to 109 are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

| | Notes | Year ended 31 December | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **HK$'000** | HK$'000 |
| | | | (restated) |
| Profit for the year | | **95,122** | 78,319 |
| Other comprehensive income: | | | |
| Assets revaluation surplus, net of tax | 36 | **9,367** | 5,301 |
| Currency translation differences | | **48,952** | 4,791 |
| Other comprehensive income for the year, net of tax | | **58,319** | 10,092 |
| Total comprehensive income for the year | | **153,441** | 88,411 |
| Total comprehensive income attributable to: | | | |
| — Equity holders of the Company | | **153,723** | 88,861 |
| — Non-controlling interests | | **(282)** | (450) |
| | | **153,441** | 88,411 |

The notes on pages 37 to 109 are an integral part of these financial statements.

# Consolidated Balance Sheet

| | Notes | As at 31 December 2010 HK$'000 | 2009 HK$'000 (restated) | As at 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 17 | **644,003** | 641,518 | 683,201 |
| Prepaid land premium | 19 | **88,859** | 87,726 | 87,379 |
| Investment property | 18 | **–** | – | 29,500 |
| Intangible assets | 21 | **3,388** | 3,615 | – |
| Investments in jointly-controlled entities | 23 | **62,113** | 51,849 | 42,716 |
| Investment in an associate | 24 | **44,619** | 39,495 | 35,851 |
| Prepayments on purchases of property, plant and equipment | | **57,808** | 41,040 | 29,953 |
| Available-for-sale investment | 20 | **22,341** | – | – |
| Other prepayments | | **413** | 661 | 1,650 |
| Deferred tax assets | 32 | **4,665** | 2,109 | 4,634 |
| Total non-current assets | | **928,209** | 868,013 | 914,884 |
| **Current assets** | | | | |
| Inventories | 25 | **356,389** | 219,969 | 305,898 |
| Trade receivables | 26 | **367,725** | 296,781 | 278,556 |
| Prepayments, deposits and other receivables | | **34,318** | 24,724 | 84,227 |
| Loans to a jointly-controlled entity | 23 | **82,491** | 71,271 | 55,848 |
| Due from jointly-controlled entities | 23 | **20,269** | 13,808 | 15,624 |
| Available-for-sale investments | | **–** | – | 2,570 |
| Financial assets at fair value through profit or loss | 27 | **110** | 83 | 38 |
| Derivative financial instruments | 28 | **933** | 665 | 1,984 |
| Tax receivables | | **388** | 5,389 | 8,546 |
| Cash and cash equivalents | 29 | **472,592** | 364,427 | 406,466 |
| Total current assets | | **1,335,215** | 997,117 | 1,159,757 |
| **Current liabilities** | | | | |
| Trade and bills payables | 30 | **251,029** | 151,989 | 182,987 |
| Other payables and accrued liabilities | | **85,106** | 72,499 | 78,879 |
| Derivative financial instruments | 28 | **412** | 296 | 1,308 |
| Tax payable | | **10,486** | 3,602 | 4,618 |
| Bank loans | 31 | **405,171** | 396,538 | 500,976 |
| Finance lease payables | | **–** | – | 21 |
| Dividend payables | | **22** | 19 | 5,078 |
| Total current liabilities | | **752,226** | 624,943 | 773,867 |
| **Net current assets** | | **582,989** | 372,174 | 385,890 |

| | Notes | As at 31 December 2010 HK$'000 | As at 31 December 2009 HK$'000 (restated) | As at 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **Total assets less current liabilities** | | **1,511,198** | 1,240,187 | 1,300,774 |
| **Non-current liabilities** | | | | |
| Bank loans | 31 | **254,415** | 136,393 | 274,286 |
| Derivative financial instruments | 28 | **10,804** | — | — |
| Provision for long service payments | | **1,408** | 1,796 | 1,578 |
| Deferred tax liabilities | 32 | **2,939** | 1,005 | 5,395 |
| Deferred income | 33 | **60,977** | 60,234 | 61,437 |
| **Total non-current liabilities** | | **330,543** | 199,428 | 342,696 |
| **Net assets** | | **1,180,655** | 1,040,759 | 958,078 |
| **Equity** | | | | |
| Share capital | 34 | **47,839** | 47,839 | 47,809 |
| Reserves | 36 | **1,114,503** | 979,109 | 901,756 |
| Proposed final dividend | 16 | **14,352** | 9,568 | 2,390 |
| **Equity attributable to equity holders of the Company** | | **1,176,694** | 1,036,516 | 951,955 |
| **Non-controlling interests** | | **3,961** | 4,243 | 6,123 |
| **Total equity** | | **1,180,655** | 1,040,759 | 958,078 |

**Kee Chor Lin**
*Director*

**Tso Yan Wing, Alan**
*Director*

The notes on pages 37 to 109 are an integral part of these financial statements.

# Balance Sheet

| | Notes | As at 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 22 | **63,823** | 63,823 |
| Deferred tax assets | 32 | **2,201** | – |
| Total non-current assets | | **66,024** | 63,823 |
| **Current assets** | | | |
| Due from subsidiaries | 22 | **554,665** | 593,021 |
| Prepayments, deposits and other receivables | | **1,254** | 1,255 |
| Cash and cash equivalents | 29 | **94,316** | 553 |
| Total current assets | | **650,235** | 594,829 |
| **Current liabilities** | | | |
| Due to subsidiaries | 22 | **216,338** | 59,675 |
| Other payables and accrued liabilities | | **13,025** | 13,486 |
| Bank loans | 31 | **136,393** | 154,243 |
| Dividend payables | | **22** | 19 |
| Total current liabilities | | **365,778** | 227,423 |
| **Net current assets** | | **284,457** | 367,406 |
| **Total assets less current liabilities** | | **350,481** | 431,229 |
| **Non-current liabilities** | | | |
| Bank loans | 31 | **–** | 136,393 |
| Provision for long service payments | | **250** | 527 |
| Total non-current liabilities | | **250** | 136,920 |
| **Net assets** | | **350,231** | 294,309 |
| **Equity** | | | |
| Share capital | 34 | **47,839** | 47,839 |
| Reserves | 36 | **288,040** | 236,902 |
| Proposed final dividend | 16 | **14,352** | 9,568 |
| **Total equity** | | **350,231** | 294,309 |

**Kee Chor Lin**
*Director*

**Tso Yan Wing, Alan**
*Director*

The notes on pages 37 to 109 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

| | Notes | Attributable to equity holders of the Company | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | | Share capital | Reserves | Total | | |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Balance at 1 January 2009, as previously reported | | 47,809 | 906,318 | 954,127 | 6,123 | 960,250 |
| Effect of adoption of HKAS 17 (amendment) | | – | (2,172) | (2,172) | – | (2,172) |
| Balance at 1 January 2009, as restated | | 47,809 | 904,146 | 951,955 | 6,123 | 958,078 |
| Profit for the year, as restated | | – | 78,769 | 78,769 | (450) | 78,319 |
| Other comprehensive income: | | | | | | |
| Assets revaluation surplus, net of tax | 36 | – | 5,301 | 5,301 | – | 5,301 |
| Currency translation differences | 36 | – | 4,791 | 4,791 | – | 4,791 |
| Total comprehensive income for the year ended 31 December 2009 | | – | 88,861 | 88,861 | (450) | 88,411 |
| Share options exercised | | 30 | 450 | 480 | – | 480 |
| Warrants exercised | 34 | – | 1 | 1 | – | 1 |
| Contribution from non-controlling shareholders | | – | – | – | 3,786 | 3,786 |
| Acquisition from non-controlling shareholders | | – | – | – | (5,216) | (5,216) |
| 2008 final dividend and 2009 interim dividend | 36 | – | (4,781) | (4,781) | – | (4,781) |
| | | 30 | (4,330) | (4,300) | (1,430) | (5,730) |
| Balance at 31 December 2009 | | 47,839 | 988,677 | 1,036,516 | 4,243 | 1,040,759 |
| Balance at 1 January 2010, as previously reported | | 47,839 | 986,188 | 1,034,027 | 4,243 | 1,038,270 |
| Effect of adoption of HKAS 17 (amendment) | | – | 2,489 | 2,489 | – | 2,489 |
| Balance at 1 January 2010, as restated | | 47,839 | 988,677 | 1,036,516 | 4,243 | 1,040,759 |
| Profit for the year | | – | 95,542 | 95,542 | (420) | 95,122 |
| Other comprehensive income: | | | | | | |
| Assets revaluation surplus, net of tax | 36 | – | 9,367 | 9,367 | – | 9,367 |
| Currency translation differences | 36 | – | 48,814 | 48,814 | 138 | 48,952 |
| Total comprehensive income for the year ended 31 December 2010 | | – | 153,723 | 153,723 | (282) | 153,441 |
| Employee share option scheme | | | | | | |
| – value of employee services | 36 | – | 807 | 807 | – | 807 |
| 2009 final dividend and 2010 interim dividend | 36 | – | (14,352) | (14,352) | – | (14,352) |
| | | – | (13,545) | (13,545) | – | (13,545) |
| Balance at 31 December 2010 | | 47,839 | 1,128,855 | 1,176,694 | 3,961 | 1,180,655 |

The notes on pages 37 to 109 are an integral part of these financial statements.

# Consolidated Cash Flow Statement

| | Notes | Year ended 31 December 2010 HK$'000 | 2009 HK$'000 (restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **109,033** | 84,058 |
| Adjustments for: | | | |
| Finance costs | 9 | **10,160** | 12,348 |
| Share of results of jointly-controlled entities | | **(6,895)** | (8,372) |
| Share of results of an associate | | **(3,821)** | (1,360) |
| Dividend income | | **(3)** | – |
| Bank interest income | 10 | **(3,534)** | (4,529) |
| Gain on disposal of an investment property | 6 | **–** | (500) |
| Loss on disposal of property, plant and equipment | 7 | **2,523** | 4 |
| Depreciation of property, plant and equipment | 7 | **85,745** | 89,469 |
| Amortisation of prepaid land premium | 7 | **1,874** | 1,852 |
| Amortisation of intangible assets | 7 | **345** | 170 |
| Share option granted to directors and employees | 7 | **807** | – |
| Deferred income recognised as income | 7 | **(1,353)** | (1,299) |
| Realised gain on disposal of available-for-sale investments, net | 7 | **–** | (266) |
| Fair value gain on financial assets at fair value through profit or loss | 7 | **(27)** | (45) |
| Fair value loss on derivative financial instruments | | **10,652** | 305 |
| | | **205,506** | 171,835 |
| (Increase)/decrease in inventories | | **(118,243)** | 86,436 |
| Increase in trade receivables | | **(65,995)** | (17,992) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(9,512)** | 47,199 |
| Decrease in other prepayments | | **248** | 989 |
| (Increase)/decrease in amounts due from jointly-controlled entities | | **(6,047)** | 1,839 |
| Increase/(decrease) in trade and bills payables | | **96,127** | (31,212) |
| Increase/(decrease) in other payables and accrued liabilities | | **11,160** | (6,447) |
| (Decrease)/increase in provision for long service payments | | **(388)** | 218 |
| Cash generated from operations | | **112,856** | 252,865 |
| Interest received | | **3,534** | 4,529 |
| Interest paid | | **(10,160)** | (12,348) |
| Hong Kong profits tax received/(paid), net | | **2,617** | (255) |
| PRC and overseas taxes paid | | **(7,162)** | (6,436) |
| Net cash inflow from operating activities | | **101,685** | 238,355 |

# Consolidated Cash Flow Statement

| | Notes | Year ended 31 December 2010 HK$'000 | 2009 HK$'000 (restated) |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Increase in prepayments on purchases of property, plant and equipment | | **(37,680)** | (11,040) |
| Proceeds from disposal of available-for-sale investments | | **–** | 2,836 |
| Purchases of property, plant and equipment | | **(60,773)** | (31,457) |
| Proceeds from disposal of property, plant and equipment | | **1,066** | – |
| Dividends received | | **3** | – |
| Advances to jointly-controlled entities | | **(9,743)** | (15,380) |
| Proceeds from disposal of an investment property | | **–** | 30,000 |
| Increase in deposits with original maturity date of over three months | | **–** | 77,499 |
| Net cash (outflow)/inflow from investing activities | | **(107,127)** | 52,458 |
| **Cash flows from financing activities** | | | |
| Share options exercised | | **–** | 480 |
| Warrants exercised | 34 | **–** | 1 |
| New bank loans | | **910,139** | 408,174 |
| Repayment of bank loans | | **(788,610)** | (648,882) |
| Capital element of finance lease rental payments | | **–** | (21) |
| Acquisition from non-controlling shareholders | | **–** | (5,679) |
| Dividends paid | | **(14,349)** | (9,840) |
| Net cash inflow/(outflow) from financing activities | | **107,180** | (255,767) |
| **Net increase in cash and cash equivalents** | | **101,738** | 35,046 |
| Effect of foreign exchange rate changes, net | | **6,427** | 414 |
| **Cash and cash equivalents at beginning of year** | | **364,427** | 328,967 |
| **Cash and cash equivalents at end of year** | 29 | **472,592** | 364,427 |

The notes on pages 37 to 109 are an integral part of these financial statements.

## 1 GENERAL INFORMATION

The principal activities of Man Yue Technology Holdings Limited (formerly known as "Man Yue International Holdings Limited") (the "Company") and its subsidiaries (together the "Group") are manufacturing and trading of electronic components and trading of raw materials.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2011.

## 2 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, except for certain land and buildings, derivative financial instruments, investment properties, financial assets at fair value through profit or loss and available-for-sale investments, which have been measured at fair value.

### 2.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

## 2 BASIS OF PREPARATION (CONTINUED)

### 2.2 Changes in accounting policies and disclosures

(a) *New, revised or amended standards and interpretations adopted by the Group*

The following new, revised or amended standards and interpretation are mandatory for the first time for the financial year beginning 1 January 2010:

- HKAS 17 (amendment), 'Leases', removes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease was classified as operating lease under "Prepaid land premium", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease.

The land interest of the Group that is held for own use is accounted for as property, plant and equipment using the revaluation model and is depreciated from the land interest available for its intended use over the shorter of the useful life of the assets and the lease term.

The effect of the adoption of this amendment is as below:

| | **As at 31 December** | | As at 1 January |
|---|---|---|---|
| | **2010** | 2009 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| Increase in property, plant and equipment | **16,290** | 10,640 | 5,289 |
| Decrease in prepaid land premium | **(7,721)** | (7,929) | (8,138) |
| Increase/(decrease) in deferred tax liabilities | **1,187** | 222 | (677) |
| Increase in retained profits | **910** | 898 | 785 |
| Increase/(decrease) in assets revaluation reserve | **6,472** | 1,591 | (2,957) |

# 2 BASIS OF PREPARATION (CONTINUED)

## 2.2 Changes in accounting policies and disclosures (Continued)

*(a) New, revised or amended standards and interpretations adopted by the Group (Continued)*

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Increase in depreciation of property, plant and equipment | **196** | 96 |
| Decrease in amortisation of prepaid land premium | **(208)** | (209) |

- HK — Int 5 "Presentation of financial statements — Classification by the borrower of a term loan that contains repayment on demand clause" has been applied retrospectively for annual periods beginning 1 January 2010. According to HK — Int 5, if a term loan agreement includes an overriding repayment on demand clause ("callable feature"), which gives the lender a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion, a borrower shall classify the term loan as a current liability in its balance sheet, as the borrower does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The effect of the adoption of this interpretation is as below:

| | As at 31 December | | As at 1 January |
|---|---|---|---|
| | **2010** | 2009 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| Increase in bank loans — current | **67,400** | 99,783 | 26,000 |
| Decrease in bank loans — non-current | **(67,400)** | (99,783) | (26,000) |

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

## 2 BASIS OF PREPARATION (CONTINUED)

### 2.2 Changes in accounting policies and disclosures (Continued)

(a) *New, revised or amended standards and interpretations adopted by the Group (Continued)*

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

(b) The following new or amended standards and interpretations are also mandatory for the first time for the financial year beginning 1 January 2010 but are either not relevant to the Group or have no significant impact on the Group's consolidated financial statements:

- HKAS 1 (amendment) — Presentation of financial statements[2]
- HKAS 7 (amendment) — Statement of cash flows[2]
- HKAS 36 (amendment) — Impairment of assets[2]
- HKAS 38 (amendment) — Intangible assets[2]
- HKAS 39 (amendment) — Financial instruments: Recognition and measurement[1]
- HKFRS 2 (amendment) — Group cash-settled share-based payment transactions[2]
- HKFRS 5 (amendment) — Non-current assets held for sale and discontinued operations[1,2]
- HK(IFRIC) — Int 9 (amendment) — Reassessment of embedded derivatives[1]
- HK(IFRIC) — Int 16 — Hedges of a net investment in a foreign operation[1]
- HK(IFRIC) — Int 17 — Distribution of non-cash assets to owners[1]
- HK(IFRIC) — Int 18 — Transfer of assets from customers[1]

1 Changes effective for annual periods beginning on or after 1 July 2009
2 Changes effective for annual periods beginning on or after 1 January 2010

## 2 BASIS OF PREPARATION (CONTINUED)

### 2.2 Changes in accounting policies and disclosures (Continued)

(c) *New, revised or amended standards and interpretations issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted*

- HKAS 24 (revised) — Related party transactions[3]
- HKAS 32 (amendment) — Classification of rights issues[1]
- HKFRS 9 — Financial instruments[4]
- HK(IFRIC) — Int 14 — Prepayments of a minimum funding requirement[3]
- HK(IFRIC) — Int 19 — Extinguishing financial liabilities with equity instruments[2]
- Improvements to HKFRSs 2010 issued in May 2010 by HKICPA[2,3]

1 Changes effective for annual periods beginning on or after 1 February 2010
2 Changes effective for annual periods beginning on or after 1 July 2010
3 Changes effective for annual periods beginning on or after 1 January 2011
4 Changes effective for annual periods beginning on or after 1 January 2013

The Group is in the process of assessing the impact on the adoption of these new, revised or amended standards and interpretations to the Group's consolidated financial statements in the period of initial application. So far it has concluded that the adoption of these new, revised or amended standards and interpretations will have no significant impact on the Group's consolidated financial statements.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

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.

### (b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively.

### (d) Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally between 20% and 50% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's interest in the associate.

The results of the associate is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in the associate is treated as non-current asset and is stated at cost less any impairment losses.

### (e) Goodwill

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

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

### (g) Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Property, plant and equipment and depreciation

Land and buildings comprise mainly factories and offices are stated as revalued amount, all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Land | over the lease terms |
| Buildings | 2% |
| Machinery and equipment | 9%–20% |
| Furniture and fixtures | 18%–20% |
| Motor vehicles | 18%–20% |
| Leasehold improvements | 9%–20% |

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Property, plant and equipment and depreciation (Continued)

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Construction in progress represents factory buildings, office premises and workers' dormitories and related infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### (i) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at balance sheet date.

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Intangible assets

*(i) Technology know-how*

Technology know-how was acquired for use in the production of certain high technology electronic components. Technology know-how has a finite useful life and is carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over the useful life of the technology know-how of three years.

*(ii) Research and development costs*

Costs associated with research activities are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

(a) it is technically feasible to complete the product so that it will be available for use;

(b) management intends to complete the product and use or sell it;

(c) there is an ability to use or sell the product;

(d) it can be demonstrated how the product will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and

(f) the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are recognised as part of the product include the product development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Product development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(k) Leases**

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

**(l) Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reassesses this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Investments and other financial assets (Continued)

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Interest earned is reported as interest income and is recognised in the consolidated income statement as "Other income" in accordance with the policy set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the consolidated income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iii) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Investments and other financial assets (Continued)

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### (m) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*(i) Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance amount. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

*(ii) Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Impairment of financial assets (Continued)

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

### (n) Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Financial liabilities at amortised cost (including bank loans)

Financial liabilities including trade and other payables and bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the consolidated income statement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

### (p) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses in liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

### (r) Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

### (s) Inventories

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

### (u) Cash and cash equivalents

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

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### (v) Trade and bills payables and other payables

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

### (w) Provision

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (x) Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### (y) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to a non-current asset, the fair value is included in non-current liabilities as deferred income. Deferred income is credited to the consolidated income statement on a straight-line basis over the lease term of the associated assets.

### (z) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

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

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognised when the right to receive payment is established.

### (aa) Employee benefits

*(i) Share option scheme*

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model, further details of which are given in note 35 to the financial statements. In valuing the granting of share options, no account is taken of any performance conditions, other than conditions linked to the historical price of the shares of the Company ("market conditions"), if applicable.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aa) Employee benefits (Continued)

(i) *Share option scheme (Continued)*

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

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

(ii) *Employment Ordinance — long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

(iii) *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

### (ab) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ac) Dividends

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

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### (ad) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Group, which is considered as the Group's executive team, comprising all executive directors and headed by the Managing Director. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments based on the entity-wide financial information.

### (ae) Foreign currencies

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

The functional currencies of certain overseas subsidiaries and jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (af) Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the income statement.

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### (i) Estimated fair value of properties

The fair values of land and buildings are determined at the end of each reporting period by an independent professional valuer. The fair value of office is determined on an open market value basis by reference to comparable market transactions. The fair values of land and buildings are determined on depreciated replacement cost basis. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions.

### (ii) Useful lives and residual values of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

**(iii) Estimated fair value of available-for-sale investment**

Fair value of the available-for-sale investment is determined using discounted cash flow analysis valuation techniques. The inputs to this model are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the available-for-sale investment.

**(iv) Fair value of derivative financial instruments**

The fair values of outstanding derivative transactions are based on valuations obtained from financial institutions. Judgement is required in determining such valuations. Changes in the underlying assumptions could have impact profit and loss or equity.

**(v) Current and deferred taxation**

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimates are changed. Further details are contained in note 32 to the consolidated financial statements.

**(vi) Estimated provision for inventories**

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

**(vii) Estimated impairment of receivables**

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivable is recognised in the years in which such estimates have been changed.

## 5 SEGMENT INFORMATION

The Group's executive team, comprising all executive directors and headed by the Managing Director, is considered as the Chief Operating Decision Maker ("CODM"). The CODM reviews the performance of the Group on a regular basis.

As over 90% of the Group's business operations relate to the manufacturing, selling and distribution of electronic components, the CODM makes decisions about resources allocation and performance assessment based on the entity-wide financial information. Accordingly, there is only one single reportable segment for the Group. Set out below is a summary list of key performance indicators reviewed by CODM on a regular basis:

| | **2010 HK$'000** | 2009 HK$'000 (restated) |
|---|---|---|
| Revenue | **1,353,258** | 1,001,258 |
| Gross profit | **312,076** | 227,553 |
| Gross profit margin (%) | **23.1%** | 22.7% |
| EBITDA (Note (i)) | **207,157** | 187,897 |
| EBITDA margin (%) | **15.3%** | 18.8% |
| Operating expenses (Note (ii)) | **193,408** | 155,578 |
| Operating expenses/Revenue (%) | **14.3%** | 15.5% |
| Profit for the year | **95,122** | 78,319 |
| Net profit margin (%) | **7.0%** | 7.8% |
| Total assets | **2,263,424** | 1,865,130 |
| Equity attributable to equity holders of the Company | **1,176,694** | 1,036,516 |
| Inventories | **356,389** | 219,969 |
| Inventories turnover days | **125** | 104 |
| Trade receivables | **367,725** | 296,781 |
| Trade receivables turnover days | **99** | 108 |
| Trade and bills payables | **251,029** | 151,989 |
| Trade and bills payables turnover days | **88** | 72 |
| Total interest-bearing debts | **659,586** | 532,931 |
| Cash and cash equivalents | **472,592** | 364,427 |
| Net debts | **186,994** | 168,504 |
| Net debts to equity ratio (%) | **15.9%** | 16.3% |

Note (i): EBITDA represents the earnings before interest expenses, taxes, depreciation and amortisation.

Note (ii): Operating expenses represent the expenditure that the Group incurs as a result of performing its normal business operations, including the selling and distribution costs, administrative expenses and other operating expenses.

## 5 SEGMENT INFORMATION (CONTINUED)

The following table presents the revenue and non-current assets of the Group by geographical segments:

**Revenue**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Hong Kong | **153,365** | 157,359 |
| Mainland China | **537,005** | 394,183 |
| Taiwan | **177,848** | 93,566 |
| Southeast Asia | **212,770** | 220,094 |
| Korea | **35,925** | 32,585 |
| United States | **89,823** | 22,392 |
| Europe | **46,704** | 17,481 |
| Other countries | **99,818** | 63,598 |
| Total | **1,353,258** | 1,001,258 |

**Non-current assets (exclude deferred tax assets and financial instruments)**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Hong Kong | **29,906** | 18,973 |
| Mainland China | **826,657** | 807,414 |
| Other countries | **44,640** | 39,517 |
| Total | **901,203** | 865,904 |

Revenue of approximately HK$119,336,000 (2009: HK$135,925,000) is derived from a single external customer.

## 6 REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for trade returns and discounts.

An analysis of revenue, other income and other (losses)/gains, net is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Manufacture and trading of electronic components | 1,332,482 | 992,130 |
| Trading of raw materials | 20,776 | 9,128 |
| | 1,353,258 | 1,001,258 |
| **Other income** | | |
| Refund of value-added taxes | 2,088 | 2,886 |
| Subsidies from PRC government | 863 | 1,464 |
| Others | 1,372 | 2,148 |
| | 4,323 | 6,498 |
| **Other (losses)/gains, net** | | |
| Foreign exchange differences, net | (7,260) | 3,477 |
| Gain on disposal of an investment property | – | 500 |
| Fair value gain/(loss) on derivative financial instruments | 16 | (305) |
| | (7,244) | 3,672 |

## 7 OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting) the following:

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000<br>(restated) |
|---|---|---|---|
| Employee benefit expense | | | |
| (including directors' remuneration (note 11)): | | | |
| Wages and salaries | | 151,139 | 105,589 |
| Share options granted to directors and employees | | 807 | — |
| Pension scheme contributions | | 6,401 | 6,236 |
| | | 158,347 | 111,825 |
| Cost of inventories sold (include raw materials and consumables used and changes in inventories of finished goods and work in progress) | | 749,228 | 535,438 |
| Auditor's remuneration | | | |
| Audit services | | 1,660 | 1,660 |
| Non-audit services | | 518 | 393 |
| Depreciation of property, plant and equipment | 17 | 85,745 | 89,469 |
| Amortisation of prepaid land premium | 19 | 1,874 | 1,852 |
| Amortisation of intangible assets | 21 | 345 | 170 |
| Loss on disposal of property, plant and equipment | | 2,523 | 4 |
| Lease payments under operating leases for land and buildings | | 15,196 | 15,558 |
| Reversal of impairment of inventories | | (1,703) | (19,777) |
| Impairment of trade receivables, net | | 33 | 10,981 |
| Trade receivables written off | | 11,086 | — |
| Fair value gain on financial assets at fair value through profit or loss | | (27) | (45) |
| Realised gain on disposal of available-for-sale investments, net | | – | (266) |
| Deferred income recognised as income | | (1,353) | (1,299) |

## 8 CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Fair value loss on interest rate swap | **10,804** | – |

At 31 December 2010, the Group held certain interest rate swap contracts entered in 2009 and 2010 for a contracted period of ten years each. These contracts were entered to stabilise the Group's overall interest expenses for the periods covered by these contracts. The Group had recognised a loss in fair value of derivative financial instruments in the consolidated income statement during the year.

## 9 FINANCE COSTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest expense on bank loans repayable within five years | **10,160** | 12,348 |

## 10 FINANCE INCOME

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest income from loan to a jointly-controlled entity | **2,995** | 2,208 |
| Interest income from term deposits and bank balances | **539** | 2,321 |
| | **3,534** | 4,529 |

## 11 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Appendix 14 of the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Fees | **1,120** | 990 |
| Other emoluments: | | |
| Salaries and allowances | **9,137** | 8,421 |
| Discretionary bonuses | **5,459** | 5,069 |
| Share options granted to executive directors | **257** | — |
| Pension scheme contributions | **48** | 48 |
| Total directors' remuneration | **16,021** | 14,528 |

**(a) Independent non-executive directors**

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Mar, Selwyn | **400** | 330 |
| Li Sau Hung, Eddy | **360** | 330 |
| Lo Kwok Kwei, David | **360** | 330 |
| | **1,120** | 990 |

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

## 11 DIRECTORS' REMUNERATION (CONTINUED)

### (b) Executive directors

| | Salaries and allowances HK$'000 | Share options granted HK$'000 | Discretionary bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Executive directors: | | | | | |
| Kee Chor Lin | **3,527** | **–** | **4,740** | **12** | **8,279** |
| Chan Yu Ching, Eugene | **2,893** | **–** | **170** | **12** | **3,075** |
| Tso Yan Wing, Alan | **1,820** | **171** | **280** | **12** | **2,283** |
| Ko Pak On | **897** | **86** | **269** | **12** | **1,264** |
| | **9,137** | **257** | **5,459** | **48** | **14,901** |
| 2009 | | | | | |
| Executive directors: | | | | | |
| Kee Chor Lin | 3,019 | – | 4,080 | 12 | 7,111 |
| Chan Yu Ching, Eugene | 2,825 | – | 340 | 12 | 3,177 |
| Tso Yan Wing, Alan | 1,680 | – | 280 | 12 | 1,972 |
| Ko Pak On | 897 | – | 369 | 12 | 1,278 |
| | 8,421 | – | 5,069 | 48 | 13,538 |

No remuneration has been paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration during the year (2009: Nil).

## 12 FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included four (2009: four) directors, details of whose remuneration are set out in note 11 above.

Details of the remuneration of the remaining one (2009: one) highest paid individual for the year are as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Salaries and allowances | 835 | 1,273 |
| Discretionary bonuses | – | 49 |
| Share options granted to the individual | 86 | – |
| Pension scheme contributions | 12 | 12 |
| | 933 | 1,334 |

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

| | Number of employees<br>2010 | 2009 |
|---|---|---|
| Below HK$1,000,000 | 1 | – |
| HK$1,000,000 to HK$1,500,000 | – | 1 |
| | 1 | 1 |

No remuneration has been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the five highest paid individuals waived or agreed to waive any remuneration during the year (2009: Nil).

## 13 TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Charge for the year: | | |
| Current: | | |
| Hong Kong | **8,800** | 918 |
| Mainland China | **7,379** | 6,846 |
| Under provision in prior years | **–** | 895 |
| | **16,179** | 8,659 |
| Deferred (note 32) | **(2,268)** | (2,920) |
| Total tax charge for the year | **13,911** | 5,739 |

In accordance with the relevant tax rules and regulations in Mainland China, certain of the Company's subsidiaries in Mainland China enjoy tax exemptions. Certain subsidiaries in Mainland China are subject to income taxes at applicable rates ranging from 12.5% to 25%.

In 2009, the tax affairs of certain subsidiaries of the Group for prior years were under review by the Hong Kong Inland Revenue Department (the "IRD"). In connection with the review by the IRD, notices of assessments were issued to the subsidiaries of the Group for the years from 1998 to 2001 and objections were lodged with the IRD. Tax reserve certificates of HK$8,480,000 (the "TRC") were purchased in 2007 and 2008.

On 21 January 2010, the Group received a net refund of HK$5,472,000 from the IRD for the TRC. The relevant provision had been fully made in 2009 and the case was fully settled on 5 March 2010.

## 13 TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | 2010 HK$'000 | 2010 % | 2009 HK$'000 (restated) | 2009 % |
|---|---|---|---|---|
| Profit before tax | **109,033** | | 84,058 | |
| Tax at the statutory tax rate | **22,750** | **20.9** | 18,709 | 22.3 |
| Lower tax rate for specific local authority | **(4,222)** | | (4,181) | |
| Profits attributable to jointly-controlled entities and an associate | **(2,523)** | | (2,433) | |
| Income not subject to tax | **(3,196)** | | (5,638) | |
| Reversal of deferred tax liabilities upon disposal of investment properties | **–** | | (3,077) | |
| Expenses not deductible for tax | **4,210** | | 1,852 | |
| Under provision in previous year | **–** | | 895 | |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | **–** | | (2,823) | |
| Recognition of tax losses not previously recognised | **(2,201)** | | – | |
| Utilisation of tax losses not previously recognised | **(1,803)** | | – | |
| Tax losses not recognised | **896** | | 2,435 | |
| Tax charge at the Group's effective rate | **13,911** | **12.8** | 5,739 | 6.8 |

The share of tax credit attributable to jointly-controlled entities and an associate amounting to HK$2,523,000 (2009: HK$2,433,000) is included in "Share of results of jointly-controlled entities" and "Share of results of an associate" on the face of the consolidated income statement.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

| | 2010 Before tax HK$'000 | 2010 Tax HK$'000 | 2010 After tax HK$'000 | 2009 (restated) Before tax HK$'000 | 2009 (restated) Tax HK$'000 | 2009 (restated) After tax HK$'000 |
|---|---|---|---|---|---|---|
| Fair value gains: | | | | | | |
| – Land and Buildings | **11,007** | **(1,640)** | **9,367** | 6,357 | (1,056) | 5,301 |
| Currency translation differences | **48,952** | **–** | **48,952** | 4,791 | – | 4,791 |
| Other comprehensive income | **59,959** | **(1,640)** | **58,319** | 11,148 | (1,056) | 10,092 |
| Deferred tax (note 32) | | **(1,640)** | | | (1,056) | |

## 14 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$69,467,000 (2009: a loss of HK$1,464,000).

## 15 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$95,542,000 (2009: HK$78,769,000), and the weighted average of 478,390,000 (2009: 478,167,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit for the year attributable to equity holders of the Company of HK$95,542,000. The weighted average number of ordinary shares used in the calculation is 478,390,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 708,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options, respectively, during the year.

The diluted earnings per share for the year ended 31 December 2009 was the same as the basic earnings per share as the Company's share options outstanding during the year was anti-dilutive potential ordinary shares.

## 16 DIVIDENDS

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Interim — HK1.0 cent (2009: HK0.5 cent) per ordinary share | **4,784** | 2,391 |
| Proposed final — HK3.0 cents (2009: HK2.0 cents) per ordinary share | **14,352** | 9,568 |
| | **19,136** | 11,959 |

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

## 17 PROPERTY, PLANT AND EQUIPMENT

### Group

| | Land HK$'000 | Buildings HK$'000 | Machinery and equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Leasehold improvements HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| At 1 January 2010: | | | | | | | | |
| Cost or valuation, as previously reported | – | 121,126 | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 1,053,407 |
| Effect of adoption of HKAS 17 (amendment) | 10,640 | – | – | – | – | – | – | 10,640 |
| Cost or valuation, as restated | 10,640 | 121,126 | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 1,064,047 |
| Accumulated depreciation | – | – | (364,337) | (20,084) | (8,598) | (29,510) | – | (422,529) |
| Net carrying amount, as restated | 10,640 | 121,126 | 449,670 | 11,080 | 3,549 | 41,599 | 3,854 | 641,518 |
| Opening net carrying amount, as previously reported | – | 121,126 | 449,670 | 11,080 | 3,549 | 41,599 | 3,854 | 630,878 |
| Effect of adoption of HKAS 17 (amendment) | 10,640 | – | – | – | – | – | – | 10,640 |
| Opening net carrying amount, as restated | 10,640 | 121,126 | 449,670 | 11,080 | 3,549 | 41,599 | 3,854 | 641,518 |
| Additions | – | 1,301 | 32,626 | 1,804 | 3,153 | 10,574 | 11,315 | 60,773 |
| Disposals | – | – | (3,486) | (31) | (72) | – | – | (3,589) |
| Surplus on revaluation | 5,846 | 5,161 | – | – | – | – | – | 11,007 |
| Depreciation provided during the year | (196) | (5,039) | (71,742) | (4,063) | (1,909) | (2,796) | – | (85,745) |
| Transfers | – | 239 | 831 | 27 | – | – | (1,097) | – |
| Exchange realignment | – | 3,841 | 14,293 | 297 | 92 | 1,381 | 135 | 20,039 |
| Closing net carrying amount | 16,290 | 126,629 | 422,192 | 9,114 | 4,813 | 50,758 | 14,207 | 644,003 |
| At 31 December 2010: | | | | | | | | |
| Cost or valuation | 16,290 | 126,629 | 870,514 | 28,063 | 14,942 | 83,443 | 14,207 | 1,154,088 |
| Accumulated depreciation | – | – | (448,322) | (18,949) | (10,129) | (32,685) | – | (510,085) |
| Closing net carrying amount | 16,290 | 126,629 | 422,192 | 9,114 | 4,813 | 50,758 | 14,207 | 644,003 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | – | – | 870,514 | 28,063 | 14,942 | 83,443 | 14,207 | 1,011,169 |
| At 2010 valuation | 16,290 | 126,629 | – | – | – | – | – | 142,919 |
| | 16,290 | 126,629 | 870,514 | 28,063 | 14,942 | 83,443 | 14,207 | 1,154,088 |

## 17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group

| | Land | Buildings | Machinery and equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2009** | | | | | | | | |
| At 1 January 2009: | | | | | | | | |
| Cost or valuation, as previously reported | – | 114,732 | 787,467 | 31,413 | 11,594 | 66,884 | 3,512 | 1,015,602 |
| Effect of adoption of HKAS 17 (amendment) | 5,289 | – | – | – | – | – | – | 5,289 |
| Cost or valuation, as restated | 5,289 | 114,732 | 787,467 | 31,413 | 11,594 | 66,884 | 3,512 | 1,020,891 |
| Accumulated depreciation | – | – | (287,415) | (16,522) | (6,793) | (26,960) | – | (337,690) |
| Net carrying amount, as restated | 5,289 | 114,732 | 500,052 | 14,891 | 4,801 | 39,924 | 3,512 | 683,201 |
| Opening net carrying amount, as previously reported | – | 114,732 | 500,052 | 14,891 | 4,801 | 39,924 | 3,512 | 677,912 |
| Effect of adoption of HKAS 17 (amendment) | 5,289 | – | – | – | – | – | – | 5,289 |
| Opening net carrying amount, as restated | 5,289 | 114,732 | 500,052 | 14,891 | 4,801 | 39,924 | 3,512 | 683,201 |
| Additions | – | 8,652 | 26,108 | 490 | 539 | 4,150 | 498 | 40,437 |
| Disposals | – | – | – | (4) | – | – | – | (4) |
| Surplus on revaluation | 5,447 | 910 | – | – | – | – | – | 6,357 |
| Depreciation provided during the year | (96) | (4,482) | (76,497) | (4,062) | (1,796) | (2,536) | – | (89,469) |
| Transfers | – | 1,149 | (729) | (258) | – | – | (162) | – |
| Exchange realignment | – | 165 | 736 | 23 | 5 | 61 | 6 | 996 |
| Closing net carrying amount | 10,640 | 121,126 | 449,670 | 11,080 | 3,549 | 41,599 | 3,854 | 641,518 |
| At 31 December 2009: | | | | | | | | |
| Cost or valuation, as previously reported | – | 121,126 | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 1,053,407 |
| Effect of adoption of HKAS 17 (amendment) | 10,640 | – | – | – | – | – | – | 10,640 |
| Cost or valuation, as restated | 10,640 | 121,126 | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 1,064,047 |
| Accumulated depreciation | – | – | (364,337) | (20,084) | (8,598) | (29,510) | – | (422,529) |
| Net carrying amount, as restated | 10,640 | 121,126 | 449,670 | 11,080 | 3,549 | 41,599 | 3,854 | 641,518 |
| Analysis of cost or valuation: | | | | | | | | |
| At cost | – | – | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 932,281 |
| At 2009 valuation | 10,640 | 121,126 | – | – | – | – | – | 131,766 |
| | 10,640 | 121,126 | 814,007 | 31,164 | 12,147 | 71,109 | 3,854 | 1,064,047 |

The Group's land and buildings were revalued individually on 31 December 2010 by Memfus Wong Surveyors Limited, an independent professionally qualified valuer, at an aggregate open market value of HK$142,919,000. A revaluation gain totalling HK$11,007,000, resulting from the above valuations, has been credited to the relevant asset revaluation reserve. Had these land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK$121,956,000 (2009: HK$122,126,000).

## 17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

An analysis of the Group's leasehold land is as follows:

| | Group | | |
|---|---|---|---|
| | As at 31 December | | As at 1 January |
| | **2010** | 2009 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| | | (restated) | (restated) |
| Medium term leases: | | | |
| Hong Kong | **16,290** | 10,640 | 5,289 |

## 18 INVESTMENT PROPERTY

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **–** | 29,500 |
| Disposal | **–** | (29,500) |
| Carrying amount at 31 December | **–** | – |

## 19 PREPAID LAND PREMIUM

| | Group | | |
|---|---|---|---|
| | As at 31 December | | As at 1 January |
| | **2010** | 2009 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| | | (restated) | (restated) |
| Prepaid land premium | **88,859** | 87,726 | 89,438 |
| Portion classified as current asset | **–** | – | (2,059) |
| Non-current portion | **88,859** | 87,726 | 87,379 |

## 19 PREPAID LAND PREMIUM (CONTINUED)

The movement in prepaid land premium during the year were as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| | | (restated) |
| Carrying amount at 1 January, as previously reported | **95,655** | 97,576 |
| Effect of adoption of HKAS 17 (amendment) | **(7,929)** | (8,138) |
| Carrying amount at 1 January, as restated | **87,726** | 89,438 |
| Amortisation during the year | **(1,874)** | (1,852) |
| Exchange realignment | **3,007** | 140 |
| Carrying amount at 31 December | **88,859** | 87,726 |

An analysis of the Group's leasehold land is as follows:

| | Group | | |
|---|---|---|---|
| | | | As at |
| | **As at 31 December** | | 1 January |
| | **2010** | 2009 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| | | (restated) | (restated) |
| Medium term leases: | | | |
| Mainland China | **88,859** | 87,726 | 89,438 |

## 20 AVAILABLE-FOR-SALE INVESTMENT

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | – |
| Addition | **22,341** | – |
| At 31 December | **22,341** | – |

## 21 INTANGIBLE ASSETS

**Group**

| | Goodwill HK$'000 | Technology know-how HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2009 | | | |
| Cost | – | 1,319 | 1,319 |
| Accumulated amortisation | – | (1,319) | (1,319) |
| At 31 December 2009 | – | – | – |
| At 1 January 2009, net of accumulated amortisation | – | – | – |
| Additions | 378 | 3,407 | 3,785 |
| Amortisation provided during the year | – | (170) | (170) |
| At 31 December 2009, net of accumulated amortisation | 378 | 3,237 | 3,615 |
| At 31 December 2009 | | | |
| Cost | 378 | 4,726 | 5,104 |
| Accumulated amortisation | – | (1,489) | (1,489) |
| Net carrying amount | 378 | 3,237 | 3,615 |
| At 1 January 2010, net of accumulated amortisation | **378** | **3,237** | **3,615** |
| Amortisation provided during the year | **–** | **(345)** | **(345)** |
| Exchange realignment | **13** | **105** | **118** |
| At 31 December 2010, net of accumulated amortisation | **391** | **2,997** | **3,388** |
| At 31 December 2010 | | | |
| Cost | **391** | **4,845** | **5,236** |
| Accumulated amortisation | **–** | **(1,848)** | **(1,848)** |
| Net carrying amount | **391** | **2,997** | **3,388** |

Management of the Group was of the view that there was no impairment of goodwill as at 31 December 2009 and 2010.

## 22 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **63,823** | 63,823 |
| Due from subsidiaries | **554,665** | 593,021 |
| Due to subsidiaries | **(216,338)** | (59,675) |
| | **402,150** | 597,169 |

The amounts due from and to subsidiaries are included in the Company's current assets and current liabilities, respectively. They are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued and paid-up/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | **2010** | 2009 | |
| Dongguan Manixon New Materials and Components Company Limited[#1] | People's Republic of China/ Mainland China | Registered US$9,590,000 | **100** | 100 | Manufacture and sale of electronic components |
| Jiangxi Telexon Electronics Company Limited[#1] | People's Republic of China/ Mainland China | Registered RMB40,000,000 | **98** | 98 | Manufacture and sale of electronic components |
| Johnstone International Limited | British Virgin Islands/ Hong Kong | Ordinary US$1 | **100** | 100 | Investment holding |
| Long Trade (Macao Commercial Offshore) Limited[1] | Macau | Registered MOP100,000 | **100** | 100 | Trading of raw materials |
| Man Fat International Trading (Shanghai) Co., Ltd.[#1] | People's Republic of China/ Mainland China | Registered US$200,000 | **100** | 100 | Trading of electronic components |
| Man Jin Electronics (Shenzhen) Company Limited[#1] | People's Republic of China/ Mainland China | Registered HK$3,500,000 | **100** | 100 | Trading of electronic components |
| Man Yue Electronics Company Limited | Hong Kong | Ordinary HK$2<br>Non-voting deferred HK$3,000,000 | **100** | 100 | Trading of electronic components |
| Man Yue (China) Investment Limited[#1] | People's Republic of China/ Mainland China | Registered US$120,000,000 | **100** | 100 | Investment holding |

## 22 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and operations | Nominal value of issued and paid-up/ registered capital | Percentage of equity attributable to the Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Man Yue Holdings (BVI) Limited | British Virgin Islands/ Hong Kong | Ordinary US$10,000 | *100 | *100 | Investment holding |
| Man Yue Technology Limited | British Virgin Islands/ Hong Kong | Ordinary US$10 | 100 | 100 | Investment holding |
| Man Yue Technology (China) Limited#1 | People's Republic of China/ Mainland China | Registered US$48,000,000 | 100 | 100 | Investment holding |
| Manixon Electronics Company Limited | Hong Kong | Ordinary HK$1 | 100 | 100 | Trading of electronic components |
| MMS Electronics Company Limited | Hong Kong | Ordinary HK$1 | 100 | 100 | Trading of electronic components |
| MMS Logistics Company Limited | Hong Kong | Ordinary HK$10,000 | 100 | 100 | Trading of electronic components |
| Rifeng Qingyuan Electronic Company Limited#1 | People's Republic of China/ Mainland China | Registered HK$80,000,000 | 100 | 100 | Manufacture and sale of raw materials |
| Samxon Electronic Components Limited | Hong Kong | Ordinary HK$2 | 100 | 100 | Trading of electronic components |
| Samxon Electronic Components LLC1 | USA | Contributed US$1,000 | 100 | 100 | Provision of marketing-related services |
| Samxon Electronics (Dongguan) Co., Ltd.#1 | People's Republic of China/ Mainland China | Registered US$46,775,000 | 100 | 100 | Manufacture and sale of electronic components |
| Searange Investment Limited | Hong Kong | Ordinary HK$2 | 100 | 100 | Trading of equity investments |
| Splendid Skill Holdings Ltd. | British Virgin Islands/ Hong Kong | Ordinary US$10 | 100 | 100 | Investment holding |
| Stand New Enterprise Limited | Hong Kong | Ordinary HK$1 | 100 | 100 | Investment holding |
| Starzeon Electronics Taiwan Company Limited1 | Republic of China | Registered TWD10,000,000 | 100 | – | Trading of electronic components |

## 22 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and operations | Nominal value of issued and paid-up/ registered capital | Percentage of equity attributable to the Company 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| TradeUNIT Limited | British Virgin Islands/ Hong Kong | Ordinary HK$9,500,000 | **100** | 100 | Trading of raw materials and electronic components |
| Wuxi Man Yue Electronics Company Limited#1 | People's Republic of China/ Mainland China | Registered US$30,000,000 | **100** | 100 | Manufacture and sale of electronic components |
| Xinjiang Join Yue Electronics New Materials Company Limited#1 | People's Republic of China/ Mainland China | Registered US$8,000,000 | **100** | 100 | Manufacture and sale of raw materials |
| 深圳英普蘭醫療器械有限公司[1] | People's Republic of China/ Mainland China | Registered RMB10,000,000 | **66.7** | 66.7 | Research and development of medical equipment |
| 萬星光電子(東莞)有限公司#1 | People's Republic of China/ Mainland China | Registered RMB10,000,000 | **100** | – | Manufacture and sale of electronic components |

1 Not audited by PricewaterhouseCoopers or other member firm of PricewaterhouseCoopers the global network.

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

* Shares held directly by the Company.

All the subsidiaries of the Company are limited liability companies.

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

## 23 INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **62,113** | 51,849 |
| Loans to a jointly-controlled entity | **82,491** | 71,271 |
| Due from jointly-controlled entities | **20,269** | 13,808 |
| | **164,873** | 136,928 |

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

Except for the loans amounting to HK$53,680,000 (2009: HK$42,452,000), which are interest-bearing at a rate of 5.76% (2009: 5.76%) per annum, the remaining loans to the jointly-controlled entity are interest-free. Loans to jointly-controlled entity are unsecured and have no fixed terms of repayment.

Particulars of the principal jointly-controlled entities, all of which are held indirectly through subsidiaries, are as follows:

| | | | Percentage of | | | |
|---|---|---|---|---|---|---|
| **Name** | **Particulars of Issued shares/ registered capital** | **Place of incorporation/ registration and operations** | **Ownership interest** | **Voting power** | **Profit sharing** | **Principal activities** |
| Ever Reliance Industrial Investments Limited | Issued capital of 100 shares of HK$1 each | Hong Kong | 48 | 50 | 48 | Investment holding |
| Foshan Rifeng Electronic Co., Ltd. | Registered capital of US$1,000,000 | People's Republic of China/ Mainland China | 33 | 33 | 33 | Holding of investment property |
| Nan Tong Xin Cheng Electronics Co., Ltd. | Registered capital of HK$6,080,000 | People's Republic of China/ Mainland China | 49 | 33 | 49 | Manufacture and sale of raw materials |

## 23 INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Share of the jointly-controlled entities' assets and liabilities: | | |
| Non-current assets | **142,680** | 130,162 |
| Current assets | **20,762** | 18,915 |
| Current liabilities | **(76,614)** | (65,332) |
| Non-current liabilities | **(24,715)** | (31,896) |
| Net assets | **62,113** | 51,849 |
| Share of the jointly-controlled entities' results: | | |
| Total income | **51,463** | 51,091 |
| Total expenses | **(44,568)** | (42,719) |
| Profit for the year | **6,895** | 8,372 |

## 24 INVESTMENT IN AN ASSOCIATE

| | Group 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Share of net assets | **44,619** | 39,495 |

Particulars of the associate which is held indirectly through a subsidiary, are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Luminous Town Electric Co., Ltd. | 15,930,011 ordinary shares of TWD10 each | Republic of China | 24.83 | Trading of electronic components |

## 24 INVESTMENT IN AN ASSOCIATE (CONTINUED)

The Group's share of the results of its associate, which is unlisted, and its aggregated assets (including goodwill) and liabilities, are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Assets | **91,484** | 90,018 |
| Liabilities | **(46,865)** | (50,523) |
| Revenue | **116,698** | 67,645 |
| Profit for the year | **3,821** | 1,360 |

## 25 INVENTORIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Raw materials | **188,891** | 88,722 |
| Work in progress | **45,435** | 33,515 |
| Finished goods | **122,063** | 97,732 |
| | **356,389** | 219,969 |

## 26 TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **372,998** | 319,892 |
| Provision for impairment of trade receivables | **(5,273)** | (23,111) |
| | **367,725** | 296,781 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days, extending up to 150 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

## 26 TRADE RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the balance sheet date, based on the payment due date and net of provisions for doubtful debts, is as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **HK$'000** | **%** | HK$'000 | % |
| Current and within payment terms | **297,226** | **81** | 237,301 | 80 |
| 1–3 months past due | **63,518** | **17** | 22,877 | 8 |
| 4–6 months past due | **5,789** | **2** | 1,535 | 1 |
| 7–12 months past due | **1,176** | **–** | 28,718 | 9 |
| Over 1 year past due | **16** | **–** | 6,350 | 2 |
| | **367,725** | **100** | 296,781 | 100 |

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 January | **23,111** | 15,487 |
| Impairment losses recognised | **2,186** | 15,283 |
| Amount written off as uncollectible | **(17,871)** | (3,357) |
| Impairment losses reversed | **(2,220)** | (4,316) |
| Exchange realignment | **67** | 14 |
| At 31 December | **5,273** | 23,111 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$5,283,000 (2009: HK$57,153,000) with a carrying amount of HK$10,000 (2009: HK$34,042,000). The individually impaired trade receivables relate to customers that were in financial difficulties, in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

## 26 TRADE RECEIVABLES (CONTINUED)

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Current and within payment term | **297,226** | 237,301 |
| 1–3 months past due | **63,518** | 22,871 |
| 4–6 months past due | **5,779** | 1,535 |
| 7–12 months past due | **1,176** | 850 |
| Over 1 year past due | **16** | 182 |
| | **367,715** | 262,739 |

Receivables that were current and within payment terms relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

At 31 December 2009, included in the Group's trade receivables was an amount due from the Group's associate of HK$50,000, which was repayable on similar credit terms to those offered to the major customers of the Group.

## 27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Hong Kong listed equity investments, at market value | **110** | 83 |

The above equity investments were classified as held for trading at 31 December 2009 and 2010.

## 28 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Analysed into: | | | | |
| Forward currency contracts | **933** | **412** | 637 | 296 |
| Interest rate swap | **–** | **10,804** | 28 | – |
| | **933** | **11,216** | 665 | 296 |
| Portion classified as current | **(933)** | **(412)** | (665) | (296) |
| Non-current portion | **–** | **10,804** | – | – |

At 31 December 2010, the Group held forward currency contracts for managing expected future operating use, purchases from suppliers and sales to customers in Mainland China. The Group also has two (2009: one) interest rate swap agreements in place with a notional amount of HK$200,000,000 (2009: HK$100,000,000) to manage certain exposure to changes in interest rate in relation to bank loans.

The changes in the fair value of forward currency contracts and interest rate swap contracts which did not meet the criteria for hedge accounting for accounting purpose amounting to HK$10,788,000 (2009: HK$305,000) were charged to the consolidated income statement during the year.

## 29 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **287,520** | 283,687 | **477** | 553 |
| Time deposits | **185,072** | 80,740 | **93,839** | – |
| Total | **472,592** | 364,427 | **94,316** | 553 |

Cash at banks earns interest at floating bank deposit rates. Short term time deposits range from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The cash and bank balances are deposited with creditworthy banks with no recent history of default.

As at the balance sheet date, the amount of cash and bank balances which denominated in Renminbi ("RMB") was HK$67,528,000 (2009: HK$35,421,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 30 TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **HK$'000** | **%** | HK$'000 | % |
| Trade payables: | | | | |
| Less than 3 months | **175,954** | **83** | 55,918 | 46 |
| 4–6 months | **15,882** | **8** | 49,602 | 40 |
| 7–12 months | **4,636** | **2** | 4,154 | 3 |
| Over 1 year | **14,698** | **7** | 13,402 | 11 |
| | **211,170** | **100** | 123,076 | 100 |
| Bills payables | **39,859** | | 28,913 | |
| | **251,029** | | 151,989 | |

## 31 BANK LOANS

| | Group | | | Company | |
|---|---|---|---|---|---|
| | **As at 31 December** | | As at 1 January | **As at 31 December** | |
| | **2010** | 2009 | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 (restated) | HK$'000 (restated) | **HK$'000** | HK$'000 |
| Analysed into: | | | | | |
| Bank loans, unsecured, repayable: | | | | | |
| Within one year or on demand | **405,171** | 396,538 | 500,976 | **136,393** | 154,243 |
| In the second year | **79,769** | 136,393 | 137,143 | **–** | 136,393 |
| In the third to fifth years, inclusive | **174,646** | – | 137,143 | **–** | – |
| | **659,586** | 532,931 | 775,262 | **136,393** | 290,636 |
| Portion classified as current liabilities | **(405,171)** | (396,538) | (500,976) | **(136,393)** | (154,243) |
| Non-current portion | **254,415** | 136,393 | 274,286 | **–** | 136,393 |

## 31 BANK LOANS (CONTINUED)

Unsecured bank loans of HK$31,898,000 (2009: HK$13,635,000) denominated in United States dollars carry a weighted average interest rate of 1.89% (2009: 2.89%) per annum. Unsecured bank loans of HK$70,292,000 (2009: HK$49,241,000) denominated in Japanese yen carry a weighted average interest rate of 1.58% (2009: 2.04%) per annum. Unsecured bank loan of nil (2009: HK$22,714,000) denominated in Renminbi carry a weighted average interest rate of nil (2009: 5.31%) per annum. Same as disclosed above, all the remaining bank loans of the Group and the Company are denominated in Hong Kong dollars at a weighted average interest rate of 1.67% (2009: 1.75%) per annum. All bank loans bear floating interest rates and are repayable by instalments up to 2014. The carrying amounts of the Group's and the Company's bank loans approximate their fair values.

## 32 DEFERRED TAX

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

**Deferred tax assets**

**Group**

| | **Provisions for trade receivables and inventories** HK$'000 | **Losses available for offsetting against future taxable profits** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| Gross deferred tax assets at 1 January 2009 | 374 | 3,372 | 888 | 4,634 |
| Deferred tax (charged)/credited to the consolidated income statement during the year (note 13) | (199) | (2,750) | 423 | (2,526) |
| Exchange realignment | — | — | 1 | 1 |
| Gross deferred tax assets at 31 December 2009 and 1 January 2010 | 175 | 622 | 1,312 | 2,109 |
| Deferred tax credited to the consolidated income statement during the year (note 13) | 208 | 2,081 | 267 | 2,556 |
| Gross deferred tax assets at 31 December 2010 | **383** | **2,703** | **1,579** | **4,665** |

## 32 DEFERRED TAX (CONTINUED)

**Deferred tax liabilities**

**Group**

| | Revaluation of properties HK$'000 | Depreciation allowance in excess of related depreciation HK$'000 | Withholding taxes HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Gross deferred tax liabilities at 1 January 2009, as previously reported | 3,183 | 66 | 2,823 | 6,072 |
| Effect of adoption of HKAS 17 (amendment) | (677) | – | – | (677) |
| At 1 January 2009, as restated | 2,506 | 66 | 2,823 | 5,395 |
| Deferred tax (credited)/charged to the consolidated income statement during the year (note 13) | (3,077) | 454 | (2,823) | (5,446) |
| Deferred tax debited to equity during the year | 1,056 | – | – | 1,056 |
| Gross deferred tax liabilities at 31 December 2009, as restated | 485 | 520 | – | 1,005 |
| Gross deferred tax liabilities at 1 January 2010, as previously reported | 263 | 520 | – | 783 |
| Effect of adoption of HKAS 17 (amendment) | 222 | – | – | 222 |
| Gross deferred tax liabilities at 1 January 2009, as restated | 485 | 520 | – | 1,005 |
| Deferred tax charged to the consolidated income statement during the year (note 13) | – | 288 | – | 288 |
| Deferred tax debited to equity during the year (note 13) | 1,640 | – | – | 1,640 |
| Exchange realignment | 6 | – | – | 6 |
| Gross deferred tax liabilities at 31 December 2010 | **2,131** | **808** | **–** | **2,939** |

## 32 DEFERRED TAX (CONTINUED)

**Deferred tax liabilities (Continued)**

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Net deferred tax assets recognised in the consolidated balance sheet | **4,665** | 2,109 |
| Net deferred tax liabilities recognised in the consolidated balance sheet | **(2,939)** | (1,005) |
| | **1,726** | 1,104 |

**Company**

| | Losses available for offsetting against future taxable profits |
|---|---|
| | HK$'000 |
| Gross deferred tax assets at 1 January 2009 and 31 December 2009 | – |
| Deferred tax credited to the income statement during the year | 2,201 |
| Gross deferred tax assets at 31 December 2010 | 2,201 |

The Group had tax losses arising in Hong Kong of HK$12,089,000 (2009: HK$12,297,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$17,956,000 (2009: HK$14,172,000) that will expire in one to five years for offsetting against future taxable profit. Tax loss not recognised amounted to HK$1,995,000 (2009: HK$2,209,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 32 DEFERRED TAX (CONTINUED)

**Company (Continued)**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate ranges from 5% to 10%. As at 31 December 2010, deferred tax liabilities in respect of these unremitted earnings amounted to approximately HK$67,273,000 (2009: HK$36,600,000) have not been recognised, given that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future because of the Group's funding plan of its PRC expansion.

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

## 33 DEFERRED INCOME

The deferred income amounting to HK$13,003,000 (2009: HK$12,866,000) and HK$47,974,000 (2009: HK$47,368,000) of non-cash subsidies in relation to parcels of land located in Wuxi and Nanjing, were granted by the Jiangsu Province Xishan Economic Development Management Committee and Nanjing New and Technology Industry Development Company in 2004 and 2008, respectively. The subsidies were in the form of a reduction of the consideration for the acquisition of a parcel of land in Wuxi and Nanjing, the PRC, paid by the Group.

The deferred income amount represented the fair value of the land at the date of acquisition less the total consideration paid by the Group. The purpose of the subsidies is for industrial development in these areas.

## 34 SHARE CAPITAL

### Ordinary shares

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK$0.10 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 478,389,534 (2009: 478,389,534) ordinary shares of HK$0.10 each | **47,839** | 47,839 |

A summary of the transactions involving the Company's share capital is as follows:

| | Notes | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | | 478,088,901 | 47,809 | 164,753 | 212,562 |
| Share options exercised | (a) | 300,000 | 30 | 886 | 916 |
| Warrants exercised | (b) | 633 | – | 1 | 1 |
| At 31 December 2009 and 31 December 2010 | | 478,389,534 | 47,839 | 165,640 | 213,479 |

Notes:

**(a) Share options**

There was no share options exercised during the year. Share options exercised during the year ended 31 December 2009 resulted in 300,000 shares being issued with exercise proceeds of HK$480,000. Details of the Company's share option scheme and the share options issued under the Share Option Scheme are included in note 35 to the consolidated financial statements.

**(b) Warrants**

On 18 April 2007, the Company proposed a conditional bonus warrant issue to the shareholders of the Company on the register of members on 23 May 2007. The bonus warrant issue was made in the proportion of one warrant for every ten ordinary shares of the Company, resulting in 47,421,130 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK$0.10 at a subscription price of HK$2.25 per share, subject to adjustment, from 6 June 2007 to 5 June 2009 (both days inclusive). The warrants were issued to the shareholders of the Company on 6 June 2007.

In 2009, 633 warrants were exercised for 633 shares of HK$0.10 each at a price of HK$2.25 per share, with a total cash consideration, before expenses, of approximately HK$1,000. All the outstanding warrants expired on 5 June 2009.

## 35 SHARE OPTION SCHEME

On 26 May 2006, the Company adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible persons, including employees, directors and other persons as specified under the scheme document, who contribute to the success of the Group's operations.

The Share Option Scheme became effective on 26 May 2006 and will remain in force for 10 years from that date.

The maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of issued shares from time to time provided that the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of issued shares on 26 May 2006.

Each grant of the share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, under the Share Option Scheme must comply with the requirements of Rule 17.04 of the Listing Rules and must be subject to approval of the independent non-executive directors to whom share options have not been granted. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the total number of shares of the Company in issue and with an aggregate value in excess of HK$5 million, is subject to prior approval from shareholders in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer, and (iii) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of the share options, which must be a trading day.

During the year, 4,710,000 share options had been granted under the Share Option Scheme and all of which remained outstanding as at 31 December 2010, representing 0.98% of the shares of the Company in issue at that date. Out of the 4,710,000 share options granted during the year, 2,366,000 share options are exercisable at any time from 15 September 2011 to 14 September 2020, the balance of 2,344,000 share options are exercisable at any time from 15 September 2012 to 14 September 2020.

The fair value of the share options granted during the year was HK$3,829,000 of which the Group recognised a share option expense of HK$807,000 in the consolidated income statement during the year ended 31 December 2010.

## 35 SHARE OPTION SCHEME (CONTINUED)

The fair value of share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2010:

| | |
|---|---|
| Expected dividend yield | 1.15% |
| Expected annual volatility | 44.03% |
| Risk-free interest rate | 1.99% |
| Life of option | 10 years |
| Weighted average share price | HK$2.262 |
| Early exercise behaviour | 150% over the exercise price |

The expected dividend yield is based on the historical data over the past year and is not necessarily indicative of the actual dividend yield that may occur. The expected annual volatility reflects the assumption that the historical volatility. The early exercise behaviour is based on the historical data in share option scheme granted in 2006 and may not necessarily be the actual behavior.

The following share options were outstanding under the Share Option Scheme during the year:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options** | Weighted average exercise price HK$ per share | Number of options |
| At 1 January | **1.6** | **2,250,000** | 1.6 | 2,550,000 |
| Granted during the year | **2.262** | **4,710,000** | — | — |
| Exercised during the year | **–** | **–** | 1.6 | (300,000) |
| At 31 December | **2.048** | **6,960,000** | 1.6 | 2,250,000 |

## 35 SHARE OPTION SCHEME (CONTINUED)

The exercise price and exercise periods of the share options outstanding as at the balance sheet date are as follows:

| Exercise period[1] | Exercise price[2] HK$ per share | Number of options 2010 | 2009 |
|---|---|---|---|
| 8-8-2006 to 25-5-2016 | 1.6 | **1,350,000** | 1,350,000 |
| 8-8-2008 to 25-5-2016 | 1.6 | **900,000** | 900,000 |
| 15-9-2011 to 14-9-2020 | 2.262 | **2,366,000** | — |
| 15-9-2012 to 14-9-2020 | 2.262 | **2,344,000** | — |
| | | **6,960,000** | 2,250,000 |

1 The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2 The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At 31 December 2010, the Company had 6,960,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 6,960,000 additional ordinary shares of the Company and additional share capital of HK$696,000 and share premium of HK$13,558,020 (before issue expenses).

At the date of approval of these financial statements, the Company had 6,960,000 share options outstanding under the Share Option Scheme, which represented approximately 1.45% of the Company's shares in issue as at that date.

## 36 RESERVES

### Group

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Share option HK$'000 | Contributed surplus[1] HK$'000 | Asset revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | PRC reserve funds[#] HK$'000 | Retained profits HK$'000 (restated) | Total HK$'000 |
| Balance at 1 January 2010, as previously reported | 165,640 | 3,276 | 2,800 | 9,391 | 179,716 | 45,560 | 579,805 | 986,188 |
| Effect of adoption of HKAS 17 (amendment) | – | – | – | 1,591 | – | – | 898 | 2,489 |
| Balance at 1 January 2010, as restated | 165,640 | 3,276 | 2,800 | 10,982 | 179,716 | 45,560 | 580,703 | 988,677 |
| Profit for the year | – | – | – | – | – | – | 95,542 | 95,542 |
| Other comprehensive income: | | | | | | | | |
| Asset revaluation surplus, net of tax | – | – | – | 9,367 | – | – | – | 9,367 |
| Currency translation differences | – | – | – | – | 48,814 | – | – | 48,814 |
| Total comprehensive income for the year ended 31 December 2010 | – | – | – | 9,367 | 48,814 | – | 95,542 | 153,723 |
| Employee share option scheme – value of employee services | – | 807 | – | – | – | – | – | 807 |
| Transferred from retained profits | – | – | – | – | – | 2,739 | (2,739) | – |
| 2009 final dividend | – | – | – | – | – | – | (9,568) | (9,568) |
| 2010 interim dividend | – | – | – | – | – | – | (4,784) | (4,784) |
| | 165,640 | 4,083 | 2,800 | 20,349 | 228,530 | 48,299 | 659,154 | 1,128,855 |
| 2010 proposed final dividend | – | – | – | – | – | – | (14,352) | (14,352) |
| Balance at 31 December 2010 | 165,640 | 4,083 | 2,800 | 20,349 | 228,530 | 48,299 | 644,802 | 1,114,503 |

## 36 RESERVES (CONTINUED)

### Group

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share premium** HK$'000 | **Share option** HK$'000 | **Contributed surplus**[1] HK$'000 | **Asset revaluation reserve** HK$'000 | **Exchange fluctuation reserve** HK$'000 | **PRC Reserve funds**[#] HK$'000 | **Retained profits** HK$'000 | **Total** HK$'000 |
| Balance at 1 January 2009, as previously reported | 164,753 | 3,712 | 2,800 | 8,638 | 174,925 | 42,069 | 509,421 | 906,318 |
| Effect of adoption of HKAS 17 (amendment) | – | – | – | (2,957) | – | – | 785 | (2,172) |
| Balance at 1 January 2009, as restated | 164,753 | 3,712 | 2,800 | 5,681 | 174,925 | 42,069 | 510,206 | 904,146 |
| Profit for the year, as restated | – | – | – | – | – | – | 78,769 | 78,769 |
| Other comprehensive income: | | | | | | | | |
| Asset revaluation surplus, net of tax | – | – | – | 5,301 | – | – | – | 5,301 |
| Currency translation differences | – | – | – | – | 4,791 | – | – | 4,791 |
| Total comprehensive income for the year ended 31 December 2009 | – | – | – | 5,301 | 4,791 | – | 78,769 | 88,861 |
| Share options exercised | 886 | (436) | – | – | – | – | – | 450 |
| Warrants exercised | 1 | – | – | – | – | – | – | 1 |
| Transferred from retained profits | – | – | – | – | – | 3,491 | (3,491) | – |
| 2008 final dividend | – | – | – | – | – | – | (2,390) | (2,390) |
| 2009 interim dividend | – | – | – | – | – | – | (2,391) | (2,391) |
| | 165,640 | 3,276 | 2,800 | 10,982 | 179,716 | 45,560 | 580,703 | 988,677 |
| 2009 proposed final dividend | – | – | – | – | – | – | (9,568) | (9,568) |
| Balance at 31 December 2009 | 165,640 | 3,276 | 2,800 | 10,982 | 179,716 | 45,560 | 571,135 | 979,109 |

1 The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefore.

# Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the PRC reserve funds which are restricted as to use.

## 36 RESERVES (CONTINUED)

### Company

| | Share premium HK$'000 | Share option HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 165,640 | 3,276 | 63,623 | 13,931 | 246,470 |
| Profit for the year | – | – | – | 69,467 | 69,467 |
| Employee share option scheme | | | | | |
| – valuation of employee services | – | 807 | – | – | 807 |
| 2009 final dividend | – | – | – | (9,568) | (9,568) |
| 2010 interim dividend | – | – | – | (4,784) | (4,784) |
| | 165,640 | 4,083 | 63,623 | 69,046 | 302,392 |
| 2010 proposed final dividend | – | – | – | (14,352) | (14,352) |
| At 31 December 2010 | **165,640** | **4,083** | **63,623** | **54,694** | **288,040** |
| At 1 January 2009 | 164,753 | 3,712 | 63,623 | 20,176 | 252,264 |
| Share options exercised | 886 | (436) | – | – | 450 |
| Warrants exercised | 1 | – | – | – | 1 |
| Loss for the year | – | – | – | (1,464) | (1,464) |
| 2008 final dividend | – | – | – | (2,390) | (2,390) |
| 2009 interim dividend | – | – | – | (2,391) | (2,391) |
| | 165,640 | 3,276 | 63,623 | 13,931 | 246,470 |
| 2009 proposed final dividend | – | – | – | (9,568) | (9,568) |
| At 31 December 2009 | 165,640 | 3,276 | 63,623 | 4,363 | 236,902 |

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus in certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 37 CORPORATE GUARANTEES

The Company provides guarantees to the extent of HK$1,380,155,000 (2009: HK$1,133,086,000) in respect of banking facilities granted to its subsidiaries, and approximately HK$564,406,000 (2009: HK$248,107,000) of which was utilised at the balance sheet date.

## 38 OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office properties, factory premises, and warehouses under operating lease arrangements. Leases for office properties, factory premises, and warehouses are negotiated for terms ranging from one to twenty years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within one year | **31,414** | 8,370 |
| In the second to fifth years, inclusive | **26,026** | 10,760 |
| After five years | **2,357** | 5,315 |
| | **59,797** | 24,445 |

At 31 December 2010, the Company had no operating lease commitment (2009: Nil).

## 39 COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Plant and machinery | **60,361** | 36,204 |
| Buildings | **10,273** | 5,659 |
| Land | **1,198** | 1,158 |
| | **71,832** | 43,021 |

At 31 December 2010, the Company had no capital commitment (2009: Nil).

## 40 RELATED PARTY TRANSACTIONS

As at 31 December 2010, Man Yue Holdings Inc. had a 43.83% equity interest in the Company as the single largest shareholder. The ultimate controlling party of the Company is Ms. Kee Chor Lin, a director of the Company.

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with its jointly-controlled entities and associate:

| | Notes | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| Jointly-controlled entities: | | | |
| Purchases of raw materials | (i) | **64,302** | 46,978 |
| Sales of raw materials | (i) | **–** | 13,812 |
| Rental expenses | (ii) | **11,040** | 10,897 |
| Interest income received | (iii) | **2,995** | 2,208 |
| Associate: | | | |
| Sales of finished goods | (i) | **–** | 764 |

Notes:

(i) The above purchases and sales of raw materials and sales of finished goods were determined on basis agreed by both parties and were conducted in the normal course of business.

(ii) The rental was charged at rates with mark-to-market yield.

(iii) The interest was charged at a rate of 5.76% (2009: 5.76%) per annum.

(b) Remuneration for key management personnel (excluding directors' remuneration, details of whose remuneration are set out in notes 11 and 12 of the consolidated financial statements of the Group):

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Salaries and allowances | **835** | 1,273 |
| Discretionary bonus | **–** | 49 |
| Share options granted to individuals | **86** | – |
| Pension scheme contributions | **12** | 12 |
| Total remuneration for key management personnel | **933** | 1,334 |

## 41 FINANCIAL INSTRUMENTS BY CATEGORY

Other than available-for-sale investments, financial assets at fair value through profit or loss and derivative financial instruments as disclosed in notes 20, 27 and 28 of the consolidated financial statements that are stated at fair values, all other financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 are loans and receivables that are stated at amortised costs.

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has certain financial instruments, including bank loans and cash and short term deposits, of which main purpose is to fund the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. These forward currency contracts are not qualified as hedging for accounting purposes.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3 to the consolidated financial statements.

**Foreign currency risk**

The Group's reporting currency is Hong Kong dollars and it conducts some of its business transactions in other transactional currencies such as United States dollars and Japanese Yen. Some of its sales proceeds were received in United States dollars and some of the purchases are conducted in Japanese Yen, Renminbi and United States dollars. As United States dollars are closely pegged with Hong Kong dollars throughout the year under review, so the currency exposure in this respect is considered not significant. About 33% (2009: 29%) of the Group's expenditures are denominated in Renminbi. The impacts of Renminbi appreciation are alleviated by sales proceeds as about 31% (2009: 25%) of the Group's sales receipts are denominated in Renminbi. About 26% (2009: 18%) of the Group's purchases are denominated in Japanese Yen. Accordingly, the Group uses forward currency contracts to mitigate a proportion of its Japanese Yen exposures with reference to the cash flow forecasts. The Group does not speculate on foreign currencies.

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Foreign currency risk (Continued)**

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change on translation of Japanese Yen denominated bank loans, trade and bills payables and Renminbi denominated trade receivables, with all other variables held constant, of the Group's profit before tax.

| | Increase/ (decrease) in Japanese Yen rate % | (Decrease)/ increase in profit before tax HK$'000 |
|---|---|---|
| **2010** | | |
| **If Hong Kong dollar weakens against Japanese Yen** | **5** | **(4,500)** |
| **If Hong Kong dollar strengthens against Japanese Yen** | **(5)** | **4,500** |
| 2009 | | |
| If Hong Kong dollar weakens against Japanese Yen | 5 | (1,194) |
| If Hong Kong dollar strengthens against Japanese Yen | (5) | 1,194 |

| | Increase in RMB rate % | Increase in profit before tax HK$'000 |
|---|---|---|
| **2010** | | |
| **If Hong Kong dollar weakens against RMB** | **3** | **15,792** |
| **If Hong Kong dollar weakens against RMB** | **5** | **26,320** |
| 2009 | | |
| If Hong Kong dollar weakens against RMB | 3 | 12,921 |
| If Hong Kong dollar weakens against RMB | 5 | 21,536 |

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Interest rate risk**

The Group's and the Company's exposure to the risk of changes in market interest rates relates primarily to their bank loan obligations with floating interest rates. In 2010, to manage any exposure arising from the changes in market interest rates, the Group enters into interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. This interest rate swap is not qualified as hedging for accounting purposes.

| | **Increase/ (decrease) in basis points** | **Group (Decrease)/ increase in profit before tax HK$'000** | **Company (Decrease)/ increase in profit before tax HK$'000** |
|---|---|---|---|
| **2010** | | | |
| Hong Kong dollar | **100** | **(5,574)** | **(1,364)** |
| Japanese Yen | **100** | **(703)** | **–** |
| US dollar | **100** | **(319)** | **–** |
| | | | |
| Hong Kong dollar | **(100)** | **5,574** | **1,364** |
| Japanese Yen | **(100)** | **703** | **–** |
| US dollar | **(100)** | **319** | **–** |

| | Increase/ (decrease) in basis points | Group (Decrease)/ increase in profit before tax HK$'000 | Company (Decrease)/ increase in profit before tax HK$'000 |
|---|---|---|---|
| 2009 | | | |
| Hong Kong dollar | 100 | (4,473) | (2,906) |
| Japanese Yen | 100 | (492) | – |
| US dollar | 100 | (136) | – |
| Renminbi | 100 | (227) | – |
| | | | |
| Hong Kong dollar | (100) | 4,473 | 2,906 |
| Japanese Yen | (100) | 492 | – |
| US dollar | (100) | 136 | – |
| Renminbi | (100) | 227 | – |

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Liquidity risk**

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. The Group's objective is to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

**Group**

| | 2010 | | |
|---|---|---|---|
| | Within 1 year or on demand HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
| Trade and bills payables | 251,029 | – | 251,029 |
| Other payables and accrued liabilities | 85,106 | – | 85,106 |
| Derivative financial instruments | 412 | 10,804 | 11,216 |
| Bank loans | 412,030 | 262,206 | 674,236 |
| Dividend payables | 22 | – | 22 |
| | 748,599 | 273,010 | 1,021,609 |

| | 2009 | | |
|---|---|---|---|
| | Within 1 year or on demand HK$'000 (restated) | Over 1 year HK$'000 (restated) | Total HK$'000 (restated) |
| Trade and bills payables | 151,989 | – | 151,989 |
| Other payables and accrued liabilities | 72,499 | – | 72,499 |
| Derivative financial instruments | 296 | – | 296 |
| Bank loans | 405,651 | 137,513 | 543,164 |
| Dividend payables | 19 | – | 19 |
| | 630,454 | 137,513 | 767,967 |

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Liquidity risk (Continued)**

**Company**

| | 2010 Within 1 year or on demand HK$'000 | 2010 Over 1 year HK$'000 | 2010 Total HK$'000 |
|---|---|---|---|
| Due to subsidiaries | 216,338 | – | 216,338 |
| Other payables and accrued liabilities | 13,025 | – | 13,025 |
| Bank loans | 138,186 | – | 138,186 |
| Corporate guarantee | 309,020 | 255,386 | 564,406 |
| Dividend payables | 22 | – | 22 |
| | 676,591 | 255,386 | 931,977 |

| | 2009 Within 1 year or on demand HK$'000 (restated) | 2009 Over 1 year HK$'000 (restated) | 2009 Total HK$'000 (restated) |
|---|---|---|---|
| Due to subsidiaries | 59,675 | – | 59,675 |
| Other payables and accrued liabilities | 13,486 | – | 13,486 |
| Bank loans | 157,921 | 137,513 | 295,434 |
| Corporate guarantee | 248,107 | – | 248,107 |
| Dividend payables | 19 | – | 19 |
| | 479,208 | 137,513 | 616,721 |

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Credit risk**

Credit risk arises from the possibility that the counterparty to transaction is unwilling or unable to fulfill its obligation thereby incurring financial loss to the Group. The Group manages the credit risk by setting up a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group has entered into credit insurance contracts with the Hong Kong Export Credit Insurance Corporation and other financial institutions to mitigate the credit risk arising from the receivable balances.

In addition, it is the Group's policy to review regularly the recoverable amount of trade receivables to ensure that adequate impairment provisions are made against the irrecoverable amounts. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the consolidated financial statements.

**Capital management**

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

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

The Group monitors its capital structure on the basis of a net debt to capital ratio. For this purpose, the Group defines net debt as interest-bearing debt (which includes bank loans, and obligations under finance leases), less cash and cash equivalents.

During 2010, the Group's strategy, are to strengthen the net debt to equity ratio compare to 2009, at the lower end of the range of 20% to 30%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Capital management (Continued)**

**Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Bank loans | **659,586** | 532,931 |
| Less: Cash and cash equivalents | **(472,592)** | (364,427) |
| Net debt | **186,994** | 168,504 |
| Equity attributable to equity holders of the Company | **1,176,694** | 1,036,516 |
| Net debt to capital ratio | **15.9%** | 16.3% |

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

**Fair value**

*Financial instruments carried at fair value*

HKFRS 7 require disclosure of fair value measurement 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).

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Fair value (Continued)**

*Financial instruments carried at fair value (Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at year end.

**2010**

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Available-for-sale investment | – | – | 22,341 | 22,341 |
| Financial assets at fair value through profit or loss | 110 | – | – | 110 |
| Derivative financial instruments: | | | | |
| — Forward exchange contracts | – | 933 | – | 933 |
| Total assets | 110 | 933 | 22,341 | 23,384 |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| — Forward exchange contracts | – | 412 | – | 412 |
| — Interest rate swap | | 10,804 | – | 10,804 |
| Total liabilities | – | 11,216 | – | 11,216 |

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Fair value (Continued)**

*Financial instruments carried at fair value (Continued)*

**2009**

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets at fair value through profit or loss | 83 | – | – | 83 |
| Derivative financial instruments: | | | | |
| — Interest rate swap | | 28 | | 28 |
| — Forward exchange contracts | – | 637 | – | 637 |
| Total assets | 83 | 665 | – | 748 |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| — Forward exchange contracts | – | 296 | – | 296 |
| Total liabilities | – | 296 | – | 296 |

During both years, there were no significant transfers between instruments in Level 1, level 2 and level 3.

## 42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(a) *Available-for-sale investment*

The investment is revalued on 31 December 2010 by Memfus Wong Surveyors Limited, an independent professional qualified valuer. The fair value is based on cash flows discounted using a rate based on the market interest rate and the risk premium.

(b) *Financial assets at fair value through profits or loss*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(c) *Derivatives financial instruments*

Forward exchange contracts are marked to market. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(d) *Corporate guarantees*

The fair value of guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

## RESULTS

| | **2010 HK$'000** | 2009 HK$'000 (restated) | 2008 HK$'000 (restated) | 2007 HK$'000 (restated) | 2006 HK$'000 (restated) |
|---|---|---|---|---|---|
| Revenue | **1,353,258** | 1,001,258 | 1,285,535 | 1,380,334 | 1,239,119 |
| Profit before tax | **109,033** | 84,058 | 107,289 | 143,016 | 135,607 |
| Tax | **(13,911)** | (5,739) | (16,926) | (7,168) | (13,866) |
| Profit for the year | **95,122** | 78,319 | 90,363 | 135,848 | 121,741 |
| Attributable to: | | | | | |
| Equity holders of the Company | **95,542** | 78,769 | 90,363 | 135,848 | 121,741 |
| Non-controlling interests | **(420)** | (450) | — | — | — |
| | **95,122** | 78,319 | 90,363 | 135,848 | 121,741 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | **2010 HK$'000** | 2009 HK$'000 (restated) | 2008 HK$'000 (restated) | 2007 HK$'000 (restated) | 2006 HK$'000 (restated) |
|---|---|---|---|---|---|
| Total assets | **2,263,424** | 1,865,130 | 2,074,641 | 1,879,017 | 1,234,534 |
| Total liabilities | **(1,082,769)** | (824,371) | (1,116,563) | (1,039,341) | (629,413) |
| Non-controlling interests | **(3,961)** | (4,243) | (6,123) | — | — |
| | **1,176,694** | 1,036,516 | 951,955 | 839,676 | 605,121 |